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PRIVATE FOREIGN INVESTMENTS AND REMITTANCES

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EE463 Globalization and International Development



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PRIVATE FOREIGN INVESTMENTS

Design Option #9

Private foreign investment

Foreign Direct Investment

Investments by large multinational corporations such as Exxon, Toyota, Hyundai, Coca Cola and



Foreign Portfolio Investment

Investments in the form of stocks, bonds in developing countries' credit and equity markets



Foreign direct investment

- Foreign direct investment is mainly channeled through multinational corporations; historically MNCs were engaged in extractive/primary commodities, but currently more on manufacturing, finance and services
- Most flows of FDI occur among high income countries



Foreign direct investment

- Multinational corporation (MNC): conducts and controls productive activities in more than one country
- Most MNCs are based in North America, Europe and Japan; more recently, PR China, South Korea, Taiwan and Brazil
- MNCs bring development opportunities but may also pose serious problems for developing countries in which they operate



Role of multinational corporations

- Although MNCs bring capital, technology and skills, they can also use their economic power to influence government policies in directions that are unfavorable to development



Forms of foreign direct investment

- Historically MNCs focused on extractive and primary industries, mainly petroleum, nonfuel minerals, and agribusiness
- Thereafter MNCs became more involved in export-oriented agriculture and local food processing
- More recently, MNCs operate in manufacturing operations, finance and services



