FDI and Retail Sector in India

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Knowledge is Our Business

FDI AND RETAIL SECTOR IN INDIA
By D. Kumar, Manjula Jain

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CHAPTER 1
UNLOCKING THE POTENTIAL OF FOREIGN DIRECT INVESTMENT FOR SUSTAINABLE DEVELOPMENT IN ASIA AND THE PACIFIC REGION

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ABSTRACT:

Long acknowledged as a catalyst for growth and development, foreign direct investment is a significant source of funding for development. It is becoming more and more clear that FDI can support country growth both internally and outside. The investment environment in Asia and the Pacific has become more unpredictable because to global and regional political and economic concerns, including rising trade tensions, the decline of multilateralism, and health threats. Without a question, addressing the dangers will call for innovative, varied, and daring measures to draw in, keep, and facilitate investment. Additionally, it calls on the region's nations to make the necessary changes to their investment environments in order to attract high-quality FDI that will help them achieve the Sustainable Development Goals and the associated 2030 Agenda for Sustainable Development.

KEYWORDS:

Investment Strategies, OFDI Strategies, Strategic Approaches, Sustainable Development, Targeted Investment, Home Country Impact.

INTRODUCTION

According to a recent assessment by the United Nations Economic and Social Commission for Asia and the Pacific, on its present course, Asia and the Pacific would fail to meet any of the 17 SDGs by 2030. Additionally, it was revealed that although certain SDGs have seen improvement, for more than half of them, it has stagnated or even reversed. The United Nations Secretary-General Antonio Guterres issued a worldwide appeal for a decade of action to redouble efforts to achieve the SDGs by 2030 as a result of the region's and other areas' poor progress toward attaining them. Accelerating progress toward the SDGs requires realigning investments, both domestic and international, as well as creating and putting into practice the right investment structures and policies. To do this, however, governments' capacity to create evidence-based policies that harness FDI and maximize its potential for sustainable development must be strengthened [1].

In order to assist policymakers, create better FDI policies and IPAs that would better encourage and facilitate FDI for sustainable development, this Handbook aims to take stock of the findings on and experiences with both inward and outward FDI. Better FDI policies are those that aid in luring larger inflows of better caliber FDI with greater development effect across the four pillars of sustainable development: governance, economic, social, and environmental. To attract foreign investors and assist them in establishing and realizing their investments and subsequent operations, better promotion and facilitation means adopting and using strategies and instruments that are more efficient, focused, and successful in terms of their use of resources. Ideally, the organizations that advocate and enable FDI are not the same organizations that develop policies. Different mindsets, strategies, aptitudes, and resources are needed for the creation of FDI policies as well as for FDI facilitation and promotion. However, it is clear that they are intertwined. Similar to how FDI policies and FDI laws and regulations are intertwined, it is impossible to discuss one without mentioning the other [2].

This paper's aims to put together recommendations for policymaking, lawmaking, investment promotion, and facilitation based on best and good practices derived from experiences with FDI globally. This is done in light of the changing demands on FDI as a means of implementation for achieving the SDGs. The Handbook won't provide any ground-breaking new understandings or shocking new data. There is really no need to create anything entirely new. Instead, it is designed to be a helpful reference tool for legislators, policymakers, and investment promotion organizations, providing a one-stop-shop for the extensive literature on FDI that has accumulated over many years. It also summarizes and packages the recommendations that have emerged from this literature and experiences with FDI attraction, promotion, and facilitation in Asia and the Pacific as well as the rest of the world [3], [4].

The Handbook's second edition is now available. It has been revised and reorganized to incorporate new topics of importance to IPAs and policymakers alike. Leveraging outward FDI for home country sustainable development, sustainable FDI indicators, a revised chapter on national and international investment governance, digital FDI, a new section on utilizing special economic zones, a revised chapter on investment facilitation and aftercare, and a new chapter on monitoring and evaluation of IPAs are just a few of the new topics covered in the revised edition. This version has been updated to relate to the most current research and evidence on all the themes it covers, and new updated boxes with examples of the concerns mentioned in each chapter have been included.

There are three parts to the Handbook, and each one may be read individually. An in-depth explanation of how both inbound and outward FDI might aid in development is provided in Part I, which concentrates on the principles of FDI. The important institutional, legal, and policy prerequisites for a favorable investment environment are covered in Part II of the Handbook. This section is primarily intended for decision-makers who develop, execute, and regulate FDI. The methods of investment attraction, promotion, and facilitation are covered in Part III of the Handbook. This section of the handbook, which was prepared specifically for IPAs, is considerably more practical in character and includes a number of action items and checklists that IPAs should take into account as they go about their daily job of encouraging and enabling investment [5], [6].

For the purpose of advancing the conversation on the role of FDI in development and methods to more successfully and efficiently recruit, promote, and facilitate FDI, each chapter concludes with a set of discussion questions for national level officials and IPAs. Readers may choose to read the chapters in any sequence that best matches their needs and interests; they are not required to read them in order. Students and academics may be interested in beginning with Part I and then continuing on to the chapters that are most helpful to their work, while policymakers may want to move ahead and study Part II first, while IPAs may be more interested in starting with Part III. carries out FDI in another nation, it is referred to as such. The phrase MNE is used throughout this handbook. FDI has been given several different meanings. One goal of the current round of changes to the fourth edition of the Benchmark Definition of Foreign Direct Investment of the Organization for Economic Cooperation and Development and the sixth edition of the International Monetary Fund's Balance of Payments and International Investment Position Manual is to maintain and strengthen the existing harmonization of FDI definitions [7].

BPM6 states that direct investment is a category of cross-border investment associated with management of an enterprise that is resident in another economy. In other terms, FDI refers to an investment undertaken to gain a long-term stake in businesses that are active outside the investor's economy. Additionally, the goal of FDI is for the investor to have a meaningful say in how the business is run. The "direct investor" is the foreign entity or group of related entities who makes the investment. A "direct investment enterprise" is an unincorporated or incorporated business in which direct investments are made. The BPM6 recommends a threshold of 10% equity ownership to classify an investor as a foreign direct investor. Equity ownership is nearly typically seen to be connected with an effective voice in the management of a business. According to BPM6, control or influence may be attained directly by holding stock that confers voting rights in the company, or indirectly by possessing voting rights in another company that also has voting rights in the company [8].

Relationships between direct investors that are immediate when they directly possess stock that gives them 10% or more of the voting power in the direct investment firm. If a direct investor has more than 50% of the voting power inside a direct investment business, control is said to exist. If the direct investor has between 10% and 50% of the voting power in the direct investment firm, it is judged that they have a substantial amount of influence; An entity may wield indirect control or influence via a network of direct investment connections if it possesses voting power in one direct investment enterprise that also owns voting power in another firm or companies. Even while these criteria are still accurate, it is become harder to pinpoint who owns a specific affiliate or subsidiary of a TNC in a certain host nation. According to the United Nations Conference on Trade and Development, this has ramifications for FDI policy, legislation, and regulations, including bilateral investment treaties and other international investment agreements to which host nations of FDI are parties [9].

The statistics available on FDI are impacted by the FDI definition being employed. Equity capital, reinvested profits, and other capital make up FDI. Equity capital includes all shares in subsidiaries and affiliates, equity in branches, and other capital inputs like the purchase of equipment, etc. The direct investor's share of profits that are not dispersed as dividends by subsidiaries or associates and the earnings of branches that are not remitted to the direct investor make up reinvested earnings. Conventionally, all branch profits are regarded as dispersed if such earnings are not recognized. The borrowing and lending of money, including debt securities and trade credits, between direct investors and direct investment businesses as well as between two direct investment firms that have a common direct investor is referred to as other direct investment capital. The published numbers on FDI are not entirely comparable across nations since different countries do not always gather data for each of those components. Particularly, many nations often fail to provide information on reinvested profits, the gathering of which rely on corporate surveys. Additionally, the prevalence of "round-tripping" often falsifies the real reported FDI inflows in any particular nation [10].

The threshold amount for foreign stock ownership that each nation accepts as proof of a direct investment connection varies. The direct investor is often viewed as having an effective voice in the management of the firm concerned at or above this level of involvement. 10% is the threshold figure often used for FDI. It involves selected ranges of between 10% and 50% for information on TNC activities. Some nations don't define a cutoff point and instead rely only on other data, such as the judgments made by the investing business itself about its ability to influence the foreign corporation in which it has an ownership share. The FDI is sometimes linked to specific advantages for host nations, including a net cash inflow.

However, the advantages of FDI would not be realized if a local investor in a particular country directs money outside before remitting it back to the nation. Round-tripping, which is not real FDI and may lessen tax collections and regulatory control in the nation of the resident investor, is a phenomenon.

The volume of round trips varies, although it may be fairly significant for certain nations. In the case of China, Hong Kong, China plays a significant role in each of the three stages of capital's journey: the initial creation of new capital in China, the capital flight out of China, and the round-tripping FDI back to China. For instance, preliminary estimates for the Russian Federation indicated that more than half of the country's outward FDI position at the end of 2010 consisted of funds that were ultimately returned through round-tripping. This explains why Hong Kong, China emerges as a significant foreign investor in China, which is mostly owing to round-tripping. Another intriguing instance occurred in India, where 10% of FDI inflows over the last ten years are believed to have originated through round trips through Mauritius, a technique employed by Indian businesses to evade taxes and, in some instances, launder money. Similar roles are played by offshore financial hubs including Bermuda, Cayman Islands, and British Virgin Islands [11].

Different factors for contribute to round-tripping

The following factors may contribute to round-tripping:

a) Economies sometimes provide tax breaks or other incentives to lure in overseas investment. Local investors may engage in round-tripping to get these advantages if they do not receive the same favorable treatment;

b) Due to restrictions on capital flows or currency rates in certain nations, local investors may round-trip in order to increase their capital management freedom;

c) Because certain nations may lack well-developed capital markets, local investors may choose to invest first abroad to get superior financial services before reinvesting their profits domestically;

d) Domestic investors may round-trip if an economy has investment treaties that provide additional safeguards to international investors so that their assets are given these greater protections;

According to the BMD4 of the OECD, nations should gather data on inward FDI by the country that is ultimately investing. This enables nations to pinpoint the nation of the direct investor who ultimately controls an investment and, as a result, assumes the risks and benefits of the investment due to the sometimes-complicated ownership arrangements of MNEs. By determining the share of inbound investment that is managed by a resident of the host economy, the presentation by the final investing nation quantifies the degree of round-tripping in an economy. In contrast, the direct source of money is how FDI figures are often presented.

While it has been challenging to lessen FDI round-tripping and lessen its effects, nations might attempt to reduce the incentives by doing away with any treatment distinctions based on nationality or businesses. In fact, improving the business climate for all enterprises is the most crucial policy step. However, nations must also take into account the trade-offs between their national policies for capital flows and the new FDI playing field. International efforts must supplement national policy measures. In addition, it is important to carefully monitor all indirect FDI flows; this is best done in collaboration with international partners.

a) Due to the high percentage of FDI that is channeled to majority-owned foreign affiliates, deviations in the threshold value applied have a negligible quantitative effect.

b) FDI statistics still come with a number of limitations, despite the fact that it is often utilized by numerous organizations, governments, policymakers, and scholars.

Foreign direct investment classification

a) FDI may be broken down into many categories. By the shape it takes, there is a typical typology.

b) The establishment of a new subsidiary, manufacturing facility, or center for services in the host nation.

c) Business mergers and acquisitions in the nation of origin.

d) Joint enterprises;

e) Reinvesting revenues in initiatives inside the host nation.

Greenfield FDI refers to greenfield capital investments that create new assets and bring money into the host nation of the venture. fDi Markets of Financial Times Ltd. is the top worldwide database on cross-border greenfield investment based on firm investment announcements. Depending on the degree of data aggregation, several conclusions can be drawn. The emphasis is also on firm-level FDI statistics rather than macro-level FDI flow data from the viewpoint of government organizations, investment promotion agencies, and economic development organizations. After all, the primary responsibility of EDOs and IPAs is to promote Greenfield FDI, which counts the number of FDI projects, capital investments, and new employment. Compared to aggregated national data on FDI inflows and outflows, this provides greater evidence on the FDI performance and contribution of EDOs and IPAs. International organizations' definitions, methodologies, and macro-level statistics are not intended to take into account or represent the work done by EDOs and IPAs to promote investment [12].

There is an obvious need for a globally recognized FDI accounting system for EDOs since the official IMF/OECD accounting approach is not intended for investment promotion. While there is homogeneity in the common elements in FDI accounting, every EDO does it differently. As one EDO from a developing country put it: "Most EDOs do not know the criteria that should be used for the qualification of FDI successes or for evaluating their role in the success." Another EDO from a developed country stated that: "If the Government is going to give you US$10 million you need to show the return on investment." The majority of EDOs have created ad hoc or no accounting processes. Therefore, Loewendahl suggested a consistent accounting procedure for EDOs to draw in greenfield FDI.

The ownership characteristics of FDI may also be characterized. A foreign investor may own all of a foreign venture or investment, have a majority interest in it, or form a joint venture with another business. A JV involves the creation of new assets with joint ownership as well as the sharing of income, costs, and assets. Joint ventures may be a practical approach for foreign investors to manage the investment climate and regulations in a new host nation since they are sometimes the only allowed entrance of FDI into that country. Local JV partners may not, however, always possess the necessary skills to successfully run a business or contribute to the foreign investor's investment goal. Therefore, selecting the ideal JV partner is crucial and not always simple. Additionally, it's possible that Sovereign Wealth Funds' significance in FDI is waning. SWFs are therefore one of the primary sources of FDI worldwide [13].

DISCUSSION

The core of a significant discussion on how foreign direct investment (FDI) encourages sustainable development in the dynamic and diverse regions of Asia and the Pacific. This article focuses on the many impacts of FDI on the socioeconomic environment of this large geographic area. First and foremost, FDI is seen as a powerful force for growth and economic advancement. It carries with it the potential to spur economic development via access to international markets, financial resources, and technological advancements. In the context of Asia and the Pacific, where numerous countries are at diverse degrees of development, the infusion of FDI may play a critical role in accelerating progress towards the Sustainable Development Goals (SDGs). It is critical to acknowledge that FDI affects not just economic growth but also social welfare, environmental sustainability, and governance. However, leveraging FDI for sustainable development in this region is not without its challenges [14]. The investment environment has grown increasingly unstable as a result of local and international factors such rising trade tensions, the decline of multilateralism, and health disasters. Given these uncertainties, fresh and bold approaches are needed to draw in and retain high-quality FDI.

Governments throughout Asia and the Pacific must aggressively transform their investment environments in order to comply with the 2030 Agenda for Sustainable Development and its related SDGs. One of the main topics of this discussion is the need for evidence-based policies that make the most of FDI's potential for sustainable development. Officials in the government are tasked with developing FDI policies that would not only encourage greater investment but also ensure that it will significantly improve the four pillars of sustainable development governance, economic, social, and environmental in addition to attracting more investment. Effective promotion and facilitation strategies are crucial in this regard because they enable foreign investors to develop and realize their projects while making the most use of available resources. The discussion also emphasizes how interconnected FDI policy, promotion, and facilitation are.

Since these elements are inherently interconnected and cannot be seen independently, they must be taken into consideration in concert in order to realize sustainable development goals. The manual under consideration contains best practices and recommendations created from experiences with FDI on a global scale, making it an essential tool for legislators, investment promotion organizations, and politicians [15]. The region will not achieve any of the 17 SDGs by 2030, according to a gloomy assessment by the United Nations Economic and Social Commission for Asia and the Pacific. This highlights the need of taking action. This highlights how urgent a realignment of domestic and international investments is required to effectively advance SDGs. Adopting the proper investment structures and policies is necessary to bring about this transition, which involves more than simply a solid understanding of FDI. It motivates individuals to harness the transformative power of FDI to surmount development challenges and open the door to a more prosperous, equitable, and sustainable future. In this discussion, it is emphasized how important it is to have innovative investment environments, to make policy decisions based on facts, and how critical FDI is to achieving the tough Sustainable Development Goals in the Asia-Pacific region.

CONCLUSION

This thriving and diverse region, which is home to multiple nations in varying stages of development, is about to go through major change. The title of our subject suggests the possibility that FDI may play a significant role in affecting this change. Throughout our talk, we have emphasized the variety of FDI and how it has an impact that extends well beyond economic growth. It advances the four pillars of sustainable development governance, economic, social, and environmental. FDI provides access to foreign markets, knowledge, and technology in addition to financial support, all of which may be helpful in achieving the ambitious Sustainable Development Goals. However, we cannot disregard the challenges and uncertainties created by the changing global environment. In order to achieve sustainable growth in Asia and the Pacific, the interests of the area must be safeguarded while luring top-notch FDI. At the center of our discussion is the need for governments to implement evidence-based policies that fully use FDI's potential for sustainable development. These policies should promote increased investment inflows, but they must also ensure that these investments have a significant positive social impact. The methods used to facilitate and promote investment must be effective in terms of time, effort, and resources. The manual we discussed is a helpful tool that offers guidance and best practices drawn from experiences with foreign FDI. It provides knowledge and insight that decision-makers, legislators, and investment promotion organizations need to properly navigate this complex environment.As our discussion draws to an end, we are reminded of the pressing need for action. The stark warning that, if current trends continue, the region would not accomplish even one of the 17 SDGs by 2030 is a terrifying wake-up call. But there is also a possibility for Asia and the Pacific to employ FDI as a driver of fundamental change. To achieve sustainable development, our region must cooperate and embrace the potential of foreign direct investment to drive prosperity. It demands a commitment to policies that are grounded in fact, innovative investment environments, and a clear understanding of how FDI can promote society and protect the environment. It is not simply an aspiration, but a call to action to realize the potential of FDI. By using the transformative potential of FDI, Asia and the Pacific can set sail for a future characterized by prosperity, equity, and sustainability. It is a journey that appeals to us and one that asks for our unified effort and dedication.

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CHAPTER 2
COMPARING THE INTERNATIONALIZATION STRATEGIES: AN ANALYTICAL REVIEW

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ABSTRACT:

Many Scandinavian academics have created dynamic process theories of internationalization. The topic of why FDI occurs less often among Nordic academics than it does the subject of how the corporation really manages its foreign investments. The Uppsala Internationalization Process model, developed by Johanson and Vahlne based on a behavioral theory of the company, is well-known.4 According to this argument, the process of internationalization is defined by a steady, sequential development, starting with a company's first choice to export and ending with a firm's greater commitment to overseas markets. By gaining knowledge of other markets, the 'psychic distance' is reduced. The model, according to Johanson and Vahlne, is based on empirical findings from four studies in international business at the University of Uppsala that demonstrate that Swedish firms frequently expand their international operations in small steps rather than by making significant foreign production investments all at once. Typically, businesses use an agent to begin exporting to a nation, then create a sales subsidiary and, in some situations, commence manufacturing there.

KEYWORDS:

Foreign Direct Investment, Globalization Tactics, International Business, Market Entry Strategies, Mergers and Acquisitions, Strategic Partnerships.

INTRODUCTION

M&As and FDI have often been compared to non-equity modes of investment or to new types of investment strategies that established MNEs from developed markets are increasingly adopting. Although these NEMs or NFI have expanded in recent years, the data are still few. An excellent summary of the variations among the different techniques is given in Table 1. The several NFI tactics are described here. Licensing: As part of a licensing arrangement, one business gives another business the right to utilize its intangible property within a certain geographical region for a predetermined amount of time [1]. In return, the licensee often pays the licensor a royalty.

Tabe 1: Illustrated the Alternative business strategies for expanding into foreign markets.

Ownership	Location	
	Homecountry	Foreigncountry
Equityarrangements	Exporting	Whollyownedoperations–FDI.
		Partiallyownedwithremainderwidelyheld–FDI.
		Jointventures.

		Equityalliances.
Non-equityarrangements		Licensing.
		Franchising.
		Managementcontracts.
		Turnkeyoperations.

The license to utilize intangible property that is essential to a franchisee's company is sold to an independent franchisee by the franchisor along with continuing operational assistance like training and sales marketing. Franchising is a specialized kind of licensing. Frequently, the franchisor sends materials. One of the most significant assets at a company's disposal is management skills, which may be moved overseas, especially to its own foreign investment companies [2]. A business may transfer such talent by using part of its management employees to work with a foreign company for a certain period of time in return for a price. Turnkey operations, sometimes referred to as contract manufacturing, are a kind of cooperative cooperation where one company employs another to build full, functional facilities. Turnkey operations are often developed by industrial equipment manufacturers and construction companies, A collaboration known as an equity alliance occurs when at least one of the participating companies buys shares in the other. For instance, equity ownership may enhance a supplier-buyer contract to make it more difficult to breach, particularly if the ownership is significant enough to secure a board seat for the investing organization [3].

