World Foreign Direct Investment North America and The European Union

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Foreign direct investment (FDI) is used to acquire part of a company in a country different from the investor's own. This gives him/her a significant degree of influence over those assets, making it a long-term investment different from portfolio investments, which are short-term and purely financial.[1]

Foreign direct investments have become very important in the world economy due to globalization and regionalization and have a growth rate surpassing world production and trade.

This spectacular growth speaks to important processes of reorganization in production, including changes in multinational corporations' structures, changes in capital ownership, processes of concentration and centralization of capital, as well as the productive reorganization of industries into global productive networks.

These global productive networks imply "new forms of transborder relations for investment, production, trade and collaboration for developing products, suppliers and markets, in which different agents participate around central firms.

Yves Herman/Reuters

The European Commission building in Brussels.

In addition to the traditional components of multinational corporations (headquarters, subsidiaries and branches), the network company is made up of stable contractors and suppliers, franchise holders and other independent units with which it has agreements, plus a complex system of strategic alliances with other business networks from the same or a different national base."[2]

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The main attraction for FDI in Mexico, cheap labor, is in crisis because of competition from China. The worldwide restructuring of production that has brought China to the forefront has put Mexico at a crossroads, forcing it to redesign productive strategies to go beyond the mere idea of free trade.

FDI has played a very important role in all these processes. Nevertheless, from the geographical point of view, FDI flows have been very uneven. Table 1 shows the percent of total world FDI into the European Union and the North American region in four specific years out of the period from 1990 to 2006, according to the most recent figures published by the *World Investment Report*.

Right away, we can note that the European Union received a greater and growing percentage, with a slight decline in 2000, but that for 2004 and 2006, it increases to almost half the total world FDI. In every year, the amount received by the European Union was higher than the sum of what flowed to the United States, Canada and Mexico. In fact, the European Union has become the most important, dynamic center for world FDI.

It is important to note that both the United States and Canada's share of world FDI displays a tendency to drop. Mexico's, although with a much lower relative percentage, is growing.

But, what has caused the EU to become the axis of world investor dynamism? An important part of the answer to this question lies in the process of European integration, since it has the effect both of attracting investors from outside the region and of furthering intra-regional investments among member countries. Another important factor is European Union policies, like the incentive for processes of corporate acquisitions and mergers, seeking to consolidate large European consortia.[3] In the European Union, the policy of competition among companies fosters the concentration and centralization of capital, merely regulating and banning certain unfavorable monopolistic practices.[4] The underlying logic is that given that the EU's number one objective is to strengthen the united market more than the national markets, the key is to boost European companies supra-nationally.[5]

The United States, which used FDI as one of its most important mainstays for building its economic hegemony during the post-war boom, was surpassed in the mid-1980s by the European Economic Community and later the European Union in this field. Currently, the EU is the world's most important recipient for FDI.

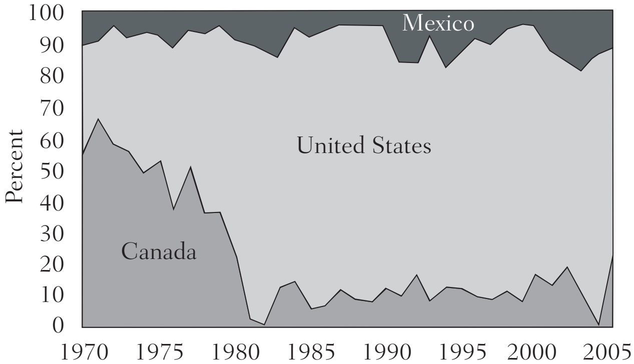
From the intra-regional point of view, FDI flowing into North America is distributed increasingly unevenly. As Graph 1 shows, since the 1980s, Canada has decreased its FDI reception while the United States received a relatively higher percentage. It should be pointed out that Canada's most important investing country is the United States, which in 2006 accounted for 62.2 percent of all its FDI. This speaks to a change in U.S. priorities: the European Union becomes its main field of action. The United States is also the main investor in Mexico. As Graph 1 shows, there has been a slight increase in the FDI flowing into Mexico, but the relative volume it attracts is noticeably less than that of its two trade partners.