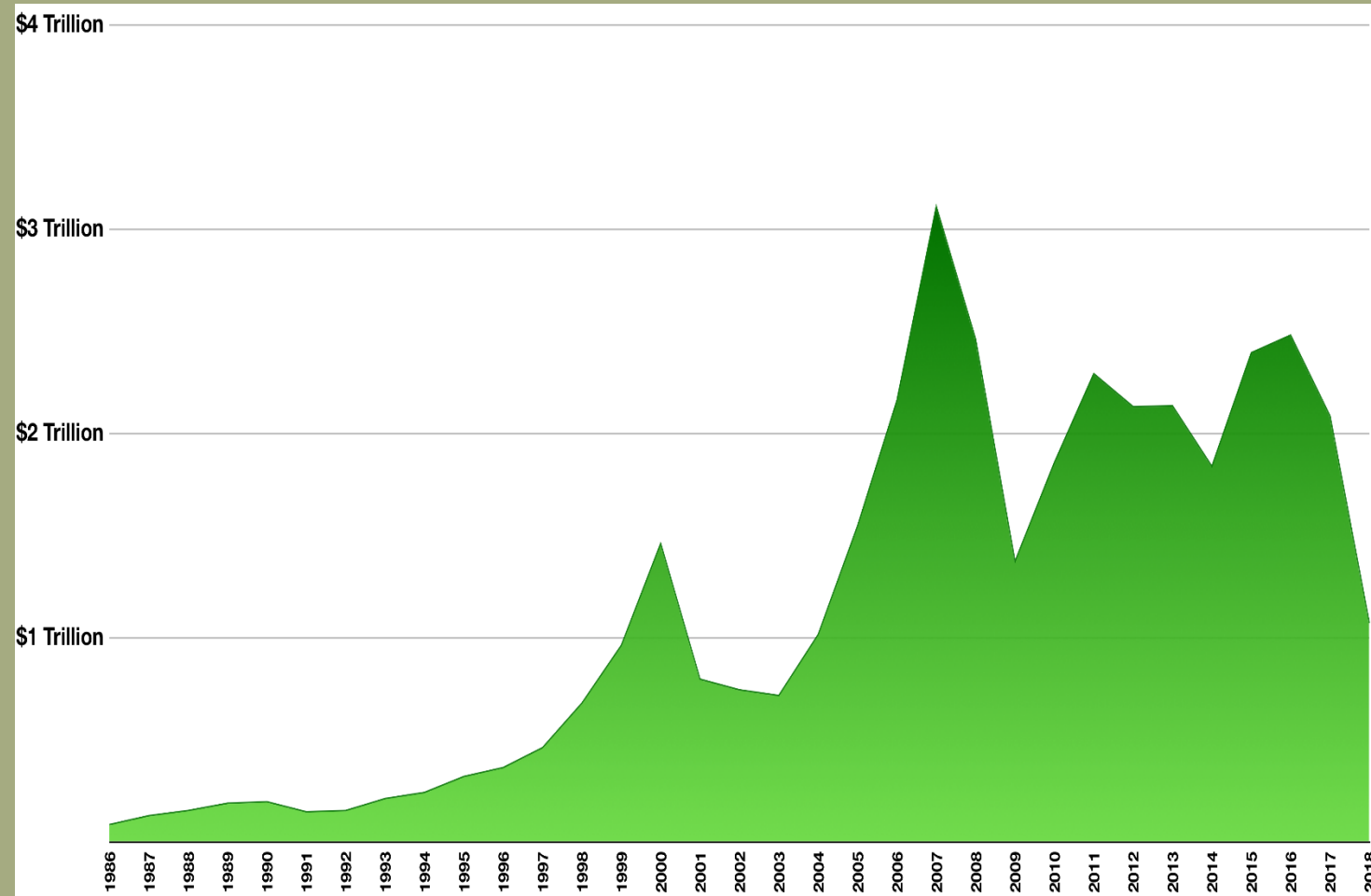
Forms of foreign direct investment

- Production now geared for export to MNCs home country and other developed markets rather than for the host country



