3. Foreign Direct Investment: Advantages and Risks

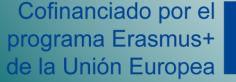


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3. Foreign Direct Investment: Advantages and Risks

Advantages of FDI to host countries

- Resource-transfer effects
 - Capital
 - Technology
 - Management
- Employment effect
 - Direct
 - indirect



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Advantages of FDI to host countries

- Balance-of-payments effect.
 - Current account-surplus/deficit
 - Capital account
- Increases competition and spurs economic growth







Risk of FDI to host countries

- Can drive out local competitors or prevent their development
- Profits brought home 'hurts' (debit) a host's capital account
- Parts imported for assembly hurt trade balance
- Can affect sovereignty and national defense







Potential FDI benefits for the EU

International investments into the EU:

- are worth €5.4 trillion or about 36% of the wealth produced annually by the EU
- directly support 7.6 million jobs in the EU
- provide capital and technology to foster European research, innovation and competition

Source: European Comission (http://ec.europa.eu/trade/policy/accessing-markets/investment/)





Impacts of FDI inflows to the EU

- Note: The following slides are based on empirical results of the EU ESPON 2020 project "The World in Europe: Global FDI Flows towards Europe".
- They find that non-EU owned firms make up a relatively small share of the total number of firms in the EU but..
- Non/EU firms have a large direct impact on European economies.







Impacts of FDI inflows to the EU

Overall, ESPON 2020 researchers found that:

The concentration of non-EU owned firms, both within a given industry and region, is associated with increases in average productivity among local firms.



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Impacts of FDI EU regions

Direct impacts of non-European owned firms across different types of territories

	Percentage of all firms	Percentage of total employment	Percentage of operating revenue
Urban regions	1.1%	3.6% (x3.2)	6.6% (x5.9)
Intermediate regions	0.6%	1.3% (x2.4)	3.3% (x5.8)
Rural regions	0.3%	0.8% (x2.3)	1.3% (x4.0)
Capital metropolitan regions	1.7%	4.8% (x2.9)	9.2% (x5.4)
Other metropolitan regions	0.6%	1.8% (x3.1)	3.6% (x6.2)
Non-metropolitan regions	0.4%	1.5% (x3.7)	3.1%(x7.7)
More developed regions	1.1%	3.1% (x2.9)	6.2% (x5.8)
Transition regions	0.4%	2.4% (x6.1)	2.9% (x7.2)
Less developed regions	0.5%	1.0% (x2.1)	2.1% (x4.5)

Note: The table shows the share of the total of each of the three outcome measures accounted for by non-

European owned firms in the different types of territories.

Source: ESPON FDI (2018) based on the Amadeus database





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FDI Impacts on EU local firms

Productivity spillovers to local firms

	Intra-industry productivity spillovers	Broader regional productivity spillovers
All	0.5%	2.0%
Manufacturing	0.2%	1.4%
Services	0.8%	2.2%
Urban regions	0.4%	1.7%
Intermediate regions	-	1.4%
Rural regions	0.2%	-
Capital city metropolitan regions	-	1.0%
Other metropolitan regions	0.3%	1.6%
Non-metropolitan regions	0.2%	0.8 %
More developed regions	0.3%	1.7%
Transition regions	0.2%	0.4%
Less developed regions	-	-

Note: The figure summarises the findings related to productivity spillovers from non-European owned firms to

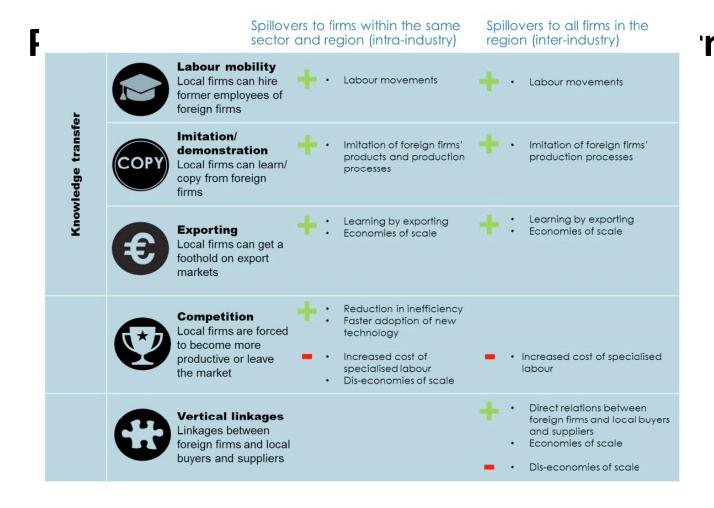
local firms in Europe across the different types of territories.

Source: ESPON FDI (2018) based on data from the Amadeus database





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Potential FDI risks for EU countries

- According to the EU commission, potential risks include that foreign investors may seek to acquire control (or exert influence) on critical issues such as technologies, infrastructure, inputs, or sensitive information.
- This risk might be particularly pronounced when foreign investors are state owned or controlled firms.

Source: European Commission

(http://trade.ec.europa.eu/doclib/docs/2017/september/tradoc_156044.pdf)







Potential FDI risks for EU countries

- Several EU countries have established and operate FDI screening mechanisms to address, to a certain extent, these potential risks.
- Austria, Denmark, Germany, Finland, France, Latvia, Lithuania, Italy, Poland, Portugal, and Spain.
- These EU countries, however, follow different strategies as regards the scope and design of this screening procedures.

Source: European Commission

(http://trade.ec.europa.eu/doclib/docs/2017/september/tradoc_156044.pdf)



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