

Types of fdi targets and motive



**ASSIGN
BUSTER**

The International Monetary Fund Balance Of Payment manual defines FDI as an investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor, the investor's purpose being to have an effective voice in the management of the enterprise. FDI are mostly carried out by multinational corporations (MNCs) such as Toyota, IBM, Philips and others. Almost every country value FDI as an important way to improving the economic development of their respective countries and thus they compete with each other to attract most FDI. This conquest has given birth to several international investment agreements namely Bilateral Investment Treaties (BITs) and Double Taxation Treaties (DTTs) in an attempt to create a better investment climate. Both developing and developed countries have indulge themselves in foreign operations since decades with their ups and downs over time.

After the Second World War global FDI over the world was dominated mainly by the United States while the rest of the world were still recovering from the destruction brought by the war. At that time the US accounted for around three-quarters of new FDI (including reinvested profits) between 1945 and 1960. From that time FDI has spread to become a truly global phenomenon.

Types of FDI

By Target

- 1) Greenfield investment : It is the investment in an area where no previous facilities exist
- 2) Mergers and Acquisitions: refers to the aspect of corporate strategy, corporate finance and the management dealing with the buying, selling and

combining of different organisations that can aid, finance, or help a growing company in a given industry grow rapidly without having to create another business entity.

3) Horizontal Foreign Direct Investment: is investment in the same industry abroad as a firm operates in at home.

4) Vertical Foreign Direct Investment: Takes two forms:

backward vertical FDI: where an industry abroad provides inputs for a firm's domestic production process

forward vertical FDI: in which an industry abroad sells the outputs of a firm's domestic production

By motive

FDI can also be categorized based on the motive behind the investment from the perspective of the

investing firm. Firms normally invest in foreign market for three main reason

Market-seeking:

Its aim is to realize a direct presence in the foreign market to quickly develop sales revenue and control the marketing mix policy. It allows firms to pursue strategic goals such as threatening competitors by

entering their home market, or rather to follow customers which have chosen to internationalize themselves (UNCTAD, 2006). A example is General

Motors' investment in China which is market seeking because the cars built in China are sold in China.

Resource-seeking:

This investment aimed to get production factor supplies at low cost. The most important among these are: raw materials, labour, public incentives, and the chance to restrain logistic costs. The investment is seeking access to existing resources

Efficiency-seeking:

It is commonly described as offshoring, or investing in foreign markets to take advantage of a lower cost structure.

Strategic asset seeking

It is an investment led to increase selfcompetitiveness through the acquisition of strategic assets such as technologies not available in the home market, or rather links with global value-chains. This

kind of investment typically regards firms located in emerging or developing countries (particularly China), and are often undertaken for various reasons such as to lower costs of production or the will to expand on overseas markets. Similarly to the efficiency seeking firms, the strategic asset seekers aim to capitalise on the advantages of the common ownership of a network of activities and capabilities in diverse environments (Dunning 1993).

By Direction

Inward FDI: Inward foreign direct investment is when foreign capital is invested in local resources

Outward FDI: Outward foreign direct investment, sometimes called “ direct investment abroad”, is when local capital is invested in foreign resources

FOREIGN DIRECT INVESTMENT- CONTINENT WISE

Africa

The main factors motivating FDI into Africa in recent decades appear to have been the availability of natural resources in the host countries (e. g. investment in the oil industries of Nigeria and Angola) and, to a lesser extent, the size of the domestic economy. Nevertheless, the African continent has been receiving the lowest share of global FDI inflows over time. This may have been due to the image of Africa among many foreign investors which still tends to be one of a continent associated mainly with political turmoil, economic instability, diseases and natural disasters. According to Bjorvatn (2000: 1), the whole of Africa receives less FDI than Singapore even though FDI is welcomed and actively sought by virtually all African countries. A number of reasons were mentioned that hindered FDI into African countries. These include market size, lack of policies, lack of profit opportunities, inconsistent setup, negative perceptions, shortage of skills, labour regulations, poor infrastructure and corruption (CUTS, 2002)

The Economic Report on Africa by the United Nations Economic Commission for Africa advocates that FDI is the key to solving Africa’s economic

<https://assignbuster.com/types-of-fdi-targets-and-motive/>

problems. Bodies such as the IMF and the World Bank have suggested that attracting large inflows of FDI would result in economic development. Egypt has remained the most important recipient of FDI flows in North Africa.

