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GLOBAL ECONOMIC DEVELOPMENT, INVESTMENS AND INVESTMENT POLICY

Abstract: The paper is focused on the question of global economic development, its overall assessment over the past two years, and the economic outlook for next year. It discusses essential features of the development of key world economies (USA, EU, BRIICS) and factors of slowdown in the pace of global growth compared with developments in Slovakia. In the next part of the article we describe the global investment trends and characteristics of national investment policies. In terms of investment policies of individual states there are also concerns regarding the threats to national security, which resulted in restrictions on foreign investments. These measures have the character of formal restrictions, as well as complex control mechanisms that allow domestic authorities to enter into the process. It is therefore important to implement the international agreements on foreign investments in a transparent manner. It is also important to support the capacity building, especially in less developed countries, in order to better exploit the opportunities arising from the development of international trade and investment agreements.

Keywords: globalization, economic growth, foreign direct investments, investment policy.
JEL Classification: E20, F01

Introduction

Global economic development attracts a large number of research teams around the world. Their work is of considerable theoretical and practical significance. For the Slovak economy the current geopolitical and economic situation is complicated, especially if we take into account the incomplete process of transformation and the small size of the economy. But these problems can be overcome by choosing the appropriate strategy based on understanding of the nature of driving forces of global economic development and engagement into the process of international economic integration.

The current stage of globalization of the world economy is characterized by several changes that could be described as strategic. According to the Organization for Economic Cooperation and Development (OECD), the economic outlook for the OECD member countries and for the six selected non-member countries (BRIICS) in the coming years assumes only a modest improvement in global growth, which can be characterized by significant differences in the growth of large economies and also by significant risks and vulnerabilities. The rate of economic growth (real GDP growth) of OECD countries in 2015 was at the level of 2.1%, in 2016 will reach about 1.8%, and in 2017 is expected to increase at 2.1%. The Euro-zone throughout this period will be growing at a rate of about 1.6%.

According to analysts, global growth is progressing too slowly, and the growth of large economies as well as the world trade growth is still below the pre-crisis levels. Recovery in the USA and United Kingdom is stronger than in the euro area and Japan. The euro area faces a growing risk of stagnation, and in Japan it is not yet certain if the country got over the deflation totally. The growth in emerging economies is stronger, but also with significant differences: China's economy slowed, while economic activity accelerated in India, the growth in Brazil was only slight and Russia remained in the mild stagnation. Economists predict that the high unemployment (particularly in the euro area) and low inflation should continue.

Economic growth in OECD economies should be underpinned by loose monetary policy, favorable financial conditions, slow recovery of the labor market and a milder fiscal consolidation. But the risks still outweigh and the organization continues to consider the developments in the euro area to be the most worrying. Despite the improvements in peripheral countries the economic growth in the euro area remains slow due to the weak development in Germany, France and Italy, and the continuing low level of inflation.

The chief economist of OECD Catherine L. Mann called the whole euro area as a "locus of weakness" (weak point) and highlighted the rapid growth of European V4 countries and non-euro countries such as Great Britain. It also noted that it is not the weak competitiveness, which slows the growth of the euro area, but factors negatively affecting domestic demand. She also highlighted the other euro-zone weaknesses: weak consumption in the last five years, and low investment. In this context, she positively mentioned the plan of European Commission to invest euro

315 billion to promote private investment and to boost the European economy.

OECD points out that in the absence of further macroeconomic support the euro area growth will remain very weak or null with weak demand, high unemployment and inflation below the target level. Fostering the growth requires a new monetary and fiscal policy as well as the structural reforms (such as in Japan). The revival of economic activity in the euro area should be supported by planned slowing the pace of fiscal consolidation and more favorable financial conditions too.

Main characteristics of global economic development

The present global economic development is characterized by several important facts. In particular, there is the fact that the world economy slows down, and developments indicate that the rate of GDP growth will hardly exceed the 3% threshold. This evolution is mainly due the fact that China has reached the limit of real possibilities of its growth and the world economy continues to depend mainly on US demand. The United States have the far highest trade deficit, which means that other major economies such as Germany, Japan and China are dependent on exports to the USA.

The Chinese leadership recognizes the need to shift from the economy based on investment and exports to consumption-based model, but so far this trend was not confirmed in practice. Chinese estimates for 2016 say about the 6.9% growth, but more sober analyses suggest the slowdown of real GDP growth to only about 4%. The growth of Chinese economy up to now, which was three times faster than the growth in developed economies, and massive investments have been based on the rapid growth of government and firms' indebtedness and less on the reinvesting of profits.

Also, the growth of domestic consumption will be a longer-term issue because it implies a massive transfer of wealth from government officials and managers of state enterprises to households. The Chinese economic slowdown also caused a fall in commodity prices up to 25% in 2015. As China remains the main place of demand for the basic building blocks of global economy, analysts expect low prices of commodities in 2016 too.

