

**FDI and MNEs**  
  
Foreign Direct Investment  
Multinational Enterprises

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**FDI and MNEs**

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

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**FDI and MNEs**

- FDI is a major concern for developing countries
  - Will foreigners invest?
  - Will they not invest?
- Concern for all governments
  - Why does FDI occur?

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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)

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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)

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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?

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### 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

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### 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)

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### 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

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### 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

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