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Foreign Investments (Direct and Portfolio Investments)

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ABSTRACT

Despite the long-standing phenomenon of foreign investment, both direct and portfolio, in international financial transactions, which dates back to the nineteenth century, it has evolved over decades to reach what it has now reached in terms of scientific foundations and concepts, and it has occupied great importance in recent years and has become one of the most important sources of funding. International within its composition, and the research dealt with the study and research in the theoretical foundations and trends of foreign investment and through three sections, the first focused on foreign investment in general, and the second topic came to discuss foreign direct investment, while the third focused on foreign portfolio investment.

INTRODUCTION

This research deals with foreign investments within a number of topics, not from an economic perspective, but from a financial one, as foreign investments are one of the most important sources of international financing in the twenty-first century. International finance, as a familiar and circulating pattern to meet the financial needs of countries and institutions through the international banking systems, foreign investment of all kinds has taken priority in that. These stereotypical changes in the processes, tools and institutions of international finance have led to the extent that some are questioning the concept, as there is no longer international financing, but rather global financing. This is based on the great role played by foreign investment and its institutions, transnational companies. The economic map of the world has changed. Foreign investment, in terms of direct and portfolio quality, had the greatest impact in reformulating global alliances, partnerships and agreements.

THE FIRST TOPIC: FOREIGN INVESTMENT

HISTORICAL, CONCEPTUAL, AND IDIOMATIC INTRODUCTION

He must address the economic theories that dealt with that. The student of investment flow and management of both types of portfolio and direct within the framework of the movement of capital and through a long history that may extend to the first economists, but we will shorten and summarize it and return to the considerations that prevailed during the First World War, where it controlled the movement of capital The balance of payments and the balance of trade, and this was in light of the gold rule that prevailed at the time, and it appeared that those who exported capital and controlled its movement were France, Germany, the United States, the Netherlands, Belgium, Switzerland and Sweden. Certain features can be identified during the periods 1880 – 1914. Where the gold rule prevailed, foreign investments were determined by the following and royal debts. The investments of the institutions are large and it is easy for them to obtain interest and profits, and foreign business and small business investments in host countries. The investments of companies are registered in the mother country and

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operate abroad. The investments of the main companies operate in the mother country and have some activities abroad.

The concept of foreign investment in that era was not among the prevailing concepts these days, and it was called International Investment. Herbert Feis launched in 1930 the concept of direct investment on all foreign investments that do not affect the stock markets, including the investments that were previously mentioned and discussed.

As for the concept of foreign portfolio investment, Portfolios was first launched by Mathew Simon in 1967, as he focused special attention on the parent companies that practice activities outside the borders, and distinguished them from the national company that practices activities in the mother country and has activities abroad. However, the understanding of an accurate concept of foreign investment of both types, which dates back to a number of studies that began in the sixties of the twentieth century and are still up to now, as foreign investments were classified according to the previous classification.

But if we want to talk about the movement of capital and other types of non-direct foreign investment, especially in the United States of America, this did not become clear until after the Second World War, when the beginning of the emergence of official statistics and the information they contain about long-term capital flows, which contributed significantly to it. The International Monetary Fund, the World Bank, UNCTAD, and the Bank for International Settlements. Also, the concept of portfolio investment has been used to define the phenomena of investment movement in various locations and was not used at all to define its name, but after the Second World War and after the great abundance of discussions and arguments about the types of foreign investments, it has been classified into types and according to the economic and financial implications that prevailed in each era of The parties that implemented that investment had a great role in that, and they are many, and for this purpose it is necessary to know the movement of international investments, especially for the period between the first and second wars and after World War II.

