



FDI in EU



Introduction

- Financial markets have evolved into a more **globally integrated framework** as a result of increasing **liberalization** of financial market and improving **market access**.
- This **integration**, accelerated by increasing competition amongst market participants, has led to the introduction of new **financial instruments** with broad market access and lower transaction costs.
- This helped in attracting investors of many nationalities and countries (economies).

- The expansion of **cross-border financial flows** has been further accelerated by **technological innovations** in communications and data processing.
- Foreign direct investment (FDI) is a key element in this rapidly evolving **international economic integration**, also referred to as globalization.
- FDI provides a means for creating **direct, stable** and **long-lasting** links between economies.

- Under the right policy environment, FDI can serve as an important vehicle for **local enterprise development**, and it may also help improve **the competitive position** of both the recipient (“host”) and the investing (“home”) economy.
- With the right policy framework, FDI can provide **financial stability**, promote **economic development** and enhance **the well being of societies**.

- in 1983, the OECD adopted a new "Benchmark Definition of Foreign Direct Investment" which provided a comprehensive set of rules to measure of foreign direct investment.
- **Note: (The revised Benchmark Definition in 2008)**
- Foreign Direct Investment (FDI) is a primary form of **international capital flows** that are recorded today in the world economy.

- The significant growth in the level of FDI in recent decades reflects:
 - An increase in the **size and number** of individual FDI transactions,
 - The growing **diversification of enterprises** across economies and industrial sectors.
- Large **multinational enterprises** are traditionally the dominant players in such cross-border FDI transactions.
- This development has coincided with an increased propensity for MNEs to participate in **foreign trade**.
- In recent years, it is believed that **small and medium-size enterprises** have also become increasingly involved in FDI.

For the receiving and host country, this form of capital flow is beneficial in the following respects:

1. The reception of investment capital while the availability of equity are reduced or absent.
2. It provides an opportunity for the host economy to promote its products more widely in international markets.
3. FDI, in addition to its positive effect on the development of international trade, is an important source of capital for a range of host and home economies.

1. **Technology** and **know-how** transfer which helps modernize technologies sectors and/or the emergence of new sectors.
2. The opportunities for **economy's restructuring** in sectors targeted by foreign capital significantly increase their share in GDP.
3. Provide **financial stability**, promote **economic development** and enhance the **well-being** of societies.

Note:

FDI effects on receiving or host countries vary widely from country to country and are subject to many factors, among which the most important are

- ✓ The overall level of economic and social development
- ✓ Capacity of efficient FDI absorption
- ✓ Availability of natural resources
- ✓ State of energy, transport, communications and public services infrastructures
- ✓ Technological innovations in communications and data processing.

Foreign Direct investment

- Foreign Direct investment is a category of **cross-border investment** made by a **resident** in one economy (the direct investor) with the objective of establishing a **lasting interest** in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor.
- The motivation of the direct investor is a **strategic long-term relationship** with the direct investment enterprise to ensure a significant degree of influence by **the direct investor** in the **management** of the direct investment enterprise.

- The “**lasting interest**” is evidenced when the direct investor owns at least **10%** of the voting power of the direct investment enterprise.
- Direct investment may also allow **the direct investor** to gain **access to the economy** of the direct investment enterprise which it might otherwise be unable to do.
- The objectives of direct investment are different from those of **portfolio investment** whereby investors **do not** generally expect to influence **the management** of the enterprise.

- **Direct investment enterprises** are :
 - **corporations**, which may either be **subsidiaries**, in which over 50% of the voting power is held, or **associates**, in which between 10% and 50% of the voting power is held.
 - **Quasi-corporations** such as **branches** which are effectively 100% owned by their respective parents.

- **Subsidiary** is an entity which is **controlled** by another entity. The control means that **the parent company** can **govern the financial and operating policies** of its subsidiaries to gain benefits from the operations of subsidiary.

(**Control** can be gained if more than 50% of the voting rights are acquired by the parent).

- **An associate** is an entity over which the investor has **significant influence**. Significant influence means the power to **participate** in **the financial and operating policy** decisions of the investee but is not control.

(Significant influence is usually acquired by purchasing more than 10% of voting power but less than 50%).

Thank you