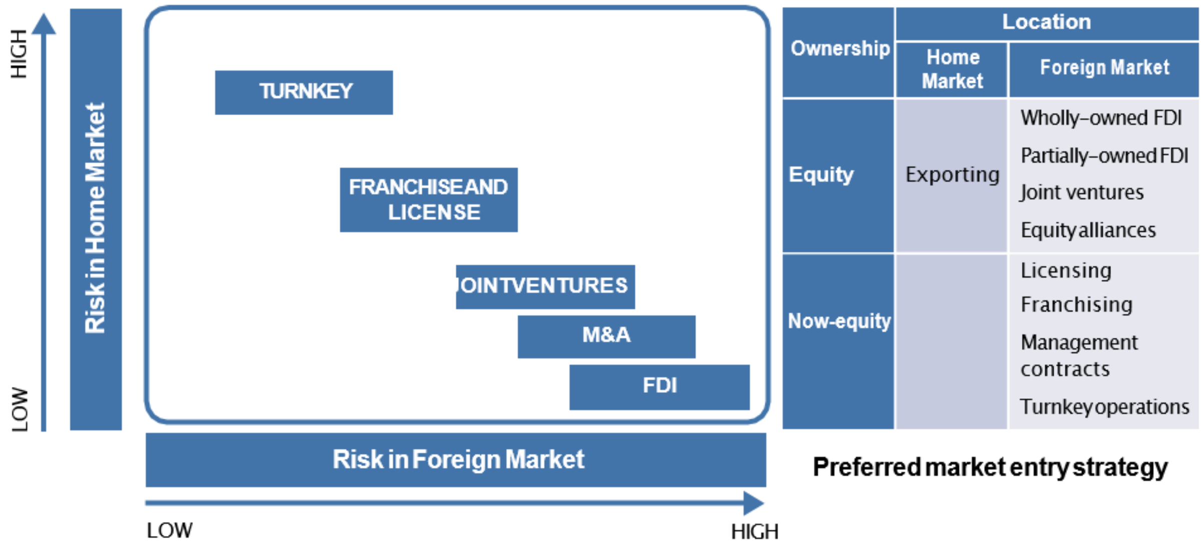

Figure 1: Illustrated the Risk perception of various forms of company internationalization[4]**.**

Greenfield Compared to other internationalization strategies including exports, licensing, joint ventures, and M&As, FDI is the quickest and riskiest means of market entry. The degree of the business environment in the foreign host country immediately affects the investment because of the company's close ties to that country. As a consequence, FDI is often subject to local business environment dynamics and state, which may have an immediate effect on company operations. Therefore, before executing an FDI project, it is crucial to assess the host country's competitiveness in light of the particular expectations and requirements of the investor in order to avoid and anticipate such risks [4]. Figure 1 depicts how businesses see the risk involved in different forms of internationalization.

Motives for FDI

FDI is often grouped according to the motivation behind the investment. Why MNEs participate in FDI or overseas manufacturing is the subject of several hypotheses and justifications. Van Den Berghe identified three philosophical schools:

- **a)** Viewpoint on international business;
- **b)** Viewpoint on global management;
- **c)** Viewpoint on the global political economy.

The subject of why businesses expand internationally and why international manufacturing occurs is often the focus of research in the area of international business. In contrast, international management research focuses on how MNEs structure their international operations, such as managerial coordination as part of international human resource management, and how it relates to the competitive advantage of multi-nationality. Without considering the wider national social effects of internationalization or FDI on economic growth as a whole, both alternative strands on internationalization focus on the internationalization of enterprises largely in the micro context IM more so than IB. The IPE viewpoint, on the other hand, provides tools to understand the interaction between MNEs, governments, and society, but - like macroeconomists - tends to minimize the significance of non-state actors and seldom incorporates MNE-specific tactics into their models [5].

IPE economists' assumptions, in contrast to macro-economists, often lack strong empirical support. IPE economists and macroeconomists often overlook the role that firms play in internationalization processes. When combined, the three viewpoints on internationalization provide a diverse understanding of the causes and goals of internationalization, the structure of MNEs' multinational operations, and the benefits of multi-nationality. This eclectic point of view is more useful for describing and comprehending the tendencies driving MNE globalization. The three viewpoints' limits are not comprehensive, nor are they always evident. A victim of the specialization disease" that has also afflicted this relatively young field of scientific study, the three views are also often developed in relative isolation [6]. Historically, FDI was divided into two categories: FDI that established a presence to take advantage of competitive advantages in other nations for export reasons, and FDI that attempted to exploit foreign markets. The classification of FDI by aim has, however, become a little more complex. Different FDI types include the following:

- **a)** Seeking resources
- **b)** Market research;
- **c)** Seeking efficiency;
- **d)** Seeking strategic assets.

Resource-seeking MNEs often make investments overseas to get certain resources at price than in the MNE's own market. Primary producers that wish to acquire physical supply sources are often MNEs looking for resources. The majority of foreign direct investment (FDI) during the first and second waves of internationalization was driven by American and European MNEs obtaining physical resources of raw materials and minerals. Three-fifths of all cumulative foreign direct capital stakes were of this kind before to World War II, but by the mid-1980s, resource-seeking FDI had decreased to around one-third of all global MNE activity [7].

The majority of foreign direct investment (FDI) is still market-driven, providing products or services to the investing market or to third markets. These markets were often previously supplied by exports from the home market. There are four distinct justifications for FDI that seeks markets. Businesses may need to start by imitating their principal suppliers or clients who have opened offices abroad. Second, MNEs may favor a strategy of "thinking globally and acting locally," which suggests that goods must be modified to suit regional preferences. Third, serving a foreign market or nearby market locally rather than providing it from a distance could be more cost-effective. This justification is particularly industry- and nation-specific. Due to local content restrictions, tariff obstacles, or trade regimes that substitute imports for exports, certain third markets cannot be reached by exports from the home market. The company's ability to compete would suffer if it did not make investments in international markets. The fourth and most significant rationale for market-led FDI is that an MNE may believe it is vital to establish a physical presence in the top markets that are serviced by its rivals as part of its worldwide production and marketing plan. A defensive or offensive strategic justification serves as the primary driver of this form of strategic market-seeking FDI [8].

Efficiency-seeking investments are primarily driven by the need to streamline the structure of existing resource- or market-based investments. MNEs engage in efficiency-seeking FDI to find inexpensive, well-motivated, and abundant supply of unskilled or semi-skilled labor. This kind of foreign direct investment is often seen in more developed industrializing nations and rising markets, including Mexico and Taiwan Province of China. Recently, big, seasoned MNEs have dominated the efficiency-seeking FDI market. Markets must be created and open in order for efficiency-seeking FDI to occur [9]. Because of this, FDI that seeks efficiency thrives in regionally linked marketplaces. There are two kinds of FDI that seeks efficiency. The first is intended to profit from variations in the cost and availability of conventional factor endowments between nations and regions, which explains the intra-firm division of labor. The second form of efficiency-seeking FDI occurs in nations with comparable geographic circumstances and socioeconomic standings. Traditional factor endowments are less significant, with 'created' competencies and capabilities, the availability and caliber of supporting industries, the features of the local competition, the nature of consumer demand, and the macro- and micro-policies of Governments being more significant factors [10].

The fourth reason, FDI targeted at acquiring strategic assets, is connected to FDI intended to maintain and increase the global competitiveness of such enterprises in order to support their long-term strategic goals. It is fueled by businesses' need for specialized technology skills and managerial or marketing know-how. The concept of "created assets" is connected to the most recent perspective in the Ownership, Location, and Internalization paradigm for understanding internationalization, which also argues that high-skilled employment is a motivation for enterprises to go global. The local competency levels used in this sort of strategic asset FDI are often produced by local or national governments [11]. The motive for strategic asset seeking investment is less to exploit specific cost or marketing advantages over their competitors than it is to add to the acquiring firm's existing portfolio of assets, other assets that they perceive will either sustain, strengthen, or weaken, respectively, their own overall competitive position and that of their rivals.

Many international business experts have used these four categories of FDI reasons as the foundation for their explanations of FDI, and they are often largely connected to the interplay between the host country environment and the MNE. The conventional wisdom in international business techniques is that MNEs are drawn to certain nations or areas by the availability of inexpensive labor and raw resources. A growing idea, according to Kogut, is that national advantages may also be seen as producing trends that attract foreign direct investment. The main explanatory factor driving the internationalization process is often features of the host country [12], [13].

The circumstances in host countries intended to attract MNEs or the tactics of rivals are often cited as factors of internationalization in mainstream international business and international management literature. Consequently, both concentrate nearly solely on the "pull factors" of internationalization. The primary focus is on the home nation of the MNE as the source of particular competitive advantages. Many IB studies claim that one of the primary reasons businesses internationalize is to take advantage of the latter competitive advantage in a host country or area.3 International political economists often assert that other factors contributing to internationalization may have domestic roots [14]. The size of the domestic market in the home country plays a significant role in the home country factor for internationalization procedures.

Early in a company's growth, internationalization is sparked by small economies. Dunning contends that national laws that impose onerous company regulations are push factors towards internationalization. The company will make "escape investments" in an effort to circumvent a specific regulatory framework in the nation of origin. Businesses have more motivation to attempt to escape from this specific business environment, especially when regulation is tight or unpredictable. MNEs may also seek to foster the threat of expanding internationally or moving their manufacturing without even having the true aim to go overseas, to influence local labor market legislation [15]. This might lead to a "bargaining pendulum" where MNEs and domestic governments engage in ongoing political negotiations to strengthen their competitive position. This distinction was best summed up by Gomes-Casseres as the conflict between what the company "wants" and what the firm "can get." The business's negotiating position and the parameters of the MNE's negotiations with the host and home governments greatly influence what the firm may get. Thus, the threat to move may be used as a political tool for negotiating.

DISCUSSION

Last but not least, as Kogut has already emphasized, the nature of MNEs allows for the possibility of global scanning for effective low-cost production sites, opening the door to spreading risks related to the social, political, and economic environments of nations. Companies may also increase their negotiating power in comparison to other players inside and outside the value chain by spreading out international production globally rather than consolidating it in a single nation within the area [16]. As a result, an MNE's operations expanding gives it more negotiating leverage with governments and labor in particular. By concurrently producing the same product at many facilities throughout various nations, the MNE is able to diversify its output over the whole of its network.

By increasing output in another area, a production interruption caused, for instance, by a strike in one place may be avoided. Additionally, subsequent proponents of the market power theory claim that MNEs may erode trade unions' negotiating strength by building and manipulating a network of dependent subcontractors, a tactic known as "divide and rule." This topic has been further addressed from the standpoint of managers at businesses in the literature on international business society management [17]. The term "international stakeholder management" now refers to this. Due to the actions of stakeholders like consumer organizations, other niche interest groups, and labor unions, pressure on businesses to adopt codes of conduct and other sustainable management practices has increased. The stakeholders often organize themselves in the firm's home country or in any other developed country, and the problems frequently concern the firm's position in developing nations [18].

CONCLUSION

There is very little research on the drivers of new FDI. The development of FDI from developing nations to, in particular, the United States and Europe, challenges the explanatory power of traditional FDI models, which deviate from the premise that ownership advantages are a precondition for international growth. In order to emphasize the necessity for a new framework of analysis to understand this kind of internationalization, Moon and Roehl classified FDI from developing nations in rich countries as unconventional FDI. This kind of FDI is distinguished by the hunt for complementary assets, technology, and managerial know-how by MNEs from emerging nations. Therefore, this kind of FDI is more often linked to "strategic or created asset-seeking" than to classic "asset exploitation" motivations. Last but not least, market-seeking investments make up the majority of the investments made by businesses from developing nations in other developing countries. The Uppsala model has a great deal of explanatory power when analyzing 'beginners' in the internationalization process, whereas established MNEs have less use for the model. On the other hand, it may be argued that classic FDI theories are less suitable for the examination of "beginners" in the internationalization process, with the exception of Vernon's PLC model. Johanson and Vahlne acknowledged this critique and said, "The approach largely applies to small and medium-sized firms. The effects of commitments are less when businesses have substantial resources. Therefore, it is reasonable to anticipate that bigger companies or companies with spare resources would take more significant efforts toward internationalization. The Uppsala internationalization model has also come under fire for being too deterministic and based on a small number of case studies in a particular national setting, i.e., the preliminary analysis of the global development of four Swedish enterprises.

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CHAPTER 3
AN EXPLORATION OF THE FOREIGN DIRECT INVESTMENT (FDI) AND SUSTAINABLE DEVELOPMENT

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ABSTRACT:

To explain FDI, several reasons have been offered. The bulk of studies have focused on internalization, firm-specific advantages and assets, market flaws, and host country advantages. Internalization is the tendency of a business to keep a transaction, such as manufacturing, inside the company rather of bringing it to the open market through a licensing agreement, joint venture, or other transfer involving other businesses, especially if there is a cost advantage. Hymer was the first to realize that FDI was more than simply a money flow; it was driven by business-specific advantages, where the foreign investor had a competitive edge over the local firm and could profit from market inefficiencies. FDI also includes the transfer of a collection of resources, including knowledge, technology, and assets. Businesses employ the internationalization of production as a risk-reduction and conflict-resolution method, but its primary objective is to create monopolies and limit competition.

KEYWORDS:

Foreign Investment, Sustainable Development, Economic Growth, Investment Impact, Sustainability, Sustainable Investment.

INTRODUCTION

The eclectic paradigm of John H. Dunning links internalization theory, location theory, and firm-specific advantages. Dunning's paradigm essentially combines numerous theories to explain why FDI happens at all. This eclectic theory aims to explain the drivers of internationalization via the interaction of three interdependent factors ownership, location, and the global environment [1]. The incorporation of location-specific characteristics actually distinguishes the eclectic paradigm from other theories since it can pinpoint the areas where business internationalization is most likely to occur. Dunning contends that FDI and corporate globalization are good provided the following three conditions are met [2]. Instead of leveraging the market to transmit these ownership benefits to foreign firms by selling and leasing them to other businesses, it is beneficial to internalize them inside the company or firm network. Compared to local businesses, the company has ownership benefits.

- **a)** Geographical factors incentivize companies to leverage their firm-specific advantages outside of their home markets.
- **b)** Three advantages of the eclectic paradigm overall are merged to form the OLI-model. All of these parts interact with one another and cross-pollinate. This interaction determines the market entry strategy organizations choose to adopt when becoming global.
- **c)** Knowledge resources and management assets, including brand, image, managerial abilities, technology, firm size, patents, trademarks, know-how, and exclusive access to resources, assets, and/or markets, are advantages of ownership [3] .

d) Benefits that come with conducting business in a nation that has unique assets and resources provided by economic, political, social, and cultural factors;

e) To internalize advantages, make use of company-specific data, the internal firm market, and firm structure, including its networks, specialization, and size [4].

Table 1 illustrates how these three advantages affect the method of market entry. FDI, exports, and licensing are a few examples of modalities. By requiring the existence of all three advantages, FDI differs from other ways to join the market.

Table 1: Modalities for foreign market entry by advantage

Licensing	Yes	No	No
Exports	Yes	Yes	No
FDI	Yes	Yes	Yes

Critics claim that since the paradigm involves such a large number of variables, it lacks usefulness and is not entirely consistent with the Dunning typology for FDI. Another criticism is that while huge corporations' profit from their organizational capabilities, the paradigm only applies to such companies. As a criticism, omitting a firm's behavior determinants has also often been made.6 Due of this, Dunning expanded his paradigm in the 1990s in 1997 by adding "management strategy" as a distinct variable, along with "alliance capitalism"7 and the growing importance of technology. In any event, the reasons for and factors that determine FDI vary by kind and form and are becoming more complicated. This field of research is still being worked on[5]. The Investment growth Path theories continue to be a crucial foundation for understanding how FDI relates to a country's degree of economic growth for developing nations.

Factors affecting FDI

This section expands on the one before it by looking more closely at the factors that influence FDI, especially those that have to do with where an investment is made. There are three distinct groups of factors, most of which apply to greenfield FDI. While the third category is connected to ownership and internalization criteria, the first two categories are directly tied to host nation location determinants.Each form of FDI and the industry in which it occurs have an impact on the particular determinants. For instance, resource-seeking FDI is primarily concerned with a host country's natural resource availability, investment protection, and political stability. Market-seeking FDI is primarily drawn to a large, expanding market[5]. Efficiency-seeking foreign direct investment (FDI) searches for cost-saving opportunities, such as the availability of cheap labor or skilled labor, IPR protection, and advanced R&D in higher end technologically demanding FDI. Strategic-asset FDI mostly seeks for enterprises in host nations that meet the MNE strategy and are reasonably simple to buy, especially if the host nation is going through an economic crisis. FDI in services focuses mostly on the regulatory environment for the specific services sector, whereas FDI in manufacturing examines the trade regime, currency rates, supplier base, inexpensive labor, and labor productivity[6].

The permitted ownership and simplicity of entrance, as well as the availability and cost of labor and total company costs, are important for all forms of FDI. In general, the following factors are significant for the majority of FDI types and have not significantly altered over time:

- **a)** Open market, rapid expansion;
- **b)** Coherence between economic policy and the rule of law;
- **c)** Economic and political stability;
- **d)** Affordable and effective labor
- **e)** Environmental resources
- **f)** A sizable market;
- **g)** Facilities for the physical, financial, and technical infrastructure;
- **h)** Growth triangles;
- **i)** Access to markets; ease of commerce;
- **j)** Promotion and preservation of investments;
- **k)** Good institutional quality, little red tape, and good governance.

In general, FDI's motivations have not significantly altered over time. Even while efficiency-seeking FDI makes up the lowest fraction of FDI [7]explanations and is often the major driver of FDI, changes do occur over time, as seen in Table 1.

Table 1: Illustrated the key motives perceived as critical by FDI investors.

Proximitytomarketorcustomers	40.0	39.8	-0.2
Domesticmarketgrowthpotential	37.4	35.5	-1.9
Skilledworkforceavailability	23.9	26.2	+2.3
Regulationsorbusinessclimate	21.5	18.2	-3.3
Infrastructureandlogistics	11.2	10.5	-0.7
Technologyor innovation	10.1	10.8	+0.7
Industryclusterandcriticalmass	9.5	12.8	+3.3
Attractiveness andqualityoflife	5.3	3.5	-1.8
IPA,EDOorothergovernmentsupport	5.3	9.4	+4.1
Universitiesorresearchers	4.6	5.0	+0.4

Although market-based motivations for FDI remain the primary drivers, they are now less significant in comparison to current laws, access to a qualified workforce, and the presence of institutions and researchers. This tendency has even been more pronounced during the last two years.

Foreign direct investment that is sustainable

The terms sustainable FDI and social FDI, or more recently impact FDI, have received significant attention in recent years, notably in relation to the creation and accomplishment of the Sustainable Development Goals as part of the 2030 Agenda for Sustainable Development.

To advance in reaching the Sustainable Development Goals, investment in the form of FDI is essential. This is as a result of FDI's many advantageous effects on employment growth, skill development, enhanced innovation, and raising living conditions in the host nation. The

Bruntland Report of the World Commission on Environment and Developments, which was published in 1987, is generally credited with giving rise to the idea of sustainable development by tying traditional economic objectives of nations and regions to environmental concerns by taking into account the needs of future generations. The conversation that ensued has broadened internationally to include social and governance concerns as equally crucial elements of sustainable development [8].

These specific and quantifiable objectives are established under a variety of environmental, social, and economic-related issues, including: poverty, food security, sustainable production and consumption, gender equality, climate change, energy, water stewardship, conservation of marine life and biodiversity, and economic growth. The United Nations recognized the value of the private sector in fulfilling these objectives, even if the creation of national policies to achieve the set of SDGs is seen as essential. The SDGs are a component of the UN 2030 Agenda for Sustainable Development, which aims to reorient the globe toward a path that is resilient and sustainable.

A relatively new concept, sustainable FDI has significance when connected to the pursuit of sustainable development and more specific SDGs. The prerequisites for FDI to promote the host nation's growth on economic, environmental, social, and governance parameters include that FDI projects must be financially successful in and of themselves. As a result, the 2015 Addis Ababa Actions Agenda has highlighted the critical role the private sector plays in fostering sustainable development. This role is exemplified by the adoption of principles for ethical trade and investment, as well as participation as partners in the development processes of host nations and regions [9].

