DOWNLOAD PDF RISK AND FOREIGN DIRECT INVESTMENT

Chapter 1 : Country Risk and Foreign Direct Investment

Country Risk and Effects of Foreign Direct Investment 11 Contingency theory, resource dependency theory and transaction cost theory explain how a company can adjust to uncertainty and manage the environment in order to reduce.

But there are great risks involved for the investors, for example the lure of expropriation or consumer boycotts. It is shown that economic nationalism among the public leads to a decrease in FDI-flow. Investing capital in developing countries is often associated with an element of political risk, as was illustrated in season two of the popular television soap opera Dallas. The scheming main character of the show, J. Ewing, made a highly profitable investment in some Asian oil leases. The country where the oil wells were located the name of the country was never mentioned in the series experienced a coup, and the subsequent nationalization of the oil wells, making J. This provided the viewers with an example of the connection between high profits and high risks, and also the danger of economic nationalism with regard to foreign investment. Yet, a minus was that he lost a lot of business credibility as he sold the leases to some of his closest associates, with the result being that their fortunes were wiped out. Dallas is of course fiction, yet, J. Foreign companies were given six months to renegotiate contracts in order to give up majority control over their Bolivian interests. What is Foreign Direct Investment? The World Bank states that foreign direct investment presupposes an enduring management interest of 10 percent or more of voting stock in a company operating in another country than that of the investor. FDI is thus the net inflows of investments from such companies. Measures of democracy are commonly employed in the literature on political risk and foreign direct investment. The role of government as far as Multinational Companies are concerned is to act as a provider of infrastructure and guardian of laws and contracts, which democracies are assumed to be better at than other forms of government. Governments who cannot arrange for these requirements, are likely to receive less FDI than those governments who can. Sound institutions are vital to attracting foreign investors, as these are necessary to guarantee the rule of law. Economic development is presupposed to have a strong positive impact on FDI. The more developed a country is, the more FDI-inflow it will receive. Economic Nationalism The question of whether economic nationalism matter on foreign direct investment-flow FDI is of importance to both multinational companies wishing to establish, and to the potential host countries. In a globalized world, FDI is increasing its position as the main engine of the economy. The dominating view in the literature is that economic nationalism is bad for FDI-flow. According to Professor Robert M. Norris, public opinion in foreign countries is believed to influence the results of a company operating outside its home, regardless of its organizational type. This is perhaps most true for developing countries LDCs. The independence of many nations in the post period was followed by sundry expropriations and nationalizations. If the population of a given country holds grievances, expropriation or nationalization is a low cost solution for appeasing the general public. The examples of public opinion materializing in policy action are numerous. In Latin Americaseveral countries have incorporated what is known as the Calvo doctrine into their constitutions. This foreign policy doctrine asserts that the right of jurisdiction concerning international investment disputes lies with the country in which the investment is made. Causal chain, from economic nationalism to a decrease in FDI-flow. The mechanism shown in the figure is exemplified by the events that took place in Colombia in , when the government, accommodating public opinion, forced foreign companies to sell out the majority of their stock to local investors. The negative attitude against multinational companies MNCs has from the s spread from Latin America throughout the Third World, leading many governments to enforce less investor-friendly policies. Of course, economic nationalism can also have a more direct effect, not necessarily through the intervening link of the regime. Negative sentiments among the public can have a direct impact, through decreasing sales, or difficulties with regard to the work force. Such factors will lead to an increased chance of an already established MNC to pull out of the country in question, thus leading to lower total FDI-flow. Yet, this proposed causal chain, I hold, is not as prominent as the one shown in the figure. This is because government action which is sprung out from public opinion is easier to interpret, as it is constituted in laws and regulations. It is more difficult for a MNC to get a clear picture of the exact public sentiments. To summarize the causal chain, economic nationalism among the public will be taken into account by the rulers, who tends to cater to the preferences of the electorate. This leads to an increased risk of expropriation and nationalization of foreign assets. The threat of confiscation would accordingly also be perceived as political risk and cause foreign investors to be cautious about investing in the country in question. In addition we also have the possible direct effects of economic nationalism through boycotts or decreasing profits for the MNCs, leading to less investment. The Findings By employing advanced regression modeling for time-series cross-section data, an analysis done by Jo Jakobsen and Tor G. Jakobsen including 42 countries shows there is a strong negative impact of individual level economic nationalism on the flow of FDI. Economic nationalism among the public both directly and indirectly, through the intervening mechanisms of the executive and legislative powers, have profound negative effects on FDI. This implies that sentiments among the public is of importance both directly and indirectly to the MNCs. Conclusion The findings imply that the governments should not waiver to the day to day popular opinions, but rather follow a long term political strategy to promote trade and liberalization. Yet, some responsibility lies with the MNCs themselves. Foreign investors can utilize strategies to improve their image. For example, the organizational ecology school within business strategy argues that an organizational form that is not accepted in a host country will not survive. MNCs should therefore use a more accepted organizational form to achieve legitimacy, and thus survive in the new environment. Another solution is to make efforts to improve their reputation. Examples of this are companies that build roads and schools in their respective host countries to achieve acceptance with the local populace. The Political Economy of International Relations. Political Risk for Multinational Companies: Thesis for the degree philosophiae doctor,Trondheim:

