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A Study on Foreign Direct Investment on Special Reference towards FDI Developed Countries

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Abstract

Foreign direct investment (FDI) has been one of the defining characteristics of the world economy during the last two decades. Some developing economies have emerged as major recipients of FDI flows in recent years, while many others have attempted to attract such flows, often by offering fiscal and financial value to foreign investors. This work reviews and discusses recent empirical studies on key development issues related to FDI. The literature review focuses on five main areas of interest to host economies: the FDI-growth nexus; FDI-trade linkages; FDI and technology transfer; FDI, privatization and corporate governance; and host-government policies for attracting FDI. Three of the conclusions reached in this study deserve special attention. First, a vast majority of existing empirical studies indicate that FDI does make an appositive contribution to both income growth and factor productivity in host economies. FDI tends to "crowd in" domestic investment, as the creation of complementary activities outweighs the displacement of domestic competitors.

Similarly, in the North-South context, the relationship between FDI and trade is more one of complementarily than of substitution, owing to backward and forward linkages. Second, host countries will not be able to capture the full benefits associated with FDI until they reach a certain threshold level regarding educational attainment, provision of infrastructure services, local technological capabilities and the development of local financial markets. Third, their role of FDI in development goes beyond the traditional areas of growth, trade and technology transfer to cover emerging areas of policy concern, such as mergers and acquisitions, privatization, corporate governance and "policy competition." The study concludes by stressing that host-government policies should attach greater importance to the stability and predictability of the local business environment in which MNE affiliates operate.

Keywords: FDI characters, Importance of FDI concept, Host-government policy, Challenges of FDI, Micro economics.

Introduction

A foreign direct investment (FDI) in controlling ownership of the business enterprise in one country by an entity based in another country. Foreign direct investment is distinguished from portfolio foreign investment, a passive investment in the securities of another

country such as public stocks and bonds, by the element of "control." According to the Financial Times, "Standard definitions of control use the internationally agreed 10 percent threshold of voting shares, but this is a grey area as often a smaller block of shares will give control in widely held companies. Moreover, control of technology, management, even crucial inputs can confer de facto control. The origin of the investment does not impact the definition as an FDI: the investment may be made either "inorganically" by buying a company in the target country or "organically" by expanding operations of an existing business in that country.

Short-term unemployment due to corporate restructuring and increased market Concentration. Coherence between different sets of policies, institutional and regulatory conditions and the availability of skilled labor and infrastructure also affect a country's ability to reap the full benefits of FDI. There are nonetheless divergent views on how public policy can help maximize the benefits (and minimize the costs) of FDI to meet a country's development needs. This debate appears to have reached new heights at the beginning of the new millennium. A series of "globalization backlash" demonstrations from Seattle to Genoa over the past two years expressed opposition on further liberalization of international trade and investment. Slaughter (2000) attempts to explain the forces behind this phenomenon in the United States, the country whose economy has supposed to have benefited the most from globalization. His empirical analysis highlights the importance on "skills-preferences" cleavage among US workers and the breadth of anti-globalization sentiments that it implies. In contrast, many developing and transition economies attract foreign investors, often through direct incentives, to help modernize their antiquated telecommunication and other infrastructure and to kick-start new industries. Indeed, incentive-based competition for FDI has become a global phenomenon, involving governments tall levels (national and sub-national) in both OECD and non-OECD countries (Oman, 2000).

Under these circumstances, it is important to inform the discussion by drawing lessons from country experiences and case studies available in the literature and to assist governments in identifying the conditions and policy requirements for maximizing the benefits of FDI and minimizing its risks and potential costs. The question is not merely academic, as this debate has important implications for concerted international efforts currently under way both at the United Nations (to achieve the ("Millennium Development Goals") and at the WTO (to launch a new round of trade negotiations)3. Analytical work on the role of FDI in development is also expected to contribute to the development and maintenance of open policies towards FDI. A crucial dimension of this work, therefore, is an second In 1999 the United States became the world's largest net recipient of FDI (inflows minus outflows), registering a net inflow of $124 billion, compared with $38 billion in China, the second largest (UNCTAD, 2000) WTO Members successfully launched a new trade round at the Fourth Session of the Ministerial Conference held in Doha last November.

