FDI and MNEs

Foreign Direct Investment
Multinational Enterprises

• Foreign Direct Investment (FDI) is a significant aspect of “globalization” policies/strategies for many firms
  – Toyota (Evansville, IN)
  – BMW in South Carolina
  – Sony

• FDI is a major concern for developing countries
  – Will foreigners invest?
  – Will they not invest?
• Concern for all governments
  – Why does FDI occur?
FDI definitions
• Multinational Enterprises (MNEs) – firm that owns and controls subsidiaries in more than 1 country
  – Home-country: where the MNE is headquartered
  – Host-country: where affiliates operate (where investment occurs)
• FDI – Flow of lending to, or purchases of ownership in, a foreign enterprise (10% minimum ownership required for FDI)

FDI definitions (cont.)
• Portfolio Investment - less than 10% ownership
• Greenfield Investment – building/creation of new foreign affiliate
• Merger/Acquisition – Acquisition of previously established firm (foreign)

Main Questions in FDI
• Where does FDI originate?
• Who undertakes FDI?
• Which countries receive FDI?
• Is FDI good? Are MNEs goods?
• What are some policies to attract MNEs?
FDI Questions

• Where does FDI originate?
  – US, Europe, Japan

• Where does the US invest?
  – Europe, Asia

• What are the primary host-countries for FDI?
  – US, Germany, UK, Netherlands
  – Most FDI in service industries not manufacturing

Why do firms invest abroad?

• What are the main goals of FDI?
  – Increasing foreign market share – want presence in foreign market
  – Defend market share
  – “Tariff Jumping” – avoid trade barriers
  – Low wages
  – Resource acquisition
  – Tax avoidance (transfer pricing)

Competition for FDI

• Why do countries “compete” to attract inward FDI?
  – Increased capital – Increased output/exports
  – Increased employment and wages
  – Increased tax revenues
  – Scale economies realization
  – Technology/managerial skill transfer
  – Weaken domestic monopolies
Why not FDI in our country?
What are some reasons that are cited by those against FDI?
• Worsen terms of trade
• Worsen domestic savings
• Loss of control over domestic policy – are MNEs too powerful?
• Labor problems?
• Develop local monopolies
• Environmental problems