

## **MGT-1031 International Business**

### **Digital Assignment 1**

#### **Topic Chosen: Foreign Direct Investment**

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#### **Research Papers Referred:**

- 1) Political risk analysis of foreign direct investment into the energy sector of developing countries.
- 2) Determinants of foreign direct investment inflows: The role of economic policy uncertainty.
- 3) Foreign direct investment and renewable energy in climate change mitigation: Does governance matter?

#### **Abstract**

Foreign direct investment (FDI) guidelines play a main role in economical growth of developing nations across the world. Attracting FDI inflows with conducive guidelines has consequently come to be a key battleground in the rising markets. A lot of developing nations have made rules aimed toward lowering FDI barriers. Foreign capital globalization, specially FDI influx is improved significantly in developing nations, because of the reality that FDI is the most stable and standard thing of overseas capital inflows . Foreign direct investments are a completely essential component for the improvement of a country .

The styles of investment which are made overseas are referred to as overseas and feature majorly affected nations that interact in those activities of business. The different factors that are to be taken into consideration such as – political element, social element and comparatively cheap element as those elements have an effect on the allocation of global capital. There is an extensive research on the relationship between the Foreign Direct Investment and Economic growth.

The prospect of latest growth possibilities and outsized income encourages huge capital inflows throughout a number of enterprise and possibility types. And this has caused competition among the states in formulating flexible guidelines and offering incentives to woo private investors to make investments greater and greater. Various elements which play a considerable position in attracting FDI into a selected nation also are examined. Efforts made via way of means of the nation governments so that it will appeal to most FDI also are studied.

## **Introduction**

One of the principle debates in the economic literature is on impact of the Foreign Direct Investment in financial growth in the developing countries. Foreign direct investment had been an engine of economic growth in an an increasing number of globalized international economy, and has been one of the most vital topics in the examination of global business. Foreign Direct Investment FDI may be defined as investment that is being invested through an investor in overseas international locations having interest to benefit greater market share in global contest and having the economies of scale.

Foreign direct investment is flowing of capital through an investor who buys a property/asset in a foreign country to manipulate it.

FDI has 3 components:

1. New equity from the parent organization to its department in the host country.
2. Reinvested profits of the overseas organization branch in the host country.
3. Short-time period loans and long time loans from the parent organization to its subsidiary in the host country.

FDI is a international perspective of transacting businesses of a country made through a company or entity which exists in any other country. In FDI, investment need to be in form of ownership/controlling ownership in overseas company. Over the previous couple of decades, overseas direct funding has been a depend of educational study .Globalization has stimulated the groups to formulate numerous varieties of procedures to globalize their business, which leads to sports like FDI. FDI will have each favorable and unfavorable effect on country's economy.

## **Literature Survey**

<b>Paper Name</b>	<b>Date and Author</b>	<b>Summary</b>	<b>Inferences</b>
1) Political risk analysis of foreign direct investment into the energy sector of developing countries ( Impact factor: 9.297 )	4 April 2021 Weiling Jiang , Igor Martek	The impact of certain political risk factors on the environment of different countries remains unclear, as foreign direct investment in energy is heavily impacted by political risks. This paper seeks to fill this gap by identifying the impact of specific policy risk factors on foreign energy	There is a lack of understanding of the impact of a wide range of specific policy risk factors on foreign direct investment in energy and how these key factors behave in the environment of different developing countries. This study aims to bridge this gap by identifying the impact of a wide

		<p>investment and examining how these impacts can be mitigated by other determinants. Analysis shows that there is a risk of investment profile, law and order, religious tensions and corruption. The result is significant political risks affecting foreign energy investment. However, these results Cross-border due to other factors such as gross domestic product, economic freedom, etc. Energy demand in the host country.</p>	<p>range of specific policy risk factors on FDIE in developing countries and further investigating the differences in the impact of these key factors in different situations. It is said that. A database covering 74 developing countries from 2008 to 2017 was used. Key FDIE policy risk factors in developing countries were identified by the GMM method, and developing country classifications were developed by cluster analysis to analyze the differences in the impact of key policy risk factors.</p>
<p>2) Foreign direct investment and renewable energy in climate change mitigation: Does governance matter? ( Impact factor: 9.297 )</p>	<p>25 March 2020 Samuel Asumadu Sarkodie , Samuel Adams , Thomas Leirvik</p>	<p>This paper studies about how the complexity of climate change, predicting links and formulating strategies across countries is difficult. They investigated the individual, combined, and interacting effects of income growth, renewable energy, foreign direct investment, and governance on greenhouse gas emissions, motivated</p>	<p>They used descriptive statistics to look at the features of the data series in the paper. The mean distribution of variables across countries was statistically observed using choropleth maps. They also demonstrate that 5716 kt of CO<sub>2</sub> is the minimal average total greenhouse gas emissions.</p>