The relationship between trade and investment is, however, one of several issues that remain politically so sensitive that "negotiations will take place after the Fifth Session of the Ministerial Conference on the basis of a decision to be taken, by explicit consensus, at that Session on modalities of negotiations" stock was in petroleum in 1986, while in Chinese Taipei nearly three-quarters of this stock was in the manufacturing sector. It is interesting to note, however, that between 1986 and 1998 the services sector (including the telecommunication and power industries) considerably increased its relative share and became a main recipient of US FDI in several economies, notably Japan, Chinese Taipei, the Philippines and Singapore, whereas in China it was the manufacturing sector that expanded its relative share during the same period. Following the 1997-98financial crisis, the relative importance of the petroleum sector increased markedly in resource-rich countries such as Indonesia and Thailand, and to a lesser extent in Malaysia.

Objectives of the Study

1. To analysis, the current grow for FDI developing country.
2. To analysis the economic developmental activity through FDI concept.
3. To find out a suitable financial market for investing in foreign currency.

Definition Of FDI

Broadly, foreign direct investment includes "mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations and intra company loans." In a narrow sense, foreign direct investment refers just to building new facilities. The numerical FDI figures based on varied definitions are not easily comparable. As a part of the national accounts of a country, and in regard to the GDP equation Y=C+I+G+(X-M) [Consumption + gross Investment + Government spending +(exports-imports)], where I is domestic investment plus foreign investment, FDI is defined as the net inflows of investment (inflow minus outflow) to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor.

According to the Financial Times, "Standard definitions of control use the internationally agreed 10 percent threshold of voting shares, but this is a grey area as often a smaller block of shares will give control in widely held companies. Moreover, control of technology, management, even crucial inputs can confer de facto control."

Types of FDI

Horizontal FDI: Arises when a firm duplicates its home country-based activities at the same value chain stage in a host country through FDI.

Platform FDI: Foreign direct investment from a source country into a destination country for the purpose of exporting to a third country.

Vertical FDI: Takes place when a firm through FDI moves upstream or downstream in different value chains, i.e., when firms perform value-adding activities stage by stage in a vertical fashion in a host country.

Methods of Investing

The foreign direct investor may acquire a voting power of an enterprise in an economy through any of the following methods:

- By incorporating a wholly owned subsidiary or company anywhere
- By acquiring shares in an associated enterprise
- Through a merger or an acquisition of the unrelated enterprise
- Participating equity joint venture with another investor or enterprise Forms of FDI incentives.

Foreign direct investment incentives may take the following forms:

- Low corporate tax and individual income tax rate.
- Tax holidays
- Other types of tax concessions
- Preferential tariffs
- Special economic zone.
- Export Processing Zone
- Bonded ware house
- investment financial subsidies
- Free land or land subsidies
- Relocation & expatriation

- Infrastructure subsidies
- R&D support
- Derogation from regulations (usually for very large projects)

Governmental Investment Promotion Agencies (IPAs) use various marketing strategies inspired by the private sector to try and attract inward FDI, By excluding the internal investment to get a profited downstream.

Theoretical Concept of FDI

According to Grazes Ietto-Gillies (2012), Before Stephen Hymer’s theory regarding direct investment in the 1960s, the reasons behind Foreign Direct Investment and Multinational Corporations were explained based on macro-economic principles. These theories were based on the classical theory of trade in which the motive behind the trade was a result of the difference in the costs of production of goods between two countries, focusing on the low cost of production as a motive for a firm’s foreign activity.

Another interesting observation made by Hymen went against what was maintained by the neoclassical theories: foreign direct investment is not limited to investment of excess profits abroad. Foreign direct investment can be financed through loans obtained in the host country, payments in exchange for equity (patents, technology, machinery, etc.), and other methods. The previous criticisms, along with assuming market imperfections.

Firm-Specific Advantages: Once domestic investment was exhausted, a firm could exploit its advantages linked to market imperfections, which could provide the firm with market power and competitive advantage. Further studies attempted to explain how firms could monetize these advantages in the form of licenses.

Removal of Conflicts: conflict arises if a firm is already operating in a foreign market or looking to expand its operations within the same market. He proposes that the solution for this hurdle arose in the form of collusion, sharing the market with rivals or attempting to acquire direct control of production. However, it must be taken into account that a reduction in conflict through an acquisition of control of operations will increase the market imperfections.

A propensity to formulate an internationalization strategy to mitigate risk: According to his position, firms are characterized with three levels of decision making: the day –to- day supervision, management decision coordination and long-term strategy planning and decision making. The extent to which a company can mitigate risk depends on how well a firm can formulate an internationalization strategy taking these levels of decision into account.

Importance and Barriers of FDI

The rapid growth of world population since 1950 has occurred mostly in developing countries. This growth has been matched by more rapid increases in gross domestic product, and thus income per capita has increased in most countries around the world since 1950.