Most of the inflows are concentrated in the West, North and Central African sub regions. And inflows will continue to be small in low-income economies lacking natural resources (UNCTAD, 2007).

1950- 1960

Since the 1960s, the investment levels in Africa have remained relatively low, with their share of GDP averaging only half that in the rest of the developing world. Moreover, for same levels of

investment, African economies have on average achieved only one-third to one-half of the growth achieved in other developing regions.

1960-1970

In the 1970s, Africa accounted for 25% of foreign direct investment to developing countries and attracted more FDI per \$1000 of GDP than Asia, Latin America and the Caribbean. Since 1970, FDI inflows into Africa have increased only modestly, from an annual average of almost \$1. 9 billion in 1983-1987 to \$3. 1 billion in 1988-1992, and \$6 billion in 1993- 1997.

FDI inflows into developing countries as a group almost quadrupled from less than \$20 billion in 1981-1995 to \$75 billion in 1991-1995 whereas those to Africa in that period only doubled. Africa's share in total inflows of FDI to developing countries dropped significantly from more than 11% in 1976-1980 to 9% in 1981-1985, 5% in 1991-1995 and to 4% in 1996-1997.

1980-1990

For the period 1982-1999, most FDI flows to developing countries were directed towards the South, East and South-Eastern Asia followed by Latin America.

By 1990, the continent had fallen behind other developing areas in terms of its value of FDI inflows and the FDI/GDP ratio, and has stayed behind since then. In the 1990s, the gap widened when the worldwide surge in FDI flows into developing world largely bypassed the region

1990-2000

In 1992 Africa only accounted for 5.2% whereas in 2000 it received 3.8% of the total FDI to the developing world. According to the WIR (2001) FDI inflows to the African continent declined from \$10.5 billion in 1999 to \$9.1 billion in 2000.

In the sub-Saharan Africa, the FDI has decreased from \$8 billion in 1999 to \$6.5 billion by the year 2000. A sharp drop of inflows into Angola and South Africa caused the overall drop of inflows into Sub-Saharan Africa. The decline of inflows in Angola resulted in FDI flows to the least developed countries to drop from \$4.8 billion in 1999 to \$3.9 billion in 2000. As a result of this drop, the overall SADC region experienced a fall in flows from \$5.3 billion in 1999 to \$3.9 billion in 2000. However, countries like Mauritius and Lesotho experienced strong increases in FDI whereas others, for example, Zimbabwe experienced a significant drop from \$444 million in 1998 to \$59 million in 1999 and only \$30 million in 2000 (WIR, 2001). From the year 1996 to 1999, most investments in the SADC region went into the metal industry and the

mining sector and thereafter into the food, beverages and tobacco sectors. Other sectors like tourism accounted for a small amount of FDI.

2000-2010

In 2002, FDI inflows to Africa were only \$14.6 billion. However, the FDI inflows into the continent had shown tremendous improvements over the past 6 years and reached \$53 billion in 2007. This indicates an impressive FDI inflows growth rate of over 263 percent during the six year period. There were both economic and political conditions that enhanced Africa's ability to attract more FDI since 2002.

FDI inflows to Africa showed an impressive growth during the period 2002-2007. This period was characterized by high and sustained average annual economic growth anchored by commodity price boom, marked decline in political instability and conflicts, increased global demand, and increased mergers and acquisitions.

In African region FDI inflows made a record in the year 2006 at \$36 billion. It nearly doubled the FDI for 2004. The FDI inflows into Africa were dominated by Nigeria, Egypt, South Africa and Morocco which received 5.4%, 5.3%, 3.7% and 2.3% of the FDI inflows to the African continent respectively (UNCTAD, 2007).

At the end of 2007, political instability and conflicts were limited to few countries in Africa, viz., Sudan, Somalia, Zimbabwe and Ethiopia.

In 2008, the disputed elections in Kenya that threatened to derail the country's democratic process, disputed elections in Nigeria, the coup de tat

in Mauritania, and recently in Guinea, disputed elections in Angola and Zambia all undermined the image of the continent and its competitiveness in attracting FDI. Angola has attracted most FDI in Africa, compared to its GDP, particularly in offshore

exploration of gas and petroleum. It attracted resource-seeking FDI despite being the site of a longstanding war. After Angola, South Africa is attracting most FDI in the Southern African region,

mostly from the US and the UK. South Africa is seen as the most attractive country for FDI by business (SOMO and LaRRI, 2001).