Chapter 2 : Foreign Portfolio Investment vs FDI | Investopedia

*Risk and Foreign Direct Investment [Colin White, Katie Fan] on calendrierdelascience.com *FREE* shipping on qualifying offers. This book recommends and examines the various approaches to incorporating an accurate measure of risk into the appraisal of an international investment.*

Considering these figures, it appears that the United States has been a very attractive investment destination due to its low-risk profile as compared to other leading global economies. However, the economic downturn, its effects, and resulting public policies have created new risks and opportunities for companies planning to invest in America. CreditSights predicted that default rates in Europe would continue to rise. The fact that the United States tends to lead Europe by eight to 12 months in the economic cycle would make Europe a less secure prospect for investment. In the last year, economic crises in Iceland, Greece, and Ireland threatened to spill into Spain and Italy. Federal Reserve has proactively managed the credit crunch and economic crisis. Although most large corporations have built up cash reserves, they are not hiring, making unemployment a concern. Across the globe, China and India continue to grow, and are likely to increase investment in the U. The Federal Reserve has recently warned that economic recovery might take longer than previous estimates of one to two years, dampening the market mood. Considering the caution of the market and government, foreign investors may adopt a defensive strategy to combat uncertainties. Investors will likely consider less cyclical sectors for investment in the short term. Since economic conditions have not improved as expected, the next survey will likely show a lower level of confidence in the United States. In this survey of transnational corporations, the United States dropped to third place behind China and India as a destination for greenfield foreign investment from to However, if acquisition of assets and companies is considered, America will continue to be the largest recipient of FDI. Even if the United States continues to be an attractive destination for foreign investment, there will be new risks associated with investing in this economic climate. In the last two years, the global economy has experienced an unprecedented slowdown triggered by the collapse of Wall Street investment banks. This has resulted in a consumer confidence decline and unemployment hovering near 10 percent. To stimulate the economy, reduce dependence on imported fossil fuels, and reduce global warming, the administration wants to institute green laws to encourage alternative energy and lower pollution. Cap and Trade is part of that equation. These economic factors need to be carefully evaluated by foreign investors and corporations to mitigate risk associated with business location. Evaluating Risk and Opportunities Rising unemployment Unemployment in the manufacturing and service sectors has not been higher since the mids. Overall unemployment stubbornly remains at just below 10 percent. Foreign companies seeking to access the U. This might increase the number of location alternatives as more states offer job incentives to generate employment. This presents an opportunity for companies to attract and develop talented workers and retain them over the long term. The economic recovery might be slow, and the companies that attract the best talent in the short term will likely be placed advantageously compared to those who acquire workers when economic recovery is well on its way. Trying to be early in skimming the best talent poses the risk of scaling up too soon, and it is expected that most companies will be conservative about scaling their operations. This is an opportunity for employers to negotiate salaries and introduce a mix of direct- and incentive-based wage systems. On the other hand, rising unemployment affects consumer confidence negatively and results in lower sales of goods and services, which in turn has a negative impact on the bottom line of manufacturing and services companies. Investing companies will need to align their revenue potential with new talent access and development. New state job training grants might help cross-train existing employees to achieve greater efficiencies and nimbleness to be competitive in a tougher market. Cap and Trade The United States has recently moved towards a federal system for regulating carbon emissions. Several major corporations have broken with trade associations that oppose the cap-and-trade bill. The bill has moved a stage further towards becoming law. And, importantly, the Environmental Protection Agency EPA has stated that if Congress will not legislate to cut greenhouse gases, it will regulate regardless of a Congressional decision. Ultimately, Cap and Trade is likely to become a reality in the United States. Under Cap and Trade, the government will set limits, or "caps," on the level