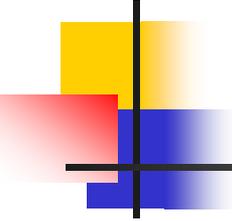


# Chapter 6. Recent Trends of International Investment

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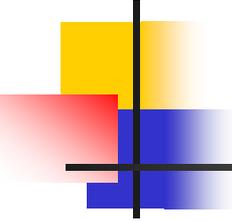
- Goal: To be able to analyze the trends in international investment based on theories and evidences
- Objectives:
  - Understand history and the evolution of international investment
  - Explain factors strongly affecting global investment in specific periods, regions and group of countries and by form of investment.
  - Grasp the trend of global investment and Vietnam's FDI inflow in the years ahead
- Contents
  - History of international investment
  - Evolution of FPI and FDI
  - Trend in International investment and Vietnam's FDI inflow
- Studying method:
  - Learn the theory
  - Class discussion
  - Case study
  - Group Presentation



# Reference

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- Kavaljit Singh, 2007, Why Investment Matters, pp. 26-41
- UNCTAD, 2009, World Investment Report, pp. 1-30.
- World Bank, Global development Finance, 2009.
- [www.cuu-duong-than-cong.com](http://www.cuu-duong-than-cong.com), Các hình thức đầu tư trực tiếp nước ngoài ở Việt Nam: Chính sách và thực tiễn, NxbĐHQGHN, 2007



## 6.1. Origin and Evolution of International Investment

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- Since 16<sup>th</sup> century:

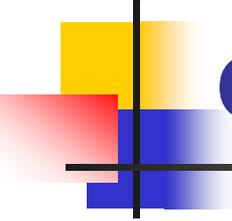
- State-sponsors trading firms supported colonial trading system: English East India Trading Company; Hudson's Bay Company; **Royal African Company (delivered slaves, 1680-1686)**; the Dutch United East India Company

- Engaged more in trading than in production

- Then invested in forts, warehouses, land and administrative operations. (English East India company, cotton growing in India).

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***Source: Kavaljit Singh, 2007, p. 20-25***



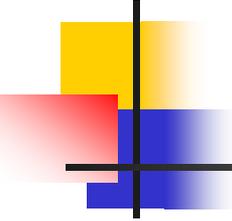
# Origin...

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-19th century:

- British firms invested in colonies of the British Empire:  
(not only opening offices but direct investment)

- Factory systems paved the way for the emergence of manufacturing-based TNCs (few restrictions on capital movement, adoption of Gold standard exchange system provided stability against risk)



# Origin...

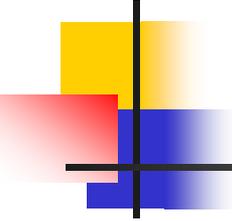
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-During 19th and early 20th century:

-Search for natural resources resulting in expansion operations by US and Western Europe-based firms (managed and controlled from headquarter: Siemens (German) in 1850s; Singer (US) in 1860s.

- British merchants and Banks introduced banking system in British colonies.

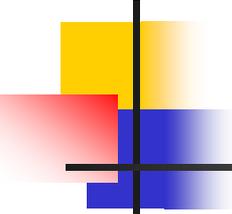
-Huge amount of foreign investment took place prior to 1914 (portfolio investment accounted for a major part, attractive interest rates in foreign locations)



# Origin....

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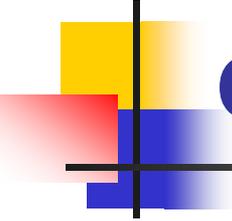
- UK – largest creditor in 50 years up to 1914 (annual average investment of about 4% of national income, mostly in America and Australia).
- By 1914: Investment in manufacturing.
- After World War 1 .....change status of European nations from net creditors to a net debtor in early 20th.
- US emerged as a largest creditor



# Origin....

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- During World War II: downturn of International Investment (foreign assets appropriated; communism; nationalization...).
- 1948-1960s: US's substantial engagement in European and international economic reconstruction. US access to foreign countries aided and abetted by Marshall Plan operation and liberalization of national and international trade and investment regime.
- In US: domestic tax system encouraged outward foreign investment.
- At international level: Convertibility of Dollar to Gold; establishment of new economic institutions like WB, IMF, GATT facilitated US's foreign investment
- 1948-1965: US accounted for 85% of new FDI flow.
- FDI became the major components of foreign investment in this period. Europe and Canada are two main destination of FDI.