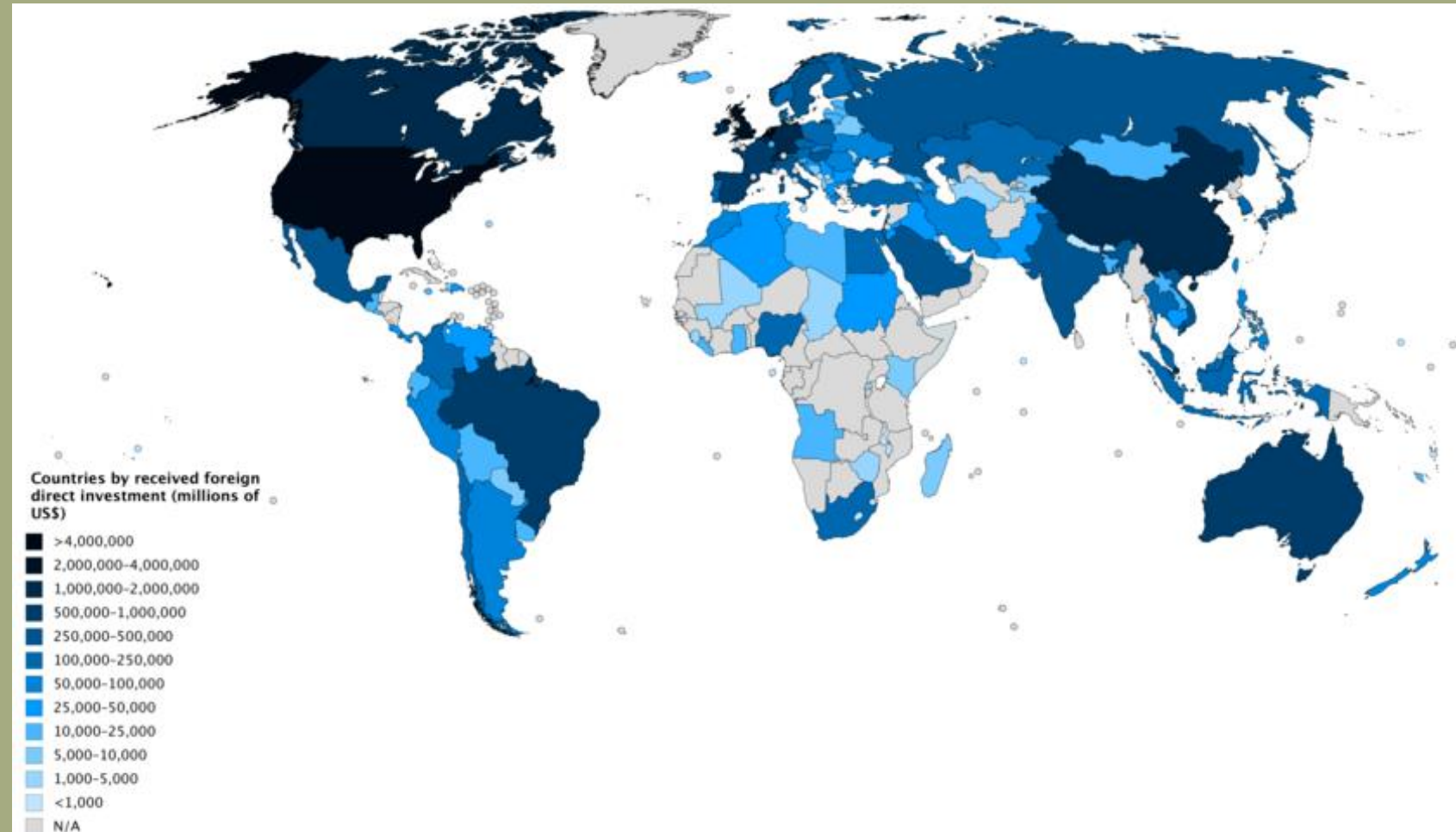
Foreign direct investment trends

- Gradual rise from 1986-2000; decline thereafter, up to 2004 followed by increase up to 2008
- Rebound in 2009; slight dip in 2014 but rebound thereafter
- Developed countries are recipients of a major share of FDI



Major recipients of FDI

- Developed countries are recipients of a major share of FDI
- According to UNCTAD, two thirds of profits from FDI are repatriated back to the home country



Impacts of foreign direct investment

- Fills resource gaps; enables supply of domestic savings, foreign currency, human capital skills
- Fills the gap between foreign exchange requirements and those derived from net export earnings plus net foreign aid
- Generates tax revenues needed and available management and transfer of technology



Impacts of foreign direct investment

- **Crowding out of private businesses**, lower domestic savings and investment rates by substituting private savings
- **Distorts competition** through special arrangements and fails to re-invest profits
- **Reduced foreign exchange earnings** in the long run; failure to improve foreign exchange position of the recipient country



Impacts of foreign direct investment

- **Less-than-expected contribution to public revenues** in reality, contribution through corporate tax is considerably less because of tax holidays, subsidies, and transfer pricing
- **Little impact on developing local resources** MNCs' management, entrepreneurial skills, technology may have little impact on developing local sources



Impacts of foreign direct investment

- **Impact of MNCs on development is uneven;** in some cases MNCs reinforce dualistic economic structures and exacerbate inequalities by promoting the interests of local factory managers above workers
- **MNCs use their economic power to influence government policies** in directions that are unfavorable to development



Foreign portfolio investments

- Provide opportunities for domestic investors to diversify their assets and for the foreign investor to generate high returns; naturally follows liberalization of domestic financial markets to foreign investors



Foreign portfolio investments

- Private portfolio investments comprise foreign purchases of stocks, bonds, and certificates of deposit and other commercial paper
- Private portfolio investments currently account for a large and rising share of overall net resource flows to developing countries
- Follows liberalization of domestic financial markets and opening up of these markets to foreign investors



Foreign portfolio investments

- Favored destination: middle income countries where risks and returns are higher
- Perspective of recipient country: portfolio investments enables the country to raise capital and domestic investors to diversify their assets
- Perspective of foreign investors: investing in stock markets of developing countries permits them to increase returns while diversify risks





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REMITTANCES

Remittances

- Remittances are an important source of capital for developing countries; the figures indicate that remittances are the main source of revenues for the recipient country, exceeding FDI and ODA



Remittances

- Workers from less developed countries look for jobs overseas because of wage differentials; workers in advanced countries earn 5 times more than in less-developed countries
- This provides incentives for workers to migrate/work temporarily overseas
- **Remittance:** overseas worker send back a portion of wages earned to the home country



Remittances

- Since 1995, remittances have overtaken ODA and portfolio investment flows as a source of capital resource flows to developing countries
- Since 2017 it has overtaken foreign direct investment as a source of capital flow to recipient countries
- Global remittances have grown to a record level of \$613 billion in 2017, a 7% increase from \$573 billion in 2016





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CONCLUSION

THANK **Y**OU!