China

FDI in China, also known as RFDI (renminbi foreign direct investment), has increased considerably in the last decade, reaching $19.1 billion in the first six months of 2012, making China the largest recipient of foreign direct investment and topping the United States which had $17.4 billion of FDI. In 2013 the FDI flow into China was $24.1 billion, resulting in a 34.7% market share of FDI into the Asia-Pacific region. By contrast, FDI out of China in 2013 was $8.97 billion, 10.7% of the Asia-Pacific share. During the global financial crisis, FDI fell by over one-third in 2009 but rebounded in 2010.

India

Main article: Foreign Direct Investment in India

Foreign investment was introduced in 1991 under, driven by then finance minister Manmohan Singh.

As Singh subsequently became the prime minister, this has been one of his top political problems, even in the current times. India disallowed overseas corporate bodies (OCB) to invest in India. India imposes a cap on equity holding by foreign investors in various sectors, current FDI in aviation and insurance sectors is limited to a maximum of 49%.

Starting from a baseline of less than $1 billion in 1990, a 2012 UNCTAD survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010–2012. As per the data, the sectors that attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. Mauritius, Singapore, the US and UK were among the leading sources of FDI. Based on UNCTAD data FDI flows were $10.4 billion, a drop of 43% from the first half of the last year.

Nine from 10 largest foreign companies investing in India (from April 2000- January 2011) are based in Mauritius. List of the ten largest foreign companies investing in India (from April 2000- January 2011) are as follows,

1. TMI Mauritius Ltd. - Rs 7294 crore/$1600 million
2. Cairn UK Holding - Rs6663 crores/$1492 million
3. Oracle Global (Mauritius) Ltd. -Rs 4805 crore/$1083 million
4. Mauritius Debt Management Ltd.-Rs 3800 crore/$956 million
5. Vodafone Mauritius Ltd. – Rs 3268 crore/$801 million
6. Etisalat Mauritius Ltd. – Rs 3228 crore
7. CMP Asia Ltd. – Rs 2638.25 crore/$653.74 million
8. Oracle Global Mauritius Ltd. – Rs 2578.88 crore / $563.94 million
9. Merrill Lynch(Mauritius) Ltd. – Rs 2230.02 crore / $483.55 million
10. Name of the company not given (but the Indian company which got the FDI is Dhabol Power Company Ltd.)

In 2015 India emerged as top FDI destination surpassing China and the US. In the first half of the 2015, India attracted FDI of $31 billion compared to $28 billion and $27 billion of China and the US respectively.

United States

The United States has a fundamentally open economic and low barriers to FDI.

U.S. FDI totaled $194 Billion in 2010. 84% of FDI in the United States in 2010 came from or through eight countries: Switzerland, the United Kingdom, Japan, France, Germany, Luxembourg, the Netherlands, and Canada. A major source of investment is the real estate, totaled $92.2 billion in 2013, under various forms of purchase structures (considering the U.S. taxation and residency laws).

A 2008 study by the Federal Reserve bank of San Francisco indicated that foreigners hold greater shares of their investment portfolios in the United States if their own countries have less developed financial markets, an effect whose magnitude decreases with income per capital. Countries with fewer capital controls and greater trade with the United States also invest more in U.S. equity and bond markets.

President Barack Obama said in 2012, "In a global economy, the United States faces increasing competition for the jobs and industries of the future. Taking steps to ensure that we remain the destination of choice for investors around the world will help us win that competition and bring

prosperity to our people." In September 2013, the United state House of Representatives voted to pass the Global Investment in American Jobs Act of 2013, a bill which would direct the United State Department of Commerce to "conduct a review of the global competitiveness of the United States in attracting foreign direct investment." Supporters of the bill argued that increased foreign direct investment would help job creation in the United States.

Canada

Foreign direct investment by country and by industry is tracked by Statics Canada. Foreign direct investment accounted for CAD$634 billion in 2012, eclipsing the United States in this economic measure. Global FDI inflows and outflows are tabulated by Statistics Canada.

United Kingdom

The UK has a very free market economy and is open to foreign investment. Prime Minister David Cameron has sought investment from emerging markets and the Far East in particular and some of Britain's largest infrastructures including energy and skyscrapers such have been built with foreign investment.