		by the Kyoto Protocol's main mandate. To account for the hypotheses of scale effect, composition effect, and method impact, we deconstructed the correlations.	
3) Determinants of foreign direct investment inflows: The role of economic policy uncertainty (Impact factor: 3.9 )	26 November 2019 Nguyen Phuc Canh, Nguyen Thanh Binh, Su Dinh Thanh, Christophe Schinckus	This paper gave a study on the period 2003-2013, on how the effects of local economic policy uncertainty (EPU) and global uncertainty (WUI) on net foreign direct investment inflows (FDI) for 21 economies. This study yields two key conclusions by employing the sequential (two-stage) technique of linear panel data models. First, the pace of local EPU growth has a negative impact on FDI inflows. Second, the World Uncertainty Index (WUI), which incorporates the economic policy uncertainty gauge of 143 nations, has a favourable impact on FDI inflows into the host country when paired with the domestic EPU level.	This research uncovered some intriguing findings. First, an increase in domestic EPU has a large negative impact on FDI inflows, as projected. Similarly, an increase in the global EPU level has a strong beneficial impact on FDI inflows. This research reveals that even when both local and global EPU rise, the impact of global uncertainty remains positive and considerable, regardless of the domestic environment. In other terms, our research uncovers a widespread aversion to global uncertainty. We linked this finding to an anchor bias, in which, even though a country's domestic uncertainty is larger than the global average, the ability to define and anchor it to

		Although domestic economic policy uncertainty has a negative impact on FDI inflows, the findings show that an increase in global (international) economic policy uncertainty could improve FDI inflows into the country.	a specific context appears to be the most important factor.
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## **Research/problem Statement**

To study about the Foreign Direct Investment and various factors among various Countries around the world and also under many other factors.

## **Research Methodology**

Bibliometric analysis being a appropriate techniques to check out the study of the FDI , because it can monitor the evolution and degree the internal dating of diverse objects with the large intersection and combination of statistics, philology, and information science . It has been a mature manner to examine the evolution of a journal or a subject and has been extensively implemented in some fields, like group decision making ,digitalisation and enterprise models in addition to journals, such as Economic Research and Technological and Economic Development of Economy.

This study makes the bibliometric evaluation through Bibliometrix, which refers to a few techniques as follows:

- (1) Leading researchers' analysis. Researchers are key individuals in riding the improvement inside a specific field, and the productiveness and effect are generally deemed as vital sides for measuring their contributions . In this representation, the place of the circle is proportional to the range of courses in line with year, and the colour intensity regarding the circle is proportional to the common annual citations on the grounds that publication.
- (2) Conceptual structure analysis. The key phrases are disbursed withinside the shape of dots in the dimensional space, without a doubt revealing the connection among them and the spatial distribution of the themes. To be specific, the more potent the relevance of the key phrases, the nearer they're supplied in the idea structure diagram. In addition, they could be distinguished through different colors and regions.
- (3) Thematic evolution analysis. Different styles of topics could be allotted in 4 different quadrants, from the dimensions of centrality and density, which permits us to have a nutshell and intuitive evaluate concerning the studies hotspots. Specifically, centrality gauges the extent of

inter-cluster interaction, i.e., how nicely the present day topic is attached to different topics, while density tells us the extent of intra-cluster cohesion, i.e., how tightly the key phrases in cluster are connected.

Topics in the first quadrant (upper-right) are generally taken into consideration because the motor topics, topics on this place are nicely evolved and critical for constructing the corresponding field. Highly specialized and remoted subjects are generally positioned in 2nd quadrant. Topics in 1/3 quadrant suggest rising topics. In evaluation to the subjects in different quadrants, those subjects are highly weakly evolved. Finally, with high-centrality and low-density characteristics, subjects in fourth quadrant are seemed as basic topics. These subjects cover vital future research directions, however aren't receiving powerful interest at this stage. At the identical time, every circle in diagram represents a topic, the call of that is decided through the key-word with the very best frequency. Also, size of the circle is inspired through the frequency of key-word, the better the frequency, the bigger the area of the circle.