DEFINITION AND TYPES OF FOREIGN INVESTMENT

After this historical detail of the phenomenon of foreign investment, it may be something simple to define, and the word investment can simply be separated to mean the investment of funds in various material and financial assets for the purpose of achieving a certain return from behind it. The goal of investment is to achieve a certain benefit, including profit, and the second foreign term is meant All that is non-national, and the laws classify that. Although it is a resident investment and in a host country, its ownership is foreign and devolves to a foreign individual or a non-national foreign company, so it is a foreign investment and its types vary, as well as its amounts vary according to the type of foreign investment. Types of foreign investment: Foreign investment is classified into two types The first is called foreign direct investment, and the second type is portfolio foreign investment. Usually, the term direct is used when the foreign investment is in capital assets, so it is direct foreign investment that is implemented and monitored by the investor himself, regardless of whether he is an individual or a company. As for foreign investment when it is in financial assets that are invested in the stock market, it is called foreign investment and in today's global economies The interaction between portfolio and direct foreign investments is indirect, so how can that be? Part of the portfolio capital flow may use FDI or FDI in a particular sector to incentivize competitors to seek Foreign Portfolio Investment. In the global search for resources and capabilities, the transnational companies drew on capital loans from two sources, the first: the international capital markets and the second source: the national capital market. In the case of unions with foreign companies, they may rely on property funds, loans, or sometimes on banks Owned abroad financed by international operations and within the following activities: Direct includes the transfer of financial and non-financial assets, while portfolio foreign investment includes only financial assets. Foreign direct investment means the continuation of control and control by the owner, who is the foreign investor, which is often sourced from transnational companies. As the portfolio foreign investor is interested in financial assets far or separately

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from fixed assets, there is no control over the investment's material assets.

Foreign direct investment is lumpy in nature and is indivisible, unlike portfolio investment, and portfolio foreign investment tends to achieve a financial return abroad more than in the national interior, where the motives and urges towards foreign direct investment, and if there is a dividing line between portfolio and direct foreign investment, is there a connection relationship organization between the two? Is there a general theory that can be formulated for the two? It is possible to identify the types of investment, for example, within the long term, there are government debts, which are basic at the national level, while the debts of the private system and property can be divided on the basis of industry and other sectors.

Branches of a transnational company can be divided on the basis of ownership and direct investors, so it is divided into an industrial sector and direct investments cannot be from establishments and may be between rich individuals, so investment by individuals with real assets cannot be placed within the branches of transnational companies, because individuals see their money and investments They can be viewed as foreign investment projects and classified as direct investments within foreign investments. Until the 1960s, the theory of foreign investments was mainly the theory of indirect capital movement or international portfolio investment, that investment that flows to cross borders, but through a financial intermediary, which is the capital market. This process included types of investment tools such as bonds, private and public sector papers, shares, money market instruments and financial derivatives. Also, foreign investment in the form of crossing borders directly has occupied great importance, especially after the year 1980. Foreign investment in direct quality was considered one of the most important elements of international finance and began to form a modern phenomenon in the world at all levels. Rather, it changed the pattern of international finance from the international concept to the global concept. This is what we will discuss in subsequent chapters.

TOPIC TWO: THE THEORY OF FOREIGN DIRECT INVESTMENT

DEFINITION OF FOREIGN DIRECT INVESTMENT

What is (FDI) Foreign Direct Investment?

Foreign direct investment (FDI) is an investment that a company or individual in one country makes in business interests located in another country. In general, foreign direct investment occurs when an investor establishes foreign business operations or acquires foreign business assets in a foreign company. However, foreign direct investments are distinguished from portfolio investments in which the investor only buys shares of foreign companies.

As for the foreign investor, it is defined as the person who makes foreign investments and is either a natural or legal person representing a business organization, a company or an institution, and the investor may be a state or a union from a group of countries.

Foreign direct investments can be made in a number of ways, including opening a subsidiary or associate company in a foreign country, acquiring a controlling interest in an existing foreign company, or through a merger or joint venture with a foreign company.

The minimum foreign direct investment that establishes a controlling interest, according to guidelines set by the Organization for Economic Co-operation and Development (OECD), is a minimum 10% ownership interest in a foreign company. However, this definition is flexible, as there are cases in which an effective controlling interest in a company can be created with less than 10% of the voting shares of the company.

Types of (FDI) Foreign Direct Investment

Foreign direct investments are usually categorized as Horizontal, Vertical or Conglomerate. Horizontal direct investment refers to an investor setting up the same type of business operation in a foreign country as operating in his or her home country, for example, a cell phone provider in the United States and opening stores in China.