The UN Conference on Trade and Development (UNCTAD)'s latest World Investment Report has revealed that Africa received a record amount of foreign direct investment in 2007 totalling US\$53bn. The investments were largely concentrated on a few key countries, with the top 10 host countries accounting for more than 82% of the total inflow of FDI. Sub-Saharan Africa attracted 58% of the continent's total FDI, while North Africa received 42%.

2008 crisis-Africa

According to the world investment report 2009, FDI inflows to Africa reached a record of US\$88 billion in 2008. In the first quarter of 2009, they dropped steeply by roughly 67% year on year. This fall in FDI to the continent had important ramifications for development activities there, as FDI is a major contributor to gross fixed capital formation. FDI inflows to Africa's 33 least developed countries (LDCs), which peaked in 2008 after eight consecutive years of growth, are at risk of falling. This was due to a crisis-induced in the global demand for commodities, which is a major attraction for FDI in these

economies. FDI outflows from Africa, which make up only 3% of outflows from developing countries, are decreasing. A 12% fall, from US\$10.6 billion in 2007 to \$9.3 billion in 2008, mainly due to divestments by South African transnational corporations (TNCs) was recorded. This is also reflected in a 17% decline in the value of cross-border mergers and acquisitions (M&As) undertaken by African TNCs. South Africa was the first African country to be affected by the recession.

Conclusion

The continent offers huge potential for FDI. However, serious challenges also remain. These include political instability, poor infrastructure, and inappropriate regulatory environment among others. The recent political trends are particularly worrying. The countries of the continent must work hard to ensure that the current trend of FDI inflows in to the continent is not jeopardized by such negative images.

America(developed economy: North America(Canada and US) =

Developing: Latin America and Carribean:

1950- 1960

1960-1970

From 1970 to 1998, FDI flows fluctuated up and down in the 1970s and 1980s with no distinct tendency to rise. In the period from 1974 to 1990, growth of real GDP per capita in Latin America and the Caribbean was 0.4 per cent a year, compared to 1.8 per cent in the period from 1991 to 1998.

1970-1980

Between the early 1970s and 1990s, inward foreign direct investment in Latin America and the Caribbean was comparatively low. The reason being the poor economic performance resulting from the debt crisis in the region. Fortunately from 1991 onwards, this trend was reversed as Latin America began to receive substantial and growing FDI inflows.

Annual average FDI flow to Latin America nearly tripled during 1984 to 1989 from \$8 billion to \$24 billion.

1980-1990

Fortunately from 1991 onwards, this trend was reversed as Latin America began to receive substantial and growing FDI inflows despite the peso crisis in Mexico in 1994-1995. During the 1995-1997, FDI flows into the region grew more than twice as fast as flows to all other developing countries as a whole.

For the year 1997, a record of \$56 billion in FDI inflows was attracted by Latin America and the Caribbean which represented an increase of 28 per cent over 1996. FDI flows to the region accounted for 38 per cent of total flows into all developing countries in 1997 and the increase in inflows accounted for two-thirds of the total increase in flows into all developing countries.

1990-2000

The 1990s saw the emergence of major historical change in Latin America. After many decades of sluggish inflows of FDI, many countries in the region suddenly became hosts to massive flows of FDI. By the end of the decade,

<https://assignbuster.com/types-of-fdi-targets-and-motive/>

FDI was the major source of foreign capital in Latin America. A rising tide of FDI swept through the developing countries over the past decade. In the 1990s, however, FDI exploded, when between 1990 and 1998 the net annual inflow of FDI into developing countries rose from US\$ 30.5 billion to US\$ 163 billion in constant (1998) dollars. The reason for the expansion of FDI flows to Latin America is the dismantling of governmental barriers to foreign investment in the region during the 1980s and 1990s.

From 1995-1997, FDI flows into Latin America and the Caribbean grew more than twice as fast as flows to all other developing countries as a whole. NAFTA helped further liberalize FDI flows between Mexico, Canada and the United States after 1994. In 1997, the region attracted a record \$56 billion in FDI inflows which represented an increase of 28 per cent over 1996.

One interesting new FDI feature in Latin America and the Caribbean is the fast growth of outward flows, even though systematic statistical information remains scarce. Outward FDI flows from the region reached \$9 billion in 1997, a rise of almost \$7 billion over 1996. The financial crisis in Asia does not seem to have affected FDI flows into Latin America and the Caribbean so far and may not do so in the future either.