Additionally, the private sector is urged to make investments in sectors that are seen as essential to sustainable development as well as to support countries in changing their consumption and production patterns. Accordingly, the 2015 Addis Ababa Actions Agenda binds governments and the organizations in each host nation to enhance regulatory frameworks and create laws that are in line with the objectives of sustainable development and the incentives offered by the private sector. The goal is to encourage long-term investments in the private sector and to encourage the adoption of sustainable practices [10]. Sauvant, Mann, and Kline divided the SDGs into four categories, each with corresponding policy areas and complimentary indicators:

a) Employment, community development, fair wealth distribution, financial resources, taxation, ties between local businesses, technological transfer, infrastructure, and exports;

b) Environmental factors include resource management, pollution control, waste reduction, biodiversity preservation, water use, and renewable energy.

c) Gender equality, the preservation of cultural heritage, gender-balanced development, skill development, public health, fair salaries, benefits, and labor rights;

Governance includes anti-corruption efforts and public openness, risk-management techniques, environmental and social impact assessments, local management, supply chain best practices, marketing strategies, and stakeholder consultation. This could also include contracts, reasonable and effective bargaining, adherence to global norms of ethical corporate behavior, etc. As the starting point for a potential framework for the achievement and monitoring of sustainable FDI effect on an economy, these elements will complement one another [11]. According to the aforementioned definitions of sustainability, FDI that is socially inclusive, ecologically sustainable, and/or that upholds ethical corporate practices and promotes sustainable development is considered sustainable FDI. The majority of these definitions do, however, only cover a portion of the picture when it comes to concerns about the sustainability of a company's operation, which are often disregarded by regulators. For instance, they do not address FDI in renewable energy projects like solar or wind energy [12].

DISCUSSION

Three types of sustainable FDI should be distinguished, including FDI for sustainable development and sustainable Disinvestments that are sustainable, such as those made in waste management, renewable energy, and solar energy; investments that emphasize sustainability or are made in a sustainable manner, such as those that have a positive ripple impact or provide long-term employment; investments aimed towards assisting nations in achieving the SDGs. Additionally, socially responsible investment refers to investments that take into account governance, the environment, and social issues when making investment decisions [12]. Impact investments, on the other hand, aim to have a significant positive social or environmental impact. Both FDI and FPI may be used for socially conscious and impact investments. Profits are not the main objective in impact investing unless they are used to fund social investments rather than shareholders as a kind of compensation. In this context, good governance refers to the morals and responsible behavior of the MNE, or foreign investor. To encourage such behavior, there are international voluntary standards, principles, and guidelines, such as the Global Reporting Initiative, ISO 26000, the United Nations Global Compact, and sectoral standards. The idea of corporate social responsibility is also included. However, firms are increasingly seeing CSR as a way for them to help achieve social objectives apart from their main objective of maximizing profits, rather than as a way to enhance the social and environmental performance of the organization as a whole, which is more crucial [13], [14].

CONCLUSION

It makes sense for MNEs to improve their own sustainability since it boosts income, reduces risk, and raises total enterprise value. The following strategy recommendations for achieving or growing company sustainability might be taken into consideration, in particular, in light of these two justifications for MNEs' sustainability enhancement. Retaining a competitive edge by keeping up with rivals who maintain and actively encourage higher standards; Differentiate your offerings in order to acquire market share and/or fetch a higher price; Capture revenue and increase loyalty - create new income streams by reaching out to new markets and consumers, and increase brand recognition and loyalty among shareholders and customers that value sustainability; Boost employee loyalty by finding, keeping, and inspiring workers that respect sustainability. Maintain a permit to operate reduce the possibility of business interruption or higher costs due to regulatory action from producing pollution and other natural or human catastrophes; Prevent reputational harm by encouraging traceability, quantifying, and reporting social and environmental effect, which will reduce the risk of lost income as a result of reputational harm; Avoid future supply disruptions and reduce the danger of future supply shortages and price hikes by promoting the sustainable growth of suppliers, particularly smallholders.

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CHAPTER 4
DIGITAL ECONOMY'S IMPACT ON FDI AND THE RISE OF TECH MNES

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ABSTRACT:

The global economy's reliance on the digital sector is growing. It is profoundly changing the way we do business and will have a big impact on FDI, particularly digital FDI. But there are other terms that aren't universally understood in the literature on digital FDI. The initial element of the notion was presented by the World Economic Forum, which defined digital FDI as FDI in the digital economy. To increase the digital economy, in other words, is the aim of digital FDI. Similar to traditional FDI, digital FDI makes investments abroad to be close to customers, get access to local knowledge, open up new markets, and more. However, by bringing in more knowledge, technology, and jobs, FDI in the digital economy has the potential to aid in a country's growth and development. Digital MNEs also have unique business models, unlike traditional brick and mortar businesses. Due to the lack of a large demand for natural resources or cheap labor, digital enterprises heavily rely on platform economies and use non-traditional assets.

KEYWORDS:

Digital Economy, FDI, Global Economy, Impact.

INTRODUCTION

For a better understanding, an explanation of what the digital economy really involves and how it affects our view of FDI and its impacts is required. According to the World Investment Report, investments and the digital economy the meaning of the term digital economy in this context is the application of Internet-based digital technologies to the production and trade of goods and services [1]. Any online transaction might be considered a part of the digital economy. This may be having a video conversation with one's grandmother, purchasing an appealing pop song online, settling a multibillion-dollar deal digitally, or having an automated car factory run under computer control. According to Deloitte, the term digital economy" refers to the "economic activity that results from billions of daily online connections between people, businesses, devices, data, and processes. The basis of the digital economy is hyperconnectivity, or the growing interconnectedness of people, organizations, and machines as a result of the Internet, mobile technologies, and the internet of things. Since the digital economy is intrinsically reliant on data-enabled connections, it could not operate without the Internet [2]. Because of this, the digital economy is also sometimes referred to as the knowledge economy, as well as the web economy and the internet economy.

Despite the fact that the Internet is the technology that underpins this economy, six digitally enabled frontier technologies cloud computing, AI and data analytics, automation and robotics, blockchain, additive manufacturing, and the Internet of Things are now advancing at a fast rate. The Internet is a need for everyone. Analysts contend that the convergence of these digitally enabled technologies has begun the Fourth Industrial Revolution, which will accelerate with future developments in sophisticated computing and digital networking. This 4IR will radically transform how the global economy is organized, just as what occurred with the emergence of mechanization and the steam engine, electricity and mass production, the personal computer and the Internet [3].

As shown in Figure 1, there are three structural divisions of the digital economy. The heart of telecommunications and the Internet is firmly connected to the software that drives it. The digital and information technology industry supports the topmost layer of the digital economy by producing and distributing software and digital commodities to the wider economy via digital tools and connections. This layer consists of all of the many users, businesses, organizations, governments, and institutions who use the digital connections, products, and services created by the lower two levels on a daily basis [4]. The economy's middle and base layers expand more quickly the more inventive they are. As a result, it is projected that the advanced digital technologies and applications used by the bigger economy would further alter the present patterns of production and consumption.

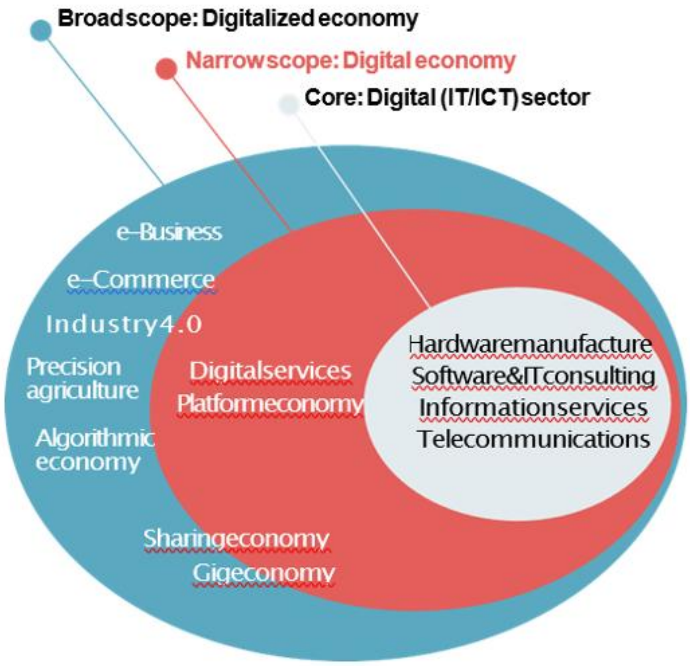

Figure 1: Represented the structure of the digital economy[5]**.**

In addition, the international economy's structure and location are fundamentally changing as a result of the digital economy's explosive growth, which is generating new types of global economic value and channeling it to a unique group of businesses and nations. Because of their FDI flexibility and dependence on local partners and networks, digital businesses have been able to grow internationally at previously unheard-of rates. For instance, Airbnb just required eight years to launch operations in 190 countries, while it took Marriott Hotels almost a century to reach 122. One of the most notable developments in the history of multinational enterprises is the quick emergence of tech MNEs. Tech MNEs is not only becoming more significant in the world of the biggest multinational corporations, but they are also by far the most dynamic participants. At the top of global rankings like the Fortune 500, Forbes' Global 2000, and World Billionaires List are now these MNEs and the founders of those MNEs [6].

A similar pattern can be seen in UNCTAD's yearly list of the top 100 MNEs worldwide. From four in 2010 to around 15 tech companies in 2010, some of which are already multinational mega-corporations. They are also the most economically active; between 2010 and 2015, the assets of these 15 companies increased at a rate of 11%, which is more than ten times quicker than that of other MNEs. Their operational income and employment both increased by around 30%. Their overseas assets made up 11% and their international revenues made up 18% of the total for the top 100 MNEs in the world in 2017. A quarter of the market value of all 100 companies on the UNCTAD list was made up by only ten of them, including Alphabet, Apple, Microsoft, Hon Hai, SAP, and Sony. However, analysts predict that over the next ten years, international manufacturing will undergo significant change due to the continuous worldwide growth of digital platforms and the digitization of conventional industries. Global FDI flows will both influence and be influenced by this development as MNEs use digital technologies and organizational structures to outcompete one another [7]. Experts predict the following trends:

Retrenchment:

As previously said, the 'asset lightness' of digital MNEs enables them to do international business with a low amount of foreign assets. Therefore, compared to peers in the conventional industries that have historically fueled global FDI over the previous several decades, their foreign investment volume is lower. Therefore, the more "interference" digital businesses make in current FDI patterns, which have usually shown a continuous rising trend over the previous century, the more dominant they become globally. As conventional sector businesses gradually become digital, the same pattern will be seen among them. Therefore, experts predict that a phenomenon they have dubbed "FDI retrenchment" will occur, in which the upward trajectory of global FDI will flatten or decline as the average amount of foreign assets decreases as digital MNEs grow and other MNEs become more digital [8].

Reshoring:

MNEs are anticipated to integrate formerly outsourced overseas industrial processes and bring them home as AI-controlled automation and robots become more prevalent. This process is referred to as "reshoring" and "insourcing." The industries that use greater technology and where supply chain resilience and intellectual property protection are crucial are those that deal with machinery, electronics, and the automobile industry, where manufacturing is already heavily automated. Reshoring may also occur in less technologically advanced service sectors including retail, wholesale value chains, transportation, and logistics as digital platforms increasingly manage global sales and marketing operations from corporate headquarters [9].

Regionalization:

Some MNEs may regionalize value chains by upscaling national networks to serve a regional market or by downscaling existing networks to be closer to important clients. Regional networks are often found in sectors that rely on nearby raw resources, including the food, beverage, and chemical industries, or that must be close to customers due to the short product shelf lives.

Replication:

Some MNEs may decide to disperse their production facilities throughout the globe in centralized networks of automated manufacturing hubs, creating standardized goods close to the final customer. In this "replication" strategy, MNEs are more likely to contract out the digitally controlled, standardized manufacture of important items to local businesses than to make significant financial expenditures in their own manufacturing facilities. However, the MNE's corporate office would serve as the hub for network coordination and product and system design [10].

Diversification:

As mentioned above, supply chain digitization may encourage MNEs to further diversify and expand their value chains geographically in order to make them more robust. In parallel, technological advancements in teleworking and translation software make it easier to outsource increasingly complex tasks. Because of this, these developments may cause FDI to "de-democratize," or slow down or reverse the recent boom in FDI to poor nations as FDI refocuses on established economies [11].

Culture of joint ventures and the FDI/FPI problem

The International Monetary Fund's 10% rule states that any equity investment below 10% is considered a portfolio investment, and any investment above 10% is considered foreign direct investment. The Government of India now uses this rule to distinguish between FDI and FPI. The true quantity of FDI flows, however, may not be accurately captured by this formula alone. Consider the well-known partnership between Walmart and Bharti: in 2008, the biggest retailer in the US entered India with a 50/50 partnership with the Indian multinational Bharti Enterprises. The 50% ownership plainly identified Walmart's investment as an FDI, even though the joint venture only lasted a few years before it was abandoned. The Ministry of Finance clarified the definitions of FDI and FII flows in June 2014; FDI that is more than 10% of equity is to be recorded as FDI, while FDI that is less than 10% is to be counted as foreign portfolio investment. The distinction between FPI and FDI, meanwhile, may be imprecise. There is a good chance that Walmart would strategically collaborate with and direct the company, bringing its own capabilities in global business to the joint venture and the host economy, even if it only owned less than 10% of Bharti Retail. Therefore, this would more closely resemble FDI than a strictly "financial" or portfolio investment. Contrarily, a PE investor won't have any desire or capacity to provide any kind of useful assistance to the real-world company in which it is investing if a private equity firm invests more than 10% in a grocery chain like Bharti. As a result, it would/could not collaborate with the firm like a regular FDI investor. We discovered an actual situation with Jio Platforms, India's biggest telecom platform, although these explanations remain strictly theoretical illustrations [12].

Leading technology investors have made a number of foreign investments in Reliance Industries' digital division during the last year. With its purchase of a 9.99 percent share in Jio in 2012, Facebook made the biggest minority stake investment by a technology business in the history of the technology industry. For its part, Google purchased a 7.73 percent interest. The Securities and Exchange Board of India created a new FDI/FPI categorization in 2017, and regardless of the method used, an investment made by a foreign fund that purchases less than a 10% interest in a firm would be categorized as FPI. On the other hand, an investment would be regarded as FDI if an FPI owns more than 10% of a firm. Since the 10% ownership barrier has not been exceeded in either instance, it should theoretically qualify as FPI. The two digital juggernauts will still continue to work closely together and cooperate with Jio, converting their investments into FPIs technically but FDIs conceptually since they look to be long-term. After learning about Google and Facebook's intentions to invest in Reliance Jio, it is no longer sufficient to separate FDI from FPI using the 10% threshold. Before classifying an underlying investor as FDI or portfolio, the government should determine their nature and purpose in order to avoid any discrepancies between the two groups. Therefore, it is urged that the Indian government and policymakers adopt a more flexible and agile approach to recognizing and regulating foreign investments [13].

Characteristic of the Digital Economy's Impact on FDI

The impact of the digital economy on foreign direct investment (FDI) has the following characteristics:

i. Increased Connectivity, for instance:

Increased connection, made possible by the Internet, mobile devices, and the Internet of Things (IoT), is a defining feature of the digital economy. Businesses now find it simpler to do cross-border commerce and broaden their worldwide reach because to this connectedness.

ii. Globalization is accelerating:

Business globalization has been accelerated by digital technology. Companies are now more quickly and effectively able to develop a presence across many nations. For instance, digital firms like Airbnb quickly spread to hundreds of different nations.

iii. Dependency on Information and Data:

Data and information are crucial to the digital economy. In this industry, foreign direct investment often entails the purchase of data-driven assets, technologies, and platforms that help firms better understand customer behavior and preferences.

iv. The emergence of multinational technology companies (MNEs):

Tech MNEs is now a major force in the world economy. They have a lot of energy and often top worldwide rankings for market value, innovation, and economic activity. This tendency is shown by businesses like Alphabet, Apple, and Microsoft.

v. Disruption of Established Business Models:

Because digital businesses depend more on platform economies and non-traditional assets than on cheap labor or natural resources, they have upset conventional business models. This change has significant effects on how economies are built.

vi. Convergence of Technologies:

Several convergent technologies, such as cloud computing, AI, automation, blockchain, and IoT, are what power the digital economy. The worldwide production and consumption patterns are changing as a result of this convergence, which is referred to as the Fourth Industrial Revolution.

vii. Impact on the International Economy's Location and Structure:

The worldwide economy's geography and structure are changing as a result of the digital economy's explosive expansion. It is generating new economic value and assisting some countries and enterprises. Digital firms may grow at unheard-of rates throughout the world because they are adaptable and rely on local partners and networks.

viii. Economic growth and job creation:

Through the introduction of information, technology, and employment opportunities, digital FDI has the ability to promote economic growth and development in host nations. This may support the growth of innovative thinking and human capital.

ix. Changing the Investment Focus:

Instead of conventional physical assets, foreign direct investment (FDI) often concentrates on acquiring technology-based assets and intellectual property in the digital economy. This change in investment priorities is a reflection of how significant digital and intangible.

x. Data security and privacy issues:

Concerns regarding data security and privacy have also been raised by the digital economy's dependence on data. To provide a safe environment for FDI, governments and corporations must solve these concerns.

xi. Industry Transformation:

The e-commerce, digital entertainment, healthcare, and industrial sectors are just a few of the sectors that the digital economy has the potential to alter. This shift may provide doors for FDI in industries that have not yet been affected by digital technology.The emergence of tech MNEs, fast globalization, disruption of old business models, and the convergence of technologies all contribute to the digital economy's influence on FDI. The global economy is changing as a result of this transition, bringing with it new possibilities and difficulties for both countries and corporations.

DISCUSSION

The digital economy and foreign direct investment (FDI) are two complex and diverse phenomena that have lately altered the global economic landscape. The internet, data analytics, automation, and the quick uptake of digital technology collectively known as the digital economy have fundamentally altered how businesses operate and engage with one another on a global scale. The elimination of long-standing barriers to foreign investment has been one of many significant effects of the digital economy on FDI. Physical distance and market accessibility used to be important considerations for companies looking to expand their operations overseas[14]. However, the advancement of digital technology has made worldwide business communication with customers, partners, and suppliers simpler than ever. This has not only lessened the perceived risks associated with making investments abroad, but it has also given businesses a multitude of opportunities to expand into new markets and attract customers from across the globe. The digital economy has also ushered in a new era of FDI that is driven by innovation. Tech companies have taken the lead in this movement particularly. They have created new industries and overthrown current ones using digital technologies. These technologically focused investments often focus on ground-breaking technologies like artificial intelligence, blockchain, and the Internet of Things, which have the potential to fundamentally change industries like manufacturing and healthcare. The development of the digital economy has had a considerable influence on the kind of businesses and sectors that attract FDI. Although there has been a definite tendency towards enterprises that largely depend on technology, foreign investment is still strongly concentrated in conventional sectors like manufacturing and natural resources[15].

Businesses are increasingly looking to invest in sectors with strong growth prospects in a digitally connected society, such as e-commerce, software development, banking, and digital entertainment. This modification demonstrates the growing importance of innovation, data, and intellectual property as key FDI drivers. It's important to realize that the impact of the digital economy on FDI is not without challenges. Privacy and data governance are two of the most pressing issues. The operation of the digital economy depends on the collection, storage, and analysis of large amounts of data, which often originate from individuals and businesses all over the globe. This raises issues related to data security, privacy legislation, and the potential for data breaches or misuse. Governments and international organizations are having difficulty striking the right balance between fostering data-driven FDI and preserving individual and corporate security and privacy. Another problem the digital economy offers is the possibility for increased inequality in the allocation of FDI profits. Due to the tendency of tech-savvy regions and countries with strong digital infrastructure to draw more investments related to the digital economy, others face the risk of falling behind[16]. This distinction emphasizes the value of digital inclusion and the need for rules to ensure that the benefits of FDI in the digital era are distributed more equitably.

CONCLUSION

In conclusion, our examination of how the digital economy is affecting fdi and the growth of tech multinational companies (MNEs) has shown the significant changes that are occurring in the world economy. The growth of Tech MNEs is a new breed of global players that has been brought about by the digital economy, which has also expedited the flow of Foreign Direct Investment. These businesses are at the vanguard of innovation, swiftly extending their international operations, and revolutionizing whole sectors in ways that were previously unthinkable. Although there are many benefits brought on by the digital revolution, it also presents difficulties in the areas of data governance, cybersecurity, and regulatory harmonization. A difficult balance must be struck by governments and policymakers in order to promote innovation while protecting their national interests. The emergence of Tech MNEs highlights the ability of technology to challenge and transform conventional business structures, but it also highlights the need for closer examination of their impact and accountability in an interconnected society. As time goes on, cooperation between international organizations, enterprises, and governments will be essential to maximizing the benefits of the digital economy while avoiding any possible drawbacks. Staying educated and adaptive will be essential in this constantly changing environment to take advantage of the benefits and reduce the dangers brought on by the influence of the digital economy on FDI and the rise of Tech MNEs.

