Ch13 Direct Foreign Investment

**Motives for Direct Foreign Investment:**

**الاستثمار الأجنبي مفيد لتعظيم ثروة أصحاب الأسهم وزيادة الأرباح**

**MAXIMIZE SHARE HOLDER WEALTHE & PROFIT**

في دوافع بتخلينا نتوجه للاستثمار الأجنبي

Revenue Related Motives1)

الدوافع المتعلقة بالأرادات

A) Attract new sources of demand

جذب مصادر جديدة للطلب عادة ما تسعى الشركات متعددة الجنسيات إلى الحصول على الاستثمار الأجنبي المباشر ((DFI في البلدان التي تشهد نموًا اقتصاديًا حتى تتمكن من الاستفادة من الطلب المتزايد على المنتجات والخدمات هناك

B) Enter profitable markets

عندما تولد صناعات مماثلة (نفس المنتج لكن في بلدين مختلفين )أرباحًا عالية جدًا في بلد معين ، فقد تقرر الشركة متعددة الجنسيات بيع منتجاتها الخاصة في تلك الأسواق.

C) Exploit monopolistic advantages

استغلال المزايا الاحتكارية عن طريق محاولة الشركات التي تمتلك موارد أو مهارات غير متاحة للشركات المنافسة استغلالها دوليًا

D) React to trade restrictions

MNCs may pursue DFI to circumvent trade barriers.

E) Diversity Internationally

لتنوع دوليا من خلال تنويع المبيعات

By diversifying sales (and possibly even production) internationally, a firm can make its net cash flows less volatile.

Cost Related Motives2)

الدوافع المتعلقة بالتكلفة

A)Fully benefit from economies of scale

Lower average cost per unit resulting from increased production.

B) Use foreign factors of production

Labor and land costs can vary dramatically among countries.

C) Use foreign raw materials

Develop the product in the country where the raw materials are located

D) Use foreign technology

E) React to exchange rate movements

**\* Steps Taken by MNCs to Determine Whether to Pursue Direct Foreign Investment**

**1)**Identify motives (revenue, cost-related )

**2)**capital budgeting (inflow, outflow)

**3)**control risk analyses

**5)**capital strength

**6)**long financing

**The key to international diversification is selecting foreign projects**

**whose performance levels are not highly correlated over time**



W = weighted

**Example page 402**

Merrimack Co., a U.S. firm, plans to invest in a new project in either the United States or the United Kingdom. Once the project is completed, it will constitute 30 percent of the firm’s total funds invested in itself. The remaining 70 percent of its investment in its business is exclusively in the United States. Characteristics of the proposed project are forecasted for a 5-year period for both the U.S. and a British location, as shown in Exhibit 13.2. Merrimack Co. plans to assess the feasibility of each proposed project based on expected risk and return, using a 5-year time horizon. Its expected annual after-tax return on investment on its prevailing business is 20 percent, and its variability of returns (as measured by the standard deviation) is expected to be .10. The firm can assess its expected overall performance based on developing the project in the United States and in the United Kingdom. In doing so, it is essentially comparing two portfolios. In the first portfolio, 70 percent of its total funds are invested in its prevailing U.S. business, with the remaining 30 percent invested in a new project located in the United States. In the second portfolio, again 70 percent of the firm’s total funds are invested in its prevailing business, but the remaining 30 percent are invested in a new project located in the United Kingdom. Therefore, 70 percent of the portfolios’ investments are identical. The difference is in the remaining 30 percent of funds invested.

تكملة السوال في الكتاب



WA=70%

WB=30%

Corr us = 80%

Corr uk =2%

SD expected business = 10%

SD US = 0.09

SD UK = 0.11

هسا لازم احل لدولتين لأعرف اختار باي دولة انا رح استثمر

STANDARED DIVATION PORTFOLIO FOR US

=(0.70)2\*(0.10)2+(0.30)2\*(0.09)2+2\*(0.70)\*(0.30)\*(0.10)\*(0.09)\*(0.80)

0.49\*0.01)+(0.9\*0.0081)+0.003024)

=0.008653

STANDARED DIVATION PORTFOLIO FOR UK

=(0.70)2\*(0.10)2 +(0.30)2\*(0.11)2+2\*0.70\*0.30\*0.10\*0.11\*0.02

=(0.49\*0.01)+(0.09\*0.0121)+0.0000924

=0.0060814

منختار UK لانها اقل

**\*Host Government View of DFI**

**Barriers to DFI**

**العوائق امام الاستثمار الأجنبي**

* 1. **Protective barriers** agencies may prevent an MNC from acquiring companies if they believe employees will be laid off.
  2. **Red tape barriers** - procedural and documentation requirements
  3. **Industry barriers** - local firms may have a substantial influence on the government and may use their influence to prevent competition from MNCs
  4. **Environmental barriers** - building codes, disposal of production waste materials, and pollution controls.
  5. **Regulatory barriers** - each country enforces its own regulatory constraints pertaining to taxes, currency convertibility, earnings remittance, employee rights, and other policies
  6. **Ethical differences** - a business practice that is perceived to be unethical in one country may be ethical in another.
  7. **Political instability** - if a country is susceptible to abrupt changes in government and political conflicts, the feasibility of DFI may be dependent on the outcome of those conflicts.