Business: Foreign Direct Investment and Its Benefits

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Warmer questions

1. What ways can a country raise capital (money) for its industries and citizens?
2. Can you think of any countries which are able to do this successfully?
3. What are the general benefits and drawbacks of doing this in a country?

Reading section 1/3

The nuts and bolts

When a company owns another company in a different country is called Foreign Direct Investment (FDI). Other forms of FDI include the acquisition of shares in an associated enterprise, the incorporation of an entirely owned company or subsidiary, and equal participation in a joint venture across international boundaries. Depending on the type of companies involved and the reasons for investment, there are various levels and forms of FDI. A foreign direct investor might purchase a company in the target country by means of acquisition or a merger, setting up a new undertaking or expanding the operations of an existing one. FDI is different from when companies merely invest their money into assets in another country; this is called portfolio investment.

With FDI, foreign companies are directly involved with everyday operations in the other country. This means investors are not just bringing money with them, but also knowledge, skills, and technology.

Reading section 2/3

What are the conditions that must be fulfilled to attract FDI?

It is vital to ensure an attractive investment climate. Therefore, there are many conditions that have to be put in place to attract FDI. Consistency and predictability in economic policies, political and economic stability, consistent macroeconomic policies, a guarantee of property rights, good governance, and absence of corruption are the most imperative conditions required to attract FDI.

Why FDI?

There is a variety of forms for foreign investment. Portfolio investment, foreign loans, and foreign direct investment are the three main categories. Private FDI investments are risk-free for the target country and bring along the advantages of advanced technology, assured markets and management practices. There is also a technology transfer as the local workforce gains knowledge of the manufacturing processes and management practices. The value-added in these industries is a contribution to GDP and foreign exchange earnings. As a result, FDI contributes to foreign exchange earnings, employment, and increases in incomes.

Reading section 3/3

New figures have revealed that Britain is the number one destination for FDI in Europe. IBM's new report states that Britain is the fifth most favoured place in the world for FDI. London is ranked as the number one destination globally for FDI projects.

The report also said that the UK is ninth-best in terms of job quality. "This will maximise wealth creation for the whole of the UK, bringing more success to businesses, creating even more jobs and regenerating communities.

Questions to consider:

- Oil, gas, metals, and minerals constitute three-quarters of African exports to China. Are the alleged exploitation of labour and protectionism of technologies of the current activities of China raising enough pressing doubts on its FDI principles of equal treatment and fairness?
- Foreign direct investment is said to be critical for developing and emerging market countries. Are industrialised countries re-colonising the developing countries through FDI?

Vocabulary matching

Match the vocab on the left with the correct definitions on the right.

1. Financial	a. to provide money to another in the hope of seeing a return on principle
2. Unemployment	b. regular payment to the state
3. Pharmaceutical	c. a country's cash
4. Investment	d. an exhibition to promote certain industries and businesses
5. Risk	e. a country which doesn't satisfy the standards of a developed market
6. Tax	f. subject relating to money
7. Trade fair	g. without a job
8. Currency	h. the chance of loss
9. Emerging market	i. the large inward flow of something (like money or goods)
10. Influx	j. relating to medicine, or the preparation of drugs, use, or sale.

Video: Enterprise Greece discusses foreign direct investment

In a world that is increasingly becoming more globalised the need and desires to reach out to the rest of the world and seek investment is only increasing. The most that can be hoped for with FDI is the creation of new industries and the success of skill transfer. The best example in the last 30 years in perhaps indeed China. Many countries are trying to follow this path with Enterprise Greece, a government initiative from the Greek government, exploring new avenues of investment for the nation. After the 2008 financial crisis, the country has continually sought to find new ways to expand the economy and create jobs.

Video link
https://esldebates.com/business-foreign-direct-investment-and-its-benefits/

Video: Enterprise Greece discusses foreign direct investment

Watch the video and answer the questions below.

1. How many years was Greece in a financial crisis?
2. Is there unemployment in Greece?
3. What is Greece's most important economic sector?
4. How is Greece's tourism nowadays?
5. What other major economic sectors are there in Greece?
6. How is Greece's pharmaceutical industry like?
7. What is most beneficial to Greece: that an international company builds its factory in Greece or if an international company invests in a Greek company that is already there?
8. How does Greece Enterprise help local companies?
9. Is it easy doing business in Greece?
10. Is Greece a place of financial risk?