FDI stock as a percentage of gross domestic product was even higher for Latin America and the Caribbean as a whole, reaching 17 per cent in 1996. The larger economies of the region were, not surprisingly, by far the largest recipients of inward FDI flows in 1997

In 1997, high-income countries as defined by the World Bank received US\$ 233 billion in FDI while developing countries received US\$ 165 billion.

Nevertheless, the share of developing countries in total

FDI flows rose from 12. 7 to 41. 5 per cent between 1990 and 1997.

2000-2010

FDI flows in Latin America and the Caribbean reached \$84 billion in 2006.

Brazil and Mexico remained the leading recipients of FDI. Most of the countries in South America had a strongly positive growth in FDI flows but this was offset by a decline in Colombia and Venezuela. The region's FDI inflow was characterized mainly by two features namely, greenfield investments became more important than cross- border merger and acquisitions and reinvested earnings became an increasingly important component.

In 2007, outlays for new investments, which include investments made directly by foreign investors and those made by existing U. S. affiliates, were \$277 billion, a 67%increase over the \$166 billion

invested in 2006. According to the Department of Commerce, the increase in new investments reflected faster economic growth in the United States and an increase in merger and acquisition activity.

In Latin America and the Caribbean, FDI inflows increased in 2008 by 13% to \$144 billion. The growth was uneven among the subregions: it was up by 29% in South America and down by 6% in Central America and the Caribbean. Natural-resource-related activities continued to be the main

attraction for FDI in South America, and they are increasingly becoming a significant FDI target in Central America and the Caribbean. FDI in the metal extractive industry boomed in 2008: cross-border mergers and acquisitions (M&As) targeting this industry amounted to US\$9 billion. FDI outflows from Latin America and the Caribbean increased in 2008 by 22% to \$63 billion, due to soaring outflows from South America, which offset the decline in outflows from Central America and the Caribbean.

The United States is the world's largest recipient of FDI. More than \$325.3 billion in FDI flowed into the United States in 2008, which is a 37 percent increase from 2007. The \$2.1 trillion stock of FDI in the United States at the end of 2008 is the equivalent of approximately 16 percent of U. S. gross domestic product. As the rate of growth of the U. S. economy rises, interest rates stay low, and the rate of price inflation stays in check, foreign direct investment in the United States likely will continue the rebound. Benefits of FDI in America: In the last 6 years, over 4000 new projects and 630,000 new jobs have been created by foreign companies, resulting in close to \$314 billion in investment.

On March 2007, 'Invest in America', was established in the International Trade Administration to make the United States a destination for foreign direct investments.

Crisis-America

The late 2000's recession was an economic recession that started in the United States in December 2007. Moreover the 2007-2010 financial crisis

was said to have sparked this recession. The global recession resulted in a sharp drop in international trade and rise in unemployment.

Europe

With the majority of European countries now stable with democratic elected governments, its corporate environment is viewed as a prime destination for foreign direct investment (FDI) by international investors. The European Union represents the most complete economic integration of any region in the world. Where there are no barriers to trade, trade policy is determined by the European Commission and 12 of the 15 states have adopted a common currency. As the EU has progressed through these different levels of integration to reach closer economic union, FDI levels have increased to represent 42% of global inflows in 2001.

1950- 1960

During the 1940s and early 1950s only the U. S. dollar was available as a major convertible currency. They were the instruments used by governments to screen or monitor FDI flows. In 1958, most European countries adopted nonresident convertibility, which permitted foreigners to move funds for current account purposes freely from one country to another. It had an immediate impact on FDI inflows, with an increase of U. S. FDI into Europe.

1960-1970

1970-1980

Total inward FDI for Europe from 1970-1979= US\$ 102 387 million

1980-1990

Total inward FDI for Europe from 1980-1989= US\$ 300 036 million

<https://assignbuster.com/types-of-fdi-targets-and-motive/>

Immediately after the declaration of independence in 1990, Lithuania started a reform process aimed at steering the country away from a centrally planned economy and centralised towards democracy and a free market economy. Currently the Lithuanian government is undergoing a second phase of privatisation, during which a number of large scale enterprises, mainly in infrastructure, are being offered for international tender. The government since 1995 has focused its attention on attracting more foreign direct investment

1990-2000

Total inward FDI for Europe from 1990-1999= US\$ 1 651 709 million

In 1995, the total inflow of FDI was \$12. 8 billion, almost double the 1994 level. Flows into Hungary and the Czech Republic tripled in 1995 to \$3. 5 billion and \$2. 5 billion respectively. FDI in Poland increased from \$1. 9 billion to \$2. 5 billion.