Vertical Investment is an investment in which different but related businesses are created or acquired from an investor's primary business in a foreign country, such as when a manufacturing company acquires a stake in a foreign company that supplies parts or raw materials required to a manufacturer to manufacture its products.

Conglomerate FDI is the type in which a company or individual makes a foreign investment in a company unrelated to its current business in its home country. Since this type of investment involves entering an industry in which the investor has no prior experience, it often takes the form of a joint venture with a foreign company already operating in that industry.

Examples of (FDI) Foreign Direct Investment

Examples of foreign direct investment include mergers and acquisitions, retail trade, services, logistics, and manufacturing, among others. Foreign direct investment and the laws governing it can be central to a company's growth strategy.

In 2017, for example, US-based Apple announced an investment of $507.1 million to boost research and development in China, Apple's third largest market after the Americas and Europe. The announced investment shifted CEO Tim Cook's upward trend toward the Chinese market despite a 12% annual decline in Apple's revenue in Greater China in the quarter prior to the announcement.

The Chinese economy was driven by an influx of foreign direct investment targeting manufacturing and high-tech services in the country, which, according to the Chinese Ministry of Commerce, grew 11.1% and 20.4% year-on-year, respectively, in the first half of 2017. Meanwhile, loosened FDI regulations in India now allow 100% FDI in single-brand retail without government approval. The regulatory decision is said to facilitate Apple's desire to open a physical store in the Indian market. Until now, the company's iPhones were only available through physical and third-party online retailers.

Advantages and Disadvantages of (FDI) Foreign Direct Investment

Foreign direct investment can help promote and maintain economic growth, both for the recipient country and for the country making the investment. For example, a developing country may benefit from incoming FDI as a way to finance the construction of new infrastructure or provide employment for its local workforce. On the other hand, multinational companies can take advantage of foreign direct investment as a way to expand their presence in international markets. However, one of the main disadvantages of foreign direct investment is that it tends to rely on the participation or oversight of multiple governments, which leads to higher levels of political risk.

Some Examples of (FDI) Foreign Direct Investment

One of the biggest examples of foreign direct investment (FDI) today is the Chinese initiative known as One Belt One Road (OBOR). This program, sometimes referred to as the Initiative of "One Belt One Road", involves contributing significant foreign direct investment toward a range of infrastructure programs across Africa, Asia and even parts of Europe. Foreign direct investment is usually funded by Chinese state-owned enterprises or other organizations linked to the Chinese government. Similar programs are implemented by other countries and international bodies, such as Japan, the United States and the European Union.

Example of the Regional Distribution of (FDI) Foreign Direct Investment in China

Foreign investment was distributed unevenly in China. FDI inflows were largely concentrated in the coastal provinces of China, while the central and western regions attracted only marginal shares. By the year 2000, foreign investment was felt throughout China, with the exception of Tibet. Throughout the period, the southeastern coastal region dominated as a recipient of inward foreign investment. It is not surprising that geographical location is the most important factor for the irregular absorption of foreign capital. For example, the eastern belt received most of the foreign capital, while less than 10 percent of the total foreign capital flowed into the central and western belts, which cover more than 85 percent of

China's territory. However, this unequal pattern has gradually improved as a result of the government's efforts to internationalize the domestic economy.

This inequality stems from the foreign direct investment policies taken by the Chinese authorities at both the central and local levels. The open door began with the creation of special economic zones and preferential regimes for 14 coastal cities. This has led to a massive concentration of foreign direct investment in the East. With the adoption of wide-ranging economic reforms and open-door FDI policies in the 1990s, FDI inflows to China began to spread to other provinces. Among the provinces of the Eastern Province, Guangdong's performance in attracting foreign direct investment has been particularly impressive. Its share of the accumulated FDI stock from 1983 to 1998 was 29.4 percent of the national total, far exceeding all other provinces including Jiangsu and Fujian, which each own about 10 percent of the national total, and ranked second and third among the 30 provinces in China. However, if we take this group of counties a step further, we find that the shares of each county have gradually changed. Guangdong's share declined from 46.13 percent in the 1980s to 27.98 percent in the 1990s. In contrast, the shares of other coastal provinces (such as Jiangsu, Fujian, Zhejiang, Shandong, Tianjin, and Hubei) increased exponentially.