With regard to developments in Europe, the post-crisis conditions persist. The unemployment rate in the euro area reached 10.7%, while in Spain, the fifth largest EU economy is nearly 20%. Although the EU economy is slowly growing and unemployment is slightly decreasing, the imbalances that caused the crisis are still high. Euro brings together the countries with very different levels of productivity, such as Greece and

Germany, which strongly favors the stronger economies in export markets and keeps unemployment in weaker economies on dangerous level. So until Europe beat the root causes of its problems, the continent will continue to stagnate and government debts will increase further. Europe's not negligible problem too is the disunity of member states' positions concerning the common problems, such as mass migration and security policy, and the inability to effectively address these problems that resulted in the decision of the UK to withdraw from the EU.

Another significant phenomenon of global development is the economic growth of India, which should exceed in this year for the first time the growth of Chinese economy. India will thus become the fastest growing large economy in the world. [19] Although India's economy has also the problems that plague other emerging economies too, this growth is considerably supported by demographic trends. In the next ten years the Indian labor force will exceed the number of Chinese labor force, although China will remain the most populous country in the world. Another characteristic of the Indian economy is the democratic political system and the government policy, which vehemently seeks to create the best "business-friendly" environment. Graphically, the development of global economy (real GDP growth) is shown in Figure 1.

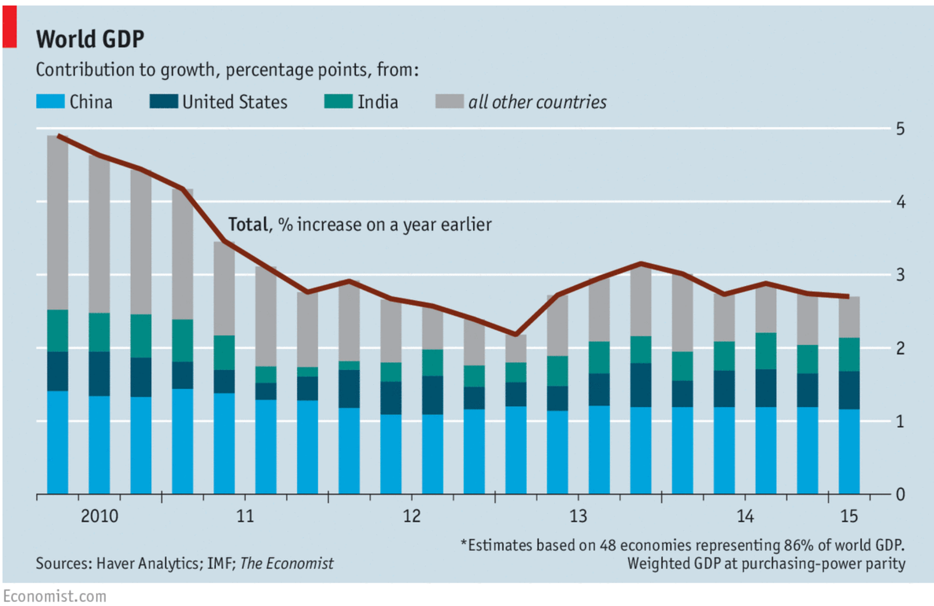

Figure 1. **The development of global economic growth according to the IMF data**
Source: Economist.com

[19] IMF supposes that the growth of India's economy in 2016 can reach the limit of 7,3 %.

OECD data projections for 2017 are predicting the growth in selected economies to be between -1.7% (Brazil) to 7.5% (India). The data is neatly shown in Table 1. The table shows that most of the large economies in the years 2015 - 2017 indicated the increasing of economic growth rate, with the exception of the US, Japan, China and Great Britain.

Regarding Slovakia, the country currently presides the European Union, and according to the OECD estimates, it will reach the growth of 3.1% in 2016. Slovakia has in the same time the second highest growth within the euro area (after Ireland). This trend would be preserved in the coming years too. The OECD supposes that the growth of Slovak economy will be supported by domestic consumption due to growth in employment and real wages. Despite the slower growth of trading partners (especially Germany) the growth of Slovak economy would be in addition to domestic consumption driven by exports too. According to the OECD, the deficit of public finances can be maintained below 3% of GDP and the gross public debt does not exceed the 55% of GDP. General government deficit in Slovakia in 2016 will fall to about 2.2%.

Table 1. **The real GDP growth in selected countries in accordance to OECD (in %)**

	2015	**2016**	**2017**
USA	2.4	1.8	2.2
Euro area	1.6	1.6	1.7
Germany	1.4	1.6	1.7
Great Britain	2.3	1.7	2.0
Japan	0.6	0.7	0.4
China	6.9	6.5	6.2
India	7.4	7.4	7.5
Brazil	-3.9	-4.3	-1.7
Russia	-3.7	-1.7	0.5
Slovakia	3.6	3.1	3.2

Source: OECD.stat, November 2016

The unemployment in Slovakia was managed to get below 10%, but the problem remains in large regional differences, where in the western part of country the unemployment rate is below 4%, while in the Southeast in some districts the unemployment rate is up to 20%. The OECD recommends in line with the recently published Economic Evaluation of Slovakia especially to continue in strengthening the fiscal framework, the public sector reform and improving the tax collection. The organization also highlights the need for the integration of lagging regions, strengthening the active labor market policies and reforms of the education system.

The following section focuses on the issues of investments, which are essential to global economic growth.