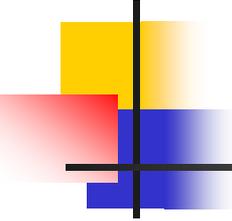


# Origin...

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- By 1960: World stock of FDI reached 60 billion USD
- Big momentum in foreign investment came in early 1970s (US unilaterally decided to abandon the Bretton Woods system of fixed exchange rates (read reference)).
- Bretton Woods system abandon + removal of capital control in developed countries + the advent of a floating exchange rate system encouraged **a huge explosion in international financial markets since 1970s**

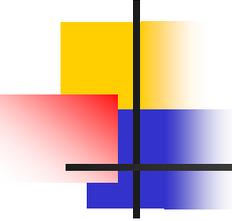
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# Origin...

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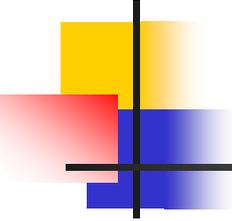
- Major technological advances (shipping, air transport, computerization, communications) accelerates internationalization of investment and trade.
- By 1970s, oligopolistic consolidation and TNCs's role in global commerce was of a far greater scale than before. TNCs controled 70-80% of world trade (excl. centrally planned economies)
- Operation of FDI was different from wht done in the 19th: deep engagement in manufacturing (especialy VI) rather than trading or opening offices



# Origin....

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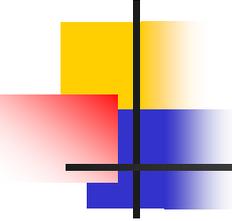
- 1980s: Global FDI flow increased to over 500 billion USD; two-thirds located in Europe and North America.
- Rise of Japanese outward FDI in late 1980s to US, Europe, East Asia (Plaza Accord in 1985)
- Determinants of sharp growth of FDI in late 1980s :
  - Debt crisis in 1982
  - Liberalization of investment, trade and finance regime in both developed and developing countries.
  - Large scale privatization of public-owned assets
  - Completion of NAFTA, and Uruguay Round of GATT negotiation
  - Regional integration in Asia-Pacific region



# Origin....

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- The rise in stock prices
- Growing competition among corporations to take advantages of new investment opportunities abroad
- An increase in cross-border M&As;
- The collapse of communist regimes in Eastern Europe and Soviet Union;
- China's economic and market openness
- Advancements in the technological field, especially in communications and information



# Case study

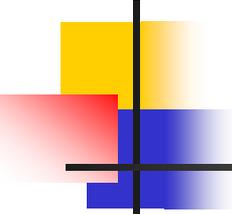
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- English East India Company

*Source: Kavaljit Singh, 2007, 17*

- Bretton Woods System

*Source: Kavaljit Singh, 2007, p.22*



## 6.2. Recent trends in international investment

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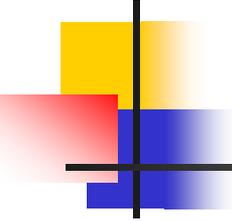
-In 1990s: both FPI and FDI increased. FDI become the most important mechanism to deliver goods and services across the world. Mainly between developed countries (different from theory..).

-Reduced in post-2000 (North-North FDI, Central and Eastern Europe), FDI to US as sluggish in Japan, Europe, repayment to parent companies from foreign affiliates.