## **Analysis on Foreign Direct Investment**

Foreign direct investment (FDI) is defined as a foreign company's ownership or control of 10% or more of the voting securities. Foreign direct investment necessitates the development of new technologies, capital, and management abilities. Foreign direct investment enables companies that deliver crucial and consumable items to the market, as well as people's services, to maintain stability and confidence in their operations for the foreseeable future. There are only two forms of FDI: horizontal and vertical, both of which contribute significantly to maintaining a country's economy and bringing stability, as well as a proper currency that is not vulnerable to volatility. These company investments are made outside of their own country, but they function within it.

With the support of globalisation and foreign direct investment, a horizontal foreign direct investment firm seeks to take advantage of an international platform by selling their goods and services all over the world. It provides a platform for businesses to showcase their expertise and capitalise on it to boost their own country's riches. Horizontal foreign direct investment is a traditional corporate expansion strategy used by the Japanese.

Economic growth per capital is achieved via increasing productivity, commonly known as an economy's efficiency. Improving productivity entails producing a variety of goods and services with the appropriate amount of labour, capital, and raw materials. Essentially, it refers to reducing resource waste. During the emergence of the green movement, encouraging agricultural activities that boost land productivity was a detrimental initiative that led to successful plantation and new farming methods that improved cash crop yield. The green revolution discussed here introduces the use of new grain hybrids to improve global output. A high rate of expectancy is linked to a higher standard of living. Economic calculations are constantly done in real time.

These investments are recognised to have a favourable impact in the economy, resulting in a positive result and an increase in the flow of money. The accumulation of capital, the incorporation

of enhanced inputs, and the employment of updated foreign technology in another country's manufacturing activity have a direct impact on the country's economic progress. Various models, like as empirical, endogenous, and neoclassical, are extensively employed to examine the benefits of FDI conceptually. However, because of the sample selection (developed vs. developing countries), the employment of various sorts of approaches, the time period for which they were selected, and the use of different methodologies, the results varied from model to model.

## **Alternative Strategies of Foreign Direct Investments**

Many corporations fully commit in their new location through direct foreign investment of hard assets due to a lack of education about alternate possibilities. Given the nature of their company, some companies, such as real estate or manufacturing corporations, must establish an overseas subsidiary.

You don't have to utilize a foreign subsidiary to expand internationally, fortunately. You have flexible choices for establishing a legal presence in the country without making a long-term commitment.

### **EOR (Employer of Record) Services**

An employer of record, such as Velocity Global, is a company that handles the legal aspects of hiring international workers. HR functions, market access, and paying international staff are all simplified with this solution.

To put it another way, on paper, the EOR becomes the primary employer of your staff. As a consequence, your company remains compliant while also gaining access to new markets.

Other advantages of EOR include help with:

- Contracts of employment
- Payrolls Taxes
- An application for a visa and an application for sponsorship are both required.
- Advantages to your health
- Requirements for HR Termination
- Unemployment

To begin with, an International PEO allows your company to hire personnel in a foreign market without having to set up an expensive subsidiary. It can help you manage permanent staff and contractors by handling monthly withholdings and drafting local employment contracts.

It works by borrowing or leasing the International PEO's firm in order for your personnel to gain entry to the country or reduce overhead.

Second, FSaaS is a one-of-a-kind service that takes care of risk and compliance while you concentrate on your global strategy. This is an excellent way to get into the nation quickly and cheaply.

### **Independent Contractors**

Hiring international independent contractors is another option for direct foreign investment, but be aware that this comes with a lot of dangers. Given the hazards, which are detailed below, you should play it cautious and use FSaaS to create a legal presence in the country first. You don't need a formal entity to work with contractors in other countries, but having one protects you from legal difficulties if the contractor tries to renege on their contract.

You also want specific language in the agreement about IP protection and autonomy when working with contractors.

### **References**

- [1] Nguyen Phuc Canh, Nguyen Thanh Binh, Su Dinh Thanh, Christophe Schinckus, Determinants of foreign direct investment inflows: The role of economic policy uncertainty, International Economics, Volume 161, 2020, ISSN 2110-7017, doi.org/10.1016/j.inteco.2019.11.012.
- [2] Samuel Asumadu Sarkodie, Samuel Adams, Thomas Leirvik, Foreign direct investment and renewable energy in climate change mitigation: Does governance matter?, Journal of Cleaner Production, Volume 263, 2020,121262, ISSN 0959-6526, doi.org/10.1016/j.jclepro.2020.121262.
- [3] Weiling Jiang, Igor Martek, Political risk analysis of foreign direct investment into the energy sector of developing countries, Journal of Cleaner Production, Volume 302, 2021, 127023,ISSN 0959-6526, doi.org/10.1016/j.jclepro.2021.127023