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CHAPTER 5
THE EVOLVING LANDSCAPE OF FDI IN THE ASIA-PACIFIC REGION

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ABSTRACT:

The sharp rise in worldwide FDI flows from US$52.1 billion in 1980 to US$1 trillion in 2012 has been one of the most significant changes in FDI over the last 40 years. This is despite significant drops in overall inflows during the financial crises of 1998 and 2008, as well as a slowing in FDI growth since 2014. The growth in FDI flows to developing nations, particularly those in the Asia-Pacific area, as a consequence of the shift in perceptions about the role of FDI in economic development, has been one of the key drivers of this trend. Overall, the area has steadily expanded its percentage of FDI inflows worldwide, reaching 54% in 2017. China, which over the last three decades has grown to be the greatest developing nation in the world to draw FDI flows, even overtaking the United States in 2014, has been a significant factor in this shifting geographic pattern of FDI flows.

KEYWORDS:

Evolving Landscape, Investment Trends, Economic Development, Investment Policies, Manufacturing Sector.

INTRODUCTION

Realizing the advantages of FDI, many developing nations in the Asia-Pacific have strengthened their investment climate by establishing and putting into practice national and regional investment policies that address FDI liberalization, facilitation, and promotion. This is also evidenced by the region's least developed and landlocked developing nations, such as Afghanistan, Kazakhstan, Kyrgyzstan, Lao People's Democratic Republic, and Mongolia, recently joining the World Trade Organization (WTO), while others are still in the process of doing so and sending encouraging signals to foreign investors. These changes have prompted businesses to establish production networks, wherein manufacturing tasks are dispersed across several nations and suppliers[1].

Although greenfield FDI, a key sign of future FDI patterns, has decreased from its peak in the middle of the 2000s, recent minor gains may be seen, even if inflows are still somewhat erratic. China2 was the greatest receiving economy between 2003 and 2012, followed by Indonesia, Australia, the Russian Federation, Australia, Viet Nam, and India. The wealthier countries in the area, such Australia, Japan, and New Zealand, score higher in M&As, whereas growing Asian nations often attract more greenfield investments. Interestingly, FDI outflows, or OFDI, from the area have increased along with growing FDI inflows and improved development. This trend started in the late 1960s when Japan became a large foreign investor, and it persisted into the 1980s as Singapore, Hong Kong, China, and the Republic of Korea all saw considerable economic growth. China and India have lately grown to be significant investors in their own right, mostly in the other developing nations in the area and beyond[2].

Intraregional FDI flows started to gain importance with the introduction of new investors, with the percentage of intraregional greenfield inflows in total FDI inflows rising from 32% in 2003 to 47% in 2012. Intraregional FDI inflows have increased continuously since 2003 in terms of absolute quantities, despite fluctuations, and reached an all-time high of US$200 billion in 2018. The East, North-East Asian, and South-East Asian subregions are the primary providers of these flows, accounting for 63% and 22%, respectively, of intraregional greenfield transfers during the previous ten years, while ASEAN nations are the major receivers. The Asia-Pacific area may be becoming more connected with itself than with other regions of the globe, according to the evolving pattern of intraregional FDI inflows[3].

Since the 2000s, the sectoral distribution of greenfield FDI inflows to the Asia-Pacific region has shown that services have had a more consistent growth than manufacturing. This is shown by the fact that throughout the period of 2016–2012, the services sector will account for 47% of all inbound greenfield FDI, compared to 39% during the period of 2006–2009. Increased real estate and renewable energy investments, together with declining greenfield investments in the primary sector, have been the main drivers of this expansion. Due to the rising population, economic expansion, and limited installed capacity in the Asia-Pacific region as well as some major economies' commitments to achieve carbon neutrality3 over the next few decades, greenfield FDI in renewable energy is expected to increase over the next five years[4].

Digital FDI in communications, software, and IT services has lately accelerated due to the rising significance of ICT and digital MNCs as well as the steady use of digital technology by conventional manufacturing and service MNCs to simplify their operations. Additionally, as new forms of FDI become more significant, the conventional drivers of FDI in the market and FDI in the search for resources may be somewhat weakened. There are knowledge-seeking FDI and, to a lesser degree, FDI that is motivated by money and taxes. Such new investment patterns may have a significant impact on MNCs' global production footprints and the economic growth of the host nations. MNCs operating in highly digitalized industries are anticipated to have a small asset base and have the greatest stake in their home nations[5].

In the 2000s, greenfield investments in the manufacturing sector steadied at a comparatively high level. This happened when FDI composition underwent a structural change away from conventional market-seeking operations towards efficiency-seeking activities in the middle of the 1970s and at an increased rate in the 1990s. Due to the cheap production costs and plentiful labor in the Asia-Pacific area, this has led to MNCs moving large production stages there. As a result, the region has been able to outperform other emerging regions in luring efficiency-seeking FDI. More recently, FDI flows connected to assembly processes inside vertically integrated global companies have taken precedence over those related to conventional labor-intensive manufacturing in the efficiency-seeking arena. This practice, which has become more prevalent in other lower-cost nations in the area, was essential to the growth of China as well as the newly industrialized economies in Asia and the Pacific. Rising wages have gradually reduced China's comparative advantage in the labor-intensive manufacturing sector, causing some companies to relocate some of their GVC production stages to low-wage countries, primarily in South-East Asia. This shift is further exacerbated by the ongoing United States-China trade tensions and supply chain disruptions caused by these tensions[6].

However, in the years after the global financial crisis, greenfield FDI and M&As in the manufacturing sector both decreased. This loss was mostly caused by a decrease in investment from outside Asia and the Pacific. Natural resource investments both from inside and outside of Asia dropped at extensive and intense margins, as well as for both entrance strategies, in line with a similar pattern. This is in line with the shock to commodity prices that occurred after the crisis and reduced investment demand. Natural resource investments both from inside and outside of Asia dropped at extensive and intense margins, as well as for both entrance strategies, in line with a similar pattern. This is in line with the shock to commodity prices that occurred after the crisis and reduced investment demand[7].

Over the last twenty years, FDI flows via M&As in the Asia-Pacific area have steadily increased. The overall value of cross-border M&A acquisitions climbed 18 times from 1994 to 2016, from US$55 billion to US$982 billion, despite declining during economic downturns, such as the dot-com catastrophe and the financial crisis. This is shown by the fact that, in 2014, M&As decreased only slightlyby 1.5%in the Asia and Pacific area, as opposed to the 10% reduction seen overall.

When comparing the number of completed vs pending M&As in the area, still another tale emerges. Since 2018, spending on completed M&As has dramatically fallen while spending has surged on planned and upcoming initiatives. Rising protectionism coupled with more stringent FDI screening procedures, strain on the world economy, and intensifying geopolitical tensions have caused consumers to second-guess their choices. 41.9 percent of incoming M&As in China were delayed in 2015, up from 28 percent in 2018, as the US-China trade conflict heated up. Project timescales were stretched by protracted talks brought on by distant communication, purchasers' heightened caution, and delayed regulatory clearances[8].

Foreign direct investment trends by subregion

East and North-East Asia and South-East Asia have drawn the greatest foreign direct investment (FDI) of any subregion in Asia and the Pacific,4 as nations liberalized their economies and continued to enhance their business and investment climates. FDI has mostly been drawn to labor-intensive industries including the production of textiles, clothes, and electronics, however some developing countries have been successful in drawing FDI to high-value-added and high-tech industries. India, Malaysia, and Singapore have all received strategic asset-seeking FDI and FDI in services. Although FDI inflows as a percentage of GDP have continuously declined, suggesting that the magnitude of FDI in China has weakened over time relative to the size of the domestic market, a country-level distribution highlights the fact that China has been the largest recipient of FDI, attracting 27% of regional flows in 2017. China's attractiveness as an FDI host is even more pronounced when looking at FDI stock, for which the country accounts for 45% of total flows. Even while Hong Kong, China still makes up 44% of the subregion's total stock, its relative significance has significantly decreased from the 1980s, when it made up 80%. Over the last ten years, the shares of both Japan and the Republic of Korea, which account for 7% and 6%, respectively, of the subregion's total FDI stock, have remained mostly steady[9].

It's interesting to note that despite trade tensions and declining worldwide FDI levels starting in 2018, China's inward investment levels have not decreased overall. China has been able to continue luring FDI, particularly in capital- and technology-intensive industries and supply chains, thanks to rising labor productivity, the nation's sophisticated infrastructure, and successful involvement in GVCs. As a result, it serves as an excellent illustration of how FDI may support development. However, as wages have increased, the nation's comparative advantage in the labor-intensive manufacturing sector has steadily decreased, which has forced businesses to move their production facilities to low-wage nations, mostly in South-East Asia. Intraregional trade and FDI inflows have increased significantly in those countries as these manufacturing networks have expanded to other nations in the area[10].

China has been a key source of both global and regional FDI flows since the middle of the 2000s, in addition to being a top destination for FDI. In order to be ready for its WTO membership, a number of investment liberalization measures were passed at the same time as this trend. At first, these flows were resource-seeking and targeted at smaller economies in the Asia-Pacific area. However, they have gradually changed to become more asset-seeking and targeted at access to technology and skills in more industrialized nations. With US$196 billion in OFDI in 2016, China overtook the United States as the second-largest external investor in the world as a result of ongoing reforms and the global financial crisis.

MNCs are drawn to ASEAN by its expanding regional market, abundant natural resources, and capacity to serve as a base for manufacturing that is geared toward exports. ASEAN is another significant receiver of FDI. The second aspect in particular has been influenced by ASEAN's integration with the industrial and supply networks of East and North-East Asia. In addition, regional integration, which has been pushed via the ASEAN Comprehensive Investment Agreement and the founding of the ASEAN Economic Community, among other reasons, has contributed to the subregion's appeal as an FDI host. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership and the Regional Comprehensive Economic Partnership are projected to increase foreign direct investment (FDI) to ASEAN states that have ratified them[11].

In the late 1980s, FDI inflows to the subregion really started to pick up. Inward investments temporarily decreased as a result of the Asian financial crisis in 1997–1998 and the dot-com disaster in the early 2000s, until they began to increase again in 2003. Although the global financial crisis caused FDI inflows to decline again in 2008 and 2009, they have recovered quickly over the past ten years, with inflows averaging US$140 billion over the past five yearsmore than 50 times higher than in 1980, and accounting for about one-third of all inflows into the Asia-Pacific region.

As a result, during the last 20 years, the ASEAN nations have experienced a significant increase in their stock of accumulated FDI. This stock had a value of around US$17 billion in 1980, but by 2001 it had grown to US$258 billion and is now worth US$2.9 trillion. Additionally, FDI inflows have progressively increased in significance for the economy as seen by the percentage of inbound FDI stock to GDP ratio, which rose from 9% in 1980 to 29% in 2016. FDI inflows are not uniformly spread across ASEAN countries, despite the fact that all of them have seen a significant rise in their FDI stock during the previous 20 years. With a total stock of FDI of US$2.8 trillion, or more than 96% of all FDI in ASEAN, the ASEAN-66 countries account for the majority of it. Particularly, Singapore has been a well-liked travel destination, drawing in US$1.8 trillion, or 62% of the subregion's total FDI. The Greater Mekong Subregion transitional economies, which just started to actively draw FDI from the mid-1990s forward, are where the allocation of FDI stock in ASEAN is most obviously moving[12].

India and other South Asian nations have been underachievers in luring FDI. The mid-1990s, however, witnessed a significant rise in FDI to India, a development that markedly contrasts with the decade before it. The country's FDI influx has increased significantly as a consequence, and it currently makes up 60% of all FDI in the South and South-West Asian subregion. Despite these gains, India received just 42% and 47% of the total annual FDI inflows into China and ASEAN, respectively, in 2012. In terms of outflow, they began to increase rapidly after liberalization reforms in the middle of the 1990s and have been significantly increasing since around 2005 as a result of the significant removal of foreign exchange restrictions on capital transfers for the acquisition of foreign ventures by Indian firms between 2000 and 2004. During that time, a lot of investors funded their growth by borrowing money on global capital markets, which proved more difficult to repay following the 2008 financial crisis. Because of this, the subregion's OFDI flows saw a significant decline from US$20 billion in 2008 to US$1.6 billion in 2013, and they have not yet returned to their pre-2008 levels[13].China, Hong Kong, China, Japan, India, and the Republic of Korea get the most volume and value of FDI, whereas LDCs and LLDCs in Asia and the Pacific as a whole have received far less investment. Regionally, the bulk of FDI inflows are unevenly spread among the ASEAN-6 nations. Despite a consistent rise over the last 30 years, LDCs and LLDCs account for less than 1.6% and 2.4% of overall regional FDI inflows, respectively. These nations often draw FDI to the natural resources sector, which may make managing investment earnings and resources more difficult. LDCs like Bangladesh and Cambodia depend on FDI in labor-intensive sectors that drive their economy, such textiles and apparel.

FDI reshoring

Offshoring, or the location of a company's processes or services outside of the home country, first gained popularity in the early 1990s and has since become one of the most popular strategies used by manufacturing and, increasingly, services companies in developed countries to maintain or strengthen their competitive advantage. A corporation seeks to realize cost savings primarily as a result of reduced labour costs in other countries by segmenting their value chain into various portions, some of which are retained in-house and others of which are outsourced and often offshored. High-value tasks like design, engineering, and R&D are at risk in addition to low-end manufacturing and support operations[14].Even though many businesses continue to outsource their production to Asia and the Pacific, a counter trend has emerged in the last ten years. Many businesses that had for many years outsourced their production have begun bringing all or some of the production back from fully owned facilities abroad to:

- **a)** Either to the domestic location of the business or to a nation with cheaper manufacturing costs or one that is closer to the home country. Many MNCs have changed their strategic thinking, which is what has caused this problem. Nowadays, businesses see the architecture of their supply chains as a dynamic capacity that evolves as their production sourcing locations do.
- **b)** Many academics also note that businesses now pay greater attention to unexpected elements like supply chain dependability and strategic elements like brand reputation and ethical consideration. As a result, many businesses have adjusted their risk/benefit ratio, taking into account both the anticipated costs of outsourcing as well as any unforeseen expenses. As a result, they are no longer entirely dependent on manufacturing cost factors.

Reshoring, or the relocation of FDI, is also happening as a result of rising labor costs in certain countries in the area, especially in China, where salaries have increased by 10–20% annually over the previous ten years. Particularly labor-intensive GVC manufacturing phases are affected by this, some of which are moving from China to more affordable regions in Asia and the Pacific. With its affordable labor costs and favorable economic climate, South-East Asia in particular offers a chance for this area to emulate China's success[15].

The connection between FDI and global commerce

The sharp increase in inward FDI is closely related to the expansion of regional and international commerce. The relationship between trade and FDI has received a lot of attention in the literature.10 FDI may both replace and enhance trade:

a) When a company chooses to invest and manufacture in a foreign nation in order to service clients there directly as opposed to via exports. In such situation, FDI could nevertheless affect imports of necessary goods that are unavailable in the host nation;

b) When efficiency-seeking businesses search for the ideal place to manufacture and export their goods.

DISCUSSION

Investment promotion was not prioritized by government policy since numerous sectors were still protected from foreign ownership and investment in a number of nations up until recently. A significant correlation between international trade and FDI flows was seen, notably in the Asia-Pacific area, as trade barriers decreased during the previous three decades in the majority of the globe and intra-firm trade between nations rose. As a consequence, FDI is now seen as a supplement to trade rather than a replacement for it[16]. The increase in FDI flows and the deregulation of the global economy have elevated investment promotion to the status of a crucial tool for development strategy. Trade policy has also grown in importance for promoting investment at the same time. In general, a nation becomes more appealing for FDI the more open it is to commerce. Efficiency-seeking FDI boosts the amount of trade occurring inside the global production networks of MNEs. This is especially evident in the FDI-led growth of GVCs that have enabled intraregional, interindustry, and intra-firm trade.The national, regional, and international regulatory frameworks for trade have effects on investment as well. Global commerce is governed by a uniform, set of rules provided by the international trading system operated by the WTO[17]. Several global trade accords that discuss FDI acknowledge the connection between trade and investment. For instance, the General Agreement on Trade in Services recognizes FDI as a mode of trade in services, while the Agreement on Trade-Related Investment Measures contains various provisions that prohibit performance requirements on foreign investors that are contingent on export performance[18].

CONCLUSION

Although a WTO working group examined the connections between FDI and trade, the WTO members did not agree to introduce FDI as a new topic for discussion. 110 countries of the WTO have been negotiating an agreement on investment facilitation for development since 2016. It is noteworthy that the goal of these discussions has been to create a multilateral framework on investment facilitation for development, with a focus on "improving the transparency and predictability of investment measures and reducing ‘red tape' costs associated with administrative procedures and requirement" or regional trade agreements alongside the multilateral trading system. RIAs are frequently politically motivated but are also created to promote trade and investment among member nations. The worldwide distribution of trade flows and FDI has been significantly impacted by the rise of RIAs, particularly since the mid-1990s. Common types of RIAs include common markets, economic unions, regional or bilateral preferential or "free" trade agreements, customs unions, and economic partnership agreements. In recent years, RIAs have tended to be wide-ranging economic cooperation agreements including promises on services, intellectual property rights, investment, competition policy, the environment, and other economic sectors.

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CHAPTER 6
IMPACTS ON GLOBAL SOURCING, SUPPLY AND DIGITAL ECONOMY TRANSFORMATION

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ABSTRACT:

FDI and MNC characteristics have happened both globally and regionally and should be taken into consideration by policymakersworldwide sourcing and supply chain management. Along with market-seeking FDI, efficiency-seeking FDI has been an important kind of FDI internationally, particularly in East and South-East Asia. As part of the manufacturing process, businesses may now get resources from all over the world thanks to globalization, trade, and investment liberalization, as well as ICT improvements. This has caused GVCs to begin to emerge. It is essential to have a worldwide market presence. Due to the rise of GVCs, having a global presence on the market has become vital for many larger MNEs. Additionally, due to the lowering of trade and investment barriers and the advancement of increasingly sophisticated ICT technologies, market-oriented FDI has increased internationally.

KEYWORDS:

Digital Economy, Global Sourcing, Digital Transformation, Supply Chain, Global Economy, Economic Impact, Digital Impact.

INTRODUCTION

This is because MNEs are now needed to be close to their customers in order to better service local demand via their subsidiaries and affiliates;automation and ICT are heavily used to decrease costs. Supply chain management is entwined with cost cutting and global sourcing. As the world has become a battleground for MNEs, competition has evolved to be defined by lower costs and higher standards. ICT has proven essential for lowering costs, boosting manufacturing efficiency, and improving customer service. Products that have been customized. Due to the increasingly sophisticated demand, MNEs find that they can't always provide the same product in different regions. Market segmentation and product diversification are increasingly essential due to a global presence in order to cater to the diverse trends and tastes in other countries[1]. FDI for manufacturing and assembly. Instead of the lowest-skilled, lowest-paying sectors in developing countries like apparel and footwear, the bulk of foreign direct investment in manufacturing and assembly is flowing to higher-tech, middle- and high-skilled industries, and this trend is growing.

According to a study by Moran, the flow of manufacturing FDI to medium-skilled activities in the most recent period for which data are available, such as transportation equipment, industrial machinery, electronics and electrical products, scientific instruments, medical devices, chemicals, and rubber and plastic products, was nearly 10 times larger per year than the flow to low-skilled, labor-intensive operations[2]. Between 1990 and 1992, the ratio of tasks needing more and less skill climbed by around five times, and between 2005 and 2007, it increased by over fourteen times. Physical assets are less important than intangible ones. The MNEs with strong brand recognition are the most successful. Smartphones and computers are uncommon purchases. Nonetheless, they choose to get an Apple iPhone or a Samsung Galaxy. They decide to buy a Mercedes, Ferrari, Toyota, or a Mini Cooper instead of a car[3]. Brands separate similar goods based on distinguishing characteristics that allow for customized final products and client service. The most innovative brands have, on the whole, been the most successful ones, albeit this success is sometimes fleeting. Today's most well-known businesses, such as Sony, Nokia, and even Microsoft, are up against fresh rivals[4].