-Resumed in 2004, to 955 billion USD in 2005 (M&A in developed countries)

**-Trend: North-North**

Source: Kavaljit Singh, 2007, p. 26



# Trends...

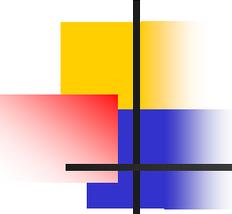
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- North-South trend: skewed in 10 largest recipients accounting for 60% of FDI flow to developing countries) - BRIC .
- Sectoral trend: change from primary and resource –based manufacturing sector in post-war period, now to service (two-thirds)
- Form of investment: GI to M&A (two-thirds; among developed countries). Since 2004, M&A took place in Europe and Asia (telecommunication and banking)
- Regional trend: FDI to Asia
- FDI by special funds (SWFs and Private funds)

# Foreign direct investment flows

	Outflows by Area of Origin			Inflows by Area of Destination		
	1970	1980	1990	1970	1980	1990
<b>High-income countries</b>						
United States	45.99	20.98	21.79	11.19	29.90	20.10
Europe	42.33	51.63	44.61	43.79	35.64	38.79
Japan	5.40	13.90	5.41	0.63	0.45	0.57
Oceania	0.91	2.17	1.08	5.97	4.71	2.33
<b>Total</b>	<b>98.98</b>	<b>93.84</b>	<b>87.50</b>	<b>75.93</b>	<b>75.19</b>	<b>65.23</b>
<b>Developing and transition countries</b>						
Latin America	0.32	0.93	2.19	12.66	9.02	11.10
Africa	0.41	1.44	0.50	4.29	2.32	1.75
Asia (excluding Japan)	0.29	3.76	9.34	6.60	13.00	18.66
Oceania	0.01	0.01	0.01	0.45	0.17	0.07
Central/Eastern Europe	0.02	0.01	0.27	0.01	0.26	3.05
<b>Total</b>	<b>1.03</b>	<b>6.16</b>	<b>12.50</b>	<b>24.08</b>	<b>24.81</b>	<b>34.77</b>
<b>World (\$ million)</b>	<b>23,678</b>	<b>124,407</b>	<b>523,293</b>	<b>20,956</b>	<b>113,917</b>	<b>530,174</b>

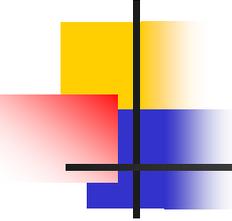
Source: *World Economic Outlook*, IMF, 2005.



# Global FDI inflow (billion USD)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>World Total</b>	399.0	493.8	717.7	1,122.2	1,413.0	875.1	733.2	655.8	801.7	954.8
<b>Developed Countries</b>	231.9	281.2	498.4	860.3	1,131.1	586.4	539.6	453.9	485.6	555.6
% of world total	58.1	56.9	69.4	76.7	80.0	67.0	73.6	69.2	60.6	58.2
<b>Developing Countries</b>	167.1	212.6	219.3	261.9	281.9	288.7	193.7	201.9	316.1	399.2
% of world total	41.9	43.1	30.6	23.3	20.0	33.0	26.4	30.8	39.4	41.8

Source: The Economist Intelligence Unit, 2006.



# Discussion

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- Portfolio investment trend
- The developing world as exporter of capital
- Resurge of Petrodollars
- Transnationals from the South: New Kids on the Block

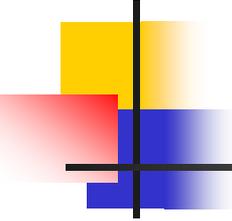
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*Ref. Kavaljit Singh, 2007, pp 32-47*