of pollutants that can be emitted into the atmosphere from all industrial operations. Industries will hold permits or credits representing a level of pollutants emitted. The total number of permits in the market may not exceed the cap. Companies can sell unused credits to companies that wish to buy the right to pollute. This credit trading system intends to reward low polluters and penalize high polluters, thereby providing incentives to limit pollution. From to , the number of multinational corporations supporting Cap and Trade grew from 23 to But many corporations do not favor Cap and Trade, and instead promote a carbon tax that could lower other taxes and make overall taxation revenue neutral. Cap and Trade will force manufacturers to innovate, and will increase the initial cost of operations. Some investing corporations might balk at this prospect, but those manufacturers who have lower emissions might find this advantageous. Cap and Trade assumes international cooperation, otherwise carbon leakage from non-signatory countries could negate some of its gains of emission control. Conversely, goods produced in the United States under Cap and Trade might be more expensive initially, considering the cost of retooling and buying credits, but will eventually become competitive with economies of scale. It has established a regional target to reduce heat-trapping emissions by 15 percent by Companies planning to invest in the United States will need to do their due diligence to locate in states that make this process the least onerous. If there is widespread international cooperation, risks of locating in a Cap and Trade regime are minimized. But if there is opposition from many countries, it could fuel a detrimental, global tariff war. Devaluation of the U. Most of this devaluation is based on risk aversion. The value of the dollar is usually inversely related to risky assets such as stocks. There has been a long-standing case made against the current U. The budget proposes significant debt increases, and projects that the debt could rise to percent of the GDP by Continuing large trade deficits and a high level of debt are raising concerns about inflation and currency devaluation. This fact is not lost on investors who are now diversifying their risk by holding a variety of currencies. A lower demand for dollar will negatively affect its value. But confidence in the U. Last year, the world needed U. Since , the Federal Reserve has been buying debt under the Quantitative Easing program, resulting in a surplus of dollars in the market, driving down its value. Investors usually borrow in a low-yielding currency and invest in a high-yielding one, but since confidence in the U. Coupled with some Buy American provisions, this might spur manufacturers to expand manufacturing to the United States to access its market. If imports cost more and the buying power of Americans decreases, only products manufactured with American resources will be affordable or attractive to American buyers. This will present an opportunity for foreign investors to manufacture at a lower cost for the North American markets, but it would become less attractive to repatriate wealth to their home countries. The level of risk will depend on how much the dollar devalues and if the global perception of the U. The devalued dollar will also create opportunities for foreign investors, as their currency will buy more in the United States. This is already creating a resurgence in U. The United States has historically led in startup activity, with startups accounting for 3 percent of the job growth in the last decade. According to The Huffington Post, startup activity has declined 24 percent in the last two years because of a lack of venture funding, but more people are starting businesses with investment from friends and family. This has created an enormous opportunity for overseas angel funds to invest with favorable exchange rates in promising businesses in the United States. Due Diligence The United States continues to attract investment because of its large market, pro-business environment, good infrastructure, and skilled work force. Recent developments and regulations in the wake of the economic downturn have introduced some risk factors that are not insurmountable, but have to be considered by foreign companies investing in the United States. New risk factors and state measures to attract business mean that there will be regulations, but there will also be economic incentives to gain. This makes due diligence during site selection critical. Simultaneously, foreign investors planning greenfield operations in the United States should plan carefully for incentive negotiations to benefit from state and local funding to create jobs. Fiscally-challenged states and regional target industries evaluated for FDI will receive a stronger reception. For projects that create significant economic impact, states could still be aggressive with incentives in the United States.