TABLE 1
SHARE OF WORLD STOCK OF FDI (PERCENT)

Year	European Union	United States	Canada	Mexico
1990	42.6	22.3	6.3	1.2
2000	37.6	21.7	3.6	1.6
2004	45.2	16.5	3.4	2.0
2006	45.2	14.9	3.2	1.9

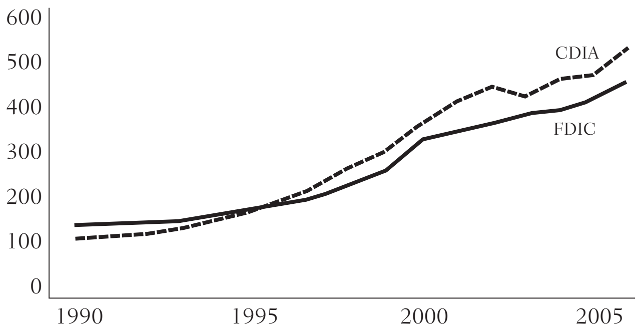
Source: Designed using information from the United Nations, *World Investment Report, 2005*. Annex Table B.2.

GRAPH 1
DISTRIBUTION OF INWARD FDI FLOWS
IN NORTH AMERICA (PERCENT)



Source: Statistics Canada.

GRAPH 2
FDI FLOWS TO AND FROM CANADA (1990-2005)



CDIA: Canadian Direct Investment Abroad.
FDIC: Foreign Direct Investment in Canada.
Source: Statistics Canada.

It is interesting to mention that despite the signing of the 1988 bilateral Canada-U.S. Free Trade Agreement and the North American Free Trade Agreement (NAFTA), Canada did not attract any more FDI from either the United States or the rest of the world. To a large extent, this is explained by the strategies of multinational corporations, which are the most important factor in FDI. They seem to have restructured geo-economically, focusing on increasing exports from the United States to Canada, even closing manufacturing plants in Canada, like in the case of Gillette.

While Canada has captured relatively less FDI, it has become an increasingly important investor in the rest of the world. Graph 2 shows that since the mid-1990s, it became a net worldwide investor: that is, Canada receives less FDI than it invests in the rest of the world.

North America is facing a new world scenario in which the European Union, as an important leader in world FDI, and Asia, with its surprising growth and economic efficiency rates, cast doubt on its process of economic integration.

For its part, the main attraction for FDI in Mexico, cheap labor, is in crisis because of competition from China. The worldwide restructuring of production that has brought China to the forefront has put Mexico at a crossroads, forcing it more than ever to redesign productive strategies to go beyond the mere idea of free trade, which in and of itself does not guarantee either economic development or international competitiveness.

North America is facing, then, a new world scenario in which the European Union, as an important leader in world FDI, and Asia, with its surprising growth and economic efficiency rates, cast doubt on the process of North American economic integration. They also force us to look more outwardly and less inwardly, given the powerful centrifugal dynamics that other economic areas of the world pose.

NOTES

[1] I would like to thank Dagoberto González for his support in preparing this article.

[2] Alejandro Dabat, Miguel Ángel Rivera and James W. Wilkie, comps., *Globalización y cambio tecnológico. México en el nuevo ciclo industrial mundial* (Mexico City: Universidad de Guadalajara/UNAM/UCLA/Juan Pablos Editor, 2004), p. 56.

[3] One example of how EU policies have favored the centralization of capital is the case of telecommunications. In this sector, the main German, French, British and Italian companies occupy the third to the sixth slots in the world ranking. Of the world's top 20 manufacturers, 10 are from the European Union. Previously, there were local monopolies where each state telephone company provided the equipment. The European Union promoted this sector's liberalization and the creation of liberalized service markets by implementing pan-European concessions. In the early 1980s, the EU began to support research and development of new information and communications technologies with its Esprit Program. The 1993 Treaty of European Union proposed a trans-European telecommunications network similar to the trans-European transportation, energy and environmental networks. See Ferrán Brunet, *Integración europea* (Madrid: Alianza Editorial, 1999).

[4] Certain forms of competition have been banned, such as price fixing, assigning markets, obligatory exclusive purchasing and all monopolistic or monopsonistic practices that can affect conditions of competition, particularly for smaller companies. But the central axis of European competition does not consist of restricting the size of companies, but rather their behavior; not only are large companies not prohibited, they are fostered to consolidate Fortress Europe.

[5] Brunet, op. cit., p. 406.