

# International Business: a European Perspective

## 8. European Multinational Corporations in the Global Economy: The Role of Policy



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de  
CANTABRIA**

## Organization of the class

- Political ideologies and approaches to MNC
- Costs and benefits of FDI for Home and Host
- A snapshot of recent FDI Policy
- The role of Policy in promoting MNC in the European Union

## Radical view

- The political ideology of a government may influence FDI and MNC emergence
- Radical Marxist Views – Pragmatic – Free Market
- Radical Marxist. MNC extract profits. Give nothing of value in return. Dominate and fail to develop. Keep countries backward and dependent on developed countries.

## Radical view

- Radical view popular post-war to 1980s in Soviet Union, China, Cuba
- Some socialist countries in Africa
- Some nationalist countries (Venezuela, Bolivia, Mexico, Brazil, etc).
- By end of 1980s, radical views on the decline
- End of the Cold War
- Strengthening of a more liberal approach

## Free market view

- Belief that nations should specialise where they produce goods and services most efficiently
- Belief that liberalising FDI will benefit host and home
- The rise in FDI liberalization policies would attest to this approach

## Pragmatic

- Most countries take a pragmatic approach
- Neither fully Marxist nor Free Market
- Decisions may be based on consideration of costs and benefits of FDI
- If benefits outweigh costs, FDI encouraged
  - Tax breaks
  - Subsidies
- FDI may be blocked if costs are seen to outweigh benefits

## Potential benefits of FDI

- Resource transfer effects
  - Capital
  - Technology
  - Management expertise
- Employment effects
  - Direct
  - Indirect
- Balance of payment effects
  - Current account-surplus/déficit
  - Capital account

## Effects on competition and economic growth

- FDI can increase:
  - Productivity growth
  - Process and product innovation
  - Economic growth
- FDI may:
  - Increase market competition (lowering prices and increasing choice)
  - Stimulate capital investments



## Costs of FDI to Host

- FDI can drive out competition locally
- Profits brought home reduces Host's capital account
- Imported parts damage trade balance
- Can challenge sovereignty

## Benefits to Home

- Improves balance of payments (for inward flow of foreign earnings)
- Creates export demand (which creates Jobs)
- Provides increased knowledge from operating in foreign environment
- Allows employees and resources to be moved to higher value activities

## Home country costs

- Negative effect on Balance of Payments
  - Initial capital outflow
  - MNC uses foreign subsidiary to sell back to home market
  - MNC uses foreign subsidiary as substitute for direct exports
- Potential job losses

## Government incentives for FDI

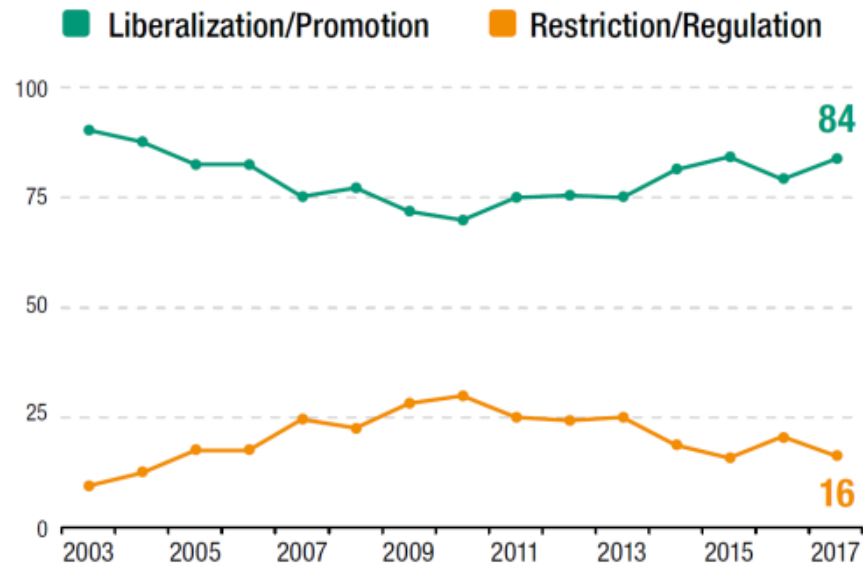
- Risk insurance (home)
- Elimination of double taxation (home)
- Tax incentives (host)
- Low interest rates (host)
- Stable and predictable government and policy