Benefits of FDI

1. Economic Development Stimulation. FDI can stimulate the target country’s economic development, creating a more conducive environment for the investors and benefits for the local industry.

2. Employment and Economic Growth. FDI creates new jobs, as investors build new companies in the target country. This leads to an increase in income and more buying power to the people, which in turn leads to an economic boost.

3. Development of Human Capital Resources. FDI develops human capital resources. The skills gained by training and sharing experience would increase the education and general human capital of a country. A country with FDI can benefit greatly by developing its human resources while maintaining ownership.

4. Tax Incentives. Foreign investors can receive lower tax incentives that will be highly useful in their selected field of business.

5. Resource Transfer. When various countries are given access to new technologies and skills, FDI allows resource transfer and other exchanges of knowledge.

6. Reduced Disparity Between Revenues and Costs. FDI can reduce the disparity between revenues and costs. With this, countries will be able to make sure that production costs will be the same and can be sold easily.

7. Increased Productivity and Increment in Income. The facilities and equipment provided by foreign investors can increase workforce productivity in the target country. Also, FDI increases the target country’s income. With more jobs and higher wages, the national income normally increases. As a result, economic growth is stimulated.

The disadvantages of FDI

1. Hindrance to Domestic Investment. As FDI focuses its resources elsewhere other than the investor's home country, foreign direct investment can sometimes hinder domestic investment.

2. The risk from political change. Because of political issues in other countries can instantly change, FDI is very risky.

3. Negative Influence on Exchange Rates. Foreign direct investments can sometimes affect exchange rates to the advantage of one country and the detriment of another.

4. Economic Non-Viability. From the point of view of the investor, foreign direct investment is frequently capital-intensive; having this in mind, FDI can sometimes be very risky or economically non-viable.

5. Expropriation. Political changes can also lead to expropriation, which is a scenario where the target government will have control over the foreign property and assets.

6. Negative Impact on the Target Country. The rules that govern foreign exchange rates and direct investments might negatively have an impact on the investing country.

7. Economic Colonialism. Many developing countries worry that FDI would result in some kind of modern-day colonialism, which leave host countries vulnerable to foreign companies' exploitations.

Potential debating topics

1. Foreign direct investments are essential to ensure the boost of the economy of the developing countries.
2. Industrialised countries use FDI to crush the emerging economy of developing countries.
3. FDI is a win-win deal for both foreign and host countries.
4. FDI is only helpful and beneficial for the foreign investor.
5. FDI is a method to exploit poorer and less developed countries.

Conclusion

Investing in another country's economy, buying shares in foreign companies or expanding business abroad can be financially rewarding. However, foreign direct investment also carries risks. To cite but one example, it is highly important for a foreign business to thoroughly evaluate the economic climate of the host country.

However, living in an increasingly globalised economy, FDI will continue being a beneficial option for business worldwide. First and foremost, foreign industries should weigh down FDI advantages and disadvantages in order to determine if that is the best road to take.

Answers

Video answers

1. Greece is coming out of an eight-year financial crisis.
2. Yes, there is. Unemployment is still high at around twenty per cent, but Greece is open for business and opens for foreign investment.
3. Tourism is Greece’s largest economic sector. Greece is a major tourist destination.
4. Last year, Greece hit an all-time high accepting thirty million tourists, three times the population.
5. Other major economic sectors in Greece are food and beverage and the pharmaceutical industry.
6. Greece’s pharmaceutical industry is very strong. It can be broken down into two major categories: the international companies that are producing pharmaceuticals; almost all of the international companies have production facilities in Greece. And the Greek companies that are doing research and development R&D regarding generic pharmaceuticals.
7. Both of them have pros and cons. Investing in an existing a company brings much faster results for the investors because Greece has a lot of companies that need capital to expand in expertise.
8. Enterprise Greece provides advice on how to open up a new market. If it is outside of the EU, it provides advice on how to export and what taxes treaties exist. Enterprise Greece tries to help with the local embassies and it also organises major trade fairs every week.
9. It is easier now. A lot of legislation has been passed that facilitates the opening of new businesses.
10. Not anymore. Greece today combines two unique features: it is a country that belongs to the EU (so it has a stable currency) and it has many opportunities that may be found only in emerging markets.

Vocabulary matching

1. f
2. g
3. j
4. a
5. h
6. b
7. d
8. c
9. e
10. i
11.