# Recent M&As by South TNCs (2004-2006)

Year	Acquiring Company (Country)	Acquired Company (Country)	Sector of the Acquired Company	Value (\$ billion)
<b>SOUTH-NORTH INVESTMENT DEALS</b>				
2006	Tata Tea (India)	Energy Brand Inc. (US)	Beverages	\$0.7
2006	Suzlon Energy (India)	Hansen Transmissions (Belgium)	Gear Box	\$0.5
2006	Dr. Reddy's Lab (India)	Betapharm (Germany)	Pharmaceutical	\$0.5
2005	Cemex (Mexico)	RMC (UK)	Cement Industry	\$4.1
2004	AmBev (Brazil)	John Labatt (Canada)	Malt Beverages	\$7.8
2004	Gold Fields (South Africa)	Noriment Ltd (UK)	Metal Services	\$1.3
2004	Tata Motors Ltd (India)	Daewoo Vehicle (South Korea)	Motor Vehicles	\$0.1
<b>SOUTH-SOUTH INVESTMENT DEALS</b>				
2006	ONGC (India)	Brazil Oilfields (Brazil)	Oil	\$1.4
2005	America Movil (Mexico)	TIM Peru (Peru)	Telecom	\$0.5
2005	Tata Steel (India)	Millennium Steel (Thailand)	Steel	\$0.4
2004	Telefonos de Mexico (Mexico)	Columbia Telecomunicaciones	Telecom	\$0.4
2004	Anglogold Ltd (South Africa)	Ashanti Goldfields (Ghana)	Gold Ores	\$1.5
2004	Sinergy (Brazil)	Avianca (Columbia)	Air Transportation	\$0.4
2004	YTL Power (Malaysia)	Jawa Power (Indonesia)	Electric Services	\$0.2

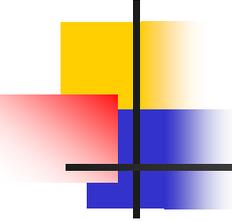
Source: Compiled by the author from various newspaper reports and documents.



# Global FDI during financial crisis in 2008-2009 and future prospect

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- Cross-border M&A reduced since second half of 2008
- FDI flow (in and out) initially reduced in developed countries as crisis occurred
- M&A FDI reduced in both developed and developing countries since 2008 (shrinking corporate profit and plummeting stock caused diminishing the value of and scope for M&A).
- FDI in GI form still increased in 2008 and started declining since early 2009.
- FDI in durable/life-cycle product industries reduced earlier (Automotive, electrical and electrical industries)
- Disinvestment caused by restructuring; reallocate investment; remittance to parent company



# Global FDI during financial and economic crisis in 2008-2009

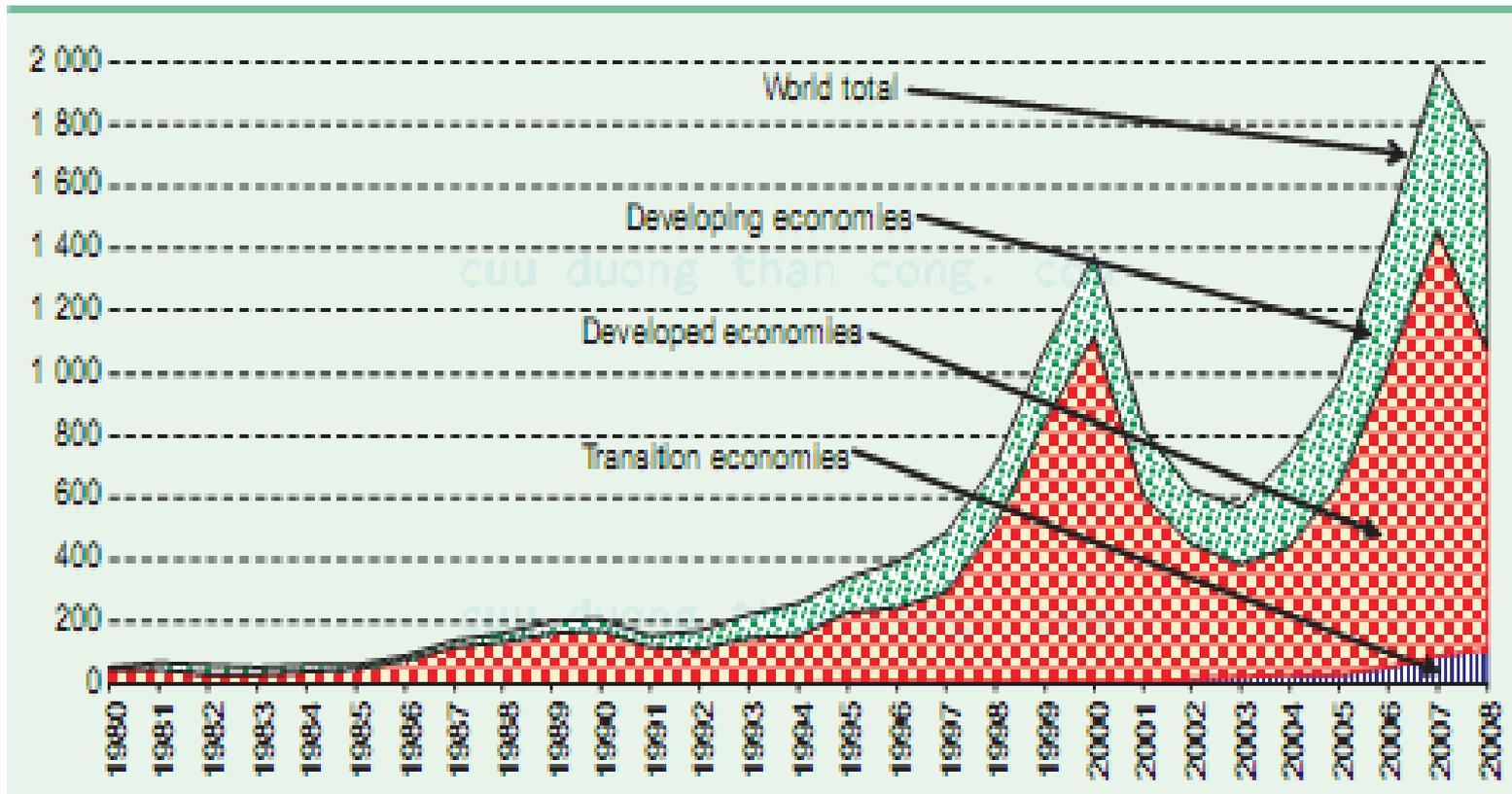
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- TNCs' increasing participation in agribusiness in the context of global food and energy security.
- Policy response by developing countries.