Countries attracting investment have transparent economies, and accountable governments pursuing business friendly policies. The UK has become an exemplar economy of this. Investments into the UK by foreign companies since 1995 have more than doubled. This has reinforced Britain's position as Europe's leading recipient of global investment. FDI into the UK grew by 72% in 1998, attracting 43% of total US investment into Europe in that year, despite its position outside the euro. Overall, the UK in 1998, attracted the most international investments, \$86 billion in total. Germany followed with \$37 billion, followed by Belgium. Other European countries have seen increases in foreign investment – except for Spain and Italy which

have experienced declines from previous years. FDI to Spain declined to \$5.7 billion compared to \$6.2 billion in 1997.

The remaining affluent markets of Europe enjoy much of the same FDI as the UK, though less affluent European nations are also showing signs of increased FDI. The Baltics (Estonia, Latvia, Lithuania) lack extensive trade relations with foreign companies. They have only recently regained their status as independent nations. Since 1991, however, they have made great strides in strengthening their economies. But with considerable success in implementing economic reforms, Estonia, Poland, the Czech Republic and Hungary were also moderately affected by the Russian Financial Crisis. Inward investments into these countries all fell last year after significant growth in 1997

2000-2010

The total realized FDI in 2000-2002 in central Europe amounted to more than \$50 billion, with Poland and the much smaller Czech Republic attracting the most (\$14 billion each), followed by the Slovak Republic (\$7 billion) and Hungary (\$5 billion). The regional FDI stock comes to a respectable \$100 billion

In 2003, South East European countries received USD 7 billion of FDI inflows which was 60% more than the previous year. When compared with the South East European countries, the Central European countries received only half the amount of the previous year. The different FDI trends can be explained by the type of FDI the two regions receive. In Central Europe, privatization-related FDI is basically over and the local market is to a high extent

controlled by foreign investors. New investments go mainly into export oriented projects in existing companies or come in the form of new greenfield

establishments. South East Europe is a different area. The earlier low FDI was to a large extent

explained by the high investment risk related to conflicts, poor public governance and

other basic risk factors.

In 2006 alone, eastern Europe's GDP shot up by 6. 2% and FDI flows amounted to \$50 billion. This performance as projected to have been repeated in 2007.

2008 Crisis- Europe

In 2008 Europe secured as many FDI projects as that in 2007, but the impact of the economic crisis on job creation was severe. In 2008, with 39% of global FDI inflows, Europe remained the number one destination for international investment. When Europe was hit by the 2008 economic crisis, job creation by FDI in Europe decreased 148, 333 in 2008 as compared to 238, 051 in 2004. FDI in Central and Eastern Europe created 16% fewer jobs in 2008.

Asia

The rapid growth of developing Asia has attracted, and been facilitated by, foreign direct investment (FDI) flows of which have increased in recent decades. One of the reasons for this is that developing countries, particularly

<https://assignbuster.com/types-of-fdi-targets-and-motive/>

in Asia, have removed restrictions and implemented policies to attract FDI inflows to benefit from the investments and potential spillover effects.

The South Asian countries have been making continuous efforts to attract more FDI by liberalizing their FDI policy frameworks to compete with other countries in the region. Unfortunately, given the wars and ethnic strife in most countries in South Asia, they are not in a position to compete with their counterparts in Southeast Asia. India's share of FDI to developing countries have been lower than that of Latin American and East Asian economies but still it obtains the most FDI in South Asia. However, after controlling the size of the economy (measured by gross domestic product), both Pakistan and Sri Lanka do better than India.

In 1970, East Asia received only 16.4 percent of all FDI inflows to developing countries. Ten years later, the corresponding FDI inflows to the region stood at 44.7 percent, sharply rising to 64.3 percent by 1990.

Since the early 1990s, developing countries and especially the Asian developing countries, have seen a rapid growth in their outward investments. The share of South, East and South-East Asia in global outward FDI increased from less than 1 per cent in 1980 to almost 10 per cent in 2004.

India's share of FDI inflows to developing countries increased to 1.9 percent in 1997, but decreased sharply to 1 percent in 1999 and 2000. However, 2001 saw a rise in FDI inflows. This trend continued until 2003 when it reached a peak of 2.6 percent. In 2004, there was a slight decrease to 2.3 percent. The sum of FDI inflows into India in 2003 and 2004 was \$4.2 billion

and \$5.3 billion. Thus, in absolute amounts, 2004 also saw a rise in FDI inflows to India.