Global investment trends

According to the report of UNCTAD[20] the development of investments in the world in the last year was positive. The overall flow of investments (Global FDI) has increased by nearly 40%, to around USD 1760 billion. It is the highest level achieved since the start of global economic and financial crisis in 2008. Nevertheless, this growth was not translated into an equivalent increase of production capacity in all countries, which is threatening the concept of sustainable development in the light of the Paris Agreement on Climate Change. Therefore the UNCTAD *World Investment Report 2016* presented so called *Investment Facilitation Action Package* for further improvement of investment support measures aimed at sustainable development.

The UNCTAD seeks to achieve the change of the national and international investment policies towards sustainable development. For this change and investment regime in most countries it is essential the ownership regulation and control of companies, which is in regard of today's existence of complex multinational ownership structures very difficult. The starting point in this respect is a precise mapping of the global network of multinational companies and corporations, involving millions of parent companies and subsidiaries.

The main factors of the growth of foreign direct investment were the cross-border mergers and acquisitions, which increased from USD 432 billion in 2014 to USD 721 billion in 2015. The value of new investment was also high, around USD 766 billion. It should be said that a significant part of the FDI increase account for the reconfigurations of enterprises. These capital transfers often involve large movements of the balance of payments, but small changes in real operations. Disregarding these effects, the real growth of foreign direct investment reached in 2015 about 15%. The inflow of foreign direct investment to developing countries has almost doubled to USD 962 billion. As a result, advanced economies have achieved superiority in terms of global FDI (55% versus 41% in 2014).

Strong investment growth was recorded in Europe, the US and particularly in Asia, which is currently the main recipient of FDI in the world. Output flows of FDI in developed countries rose by 33% to USD

[20] United Nations Conference on Trade and Development

1,100 billion, while the strongest growth was recorded in Europe. Foreign direct investment of North American companies remained at the level of the year 2014. In 2016 the 10 to 15 percent decline in FDI is expected, which reflects the fragility of global economic development, the persistent weakness of aggregate demand, and the weak growth in some countries exporting commodities, as well as the decline in the profitability of multinational corporations.

In terms of sectoral distribution, the foreign direct investment in the primary sector decreased, investments in manufacturing sectors have increased. This development corresponds to the decrease of commodity prices and profit margins in the primary sector. Two-thirds of new FDI accounted for the services who continue to cover more than 60% of the total value of global foreign direct investments. From the medium term point of view the FDI growth should recover in 2017.

National investment policies

Economic development and the foreign investment inflow is of course largely dependent on the investment policy of the country, which affects both the domestic operators and foreign investors. Some countries give priority to domestic entrepreneurs and to the measures of promoting the employment. Other countries are trying to attract notably the foreign investors and give priority to investment in rural development or the infrastructure building based on domestic investment, and/or increasing of public spending.

The overall conclusion is that the investment policies or the policies of the investment support continue to lead towards liberalization and promotion of domestic and foreign investments. In 2015, forty nine countries adopted various measures relating to the investment policy. Of these measures, the majority (about 85%) included the liberalization, promotion and facilitation of investment, and only a minority of measures focused on new restrictions or regulation of investments. Liberalization measures were adopted mainly by Asian countries, but these measures were taken also in the EU countries, transition economies, African states and North America. Restrictive measures were taken mainly in selected countries in Oceania, the Caribbean and Latin America, mainly because of concerns that the land and natural resources will get into foreign hands.

In this regard, the significant role played the United Nations Third International Conference on Financing for Development, being held in Addis Ababa 13 – 16 July 2015, where the participating countries agreed on a series of bold measures to overhaul global finance practices and generate investments for tackling a range of economic, social and environmental challenges. The groundbreaking agreement, the *Addis Ababa Ac-*

tion Agenda, provides a foundation for implementing the global sustainable development agenda that world leaders adopted subsequently in September 2015. The agreement was signed by the 193 UN member states attending the conference, following negotiations under the leadership of Ethiopian foreign affairs minister Tedros Adhanom Ghebreyesus.

Conclusion

The global economic development is characterized mainly by the slowdown of economic growth in China and growing economic potential of India. In the coming years only a slight improvement in global growth is expected, and the development will be characterized by significant differences in the growth of major economies as well as the risks and vulnerabilities. This growth is strongly influenced by foreign direct investments with smaller meaning of the effective demand growth in less developed countries. The total development of investments is rather uneven, but there is a positive trend of liberalization of the FDI flows and relinquishing the restrictive measures.

Nevertheless, in terms of investment policies of individual states many of them expressed concerns about threats to national security, which resulted in the re-evaluation and/or restrictions of foreign investments inflow. These measures have the character of formal restrictions, as well as the complex control mechanisms that allow domestic authorities to enter into the whole process. The support and stimulation of foreign investment should similarly like in the case of agreements on the liberalization of bilateral trade not affect the country's ability to pursue the goals of public interest. The relevant trade agreements or agreements on foreign investment should be implemented in a transparent manner. It is also important to build the supporting capacities, including bilateral and multilateral bodies, especially in less developed countries, in order to better exploit the opportunities arising from the development of international trade and investment agreements.

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