Russian Federation

History of Foreign Investment Law

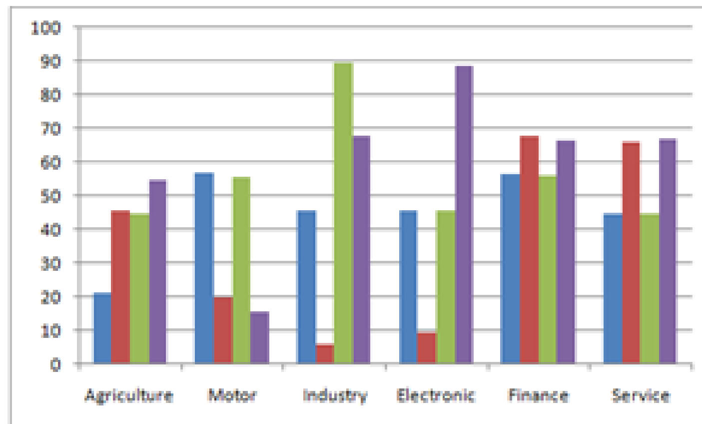
- In 1991, for the first time, Russia regulated the form, range and favorable policy of FDI in Russia.
- In 1994, a consulting council of FDI was an established in Russia, which was responsible for setting tax rate and policies for exchange rate, improving investment environment, mediating relationship between central and local government, researching and improving images of FDI work, and increasing the right and responsibility of Ministry of Economic in appealing FDI and enforcing all kinds of policies.
- In 1997, Russia started to enact policies appealing for FDI in particular industries, for example, fossil fuel, gas, woods, transportation, food reprocessing, etc.
- In 1999, Russia announced a law named 'FDI of the Russian Federation,' which aimed at providing a basic guarantee for foreign investors on investing, running a business, earnings.
- In 2008, Russia banned FDI on strategic industries, such as military defense and country safety.
- In 2014, President Putin announced that once abroad Russian investment inflows legally, it would not be checked by tax or law sector. This is a favorable policy of Putin to appeal Russian investment to come back.

Structure of Foreign Investment in Russia

1. Direct investment: Investing directly with cash. Investment more than 10% of the item is called Direct investment.
2. Portfolio investment: Investing indirectly with company loans, financial loans, stocks, etc. Investment less than 10% of the item is called Portfolio investment.
3. Other investment: Except for direct and portfolio investment, including international assistance and loans for an original country.

Investment Level

Year	Agriculture	Motor	Industry	Electronic	Finance	Service
2015	21.3	56.9	45.7	45.7	56.7	44.8
2016	45.5	19.8	6	9.6	67.8	66
2017	44.6	55.6	89.7	45.8	55.9	44.7
2018	55	15.8	67.7	88.6	66.7	66.9



The Main Item of Inflow Investment in Russian Federation

Foreign Direct Investment, or FDI, is a measure of foreign ownership of domestic productive assets such as factories, land and organizations. Foreign direct investments have become the major economic driver of globalization, accounting for over had of all cross-border investments.

The most profound effect has been seen in developing countries, where yearly foreign direct investment flows have increased from an average of less than $10 billion in the 1970s to a yearly average of less than $20 billion the 1980s. From 1998 to 1999 itself, FDI grew from $179 billion to $208 billion and now comprised a large portion of global FDI. According to UNCTAD, spurred on by mergers and acquisitions and the internationalization of production in a range of industries, inward FDI for developing countries rose from $481 billion in 1998 to $636 billion in 2006.

And China is at the forefront of FDI growth, followed by Russia, Brazil and Mexico.

Findings

1. The foreign direct investment is to increase for economic level of international level.
2. This concept majorly focuses on employment generation and builds that relationship between both nations.
3. FDI concept is to use for the formation of capital in a domestic country so, to increasing on a domestic industrial sector.
4. The WTO countries are must be an implementation of FDI concept for that aim on to improve that foreign currency value.
5. Improve on FDI for a domestic infrastructural facility in an important growing sector.

Suggestions

1. The improvement on FDI concept throws only on developed nations. So, various developed nations are must implementation on various acts.
2. The avoid restrictions for investing in various departmental in domestic nations.

3. The WTO nations are formed that rules and regulations about on FDI concept.
4. It's on a concept for developing employment opportunities for around the world.

Conclusion

Foreign direct investment, or FDI, is a measure of foreign ownership of domestic productive assets such as factories, land and organizations. Foreign direct investment has become the major economic driver of globalization, accounting for over had of all cross-border investments. The most profound effect has been seen in developing countries, where yearly foreign direct investments flows have increased from an average of less than $10 billion in the 1970s to a yearly average of less than $20 billion the 1980s. From 1998 to 1999 itself, FDI grew from $179 billion to $208 billion and now comprised a large portion of global FDI. According to un custard, spurred on by mergers and acquisitions and the internationalization of production in a range of industries, inward FDI for developing countries rose from $481 billion in 1998 to $636 billion in 2006 and China is at the forefront of FDI growth, followed by Russia, Brazil and Mexico.

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