In recent years, the share of the central provinces in the national total accumulated FDI stock has increased gradually - from 5.3 percent during the 1980s to 9.2 percent during the 1990s. The main contributors are Henan, Hubei and Hunan provinces, whose shares of accumulated FDI in the national total doubled between the 1980s and 1990s. These figures indicate that the regional distribution of FDI inflows has spread to some extent from the open coastal provinces to the inland provinces. The less developed western provinces received very little FDI inflows, as their share of the accumulated FDI stock at the national level declined from 4.7% in the 1980s to 3.2% in the 1990s. However, Sichuan and Shaanxi have attracted relatively higher levels of FDI inflows than other provinces in this group. In the final analysis, FDI inflows in the 1990s spread from the initially concentrated southern coastal areas towards the southeastern and eastern coastal areas as well as towards the interior.

The three regional groups of the eastern, central and western belts experienced different patterns of FDI inflows. Foreign direct investment inflows have been steadily increasing in the provinces of the Eastern Province. For the other two regional groups, FDI inflows were much lower, especially for the provinces of the Western Region. As a result, in terms of the absolute volume of annual FDI inflows, the gap between the eastern belt and the central and western belts has widened.

TOPIC THREE: THEORY OF FOREIGN PORTFOLIOS INVESTMENT

CONCEPTS AND BASICS OF CONCEPT THEORY FOREIGN PORTFOLIO INVESTMENT

DEFINITION OF FOREIGN PORTFOLIO INVESTMENT

In the previous two sections, we dealt with the definition of foreign investment in general and foreign direct investment, and we focus in this topic on foreign portfolio investment as theoretical foundations, especially in terms of definition and concept, as portfolio foreign investment is defined as that participation in foreign investment investments without the investor having the right to manage assets The investee company, and without having the right to control and control the management of the business of that project, is an investment of funds in securities in shares, bonds, or loans to foreign companies and institutions.

The Financial and Economic Implications of Foreign Portfolio Investment

The financiers differ in their vision, interpretation, and interest in foreign portfolio investment from that of economists. While the economist still views this type of investment as consisting mainly of loans or any form of bonds, the view of the financiers does not go in that direction, but rather focuses on foreign money. Investing in the stock market and dealing in securities. As for the other point of view, it goes towards shifting from public or official capital flows to private capital flows.

Therefore, this transformation would not have been possible without those changes that occurred in the world, including changes in the pattern of international finance, its composition and distributions. It is necessary to stand on some scientific implications of portfolio foreign investment, as follows: Portfolio foreign investment and within the modern concept that is determined by finance.

Back to the concept of modern portfolio foreign investment as the type that follows foreign investment after foreign direct investment, which depends mainly on capital flows to stock markets to deal with securities, it now occupies great importance and poses a great challenge to stock markets in developing countries, especially after The transformation processes towards the private sector have taken an important dimension in their economies and have become a strategy they adopt to achieve many economic and social goals. Perhaps the following question is of exceptional importance in its discussion and content: How do we understand foreign portfolio investment and its mechanisms?

The Nature of Investing in Securities

Securities are one of the most important and oldest financial tools with which humans deal in the modern era, and they mean shares and bonds, and shares differ from bonds in terms of the nature of the job, goal, return and risk for each of them from the other:

First: The shares are securities with a financing function. The company issuing the shares does not impose any kind of contractual or guarantor procedures. Rather, the shares are issued at a nominal value determined by the company and leave the paper in the market to determine its price in light of the forces that govern the market from supply and demand, or perhaps because of many other factors. Political, economic and social, the price may fall below the market value or it may increase.

Whereas regarding bonds, it is determined according to the nominal value, but it is often little changed compared to the changes that occur in the nominal value of the share. In other words, the nominal value of the bond does not change as the nominal value of the share changes.

Second: The shares' returns are dividends implemented by the management and represent the operating profits of the company after retaining part of it and according to the dividend policy adopted by the company's management, as well as from the capital gains that arise through trading in shares, buying and selling due to the rise and fall in the market value of the shares. Its profits are often fixed because its returns are linked to interest rates, so the return is limited to the interest rate achieved by the bond.