*Source: UNCTAD, WIR, 2009.*

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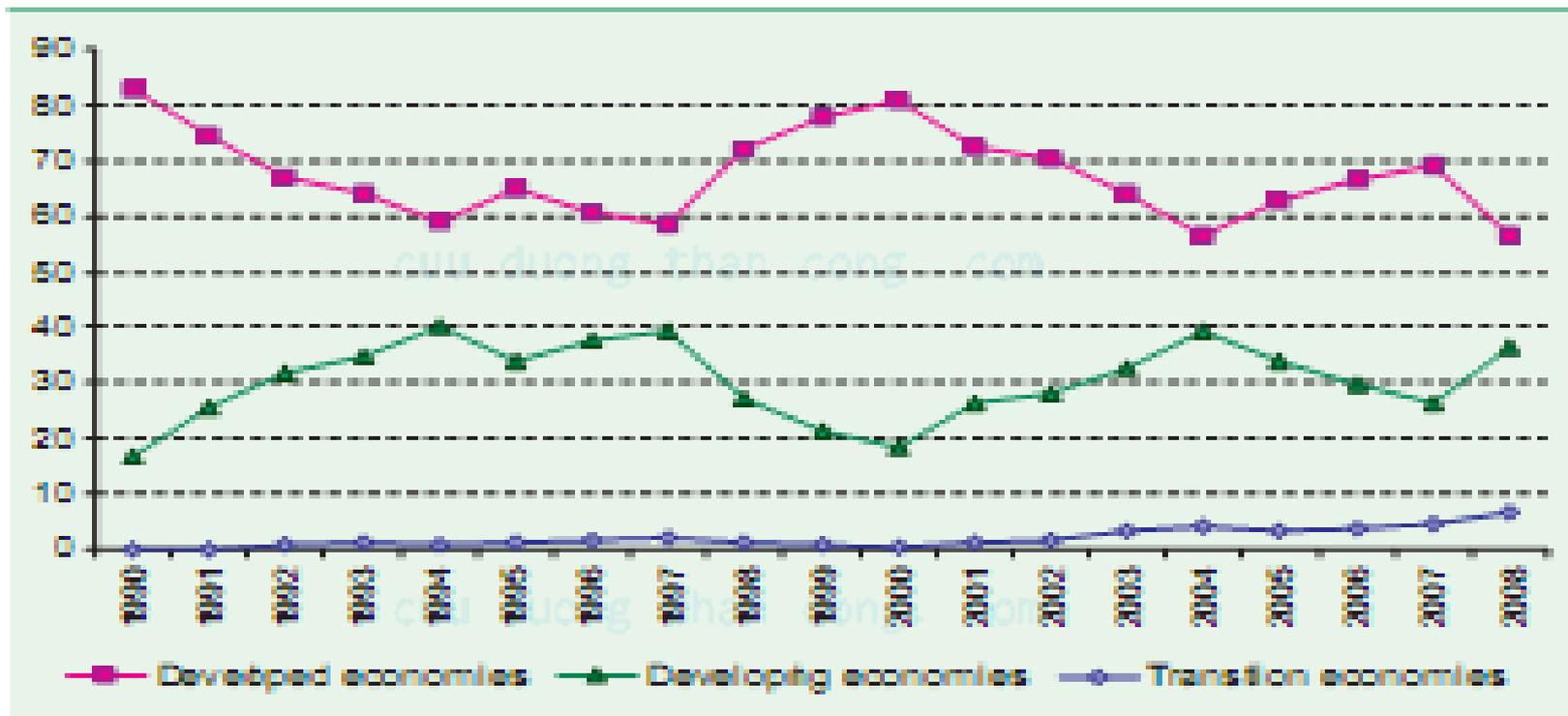
# Global FDI, 1980-2008