## Government disincentives for FDI

- Limit capital outflows (home)
- Encourage domestic investment using tax codes (home)
- Impose restrictions on investing in particular countries (home)
- Ownership restrictions (host)
- Performance requirements (host)

# Global FDI Policy Developments

**Figure III.1.** Changes in national investment policies, 2003–2017 (Per cent)



Source: UNCTAD, Investment Policy Monitor database.

# Global FDI Policy Developments

**Table III.1. Changes in national investment policies, 2003–2017** (Number of measures)

Item	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Number of countries that introduced changes	59	79	77	70	49	40	46	54	51	57	60	41	49	59	65
<b>Number of regulatory changes</b>	<b>125</b>	<b>164</b>	<b>144</b>	<b>126</b>	<b>79</b>	<b>68</b>	<b>89</b>	<b>116</b>	<b>86</b>	<b>92</b>	<b>87</b>	<b>74</b>	<b>100</b>	<b>125</b>	<b>126</b>
Liberalization/promotion	113	142	118	104	58	51	61	77	62	65	63	52	75	84	93
Restriction/regulation	12	20	25	22	19	15	24	33	21	21	21	12	14	22	18
Neutral/indeterminate <sup>a</sup>	-	2	1	-	2	2	4	6	3	6	3	10	11	19	15

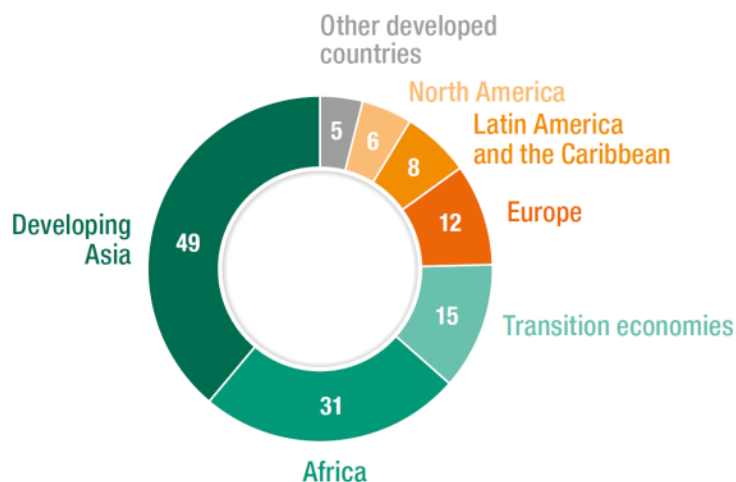
Source: UNCTAD, Investment Policy Monitor database.

<sup>a</sup> In some cases, the expected impact of the policy measures on the investment is undetermined.

## Recent investment liberalization policies

Figure III.2.

**Regional distribution of national investment policy measures in 2017** (Number of measures)



Source: UNCTAD, Investment Policy Monitor database.

- Asia most active: special Economic zones, incentives...
- In EU, privatization has encouraged FDI, such as Greece's post-crisis privatization plan, and as a result of austerity drives in many countries



# New Investment Restrictions

- Most new restrictive Policy in the EU cites “security”:
  - Germany introduced amendments to clarify rules and shortcomings
  - Italy extended “Golden powers” to block take-overs in high-tech industries by non-EU companies
  - UK Green Paper on Infrastructure Investment Review

## EU FDI legislation

- The EC has proposed an EU-wide screening framework to protect security/public order in 2017
- This is currently still a proposal
- Its evolution is illustrated on this link:
- <http://www.europarl.europa.eu/legislative-train/theme-a-balanced-and-progressive-trade-policy-to-harness-globalisation/file-screening-of-foreign-direct-investment-in-strategic-sectors>