Third: There is also another difference that lies in the risk that a share may be exposed to, which means changes in the expected returns from investing in shares compared to investing in bonds, as their risks differ from those of shares, and they are characterized by that their returns are more stable. The bond is also considered a debt that enables its holders to obtain their dues upon liquidation or bankruptcy, while the shareholder can only obtain the remainder of the money after paying the debts and dues.

Fourth: The goal that the investor aims for from investing in shares differs compared to investing in bonds, as the goal of bond holders is often to obtain periodic and continuous income by investing in bonds, while investing in stocks is volatile or perhaps to achieve capital gains or to engage in maneuvers or speculation in the share market.

Fifth: The vessel in which shares are traded is in the share market, while bonds are in the bond market. Investment Portfolio Objectives: The main objective that the portfolio seeks to achieve lies in achieving the maximum return and trying to reduce the risks that these securities may be exposed to, and the third objective lies in maintaining a certain level of liquidity. Before addressing the objectives behind the investment portfolio, we must address the topic of investment management, under which all investment sub-topics fall.

Investment Management

Investment is one of the administrative concepts and is a basic process of financial management. Returning to the literature of financial management, it is possible to stand on investment planning, implementation, evaluation and control as an administrative process and within the traditional concept of management functions. However, looking at this issue differs from the angle in which it is viewed, In the context of our study, portfolio investment is the receptacle of the stock market, a market that is

governed by many factors and influences, including the behavior of the investor. And talking about foreign portfolio investment means that the investor is a foreigner and invests in the host country and its market is the stock market in the host country, and that this investor's behavior will have an impact on the national economy through the flow of capital to and from that country, and therefore its effects on the balance of payments, especially the capital account in it, which depends mainly on the inflows and outflows of capital.

Considerations for the objectives of foreign portfolio investment

A- Clarity: The first choice for a foreign investor in securities in another country is the profits that he can achieve quickly and clearly, and this profit can be defined as the dividend that he can expect through his acquisition of securities, and therefore the process must be clear and accurate, and on the contrary Ambiguity may not achieve that investment

B- Rationality: The second consideration for the goals that a foreign investor seeks in securities in a foreign country is rationality and maturity, which is based mainly on the market performance in the short term. These considerations are often linked to economic aspects and their environmental variables, which are reflected in the relationship between return and risk.

C- Time period: It is the third consideration, which is meant the time horizon for achieving and uninterrupted, as well as the investor's preferences, and they are subject to continuous change, so the investment objectives and this is mainly related to the measurement of financial performance on an ongoing basis.

It entails reconstructing and matching the investor's own strategies and policies and objectives. The management of foreign portfolio investment is based in its fundamentals on the same foundations on which the portfolio theory is based, which is based on achieving the maximum return and avoiding exposure to risks, i.e., minimizing the risk and also meeting the need for liquidity. With a group of stocks and bonds and for several companies, I have a return called the portfolio return, and it is exposed to risks called portfolio risk. There are multiple approaches to interpreting the portfolio and investing in it. One of the most important of these entrances is what is called the weight of the portfolio. Therefore, the total financial assets in it are Portfolio Weights, which expresses the weight of each financial asset in the portfolio.

Also, investing through a portfolio has risks, including market risk, portfolio risk, and others. Fifthly, portfolio foreign investment as a source of international finance Back to the first topic of this chapter, which shows that portfolio foreign investment as a phenomenon is older than foreign direct investment, but the exact term that distinguishes between direct and portfolio was not crystallized until the sixties and after enriching knowledge from international bodies and United Nations systems, in particular.

Whatever the composition of portfolio foreign investment, it is considered one of the most important sources of international financing along with foreign direct investment, loans, aid and others. Its pot is the stock market, and since these markets are highly sensitive to changes and political, economic and social conditions, the flow of this type of investment has become a function of those variables, so it escapes quickly in case of turmoil and strange circumstances and flows quickly in stable conditions. Therefore, portfolio foreign investment is one of the most important sources of imbalance in the account Capital in the balance of payments, which in turn leads to financial crises.

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