SMEs are gaining the same prominence as MNCs. For instance, the trend analysis reports from fDi markets and Fujita go into great detail regarding this. As was previously said, suppliers often follow MNEs as they expand internationally. Such suppliers could contribute to development, in which case they should get active assistance, but they might also face competition from SMEs in the host countries, who are often unable to live up to the parent company's expectations. Weighing the potential loss of market share for regional SMEs against the advantages of global SMEs in terms of job creation and high-quality product production is necessary. Numerous countries are putting in place plans to make local SMEs more competitive in terms of efficiency, technology, adherence to international standards, and labor skills in order to integrate them into global or regional value chains and an increasing awareness of the benefits of FDI for the SDGs and the importance of developing economies as foreign investment destinations. Historically, FDI came from developed countries like Europe, Japan, and the United States. However, FDI from emerging economies has grown during the last 20 years. For instance, Asia and the Pacific's growing economies have drawn the greatest foreign investment globally since 2018. big development ramifications for both developing countries' economy and those of their hosts may result from the expansion of emerging nations as big foreign investors[5].

Through FDI, the Sustainable Development Goals may be significantly implemented. FDI from developing economies, like FDI from developed economies, has the potential to promote positive developmental outcomes in both the home and host countries, i.e., generate financial earnings, boost exports, encourage more domestic investment, transfer know-how, foster innovation, upgrade industries, improve standards, increase productivity, facilitate access to resources and tangible assets, create employment, and encourage economic growth. The SDGs 8 on decent employment and economic growth and SDG 9 on infrastructure and industrial innovation may also benefit from these findings. To what extent these advantageous effects of FDI may help countries in encouraging sustainable development in both the home and host countries will depend on the investment environment, including the kind and reason for the investment, the industry of the investment, etc. Governments monitor and have a substantial effect on FDI results in both the home and host countries. FDI may have both positive and negative effects, which may be lessened through regulation and policy[6].

Organizations with higher degrees of digital agility have done the greatest job of adapting to this new environment, whilst less agile organizations have focused on improving their digital capabilities and integrating new digital services into their business models. Governments need to begin focusing on boosting their digital competitiveness and establishing a comprehensive digital investment program at the policy level. For instance, the latter would place a higher priority on encouraging FDI and attracting it to digital enterprises, infrastructure, and greater digital consumption. Governments and administrative organizations like IPAs must focus on making better use of digital technologies if they are to reduce administrative costs and eliminate bureaucratic barriers[7]. The provision of online one-stop facilities is an example of a service that may do this.

MNCs from the Asia-Pacific region

As a crucial strategy for corporate expansion, the establishment of subsidiaries is crucial for both domestic and foreign investment. Even if there is a large range in how much value a subsidiary offers for its host countries and how many jobs, if any, it may create, the location that legal subsidiaries choose still indicates a lot about global business trends and preferences. The Investment Monitor investigated 2,190 of the top MNCs globally and discovered 216,898 subsidiaries. The Asia-Pacific area is home to 17 of the 2,190 MNCs that were analyzed, or more than one-third of them. These companies have 41,255 subsidiaries throughout the globe. MNCs from 17 different Asia-Pacific nations participated in the poll. Over two-thirds of the Asia Pacific companies analyzed, or the bulk of MNCs, were based in China and Japan.These Japanese MNCs are the owners of 10,476 subsidiaries across the globe, 5,139 of which were established outside of Japan. Three-quarters of the subsidiaries established by Japanese firms were in the Asia-Pacific region, with the remaining 1% spread out over other parts of the world.Less than half of the subsidiaries that Chinese MNCs formed were in China. Indonesia is the nation with the highest proportion. More than any other nation in the Asia-Pacific region, 14,038 subsidiaries have been established internationally by the 247 Chinese MNCs[8].

MNCs from India have one of the lowest rates of local subsidiary creation. A little over 1,300 subsidiaries have been created in India by Indian MNCs, compared to 2,170 subsidiaries that have been established abroad. Foreign subsidiaries were often established more frequently than domestic ones by MNCs from Singapore and the Republic of Korea. Despite the fact that two-thirds of its foreign corporations have their headquarters there, this also applies to Hong Kong, China.An MNC may be projected to create a greater footprint in its home area than other world areas due to geographical proximity, equivalent business circumstances, and similar consumer demand patterns, among other factorsthe proportions of some Asia-Pacific-based countries are notably high. For instance, the 247 Chinese MNCs have opened 14,038 subsidiaries abroad, 90% of which are situated in the Asia-Pacific region. 96% of Indonesia's 95 subsidiaries, which were founded by its six biggest MNCs, are situated in Asia-Pacific, the highest percentage of any country. MNCs established subsidiaries in the 17 countries of the Asia-Pacific region at an average rate of 78%. With just around half of its MNCs establishing subsidiaries there, India had a far lower ratio. The combined locations of the United Kingdom, United States, Netherlands, and Germany were home to one-fifth of Indian MNC subsidiaries[9].

There were 216,898 global subsidiaries identified that belonged to the top 2,190 MNCs globally. In terms of the number of subsidiaries, the Asia-Pacific region has four of the top ten countries. The country with the biggest population, China, which came in second overall, only behind the United States, saw the establishment of 18,505 subsidiaries from major MNCs. Hong Kong, Australia, and Japan all had sizable representation from major MNC subsidiaries.Of the top 2,190 multinational companies, 53,353 of them have affiliates throughout Asia and the Pacific. This equates to a quarter of all subsidiaries worldwide. East and North-East Asia are home to more than half of all subsidiaries created in the Asia-Pacific region. China, Japan, and Hong Kong, China, are the subregion's top three markets. The subregion is home to more than 30,000 significant MNC subsidiaries. It should be stressed that the majority of them are domestic subsidiaries. When all domestic and international subsidiaries by country within each Asia-Pacific subregion were combined, domestic subsidiaries were the majority in East and North-East Asia, the only other subregion. Even when the scope was broadened to include intraregional subsidiary creation, East and North East Asia was the only subregion having more in region subsidiaries than out of region subsidiaries.

South-East Asia is the second-largest subregion in terms of subsidiaries. More than two-thirds of the subsidiaries in the subregion are situated in Singapore, Malaysia, and Thailand. It's intriguing to note that each of the 11 South-East Asian countries has more subsidiaries abroad than at home. This suggests that foreign investors favor the subregion, even if a portion of this may be explained by the subregion's diminished position in the top 2,190 MNCs21. Investors often highlight the region's large labor, cost competitiveness, and positive business environment as investment motivators. South-East Asia has the greatest proportion of subsidiaries founded by MNCs from outside the subregion, at 83%.The Pacific came in second place with 7,605 subsidiaries. Australia, a sizable market, accounts for two thirds of the subregion's total. Leading multinational corporations with Australian subsidiaries outnumber those with Australian MNCs[10].

The four countries featured in the ranking that are not in Asia-Pacific are France, Germany, the United Kingdom, and the United States. The United States is the second-largest source market for major MNC subsidiaries in Asia and the Pacific. MNCs from the United States have more than 9,000 subsidiaries spread around the region. East and North-East Asia, where 43% of all American subsidiaries in Asia and the Pacific are located, is the preferred subregion for American multinational businesses.In reality, the majority of the largest multinational firms with headquarters outside of Asia-Pacific chose East and North-East Asia as their preferred subregion for their subsidiaries. 41% of all subsidiaries that MNCs with headquarters in the United States, United Kingdom, Germany, and France have created in Asia and the Pacific are located in East and North-East Asia.South-East Asia is the second-highest subregion in terms of the quantity of operational subsidiaries for MNCs with headquarters in the United States, Germany, and France. The Pacific is the second-highest subregion for MNCs with operations in the United Kingdom. The strong ties to Australia may be responsible for this variation.

There are other global firms with headquarters in Switzerland, the Netherlands, and Ireland that have more than 500 subsidiaries throughout Asia and the Pacific. A minimum of one subsidiary allowed 24 1 717 of the MNCs analyzed in the study to have a presence in the Asia-Pacific region. LVMH Mot Hennessy Louis Vuitton is the predominant multinational company in the region. It has 291 subsidiaries and is present in every Asia-Pacific subregion. In reality, the majority of the top 10 multinational corporations are dispersed over the whole Asia-Pacific region. News Corporation is the only business without a subsidiary in North and Central Asia. East and North-East Asia as well as the Pacific are the most popular subregions based on these top 10 foreign firms[11].

Impact of FDI on sustainable development in host countries: Economic dimensions

Both the nature and scope of FDI's effects on the home and host nations have been thoroughly examined. Impact analysis may be carried out at several levels, such as the company, sector, state, province, municipality, or national economic levels. The manner, purpose, and kind of FDI,25 as well as the investor's origin and the investment's final destination, may all have different effects. For instance, the effects of one FDI project may vary from those of another project of a comparable kind in another place. Increasing automation and the use of other cutting-edge technology in investment projects have a variety of effects, some of which are favorable and some of which are detrimental. A high degree of automation in an investment project would likely have a relatively significant effect on productivity but a low impact on job creation [12]. According to Moran and others, at least five different industrial categories, each with unique issues in terms of policy and regulation, must be identified in order to properly analyze the effects of FDI on developing market economies:

- **a)** Extraction-related industries;
- **b)** Industries producing with little expertise;
- **c)** High-skill to middle-skill industries;
- **d)** Infrastructure;
- **e)** Services.

Therefore, the policy goals of a specific nation, industry, or place will determine the net effect. With so many various factors and considerations, it is obvious that some degree of aggregation is necessary. As a more in-depth examination is beyond the purview of this book, this section aims to highlight the key effects on chosen aggregate economic, environmental, and social variables as indicated by the scholarly literature[13].

The effect of FDI on the host nation is complex and variable, depending heavily on host country circumstances at the time the investment is made, including its capacity for absorption, as well as government policy, attitudes toward FDI, and the form, kind, and quality of FDI. According to Moran, "not only are the potential effects of FDI varied and diverse, but host efforts to secure those potential benefits and avoid potential damage require specific types of policies to enhance market functioning, supply public goods, set standards, and overcome atypical types of market failure. The association between economic, governance, and environmental results is especially strong for FDI in infrastructure and the extractive sectors, but it is often significant for FDI in manufacturing and services as well, he said. The effects of FDI may be either immensely beneficial or devastating, depending on policy [14].

FDI was regarded with distrust before and immediately after the Second World War as a vehicle for wealthy nations to exert control over developing countries and exploit their natural resources, and its effects were frequently seen adversely. However, FDI has come to be seen more favorably as a source of cash, expertise, access to markets, and technology as nations have gained their independence and an increase in the international rule of law in trade and investment. Generally speaking, host places with a substantially stronger absorptive capacity are anticipated to see a greater net positive effect from FDI. The ability to absorb the advantages that FDI may provide is known as absorptive capacity. Factors that influence FDI spillovers include those that affect absorptive ability. Absorptive capacity elements include things like human capital, financial development, trade openness, the caliber of institutions and infrastructure, and the capability of domestic businesses. Following is a broad summary of the academic research on the effects of FDI on various economic, environmental, and social indices, while keeping in mind that more study is still needed to determine the effects of different kinds and forms of FDI [15].

DISCUSSION

FDI generally has a beneficial effect on economic growth, according to a large body of empirical research employing global, regional, and country data panels. However, this association may not be universally applicable to all nations or even all economic sectors. According to panel data analysis, Tiwari and Mutascu, for instance, also discovered a favorable association between FDI and economic development in Asia; nevertheless, they pointed out that export-led growth is preferable to FDI-led growth [16]. Although the empirical findings for individual nations demonstrate a mixed influence of FDI on economic development, FDI displays a positive impact on regional economic growth in research employing data from Middle East and North Africa countries. Similar to this, Alvarado and colleagues found that FDI only had a favorable influence on growth in high-income Latin American nations; it had no effect on growth in upper-middle-income nations and a negative impact on growth in lower-middle-income nations. This does in fact have some similarities to certain older writings [17]. For instance, Kosack, Tobin, Herzer, and others found little evidence of a connection between FDI and increased economic growth or human development in underdeveloped nations. In reality, Herzer and colleagues found no conclusive correlation between the growth effect of FDI on the one hand and per capita income, education, openness, and the development of the financial markets on the other in emerging nations. Additionally, Carkovic and Levine could not discover a significant independent effect of FDI on growth. Chakraborty and Nunnenkamp also discovered that FDI only increased production in the manufacturing sector in India, not in the primary sector [18].

CONCLUSION

It implies that the extent to which FDI can boost economic development may be determined by the absorptive capability status of host nations. Zhang discovered that nations that embrace a liberalized trade policy, enhance education and human capital, promote export-oriented FDI, and maintain macroeconomic stability have a greater influence of FDI on economic development in the host country. Additionally, FDI tends to have a more favorable effect on nations with high levels of political stability, rule of law, and good governance. In addition to being less likely to be advantageous, FDI flows may have unfavorable effects on the economies of those nations with relatively poor absorptive capacity. For instance, Ramzan and others suggest that FDI becomes harmful to economic development if the human capital of host nations falls below a specific level. Other than that, it seems that nations with more developed financial markets are better equipped to draw FDI since FDI is a capital influx. A more advanced finance system has been shown to favorably influence the FDI-related process of technology diffusion. Azman-Saini and other researchers discovered that FDI had a favorable effect on growth only once financial market development had passed a certain point. The degree of financial market development does not, however, increase the favorable effects of FDI on economic growth, according to new research. The relationship between FDI and economic growth may also be used to explain the nature of FDI. More knowledge-capable and efficiency-seeking FDI, according to Silajdzica and Mehic, is connected with FDI's beneficial effects on economic growth. Despite the overall beneficial effect of FDI, evidence from South Asia shows that FDI in the secondary sector has a considerable negative influence on economic development.

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CHAPTER 7
FOREIGN DIRECT INVESTMENT DYNAMICS AND TAX IMPLICATIONS

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ABSTRACT:

In terms of FDI inflows, M&As have exceeded greenfield investment in the Asia-Pacific area. The distinction between greenfield investments, which invest in new production capacity and employment, and M&As, where existing assets merely change hands and the new business may actually create a net job loss, may generate questions. This is particularly true if the purchased business is in the red. Of course, on the bright side, a failing business may benefit from new leadership and fresh funding, which would prevent it from going bankrupt. This occurred during and shortly after the 1997 Asian financial crisis in many Asian countries. Even if some countries were against foreigners buying domestic assets, it was also recognized that the alternative was bankruptcy and perhaps even greater unemployment rates.

KEYWORDS:

FDI Taxation, Foreign Investment, Investment Impact, Tax Consequences, International Finance, Economic Implications, Investment Strategies.

INTRODUCTION

Although both investment kinds ought to, in theory, boost the host country's financial resources, local businesses can be obliged to sell their products at a loss due to pressure brought on by a financial crisis. Either strategy could lead to a technology transfer or upgrading in similar situations. It should be noted that M&A is also used by companies with less sophisticated technological skills to buy companies with more sophisticated technological capabilities in order to get access to technology. Therefore, M&As are a popular form of outbound FDI for companies in developing countries [1]. Businesses with more technical capacity are more likely to invest in new building. According to academic study, both greenfield and M&A initiatives could result in economic growth, depending on the situation. Wang and Wong, for instance, found that M&As only stimulate economic growth when the host country has enough human capital. Lall had a generally good opinion on mergers and acquisitions, however he did make the following observation: "Transnational Corporations do not operate with complete knowledge, and bad judgments on M&As may lead to large economic and social costs in host countries. He also noted that M&As were not typically a feasible form of FDI in less and least developed countries where there is little interest to acquire foreign investors although, in countries with economies in transition, certain state-owned enterprises open to privatization [2]. The private interests of MNCs may diverge from the social interests of host economies; takeovers may lead to asset stripping, downgrading of local capabilities, or the transfer abroad of scarce assets. However, a merger or takeover may result in greater efficiency, job retention, technology and talent transfer, broader market access, and superior management in more developed developing economies. In fact, M&As and public-private partnerships have overtaken traditional FDI as the predominant type in certain developing nations.

Using panel data for up to 123 countries from 2003 to 2011, Ashraf and colleagues found that while M&As had a positive impact on total factor productivity across the board, greenfield FDI had no statistically significant impact on total factor productivity. According to the researchers, countries should not lag too far behind the technological frontier, i.e., have the technical capacity to benefit from such investment, in order to benefit from FDI-induced improvements. Even though there is a significant productivity boost associated with foreign ownership, it should be noted that greenfield FDI means the formation of new productive entities and the increase of capital stock in the host nations, whereas M&As are essentially the transfer of ownership of existing enterprises [3]. This might lead to M&A sales making a smaller GDP impact than greenfield FDI, according to a Harms and Méon empirical study.

Four significant funding gaps may be filled by FDI, according to the Monterrey Consensus of the International Conference on Financing for Development and the Addis Ababa Action Agenda of the Third International Conference on Financing for Development, both of which were adopted by the United Nations.

- **a)** The disparity between national investments and savings;
- **b)** The balance of payments deficit for the capital account;
- **c)** Voids in the current account's payment balance;
- **d)** The discrepancy between government revenue and expenditure.

The role of FDI to funding is more difficult to understand in reality. There is no doubt that FDI helps to increase gross capital creation and close the savings-investment gap. According to UNCTAD, the stock of FDI increased by three times in LDCs and Small Island Developing States between 2004 and 2014 and by four times in landlocked developing nations. The attraction of FDI should not cause a reduction in the significance of domestic investment in terms of overall investment, however, since this acceleration of FDI may replace domestic investment rather than increase it. Due to conflicting empirical data, neither the crowding-in nor crowding-out impact of FDI is well supported by recent research [4]. For instance, using the same dataset, Morrissey and Udomkerdmonkol discovered that foreign direct investment (FDI) outpaces domestic investment, which is the opposite of what Farla and others discovered. Chen and other researchers found no correlation between FDI and domestic investment in the instance of China. Additionally, according to their study, equity joint ventures encouraged local investment, but completely foreign-funded businesses did not.

It is possible that additional variables might influence how FDI affects domestic capital creation. These include the methodology used to quantify FDI, the time horizon used to capture the effect, whether it be immediate or long-term, the form of entrance used by foreign investors, the industry to which FDI flows, and the technical gap between the home and host nations. Tung and Thang's analysis of a data panel of 17 emerging Asian nations led them to the conclusion that FDI in Viet Nam, for instance, has the ability to attract private investment over the short and long terms. Nguyen and others distinguished between greenfield foreign direct investment (FDI) and cross-border FDI in the form of mergers and acquisitions (M&As) in Viet Nam, pointing out that while the former enhances domestic investment, the latter actually has a crowding-out effect and subsequently hurts the economy both in the short and long terms. The consequence of this study is consistent with UNCTA D's suggestion that FDI is a crucial source of money for developing countries. Policymakers must, however, take appropriate measures to reduce risks and embrace measures that make FDI work for development [5].

Compared to other sources of foreign capital, particularly portfolio investment, FDI is seen to be less erratic and free-floating when it comes to balance of payment deficits. It is also less prone to leave nations in times of crisis. Mallampally and Sauvant observed that while bank lending and portfolio equity investment flows declined sharply and even turned negative in 1997, FDI flows to the five countries most affected by the Asian 1997 financial crisis remained positive in every case and decreased only slightly for the group. While limitations on such outflows are seen as a significant deterrent for FDI, the loss of repatriation profits by foreign investors may lower the total contribution of FDI to the overall availability of financing. Regarding commerce, export-oriented FDI has significantly aided the success of exports in a number of East Asian nations, most notably in China and Viet Nam. The annual Financing for Development Forum of the United Nations also acknowledges the contribution of export profits to financing for development [6]. The balance of payments contribution of export earnings is only lessened by the import content of output by MNCs in host countries. Smaller nations often have a larger import content. In other instances, the import content of exports of important goods and products from LDCs like clothing in Bangladesh and Cambodia—exceeds 80%. Local content and trade balancing requirements are prohibited by international legal restrictions, such as those included, for example, in the WTO Agreement on Trade-Related Investment Measures [7].

Regarding the contribution of FDI to tax revenue, this is sometimes tempered by considerable fiscal and financial incentives, most usually in the form of tax refunds or vacations. When different countries compete for the same kind of FDI, this influence tends to be greater. FDI is intended to create jobs, so it will inevitably result in higher income tax returns. However, there is still evidence that FDI has little influence on overall economic growth. Investors may be persuaded to choose high-tax host nations if the tax revenue is used to enhance the business environment in such nations, i.e., by building critical infrastructure.