Unit: Billion USD

Source: UNCTAD, World Investment Report 2009, tr.4

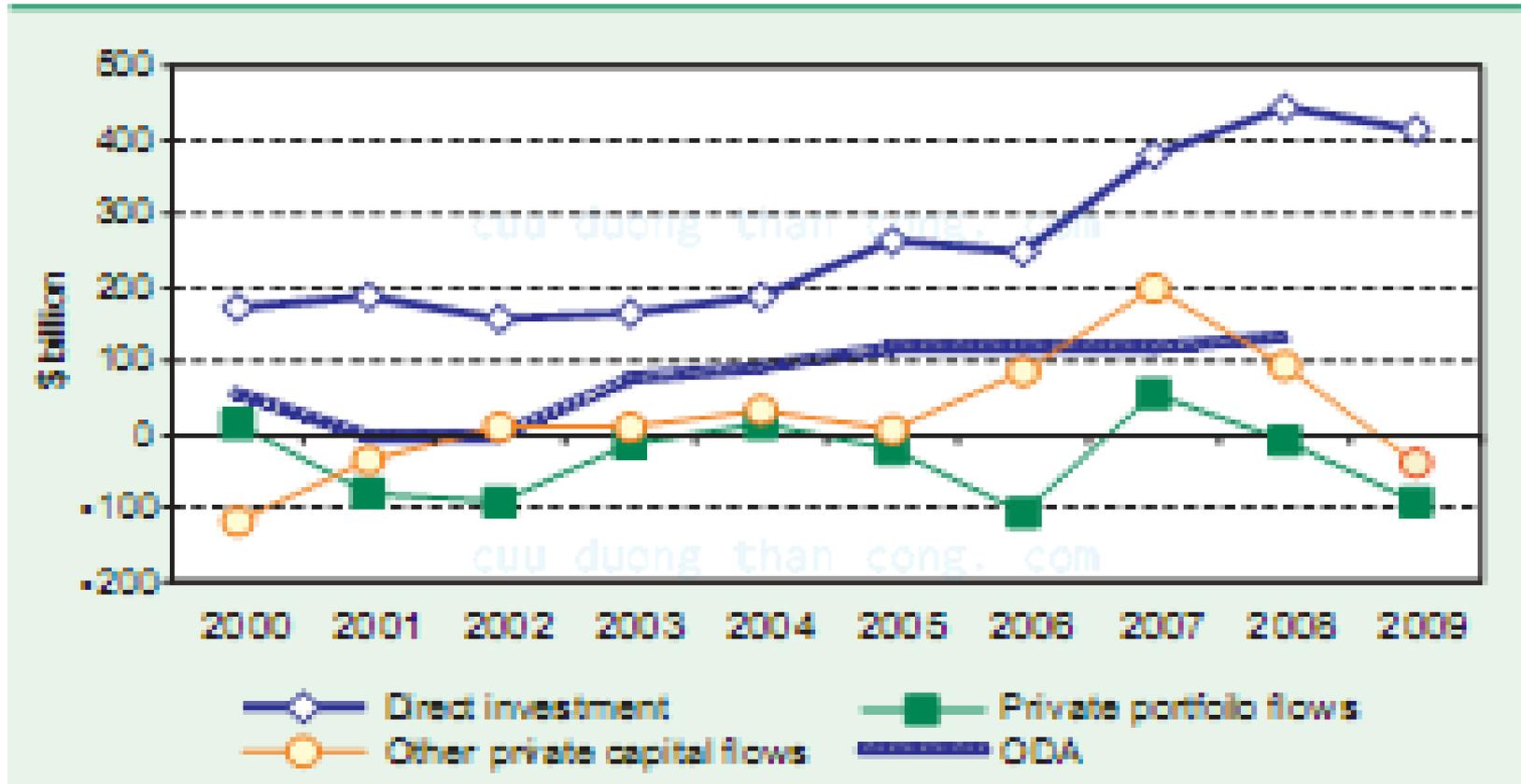
# The Share of three major groups of economies in the global FDI inflow, 1998-2008 (%)