Among the countries with high FDI inflows into India is Mauritius. This may be attributed to the double taxation treaty that India has signed with Mauritius and also to the fact that most investment into India from the United States is being routed through that country.

Economies in developing Asia have received increasingly larger shares of world FDI inflows in the early 1990s, but the Asian economic crisis temporarily reversed this trend. FDI flows soon recovered, particularly in the wake of mergers and acquisitions (M&As) after the crisis. M&As in developing Asia rose more than 128 times by value between 1987 and 2001. In ascending order of size, PRC, Singapore, Philippines, Republic of Korea (Korea), China and Hong Kong were the top five recipients of M&A flows between 1997 and 2001. This has made East Asia the top subregional recipient in developing Asia, followed by Southeast Asia.

FDI inflows to developing Asia grew from only \$694 million in 1970 to a huge \$138.6 billion in 2000, before declining to \$90.1 billion in 2002, representing an average growth rate of 15.2% per year.

Among the favored Asian destinations for FDI, there has not been as much change. Indonesia and Kazakhstan which were two of the top 10 FDI destinations in the early 1990s, dropped from the list primarily due to uncertainties in their domestic economies and were replaced by India and Vietnam in the late 1990s. Meanwhile, Hong Kong, China, Singapore, Korea, and Thailand overtook Malaysia as preferred FDI destinations. Among the

countries in developing Asia, the top 10 recipients of FDI inflows in 2002 accounted for over 97% of total FDI in the region, with the top three recipients alone accounting for 81% . Azerbaijan which is not even in the top 10 developing Asian FDI recipients, had the highest ratio of FDI to GDP, reflecting the importance of FDI in its hydrocarbons development. On the other hand, four out of the top 10 FDI recipients in developing Asia have FDI-to-GDP ratios lower than the average of 2. 6% of GDP.

Asian investors have been increasingly looking abroad for opportunities. The growth in the outflow of FDI from Asia has been substantial in recent years. According to data reported by the United Nations Conference on Trade and Development (UNCTAD), in 2007 annual FDI outflow from countries in Asia exceeded US\$200 billion for the first time ever, surging from US\$168 billion in 2006 to US\$224 billion. The 2007 outbound FDI reached US\$73. 5 billion for Japan, US\$22 billion for mainland China, US\$15 billion for Korea, US\$14 billion for India, US\$12 billion for Singapore and US\$11 billion for Malaysia. Not surprisingly, cumulative total FDI from Asia also set a new record in 2007, reaching US\$2. 2 trillion.

Japan's outward FDI is large and growing. Its 2007 FDI flow of US\$73. 5 billion, the largest in Asia, increased 46 per cent over the year before, and Japan's total FDI stock reached a record US\$543 billion by the end of 2007. Japan's role as a source of outward FDI has outstripped its role as an export superpower. Since 2004, the net income from Japanese outward FDI has been larger than Japan's trade surplus.

China too is a rapidly growing FDI source, with outward flows from mainland China of US\$22 billion in 2007, almost double the level of 2005.

Smaller Asian countries are also important as FDI sources. UNCTAD reports that for the first time in 2007, outflows from Malaysia and the Philippines exceeded inflows of FDI'. Malaysian and Philippine companies ' are investing overseas to acquire or build brand names, access markets, technologies, and natural resources and strengthen value chains'.

1997 Asian Financial crisis

The 1997 Asian Financial crisis affected the economies of Asia in a number of ways (UNCTAD, 1998). Foreign direct investment (FDI) inflows in 1997 to the five most affected countries,

taken together, remained at a level similar to that of 1996 although they have slowed during the first quarter of 1998 when compared to the first quarter of 1997. The eruption of the financial crisis in East and South-East Asia has changed a number of major FDI determinants. This raised the question of what are the effects of the crisis on FDI flows to and from Asia because FDI plays an important role in the growth and development of Asian economies

Australia

Australia is a continent rich in natural resources. It is a major exporter of agricultural products, minerals, metals, and fossil fuels.

Since the arrival of European settlers, Australia has relied heavily on foreign investment to

bridge the gap between domestic savings and domestic investment. In part this reflects the

country's extensive endowment of natural resources and the highly capital intensive nature

of the natural resource industries, such as mining.

Foreign capital has allowed Australians to enjoy higher rates of economic growth and

employment as well as higher standards of living than