

Follow the Money

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There are two sources of investment: endogenous, to use a word popularised by Gordon Brown some years ago which is to say domestic savings, or exogenous, funds brought into the economy by foreign actors, normally companies.

One of the factors we look at when we consider regions for investment is whether they are attracting foreign investment and is that propensity rising or falling. It is only one indicator and other factors need to be taken into account. For example, until recently Russia was something of an “investment darling” amongst Western investors who neglected issues surrounding law, governance, and enforceable property rights. Nevertheless, examining international financial flows does give one an idea of where capital is going and thus where the international community sees returns being made. The results are not always what one might expect.

The world’s largest recipient of inward foreign direct investment is the United States of America. Since 2005, the stock of inward foreign investment in the US has grown by a factor of five to a total of \$13.6 trillion in 2021 (Source: OECD FDI Table 4, Jan 2023 release). By contrast in the same period, the European Union, a similar size economy to the US, has seen its share of global inward FDI grow by a factor of three to some \$10.8 trillion, a quarter lower than the US.

It is easy to see why the US should be an attractive place to invest: highly paid, highly educated workforce, secure and enforceable property rights, culture of free-market entrepreneurship, world’s reserve currency amongst many other not least military, industrial and technological leadership.

But other economies have been attracting funds as well.

In 2005 investment inflows into India reached barely \$50bn, today they are 10 times that figure. India is increasingly regarded as a “safer” growth alternative to China. Nonetheless and notwithstanding recent Chinese belligerence, funds continue to flow there too, \$400 billion in 2021 alone, after stagnating throughout the Covid period.

Ireland continues to attract capital due to its very favourable tax regime with respect to corporation tax relative to the rest of Europe, although for how long that will be permitted is moot in the context of the Single Market.

Of course, international investment can have a dark side too. Inward investment will support job creation and domestic labour and consumption taxes. On the other hand, the fruits of ownership: intellectual property and remitted profits and dividends flow out of the country of investment to the country of ownership.

As water always flows to the lowest point since companies are free to deploy their capital where they choose, capital flows to where it is most cost-competitive but sometimes with perverse results. It is increasingly clear that Apple, amongst others, is regretting placing so many of its investment eggs in the Chinese basket.

Who has benefitted more? China from the influx of hi-tech investment, which has seeded China’s domestic tech industry or global consumers from low-priced Chinese-made, American-owned goods.

There is no right answer and context is everything but watching international fund flows is a good indicator of where global business thinks money can be made.

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