Source: UNCTAD FDI/TNC database ([www.unctad.org/fdi/statistics](http://www.unctad.org/fdi/statistics)) and UNCTAD secretariat estimates.

Source: UNCTAD, WIR 2009, p.4.

# Net capital flow to developing economies, 2000-2009 (Billion USD)



Source: UNCTAD, WIR 2009, p.5.

# Profitability and profit level of TNCs, 1997-2008



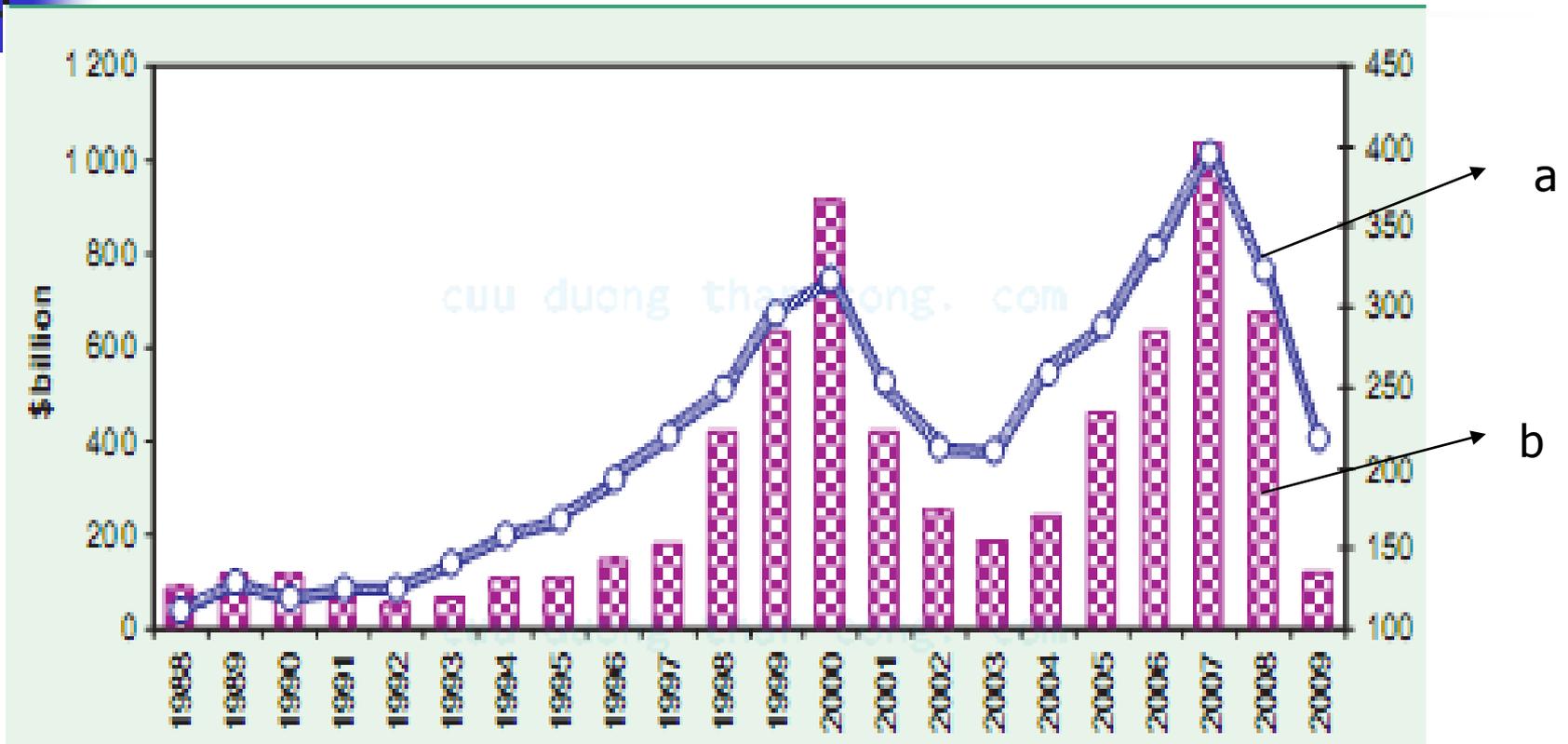
Source: UNCTAD, based on data from Thomson One Banker.