Furthermore, the relationship between FDI and tax income becomes more complex and requires consideration of a variety of factors. Pratomo discovered that FDI net inflow favorably influences total tax revenue, corporate tax revenue, individual tax revenue, and VAT revenue using the panel data that cover up to 80 developing countries, albeit, generally, the true effect of FDI on tax revenue is quite minor. He found that brownfield FDI tended to erode tax revenue in developing nations but aided higher income countries raise their tax collection when separating the contribution of brownfield and greenfield FDI to government revenue with reference to the host country's economic growth. On the other side, greenfield FDI often increases the host country's tax revenue, however the benefit wanes as the nation climbs the economic ladder. From a sectoral standpoint, Balkçoglu and colleagues shed light on the qualitative impacts of FDI on taxes paid by Turkish manufacturing companies, finding that the impact of FDI on taxation increases with the amount of technological base inside foreign-owned businesses [8], [9].

The negative effects of MNCs' tax evasion methods on national tax bases are known as "base erosion and profit shifting" as a result. On the plus side, MNCs have a reputation for using transfer pricing and parent company registration in tax havens to lower their tax obligations. However, according to Dharmapala, "recent evidence suggests that tax havens tend to have stronger governance institutions than comparable non-haven countries," which, in certain circumstances, may help.

Tax havens, MNCs, and transfer pricing

Transfer pricing is the most popular method used by MNCs to move revenues from high tax countries into low tax jurisdictions thanks to tax havens. Transfer pricing refers to the pricing of cross-border intra-firm transactions involving related parties that can be manipulated by over- or under-invoicing intra-firm transfers of goods, services, or intangibles to take advantage of variations in corporate taxes levied by various nations where the MNC conducts business. Transfer pricing is a well-known strategy employed by MNCs to reduce or even avoid paying taxes. Additionally, MNCs may use a number of strategies, including as moving debt to high-tax countries, to artificially shift earnings from high-tax to low-tax jurisdictions. Empirical research has shown that MNCs pay minimal tax in relation to their earnings, as shown by studies by Egger, Eggert, and Winner. Garcia- Bernando and colleagues, focusing just on MNCs operating in the United States, discovered a mismatch of high profit compared to actual economic activity of MNCs operating in nations with low effective tax rates, which is consistent with profit-shifting tactics [10].

This goes against the MNC's obligations as a decent corporate citizen and the need to follow ethical business procedures. Governments must make sure that MNCs' taxable earnings are not forcibly transferred outside of their borders and that the tax base they disclose in their home countries accurately represents the economic activity carried out there. Avoidance of double taxation treaties, which are a component of foreign investment agreements, exist because it is crucial for MNCs to reduce the risks of economic double taxation. Transfer pricing, on the other hand, involves businesses charging cheap costs for sales to affiliates with low tax rates while paying high prices for purchases from them. Foreign affiliates or subsidiaries often only exist on paper. Transfer pricing enables underreporting of earnings in nations with relatively high corporate tax rates, making it essentially a form of tax evasion27. Tax havens support this activity. The arm's length principle, which states that transactions between various subsidiaries of multinational corporations must be treated - for tax purposes - as if they had taken place between independent parties, is one of the existing tax loopholes that also allows for transfer pricing [11].

In response, the Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations published by the OECD provide guidelines on how to use the "arm's length principle" when valuing cross-border transactions between affiliated businesses for tax reasons. They have subsequently undergone updates, the most recent of which was in 2017. They were first accepted by the OECD Council in 1995. The OECD also released an Action Plan in 2013 with proposals to address corporate tax evasion, although these suggestions are not legally obligatory. The OECD/G20 Base Erosion and Profit Shifting Project, which offers governments solutions for closing the gaps in current international rules that allow corporate profits to "disappear" or be artificially shifted to low/no tax environments, where little to no economic activity takes place, received strong support from the Group of 20 finance ministers in 2015. The project produced 15 measures that provide governments domestic and international tools to combat tax evasion, guaranteeing that earnings are taxed where the value is generated and where economic activities producing the profits are carried out. The Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting, which was adopted by 95 nations and jurisdictions, is the result of these activities' eventual culmination [12].

While implementing these measures and tightening anti-avoidance regulations could seem to provide host nations with short-term rewards, doing so might have highly complicated and unanticipated consequences. For instance, Mooij and Liu discovered a detrimental effect of stricter transfer pricing restrictions on MNCs' investment in local affiliates. However, MNCs' worldwide investment has remained mostly consistent, indicating a propensity for rerouting capital to affiliates in other nations. Cross-border purchases may unintentionally be hampered by strengthening national transfer pricing restrictions. Buettner and others highlighted the negative impact of thin-capitalization regulations on FDI in high-tax nations in relation to other anti-avoidance initiatives. When stronger transfer pricing restrictions are put into place, there is no longer an impact on FDI. More empirical data are very necessary to help guide policymakers, especially in emerging nations where base erosion, profit-shifting, and global tax competitiveness are major issues [13].

Effects of employment, pay, and skill

Overall, greenfield investment is more likely to result in employment generation than M&As because the latter could result in consolidating the new firm, which could result in cost-cutting and layoffs. The impact of FDI on employment is clear in the area of labor-intensive industries exploiting low-cost labor. Additionally, it is highlighted that brownfield investment is more likely to result in employment generation than greenfield investment. While analyzing the employment impact of FDI in India, Somesh discovered the following probable consequences:

a) FDI expands job prospects by adding new manufacturing capabilities, and it may also promote the expansion of relevant industries;

b) FDI may lead to more fierce competition, and because of its superior resources and expertise, it may supplant local enterprises, pushing others to reduce employment in order to stay competitive;

c) FDI may result in joint ventures or other vertical ties between foreign and domestic enterprises, which might lead to more employment overall, mostly indirect jobs;

d) Employment loss: Foreign-invested enterprises may import their own management and personnel when local workers may not meet the required qualifications or other employment standards.

The effect of FDI on employment is not always obvious and depends on a variety of circumstances. For example, in India, FDI has little impact on the employment of short-term employees employed on a casual basis, but it has a considerable positive impact on employment of individuals who have some education [14].

DISCUSSION

FDI's impacts on employment in general have been well studied in the literature, but empirical research on how it affects women's employment is still very few. Helble and Takeda found no evidence that FDI in Cambodia contributes to closing the gender gap in the manufacturing or ready-made clothing industries. However, the impact of FDI on women's employment has been especially notable in some sectors in other nations, such as the RMG industry in Bangladesh; it was discovered that in this particular case, MNCs not only hired more women, but that these practices had positive ripple effects up and down supply chain linkages [15]. Therefore, the presence of FDI may result in more employment for women and gender empowerment. Other researchers have shown that compared to local businesses, foreign affiliates in Vietnam provide female employees greater job prospects. However, the majority of these positions are in low-skilled fields, while few high-skill female job prospects are produced by foreign companies. This is probably because Viet Nam has a comparative advantage in labor-intensive low-tech manufacturing. In Japan, overseas affiliates are more gender equal than domestic enterprises of equivalent size operating in the same sector in the same year, as seen by greater percentage of female employees, managers, directors, and board members [16].

FDI raises salaries in target companies and industries in both emerging and developed nations, particularly in fields where there is a shortage of skilled workers. In particular in impoverished nations, Moran noted that international enterprises often paid more than local ones. Employment produced by FDI enterprises has better earnings, greater stability, and more training than employment created by indigenous firms, particularly in developing nations. The actual evidence for the long-held belief that multinational corporations (MNCs) offer better working conditions and higher wages than local businesses is mixed and mainly depends on the MNC's home country, as opposed to MNCs from rising developing nations who are more concerned with maintaining competitiveness on the global market [17]. However, Western multinational corporations have also been linked to poor labor conditions in underdeveloped countries.

CONCLUSION

The data is more conflicted when it comes to working conditions unrelated to income. For instance, although while labor conditions in international companies often vary from those in local companies of similar size, they do not always become better after a foreign acquisition. Furthermore, the labor markets of the host nations may undergo significant changes as a result of the expansion of FDI. It can be seen that the majority of FDI either occurs in low-tech businesses with cheap salaries and trained labor, or in high-tech industries with highly skilled labor receiving a salary premium. Middle-skill occupations may suffer as a result of this mechanism, which may also further polarize the high- and low-pay employment spectrums at the cost of middle-skill positions. As a result, it may not have a major effect on wage disparities in host nations. There may be a wage difference level below which FDI spillovers are notably negative, but once that level is reached, local companies may gain from FDI spillovers. MNCs frequently engage in FDI in order to circumvent strict social and environmental regulations in their home countries; on other occasions, MNCs have been accused of violating labor and human rights in developing countries when governments fail to properly enforce such rights. As a result, a "local standard" should be used to assess the societal impact of MNCs in host nations.

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CHAPTER 8
FDI'S IMPACT ON MALAYSIA'S SKILL DEVELOPMENT AND TECHNOLOGY TRANSFER

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ABSTRACT:

Malaysia has been able to rearrange its profile for talent development because to FDI. Malaysia was able to transition from low-skilled electronics assembly for export to higher-skilled design and manufacture of complex electronics in GVCs as part of its successful diversification from raw material exports to high-quality manufacturing exports. The execution of regional policies that made a substantial contribution to the recruitment of FDI in export-oriented manufacturing was the beginning of Malaysia's success in upskilling. This is especially true in the state of Penang's promoted electronics and electrical industry. The Penang Skills Development Center is one of the State of Penang's most effective initiatives to support local suppliers' skill development. The PSDC is a Malaysian center for skills training and education that is industry-led and was founded in 1989. Since its founding, the Center has expanded greatly to become one of the top educational institutions in the nation. It continues to be hailed as a model for regional skills development centers that actually succeeds.

KEYWORDS:

Technology, Technology, Transfer, Skill Development, Foreign Investment.

INTRODUCTION

As part of Malaysia's advancement into standardized component production and later toward higher value-added components and products in the semiconductor, information technology, audio visual, and digital camera sectors, PSDC initially focused on vocational training in electrical engineering and electronics. Later, PSDC expanded its range of FDI-SEZ exports to include life sciences, biotechnology, pharmaceuticals, and medical devices. Since its founding, the Centre has provided training to over 200,000 participants through more than 10,000 courses, pioneered local industry development initiatives, assisted in the input and formulation of national policies pertaining to the development of human capital, and directly influenced Malaysia's workforce transformation initiatives [1].

Effects on technology transfer, R&D, and industrial upgrading

The data is conflicting and the effect of FDI in transferring technology to underdeveloped nations is more complicated. FDI might theoretically result in technology transfer in three different ways:

- **a)** Local businesses may be able to learn by just watching and copying MNCs;
- **b)** Employees may establish or join local businesses instead of MNCs;

Foreign direct investment (FDI) may promote the entrance of foreign trade brokers, accounting firms, consulting firms, and other professional services, making them accessible to local enterprises as well. As long as these links are not forced, it makes sense that the best way to transfer technology traditionally is to develop vertical and horizontal linkages. Moran asserted that research consistently demonstrated that foreign investors transfer more and newer technology via wholly-owned affiliates than when they are required to operate as joint ventures [2]. However, in many instances, technology transfer, if it occurs at all, proceeds from the parent to a wholly-owned subsidiary and is thus internalized and not diffused in the host country. The technology may be transferred while demonstration effects might result in beneficial spillovers when it is essential for a local affiliate or domestic firm that is a component of the investor's value chain to have access to it [3].

As a result, successful technology transfer is difficult in reality. The technical prowess of local enterprises and the ownership structure of foreign firms can place timing constraints on technology transfers. As a result of inadequate intellectual property rights protection, outdated technology transfers, or local suppliers' inability to effectively absorb and apply the technology, multinational corporations (MNCs) are frequently more inclined to imitate existing products than to develop novel technologies. Due to this, FDI for the transfer of technology to LDCs and developing nations has been constrained. Positively, with the growth of GVCs, MNCs may purposefully transfer technology to regional suppliers as part of a plan to create effective supply chains for international operations and lower the cost of non-labor inputs. As technology spreads, competition follows and prices fall, which is advantageous to the foreign investor. Although Rodrik said that "the evidence for effective technology transfer by MNCs is sobering, new information demonstrates that the situation is still highly unclear and often dependent on the host nation's capability for absorption [4].

With improved local capability and national competitiveness in developing markets in recent years, FDI may result in technology transfer. For instance, because to India's capability for absorption, foreign ownership and technical spillovers have a very favorable impact on native enterprises. Other nations, like China, have an effect that is less clear. Furthermore, Blalock and Gertler discovered that vertical supply chains are a channel for technology transfer from FDI in emerging markets and boost local firms' productivity. They also discovered that this technology produces welfare benefits that may call for public policy intervention in the specific context of Indonesia. Therefore, they advise governments to support FDI in areas where MNCs may be able to purchase goods from local vendors [5], [6].

Joint ventures used for horizontal technology transfer might be successful or unsuccessful depending on how strong the local joint venture partner is. Therefore, technology transfer via FDI is not a given. It takes a favorable investment climate, as evidenced by the presence of strong education and vocational skills development centers, R&D centers, to develop local technological capacity, as well as a proactive government policy to promote learning technical skills to create an environment that is conducive to innovation and protects intellectual property rights in line with the country's level of development. Lee and Tan both mentioned how crucial governments are. Singapore was judged to be the most successful country in ASEAN for technology transfer through FDI. They specifically pointed out that, in many cases, Singapore's competitive advantage over other rival host nations that were looked at was due to the speed, efficiency, and flexibility of the government. The extent of IPR protection also seems to be crucial [7].

Many economists believe that FDI is a crucial conduit for the transfer of technology to developing economies. To realize the advantages of FDI, host nations must also have strong absorptive capacity and a potential for indigenous innovation. It is anticipated that FDI inflows would boost nations' R&D and innovation efforts given the growing importance of these activities in the area. As a consequence, domestic innovation capacity is the product of a knowledge-generation process that uses highly qualified people resources, including scientists, engineers, technicians, research equipment, and overall R&D spending. The majority of research articles show that FDI has a beneficial influence on R&D, however others may only discover measurable benefit [8].

While FDI has long been recognized as a significant source of new information that is not part of the local economy, very little is known about how industrial structure, taking into account cognitive proximity, affects the technological upgrading of the host areas. Tang and coworkers discovered that FDI spillover in China has a favorable impact on local technological advancement in neighboring and surrounding cities, and Behera discovered that market concentration is an essential channel for the advancement of firm innovation and technology [9].

FDI-based technology transfer

The effective vertical transfer of technology through FDI may be seen in Malaysia. The Malaysian government has implemented several initiatives throughout the years with the goal of digitally altering the country's economy and elevating it to the forefront of high-tech by 2012. Although there hasn't been a formal strategy on technology transfer, many of the government's initiatives have placed a strong priority on industrialization and technological advancement. The Malaysian government has promoted foreign investment in its sectors ever since the second part of the 20th century. It has developed unique industrial strategies to entice MNCs in sectors that use technology more and more, bringing with them finance, specialist knowledge, managerial expertise, and technology [10].

Even after the global economic crisis of the late 2000s, Malaysia has continued to draw FDI. Since 2010, average annual FDI inflows have exceeded $10 billion USD and have made up around 8% of all FDI to ASEAN. Such inflows have improved both the amount and quality of the domestic stock of capital goods and production facilities by going primarily to the manufacturing sector. The effective vertical transfer of technology in Malaysia's manufacturing industry resulted in the modernization of equipment and product lines as well as an improvement in the local workforce's productivity. However, for a variety of reasons, many of the ideas produced by FDI never reach the market. However, there is opportunity since Malaysia has had good success in leveraging FDI and technical transfer. The Digital Free Trade Zone, which was established in 2017 in collaboration with the Chinese digital giant Alibaba, is a prime illustration of the possibilities and problems Malaysia may face in the future. Where there is the most potential for the transfer of knowledge and technology, the government should encourage greater local engagement [11].

Another excellent example of a country leveraging FDI to support its R&D and human resource development is Thailand. In Thailand, FDI has taken the lead in terms of technology transfer. Thailand's industry developed in the 1990s, moving from labor-intensive textile and food processing to skill-based mid-tier firms, notably in the automotive and electronics industries, with Japanese corporations once again playing a significant role in investment. Since 2000, Thailand's car sector has transitioned toward more technologically complex tasks, such as engineering. The rise of Japanese investment in and technology transfer to Thailand was one of the primary causes of this change. Japan also made investments in other sectors of the economy, including machinery, chemicals, and paper and metal goods. As a consequence, between 1985 and 2016, Japanese FDI into Thailand totaled US$85 billion, accounting for 43% of all FDI into Thailand. Toyota and Honda, two Japanese automakers, have built R&D facilities in Thailand and educated engineers and technicians there [12].

The Thai labor force is able to expand capacity in a variety of sectors, from assembly, operating, and maintenance, to quality control technologies, thanks to transferred technology from Japanese businesses. In contrast to Malaysia and Singapore, who have been more proactive in adopting policies in education and skills development as well as building indigenous technical capabilities, technology transfer in Thailand has been rather limited. The lack of engineers and technical capacity of Thai supplier enterprises has kept Thailand from keeping up with other more developed ASEAN nations, and science and technology policies in Thailand continue to be fairly disjointed. Additionally, FDI has sparked a need for expansion in local businesses. This is one of the factors that motivates Thai businesses to grow constantly. One of the aspects that boosts the product's value and competitiveness is technology. Because they would be more competitive, businesses with their own technology would promote greater technology transfer in Thailand [13].

Effect of FDI on host country sustainable development

While the influence of FDI on economic growth may be favorable in some situations, it is important to carefully evaluate the social and environmental aspects of sustainability when analyzing the impact of FDI. For instance, even though FDI may enhance employment and tax income, negative externalities may still be dominant. As was previously said, FDI inflows may not lessen income inequality but rather may exacerbate it. Additionally, there is a chance that, despite FDI's potential to boost economic development, it won't always be inclusive or lead to the creation of high-quality employment. Additionally, even when FDI aids in economic growth, the negative externalities of FDI and investment liberalization brought on by environmental deterioration, poor working conditions, and child labor exploitation may cancel out any economic gains while wages are kept at extremely low levels to remain competitive. Particularly, nations often compete with one another to attract FDI. Because of this, encouraging FDI via incentives and easing social and environmental restrictions might lead to a race to the bottom where the benefits of FDI on tax income could be neutralized and sustainability goals compromised [14].

Impact in reducing poverty

It is commonly accepted that FDI directly helps to the reduction of poverty by creating jobs and generating related revenue. It is also acknowledged that FDI typically results in economic development, which is a necessary but insufficient prerequisite for reducing poverty. empirical research suggests that FDI may help Asian-Pacific nations reduce poverty. However, poverty is still a problem in the area, and there is still room to expand inclusiveness in trade and investment.

The effects of FDI on poverty depend on a variety of factors, including the policies of investors' home countries; the social and labor laws, institutions, and policies of the host country; the standard of the labor market; the economic environment; and the investment itself, particularly the application of CSR principles and ethical business practices by MNCs in their international operations. Two scenarios of the potential effects of FDI on poverty, one of which highlights favorable benefits and the other negative implications. But there's a chance the center has the answer [15].

DISCUSSION

Concerns about the influence of MNCs on inclusive development have also been highlighted by reports of worker maltreatment in the supply chains of several MNCs. One of the most recent instances of poor working conditions in RMG supply chains driven by MNCs was the 2013 Rana Plaza catastrophe in Bangladesh, despite the fact that the firm making the clothing was not a foreign-invested enterprise itself but instead manufactured goods for MNCs with well-known worldwide brands [17]. It might also be claimed that the national construction code was not being strictly enforced by the Bangladeshi government. As was already said, MNCs often provide better salary and working conditions than local businesses, but this also relies on the nation where the MNC is headquartered. The "growth enhancing" impact of FDI is well established, while the "distribution effect" may not be as well understood. Numerous studies have looked at this and found no connection between FDI and poverty reduction. Stiglitz also noted that MNCs frequently had a tendency to abuse their market dominance and distort domestic policy decisions in developing countries by maintaining wages at absurdly low levels and accusing governments of violating stability clauses in investment contracts or the terms of international investment agreements when they implemented development policies. As shown in the example of 12 middle-income nations in East Asia and Latin America, these behaviors inevitably have the potential to harm the welfare of the poor [18]. As was previously said, there are allegations of MNCs paying greater salaries than local firms and doing so in industries with higher skill requirements[16].