DOWNLOAD PDF RISK AND FOREIGN DIRECT INVESTMENT

Chapter 3 : Political Risk Insurance â€“ Foreign Direct Investment | AXA XL

Foreign direct investment is when an individual or business owns 10 percent or more of a foreign company. If an investor owns less than 10 percent, the International Monetary Fund defines it as part of his or her stock portfolio.

Energy 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, including diaspora marketing. Importance and barriers to FDI[edit] The rapid growth of world population since has occurred mostly in developing countries. Host countries often try to channel FDI investment into new infrastructure and other projects to boost development. Furthermore, foreign investment can result in the transfer of soft skills through training and job creation, the availability of more advanced technology for the domestic market and access to research and development resources. Developing world[edit] A meta-analysis of the effects of foreign direct investment FDI on local firms in developing and transition countries suggests that foreign investment robustly increases local productivity growth. FDI, which excludes investment in the financial sector, rose 6. As part of the transition by Chinese investors from an interest in developing economies to high-income economies, Europe has become an important destination for Chinese outward FDI. In and , the EU was estimated to be the largest market for Chinese acquisitions, in terms of value. These issues include potential negative strategic implications for individual EU member states and the EU as a whole, links between the Chinese Communist Party and the investing enterprises, and the lack of reciprocity in terms of limited access for European investors to the Chinese market. As a result numerous Australian political representatives have been investigated, Sam Dastyari [19] has resigned as a result. As Singh subsequently became the prime minister, this has been one of his top political problems, even in the current times. As per the data, the sectors that attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. Countries with fewer capital controls and greater trade with the United States also invest more in U. 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 , [41] 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 , [41] Russia starts to enact policies appealing for FDI on particular industries, for example, fossil fuel, gas, woods, transportation, food reprocessing, etc. In , [41] Russia banned FDI on strategic industries, such as military defense and country safety. In , [42] 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 [43] Direct investment: Investing directly with cash. Investing indirectly with company loans, financial loans, stocks, etc. Except for direct and portfolio investment, including international assistance and loans for original country. FDI of RF

Chapter 4 : Foreign direct investment - Wikipedia

World Investment and Political Risk The edition of the report offers an innovative analysis of breach of contract risk, combining deal and country-specific causes of breach for the first time.

Chapter 5 : Foreign Direct Investment (FDI)

value of foreign direct investment inflows. For their data sample of 31 developing countries, the political risk index is statistically significant and the coefficient implies that countries with.

Chapter 6 : What Are the Different Kinds of Foreign Investment? | Globalization

The United States continues to be the leading destination for foreign direct investment (FDI) and the foremost investor in other economies. From to , the United States received $ billion of investment and invested nearly $ billion in various parts of the world.

Chapter 7 : Economic Nationalism and Foreign Direct Investment â€“ A Great Risk for Investors

Foreign direct investment (FDI) is an investment made by a company or entity based in one country into a company or entity based in another country.

Chapter 8 : "Dyadic Risk and Foreign Direct Investment" by Brett A. Shaheen

political risk and promoting stable and liberal policy to attract more foreign investment, although these are long-term changes. Thus, the goal of this paper is to.