<sup>a</sup> Profitability is calculated as the ratio of net income to total sales.

Note: This calculation covers 987 TNCs.

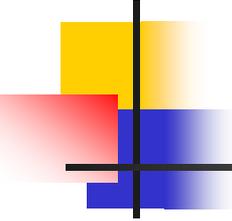
Source: UNCTAD, WIR 2009, p.6

# Global Cross-border M&A and MSCI Index, 1988-2009



a. Cross-border M&A (Billion USD); b. MSCI index (Morgan Staley Capital International) 1987=100 points

Source: UNCTAD, WIR 2009, p. 11

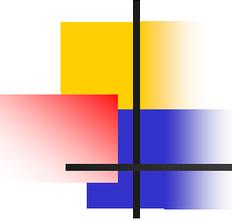


# Case study

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- Examples of FDI projects in the form of Cross-border M&A and restructuring

*Source: UNCTAD, WIR 2009, p.6, p.10*



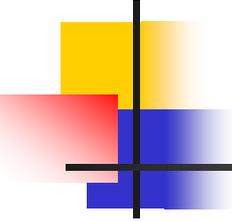
# Problem for further study

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Trend of FDI in Vietnam by industry and form

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, Các hình thức đầu tư trực tiếp  
nước ngoài ở Việt Nam: Chính sách và thực  
tiễn, NxbĐHQGHN, 2007

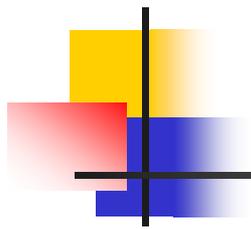
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# Problems for further study

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1. Trend FDI inflow to Vietnam after WTO accession
2. Impacts of financial crisis on Vietnam's inward FDI
3. Compare Hedge fund, Private equity funds, and Sovereign Wealth Funds (SWFs)
4. In conventional theory, capital freely mobilizes from the capital-rich country (the US) to capital-scare and labor-abundant country (China) if there is no barrier, raising the rate of return on capital in receipient country. However, it is not the case in reality. Currently, there is a capital flow from the developing countries to the developed countries". Please explain.



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**Thank you !**

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