CONCLUSION

The history of FDI's effects on the environment is murky. The general consensus is that MNCs often get away with pollution and other detrimental environmental effects, such as deforestation, biodiversity loss, and excessive greenhouse gas emissions, given their economic significance in many developing host nations. This is especially true for the mining and extraction industry. In light of this idea, the discussion of how FDI may affect the environment has been mostly on the assertion or premise that MNCs may relocate ecologically harmful operations to nations with comparatively lenient environmental laws and regulations, or "pollution havens." According to a WWF-UK study, there is support for this theory. Their study made the following claim: "The economic growth produced by FDI was often fuelled at the expense of the natural and social environment, and the impact of FDI on host communities and countries is often mixed in environmentally sensitive sectors." The association between FDI and environmental deterioration in Asian nations has been linked positively in a number of empirical research. Strict environmental laws may have a large and unfavorable impact on FDI, as stated by Zhang and Fu in their research carried out in China, even if these findings are essential for developing more environmentally conscious FDI policies.However, the research lacks solid evidence supporting the pollution haven theory. Weak support for the pollution haven theory was obtained which is compatible with the empirical findings of Nguyen and Le in the case of Viet Nam and Hille and others in the case of the Republic of Korea. Some Asian nations and tiny island developing states have not shown a correlation between FDI and carbon dioxide emissions, the most common pollution indicator. Eriandani and colleagues looked at the relationship between FDI and carbon emissions in five ASEAN nations via a sector-specific lens, but they found no strong evidence to support this association except from FDI in so-called dirty sectors, or businesses with high levels of pollution.

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CHAPTER 9
RELATIONSHIP BETWEEN FOREIGN DIRECT INVESTMENT AND SUSTAINABLE DEVELOPMENT

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ABSTRACT:

While Cole and others discovered that MNCs may have a negative influence on a host nation's environmental laws, depending on the level of corruption involved, Hoffmann and others linked the impact of FDI on the environment to the degree of development of the host country. In other words, the likelihood that FDI would damage the environment decreases as a country's level of development increases. This is probably due to stricter environmental laws and regulations in more developed countries. This is generally supported by Merican and other researchers that looked at how FDI influenced the environment in ASEAN member states. They found that FDI increased pollution in Malaysia, Thailand, and the Philippines but not in Singapore; nevertheless, they found a negative link in Indonesia.

KEYWORDS:

Business, Capital, Economic, Enterprise, Finance, Foreign, Investment.

INTRODUCTION

In 25 emerging Asian countries, research by To and colleagues supports the pollution haven hypothesis while highlighting the inverted U-shape of FDI's environmental impact. According to this, FDI initially has a detrimental impact on the environment of the host country, but as the local economy develops, this negative effect is reversed, and FDI begins to have a positive impact on the environment. Using the Asian sub-panel of a cross-national panel of 98 developing countries, Dhrifi and colleagues found a similar inverted U-shaped connection between FDI and CO2 emissions.A broad understanding of the pattern of FDI-related environmental repercussions was provided by Shahbaz and colleagues, who examined how FDI affects the environment in three groups of high-, middle-, and low-income countries. In high-income countries, FDI is specifically negatively connected with CO2 emissions, but the relationship is positive in low-income countries and inverted U-shaped in middle-income ones. It is crucial to remember that the existence of the pollution halo notion is not necessarily refuted by the truth of the pollution haven hypothesis since, as Liu and colleagues discovered, FDI has a variety of effects on different pollutants, supporting both theories[1].

Overall, empirical research does not support the pollution halo or haven hypotheses in a significant way, while both may be true. Evidently, connecting with FDI is easier in industries that do significant damage, like mining and logging. However, as was already said, MNCs might adopt superior technology and generally be more ecologically friendly than small businesses. It depends on a variety of other factors whether the MNC's home country is developed and places a high value on environmental sustainability while also holding its companies accountable, including in their overseas operations, or whether it is an emerging economy that prioritizes economic growth over sustainability.Lokonon and Mounirou examined the relationship between inbound FDI and the volume of deforestation in 35 Sub-

Saharan developing countries[2]. The authors demonstrate that larger FDI flows lead to more deforestation, demonstrating how significantly this connection varies among countries. De Santis, Bhuiyan, and others examined the relationship between biodiversity and FDI and found that lax environmental regulations were linked to a greater loss of biodiversity in host nations as a result of FDI. The amount of the difference can be attributed to different environmental policies in the countries under study, with the least protective measures resulting in those nations being "pollution havens." Shandra found that FDI is more likely to be associated with deforestation when a host country has less civil and political liberties. This came about as a consequence of expanding the pollution haven hypothesis to take into account civil liberties and political rights factors across a sample of 67 nations[3], [4].

There have also been several studies on the impact of FDI on water availability and quality on the environment. Using panel data from OECD and non-OECD countries, Avazalipour found a definite association between FDI and water pollution, with a higher level of water pollution as a consequence of FDI in non-OECD countries. Agriculture water pollution levels have been connected to rising levels of direct foreign investment in water-polluting sectors in non-OECD countries. As a result, small farmers become increasingly ostracized, which forces them to close up shop, diminishing food security and compromising the financial stability and general well-being of the neighborhood.

Effects of Coca-Cola facilities on India's water supply and quality

Multinational manufacturing companies consume a lot of water and produce a lot of wastewaters. The quantity and quality of drinking water in the surrounding communities may suffer as a result of manufacturing plants. Since MNCs provide them with jobs and financial support, the poor find it more difficult to organize and influence government officials to implement water reforms. Additionally, governments often oppose regulating MNC water usage in an effort to prevent them from divesting. The situation of a Coca-Cola plant in the hamlet of Kaladera in the Jaipur district of Rajasthan, India, serves as a vivid instance of the consequences that FDI may have on water. The Coca-Cola facility was constructed in 1999 and is located in the industrial park of the Rajasthan State Industrial Development and Investment Corporation. The quality of the water and its accessibility to the village's people began to decline after many years of operation. Farmers were forced to look for other sources of drinking water as the cost of irrigation increased, which reduced their output of food and milk. According to a 2006 study by the Energy and Resources Institute, the Coca-Cola plant's operations contributed to the declining water quality and increased stress in the local communities[5].

Rudra and colleagues used subnational panel data from 28 Indian States and Union Territories to assess the impact of FDI on the availability of potable water between 1996 and 2009. The study compared two Coca-Cola facilities in two States with differing demographics but equivalent levels of domestic per capita income and foreign direct investment (FDI). While the second facility was located in Rajasthan, a location with a totally different demographic make-up, the first facility was located in Kerala, a place with a comparatively smaller number of disadvantaged poor people and a relatively higher number of middle-class individuals. When the Coca-Cola plant in Kerala first opened its doors in 2000, the local middle class organized against the damaging effects of pollution and water depletion. Their demands were granted, and as a consequence of prolonged legal disputes between the local government and the business, the firm ceased all operations in 2004. The Coca-Cola facility in Rajasthan continued to operate despite similar known effects on the local water supply and the mobilization of the local population[6].

Chinese foreign direct investment and the environment

China is increasingly contributing significantly to global FDI supply. From US$68 billion in 2010 to US$132 billion in 2012, China's overseas FDI rose. The increase in FDI transferred overseas has been encouraged since 2013 by China's "Belt and Road Initiative," a multi-billion-dollar effort aiming at regional connectivity. In order to further the BRI's objective of raising commerce and transit competitiveness, a number of large infrastructure projects have already been launched to improve connectivity between China, Europe, and Africa. The transfer of Chinese businesses' excess production capacity to other BRI participants has also received official support from the Chinese government[7].

The objectives of the BRI project and its detrimental economic, social, and environmental repercussions have been the focus of heated debate in recent years around the globe. Concern has also been expressed about the geopolitical motivations behind the Chinese government's establishment and promotion of Chinese soft power in the region, for example, the rise in debt risk in developing countries as Chinese investment and loans are swiftly implemented for local projects with little consideration for debt sustainability, potentially leading to debt traps.Given the magnitude and significance of some BRI projects, a number of academics have also raised concern about the sustainability of development and potential adverse environmental repercussions in recipient member states. These concerns are related to the Pollution Havens Hypothesis, which contends that in order to increase the proportion of environmentally friendly production techniques in China, the BRI project may take advantage of the economic cooperation among member countries by relocating industries that produce pollution-intensive goods and depleting the environment's resources to developing nations. Environmental concerns have increased as a result of China's tightening of domestic environmental restrictions, which has increased the likelihood that domestic polluting firms may relocate to emerging countries. Since a major amount of the biodiversity regions along these routes are unprotected, environmentalists are especially concerned about the significant biodiversity losses that BRI infrastructure projects will bring about when they are developed[7], [8].

A few studies evaluating the consequences of Chinese foreign FDI have lately been released in response to the environmental challenges mentioned above. For instance, using information from 21 participating BRI countries, Xie and Zhang looked at the relationship between Chinese foreign FDI via BRI infrastructure projects and the host country's green total factor productivity, a measure of environmental development. The authors found evidence demonstrating how foreign investment in China has promoted green total factor productivity and environmentally friendly industrial practices. Zhou and colleagues found that Chinese foreign FDI related to BRI is associated with stronger environmental development in host countries, contrary to research by Liu and colleagues that suggests that such money is increasingly being delivered to clean energy projects.

Until more study can more fully confirm these early research results, future infrastructure developments must reduce their adverse environmental consequences and exploit possibilities in sectors like renewable energy and climate-friendly transportation infrastructure. The major obstacles, according to academics, are insufficient national planning and decision-making, questionable economic potential, and challenges in scaling up sustainable practices in infrastructure design. To ensure that FDI-related foreign infrastructure for the BRI is climatic and environmentally friendly, in addition to enhancing its own domestic environment, it is important that China ensures sustainability safeguards are publicly developed with stakeholders and implemented.Here, the authors provide evidence that the local government took very modest action and the Coca-Cola plant remained in the region because there was little middle-class mobilization in the area and a disproportionately larger destitute population. The predicted results demonstrate that the poor in India's socially stratified and divided states face the bulk of the negative water externalities of FDI, which is highlighted by these findings[9].

FDI and sustainable development's social aspects

To what extent FDI and MNEs can contribute to addressing significant issues related to the social facets of sustainable development, such as gender, disability, and aging, more research is still required. According to UNCTAD, FDI may have an impact on gender equality via a variety of distinct direct and indirect transmission routes. The direct way includes employment and pay, but FDI may have an indirect impact on gender via supply chain ripple effects, competitiveness, technology, and labor mobility.Olcott and Oliver found that during a five-year period, the number of female managers rose more swiftly in the acquired enterprises than in the normal businesses. At the acquired businesses, there were five times as many female managers in 2003 as there were in 1998. Similar to this, Fernandes and Kee showed that FDI firms in Bangladesh's textile and apparel sector employ much more female administrative and production personnel than indigenous organizations, even after controlling for company size, geography, and industry. Sharma's research indicates that it is the same in India[10].

In Latin America, there is contradictory evidence. Compared to more than 60% of foreign-owned businesses, only 46% of Uruguayan enterprises with data from the Enterprise Survey reported having a woman as director or president. Less than 50% of all businesses had female leadership over 50%, nevertheless. Data from Chile also corroborate this. However, Davis and Poole's analysis indicates that there are fewer female workers in Brazil's FDI-receiving enterprises.The evidence on the gender wage gap is contradictory. Between the 1990s and 2016, Kodama and colleagues conducted research on Japanese enterprises, and the results showed that foreign-owned companies had a smaller gender pay gap. Priit and Masso found that, on average, foreign-owned enterprises had a much greater gender wage gap than domestically-owned businesses throughout their examination of Estonian businesses from 2006 to 2012. Similar conclusions were obtained for South Africa by Bezuidenhout and others, who said that as trade firms need a more flexible staff, they may take advantage of women weakened bargaining position since they are less likely to organize. This is in line with popular wisdom, which holds that multinational firms may look for places with loose laws and cheap taxes across the globe, perhaps leading to harsher working conditions for women. However, as Harrison and Scorse have shown for Indonesia, multinational corporations may also be held to higher international standards, which may ultimately help them transmit higher-quality policies and practices to their host countries, especially for women. The gendered implications of FDI may ultimately depend on the sector or industry in which investments are made, the kinds of employment held by women, the corporate culture of FDI enterprises, the gender norms of recipient and investing nations, among other things[11].

Top MNEs are typically more equipped in terms of gender policy, according to the evidence, albeit there is still much space for improvement in their gender practices. According to the information that is currently available, 96 out of the top 100 multinational corporations reported having gender policies and processes, up from 95% in 2013. Furthermore, almost 85% of the top 100 MNEs reported having a policy on flexible working hours, and just over 60% of the top 100 MNE businesses provide childcare services for employees. The 5,000 largest MNEs in the world report on the status of gender equality on a regular basis, with around 70% of them doing so. This indicates that MNEs have made gender reporting a habit.

However, when it comes to practices, UNCTAD found that only a tiny percentage of companies report their gender pay disparities, and that for those that do, the average discrepancy was still about 70% in 2018[12].

In terms of gendered FDI and MNE spillovers to the host economy, the evidence that is presently available for national practices is mostly favorable. First, a positive and significant link between a country's foreign ownership share and the average percentage of female owners can be shown, even after accounting for variations in the composition of the labor force across sectors. Second, it seems that a nation's degree of foreign ownership and the proportion of women in its entire workforce are positively correlated, both for production workers and non-production workers. Third, a study that focuses on domestic companies and the connection between a nation's foreign ownership share and the gender makeup of its labor force lends support to the idea that foreign investment can encourage the positive transmission of female employment opportunities because domestic companies have higher percentages of female employees.

Domestic policies should get more attention from policymakers since they generally have a bigger influence on gendered labor market outcomes than FDI or MNEs do. Successful domestic policies support safe and healthy working conditions, equitable access to education and training for men and women, and increased female employment across all industries and professions. This may have a big impact on how women do in the employment market. International investors are alsopromoting gender equality via the encouragement of investment. Nations often research various FDI-attraction tactics in an effort to increase economic development in their own economies. The SDGs have been explicitly supported by a tendency in favor of FDI, nonetheless. Five of the 17 SDGs address the objective to "achieve gender equality and empower all women and girls. A growing number of IPAs are mainstreaming and promoting gender equality and women's economic empowerment within their organizations as they try to attract, promote, and facilitate investment. The Costa Rica Investment Promotion Agency has won praise for its efforts in this field on a global basis. CINDE has developed a strategy with precise indicators to assist Costa Rica in upholding its national duties to gender equality and women's economic development[13].

Many of the national initiatives encouraging gender equality had little to no impact, according to the agency's mapping work. In response, CINDE has begun aiding MNCs, particularly in developing impact indicators for their initiatives to empower women.In order to promote more inclusive practices in human resources, especially in corporate hiring processes, CINDE developed a diversity and inclusion strategy. To raise awareness of MNC recruiting practices, CINDE and the Costa Rican Institute for Women, for instance, have been working.Third, CINDE is actively collaborating with businesses and NGOs to broaden the pool of local talent and provide women new job opportunities. For instance, CINDE collaborates with a neighboring NGO called Rocket Girls to provide free instruction in math, science, and technology to women.

Last but not least, in order to make it simpler to adopt policies that are better suited to achieving gender equality and women's empowerment, CINDE has committed to increasing the accessibility of sex-disaggregated data. As a preliminary step, CINDE has partnered with a local business to gather gender-sensitive data on investment sectors. Such data-strengthening measures will also assist Costa Rica in achieving the objectives of the Gender Parity Initiative, which include increasing the representation of women in leadership positions, reducing the pay gap, and improving women's participation in economies. As a consequence, CINDE is one of the main organizations tasked with carrying out the project.There has been minimal research done on the other social aspects of sustainable development, such as population aging, migration, and health. Narciso utilized the life cycle theory, which holds that people's low-risk investment increases with age, to show the connection between FDI and an aging population in research on ageing populations. He argued that an aging population may decrease the demand for investment and increase national savings, leading to a greater outflow of FDI from "old" affluent countries to "young" emerging ones. In contrast to Narciso's findings, Mitra and Guseva discovered that in a study of OECD countries, an older population had no effect on net FDI inflow. In a previous study, Mitra and Abedin stressed the need of public policy to counteract any potential negative effects associated with FDI and aging populations.Bang and MacDermott argued that FDI might promote immigration while simultaneously reducing emigration and helping to close the wage gap. According to some research, FDI and migrants may serve as replacements, and the remittances they send home might help offset some of the potential negative effects brought on by rising emigration from a home country. Tomohara found that immigrants' social networks, language and communication abilities, and knowledge may help the host country lower transaction costs and information asymmetries, increasing FDI to the migrants' home countries. The extent to which FDI may positively affect FDI decisions, however, is a subject of contradictory findings. Kugler and Rapoport found that both skilled and non-skilled migrants are beneficial to FDI growth, contrary to Cuadros and others' findings that the proportion of non-skilled migrants is negatively related to FDI because FDI-enhancing effects were associated to the change in job skills[13], [14].

DISCUSSION

Herzer and Nunnenkamp found a negative correlation between foreign direct investment (FDI) and health in a study that included a sample of 14 industrialized countries. Nagel and associates found that the relationship was non-linear in a panel study including 179 countries. Furthermore, they found that FDI benefits low-income countries, but as income levels grow, the influence fades and finally becomes negative. Higher private and public spending on social welfare results from FDI after an initial investment is made in a country with lower income levels; however, as income levels rise, these expenditures are offset by detrimental effects on population health brought on by rising income inequality and competitive pressures.There is contradictory evidence about how FDI impacts social elements, to sum up[14]. To assess the potential impacts of FDI on gender, aging, migration, health, and other pertinent social issues, further quantitative and qualitative case studies are necessary.The aforementioned research indicates that governments must establish the appropriate regulatory framework and implement the required policies to ensure that FDI has a positive overall impact on development while minimizing any adverse consequences. FDI must be successfully coordinated with other facets of that strategy and included into a comprehensive national development plan. Since it cannot be depended upon to initiate development on its own, FDI is not a panacea for the problem.MNEs are responsible for the contribution of MNEs and FDI to inclusive and sustainable development. MNEs in particular must follow internationally accepted standards of ethical business conduct rather than just engaging in CSR efforts, which often equate to charitable giving but are not integrated into the business model or regular operations of the firm.

CONCLUSION

RBC standards and recommendations have been published by a number of international organizations, and MNCs in particular should pay attention to them. The International LabourOrganization's governing body, for instance, adopted the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy in 1977 as a guide for how multinational corporations should behave and interact with host governments, employers' organizations, and workers' organizations. Excellent practice and policy in areas including employment, training, working conditions, safety and health, and labor relations are among the guiding principles of the Declaration.The OECD Guidelines for Multinational Enterprises is yet another outstanding example of a government-sponsored initiative that aims to promote moral business conduct. Perhaps its most well-known component is the National Contact Points system created by the Guidelines, which enables disputes between relevant parties on its implementation to be resolved. The United Nations Global Compact and the Guiding Principles on Business and Human Rights are two other instances of international norms for moral business conduct.Regarding MNCs, FDI, and business in general as part of the solution rather than only as a source of problems is essential for achieving sustainable development. According to ESCAP, MNEs and companies in general provide environmentally friendly goods, services, and technology, making them essential to the fight against climate change. The SDGs' adoption seems to be turning the tide. For instance, the SDG Industry Matrix project, a joint effort of KPMG and the United Nations Global Compact, will provide pithy industry-specific examples and recommendations for corporate action related to each SDG. SDG 17 specifically mentions the need for an international partnership that involves business. However, governments must foster an environment that encourages business to adopt, follow, and implement these norms and values.

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CHAPTER 10
THE IMPACT OF OUTWARD FOREIGN DIRECT INVESTMENT FROM ASIA

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ABSTRACT:

Asia and the Pacific has been the largest source of FDI overseas since 2018. Despite a significant drop in OFDI on a regional and global level, 64% of all global outflows still originated in Asia and the Pacific. The fact that 47% of global outflows originated in these rising countries is perhaps even more significant. With respect to the possible contribution that these investment flows may make to helping the home countries in particular to achieve the SDGs and the 2030 Agenda, the vast amount of foreign investment in the region and from developing nations in general raises serious concerns. Businesses may use OFDI as a strategic tool to enter worldwide markets and join global manufacturing and value chains. This in turn aids domestic firms and industries in becoming more competitive, which aids those economies in achieving more fair and long-term economic prospects.

KEYWORDS:

Economic Development, Foreign Direct Investment, Home Country Effects, Outward Investment, Sustainable Development, OFDI Trends, Emerging Countries.

INTRODUCTION

The majority of FDI policy and MNE activity has been dominated by the impact and development implications on the economies of host countries. Few studies have extensively investigated the effects on industrialized economies in the home nation. However, there has been an increase in interest in how OFDI from emerging countries impacts their domestic economies and the amount to which it may help them achieve their sustainable development objectives during the previous 15 to 20 years [1]. As a result, recent theoretical and empirical research has increasingly focused on the notion that MNEs look for benefits and assets while making investments abroad. The profits from gaining such advantages and assets have also been said to have the potential to support the home economy's expansion economically in a number of different ways. However, the conceptual and empirical study on the effects on the home nation is still in its infancy, and there are especially few studies that consider how OFDI could influence sustainable development. In light of this, this chapter is structured as follows [2]. The description of OFDI trends is followed by a summary of the mechanisms and channels that connect the SDGs in home countries with possible development implications of OFDI. Then, a review of the empirical data from countries in Asia and the Pacific that is currently accessible is provided. The chapter finishes by presenting the home country measures that governments may employ to maximize home country effects after briefly offering a variety of options for policymakers to explore in order to optimize OFDI for home country sustainable development.

OFDI trends

Worldwide OFDI flows have increased to a total of US$35 trillion over the last 10 years, averaging between US$1 trillion and US$1.5 trillion yearly. Despite the obstacles, plans for a global economic recovery will still rely heavily on OFDI to stabilize and even grow after the outbreak [3].

All of these cross-border investments have an impact on the home country where the multinational is located as well as the countries where the multinationals investing in them operate. Even OFDI developed decades ago may still be in use today since it is a part of the overall OFDI. It will thus continue to have an impact and result in home-country repercussions. OFDI from emerging and developing countries has significantly expanded during the last 20 years. In comparison to their 8% share in global OFDI flows in 2000, emerging and transitional nations now make up around one-third of these flows on average, reaching 53% in 2015. During this period, the stock of OFDI from emerging and developing nations increased from US$709 billion in 2000 to US$9.1 trillion in 2016. Annual flows have increased, rising from US$92 billion in 2000 to US$392 billion in 2016. The emerging nations of the Asia-Pacific area contributed significantly to this expansion; in 2004, the OFDI stock in the region was roughly US$360 billion; by 2018, it had increased to over US$5.5 trillion. Particularly for developing and emerging countries, where they may significantly contribute to economic development and the achievement of the SDGs, the home-country benefits brought about by OFDI may be enormous [4].

Various negative effects on the country of origin

There are several perspectives on how OFDI affects domestic economic growth. Figure 1 provides a good illustration of how businesses creating abroad subsidiaries via OFDI seek assets and benefits while making money that is then redirected into the home economy through a variety of various channels or procedures. The decision might have a favorable or negative effect on the expansion of the domestic economy.

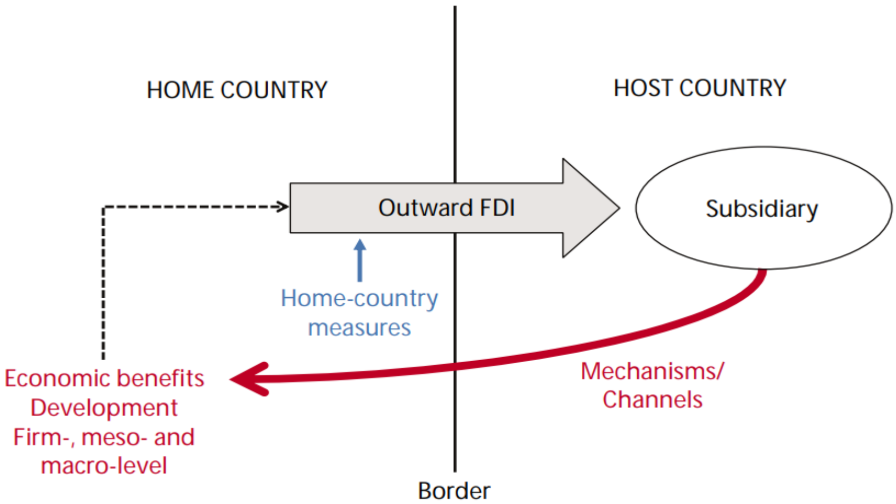

Figure 1: Illustrated the Home country effects of OFDI[5]**.**

Home country impacts extend beyond the effects on local MNEs when they increase their competitiveness or invest in new technology as a result of OFDI. Even domestic businesses without their own abroad assets might be impacted by their competitors' global business activities. This could happen, for instance, when one or more MNEs' OFDI leads to a general increase in commerce and export prospects for local businesses that service these MNEs. Finally, the impact might permeate across the whole economy and manifest itself, for instance, in higher levels of employment, productivity, or economic expansion. In other words, there are home country impacts at the firm, and macro levels [6].

The areas of economic and sustainable development impacted by OFDI are comparable to those impacted by MNE activities in host countries, although the effect is in the other direction. The degree of the impact may vary significantly, with home country effects being greater than host country effects in certain sectors of the economy while being weaker in others. Differentiating between monetary, intangible, and physical rewards is a good approach to group home country impacts. Financial returns are gains in money for investment companies and their domestic business partners. The acquisition and transfer of expertise and capacities from host to home nations results in intangible rewards. The purchase of natural resources, capital goods, or other physical assets abroad and transfer to the domestic economy result in tangible returns. There is also a difference between primary effects that have an impact right away and secondary effects that develop as a consequence of main effects. The tertiary impact, or the final result of all preceding effects, is economic growth [7].

Relationship between OFDI's influence on home countries and the SDGs

It is conceivable to relate the SDGs to a variety of home country consequences given the relationship between OFDI and economic growth and the results that both FDI and the foreign activities of MNEs have facilitated the achievement of the SDGs. The SDGs, in its original design, have, however, largely focused on the development implications of investments made in an economy, rather than OFDI particularly, in keeping with the general literature on investment and development. SDG 17.5 specifically targets nations that create and put into practice investment promotion policies for least developed countries. Though outward FDI might, in fact, be included in the portfolio of actions to maximize the potential rewards from investment promotion, it is likely that this was intended to relate to inbound investment.

Therefore, it is feasible that outward FDI plays a significant role in addition to inward FDI, albeit the connection between outward FDI and the SDGs still needs to be better clarified. It includes 10 home country impacts in all, plus economic growth as a result of all other effects combined [8]. The last column of the chart lists the SDGs and their objectives that are relevant to each home country impact, making it possible to make a case for the connection between OFDI and the SDGs. Below, each of these impacts is covered in more depth.

i. MNEs benefit financially from earnings and revenue created in their international activities, such as investments that strive to maximize market, operational efficiency, and resource availability. While a large amount of these profits is reinvested in the foreign subsidiaries, a significant portion is often repatriated to the home economy headquarters. These monies become an extra financial resource that may be used for domestic investment or other economic goals once they are in the domestic economy. SDG promotes the collection of "additional financial resources from various sources for developing countries." In addition to the remittances sent by expatriates, the financial returns from OFDI produced by MNEs overseas might be seen as an additional source of funding [9].

ii. MNEs may increase domestic exports when they engage in trade-creating activities abroad. This is particularly true when they effectively penetrate overseas markets, even sizable ones in established economies, and when they continue to sell intermediate goods to their factories abroad, including those found in other developing nations that are a part of global value chains. In addition to the MNE headquarters' increased exports, its suppliers and other domestic businesses could also profit from related business prospects, expanding their exports to developed countries and providing global value chains. Therefore, it has been shown that OFDI increases domestic industry production and sales. Large-scale exports and production growth have the ability to support widespread industrialization in the medium to long term, even if the initial economic benefit comes in the form of export revenues and increased domestic output. For this reason, it's crucial for emerging nations to figure out how to boost exports [10].

iii. The availability of financial resources for domestic investment increases as a consequence of these varied financial returns and the bettered economic circumstances brought on by these and other home country impacts. MNEs with flourishing international operations are also better prepared to manage the risks associated with future investments in their domestic business activities. Additionally, it is conceivable that increased regional collaboration and cross-border specialization within value chains might lead to an increase in inbound foreign direct investment (FDI). Over time, these domestic economic investments support industrialization and domestic economic activity.

iv. OFDI makes it easier for MNEs to participate in innovation and technology development abroad, particularly in developed countries, by facilitating access to foreign managerial, marketing, and other know-how. MNEs' firm-specific capabilities are enhanced as a result. MNEs draw into regional research hubs and talent pools by establishing R&D centers overseas in an effort to create new knowledge and patents. Another option is to buy out or combine with a foreign business to obtain direct access to its secret information. Greenfield ventures may profit from exposure to foreign know-how and counteract spillover effects in foreign places, particularly in developed economies, even if they may not focus as much on the acquisition or development of knowledge. Acquired expertise may be put to use in an MNE's abroad activities and then returned home, enhancing the performance of the parent firm. The end result is an improvement in scientific and technical capabilities, technology development, upgrading, and innovation in developing nation businesses, aiding them in their catch-up processes by completing other kinds of know-how transfer that may happen via trade, for instance. This may happen in a variety of industries, including ones with a focus on sustainability [11].

v. MNEs that make international investments may take superior management, labor, quality, environmental, and other standards and practices from the companies they purchase and invest in abroad. Particularly host nations with greater levels of development often demand that investing MNEs adhere to certain environmental, labor, accounting, and other standards, perhaps pressuring some businesses to follow these norms internationally. Various improvements in business operations, from better goods and processes to improved corporate social responsibility and sustainable practices, should follow after these practices and standards are incorporated into the MNEs' international and home country operations.

vi. The knowledge-generating activities associated with OFDI will eventually lead to a more extensive industrial upgrading. One way to encourage industrial upgrading is via direct knowledge acquisition by foreign companies, with MNEs from developing countries becoming more inventive and investing more in R&D as a consequence of their OFDI. However. Other forms of OFDI may also lead to domestic economic upgrading for reasons beyond than such direct pathways. For instance, exposure to overseas competition may lead to an enhancement in the investing firm's global competitiveness relative to other enterprises, which will benefit its domestic production and commercial operations. The mix of the labor force in the home nation may change to favor higher-end, more skill-intensive producing activities. This may happen when efficiency-driven OFDI relocates low-skilled manufacturing tasks to nations with less developed economies in an effort to reduce labor costs and integrate into global value chains. In such cases, the domestic economy can react by using its own labor force for higher-end tasks. Greater "white collar" employment, income rises, and increased worker productivity in the home nation would all be the results. There would also be an increase in capital- and skill-intensive industry. Such technical advancements from OFDI improve the industrial sectors in developing nations' capacity for scientific research, innovation, and technological advancement, particularly in fields with a focus on sustainability [12].

vii. The total productivity of the investing MNEs rises as a result of all the various knowledge-generating initiatives and intangible returns from OFDI, which result in enhanced technical processes, increased capital intensity in production, and other advantages. Increases in economic productivity in more domestic industrial sectors may result from such productivity increases as they accumulate over time.

viii. MNEs employ OFDI to acquire or improve access to raw commodities and natural resources in other nations, including metals, agricultural resources, oil and gas. The cost and convenience of access to the natural resources and raw materials needed for such growth processes take increased significance as industrializing and fast rising economies generate more energy, build more structures, manufacture more output, and consume better quality food. If more MNEs are engaged in the worldwide extraction of raw materials, the price of raw materials is lowered internationally. MNEs have more consistent and secure access to these resources when they actively participate in their extraction overseas, and they also have the option of transferring those resources back to their home nation. The end outcome is improved access to reasonably priced energy sources as development and industrialization progress [13].

ix. Some MNEs with international investments buy and import real things such capital goods, machinery and equipment, intermediate products, and brands. Capital equipment and machinery may advance domestic production capabilities, technical advancement, productivity, and value creation when they are incorporated into production processes or used in other domestic economic activities. Similar improvements in productivity, cost reductions, and improved marketing may result from the employment of various foreign intermediate items in manufacturing processes, including those made in an MNE's own overseas plants.

x. All of these diverse home country impacts have the ability to generate, maintain, and improve employment in the home country via their many beneficial contributions to the domestic economy. Depending on the kind of investment, the location of the investment, the reason for the investment, the industry, and other variables, the precise nature of the impact of OFDI on employment varies. There is little doubt that different types of OFDI help to make full-time, productive, and quality jobs available in the home nation.

Finally, it can be shown that OFDI may have a positive impact on economic growth since all of the aforementioned home country impacts contribute to all four of the GDP's constituent parts investment, consumption, export commerce, and perhaps larger government spending owing to higher domestic tax collections. In order to increase per capita income in emerging nations and to reduce and eventually eradicate poverty, significant economic growth must be generated and maintained [14].

DISCUSSION

All of the empirical data on OFDI home country impacts for both developed and developing nations worldwide has been compiled by Knoerich and others. With the exception of one study, OFDI and the investigated home country effect have been shown to be positively correlated. The majority of research concentrate on intangible impacts, while some look at exports, domestic investment, employment, and economic development [15]. Financial gains, procedures, and standards, general industrial improvement, natural resources, and physical assets and goods are not included. To fully comprehend the range of home country impacts, further study in these areas is very necessary. The link between OFDI and four indicators of home country effects GDP, exports, inward investment, and R&D intensity was statistically investigated by ESCAP using panel data from all ESCAP member States. Because they reflect various types of home country impacts, these four variables were selected. The effect on GDP might be thought of as the culmination of the various OFDI-related economic effects. For developing nations, changes in exports have a significant influence on their home countries, especially when they are the consequence of OFDI that prioritizes efficiency and market access.

One sort of investment in the domestic sector that might increase as a consequence of OFDI is inward FDI [16]. This is especially true when OFDI helps to strengthen regional cooperation, which is on the rise, notably in ASEAN. Indicators of R&D intensity and innovation that may increase as a consequence of OFDI that seeks for strategic assets and emerging technologies include R&D spending. The study's conclusions that OFDI has a favorable influence on GDP support earlier literature findings that this is the case. Additionally, every dollar invested by the United States on OFDI may boost GDP by US$3.365 in developed Asia and the Pacific nations, and by US$8.638 in underdeveloped nations. It was discovered that greenfield OFDI had a particularly favorable impact on the GDP of developing nations in the area, and for ASEAN member countries in particular. For instance, every dollar spent by an ASEAN member State in starting a firm abroad might result in a return to the GDP of the corresponding ASEAN home nation of up to US$2.977. All home nations in the area were found to benefit from M&As [17].

CONCLUSION

OFDI was also shown to have a favorable impact and may support exports from the home nation, particularly from ASEAN. A US$1 increase in outward M&As increases exports by US$4.743 in all ESCAP member States, by US$5.133 for developing countries only, and by US$5.529 for ASEAN member States. By contrast, every US$1 invested in OFDI by ASEAN member States could increase export value by US$8.306; if the investment is greenfield, the export value could even increase by US$9.263. Moving on to inbound FDI, the impact of OFDI on it in the nations of the area has been conflicting. For ASEAN member states, the correlation between total OFDI, greenfield investments, and M&As was only positive and statistically significant. This may imply that when nations geographically integrate and take on complementary roles in global value chains, as is the case in ASEAN, OFDI might lead to higher inbound investments. This may imply that emerging nations cannot trust on their offshore greenfield investments to generate larger inflows of productive capital unless they are tightly connected on an international or regional scale. Finally, ESCAP discovered that both greenfield and M&A types of OFDI increase R&D investment and, therefore, innovation levels in the domestic sector. Each US$100 billion that developing nations invest abroad may raise R&D spending as a proportion of GDP by 0.725%. Even more of an increase, 1.9%, is seen in ASEAN. This is consistent with OFDI's drive to seek out strategic and technological assets, as well as the potential that rising offshore leads to local economies being upgraded via increasing R&D spending.

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CHAPTER 11
MAXIMIZING THE IMPACT OF OUTWARD FOREIGN DIRECT INVESTMENT ON SUSTAINABLE DEVELOPMENT GOALS

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ABSTRACT:

OFDI may support the SDGs in a variety of ways and advance the development of home countries. However, the strength of these effects is significantly influenced by both the characteristics of the investments and the context in which OFDI occurs. An essential factor to take into account is how the host economy differs from the one in the nation of origin. Investments in more developed countries, for instance, have a better likelihood of resulting in productivity and knowledge increases, and the bigger developed market might result in higher financial returns and exports. On the other side, via low-cost manufacturing, OFDI in less developed countries offers opportunities for financial benefits. Another factor is the characteristics of the MNE making the investment; for instance, more competitive, experienced, and larger MNEs may have stronger effects in their home countries, whereas small- and medium-sized businesses may encounter more challenges when making investments abroad due to their smaller size.

KEYWORDS:

Foreign Direct Investment, Knowledge, Investments Sustainable Development Goals.

INTRODUCTION

State-owned companies may have different home country effects than private MNEs since they usually cluster in significant industrial sectors, are larger and more resourced, and commonly engage in economic activities that have a strategic nature. The many industrial sectors are significant because, for example, investments in knowledge-intensive industries may impact innovation and productivity, while OFDI in natural resources may impact a country's resource security and OFDI in low-cost consumer goods may provide financial rewards. Differentiations between the elementary, secondary, and postsecondary sectors are probably in order. The effects on the home nation will also vary depending on the kind and intent of the investment. For instance, a corporation may benefit from a first mover advantage and innovation by investing in an R&D center [1]. A sales office will boost market access, which will increase market access, which will increase exports from the country of origin. A foreign mining concession may guarantee the home nation's access to resources. The construction of a factory abroad may increase exports, local capacity productivity, cost savings via low-cost manufacturing, or the potential to dodge tariffs.

Another factor is the entry point of the investment. M&As, for instance, have potential in terms of knowledge acquisition, but greenfield OFDI may be better at generating financial gains, exports, and other benefits based on a business that is already established and solid. The degree of stock control over the overseas subsidiary is another important consideration, with bigger equity shares likely to maximize the benefits from OFDI. Joint ventures and wholly owned subsidiaries may help in knowledge acquisition [2]. Additionally, the amount of time that has passed since the investment was made has an impact on the results, with increased advantages to the home nation being predicted with time. Another important factor is the economic policy environment in both the home and host countries, specifically how governments control, facilitate, and promote these investments. The two sections that follow go through this in greater detail [3].

Sometimes, the effects on the home country may not be felt. This is likely the case when capital outflows are restricted or when special requirements for home country consequences aren't met. For instance, advancements in technology, knowledge, and industrial upgrading depend on how well-equipped the domestic economies and enterprises of emerging countries are for learning and absorbing new information. MNEs must possess the ability to utilize and absorb foreign information, as well as the ability to convey that knowledge to their native nation and employ it there. The home economy also needs the appropriate institutional, regulatory, legal, and skill conditions. The breadth of a company's international experience may also be important. The availability of appropriate transmission channels, such as international financial instruments for the transfer of funds, internal corporate agreements for the transfer of know-how, or pipelines and ships for the transfer of raw materials and capital goods, will have an impact on the generation of home country effects. Companies abroad must be open to acquisitions and willing to collaborate on initiatives like know-how transfer, which is not always the case [4].

Some OFDI may really be harmful to the home country. Due to the capital outflow component of OFDI, it has the potential to replace domestic investment, especially in the early stages before investment begins to provide financial benefits. Capital withdrawals, which may potentially result in currency depreciation, might damage the balance of payments. Even though these effects are anticipated to be minimal given that the amounts involved in OFDI operations are frequently significantly lower than those in other cross-border financial transactions, such as foreign portfolio investments, some low- and middle-income countries may find them to be problematic. OFDI may potentially encourage capital flight. In addition to these financial effects, certain OFDI may result in the relocation of production and employment, which would have a negative impact on tax collections as well as exports and other domestic economic activities. For instance, it has been shown via experimentation that these unfavorable effects have an impact on both domestic investment and exports. Additionally, domestic production and manufacturing in the home country may become more ecologically harmful and labor-exploitative as a result of OFDI. This may happen when multinational corporations (MNEs), who use foreign subsidiaries to enhance exports into other markets, try to manufacture in their home country with laxer environmental and labor norms in order to become more competitive there [5].

It is possible for OFDI to have both positive and negative effects simultaneously, such as benefiting highly skilled workers at the cost of less skilled workers or having a lesser short-term effect but a greater long-term advantage. While OFDI sometimes produces winners and losers, much like trading, the positive effects ought to be more noticeable and should be promoted. This overall picture seems to be supported by the bulk of the home country impact variables, which have so far shown largely favorable findings. However, some studies have come up with contradictory or unfavorable results, especially those that looked at some of the secondary and tertiary effects domestic investment, productivity, employment, and economic growth, where it is particularly challenging to establish the relationship with OFDI using statistical methods. In other areas, such as norms and practices, natural resources, and capital goods, empirical research is either rare or nonexistent. As a result, in-depth analyses of the many effects are still required, and empirical research should be expanded to include more countries with a range of institutional setups and degrees of economic development [6].

Since the degree of home country effects may vary depending on a range of variables, governments may play a crucial role in monitoring and influencing the implications of OFDI. Policies and laws may promote the advantages of OFDI while aiming to lessen any negative effects. Governments play a crucial role in maximizing the capacity of countries and their businesses to absorb new technologies, for example, by enacting appropriate policies in the fields of research, education, the legal system, and other areas. Therefore, governments play a big part in creating an atmosphere that makes it possible to produce positive effects on the home nation.

With a focus on achieving the SDGs, governments all around the globe are becoming more conscious of the need to regulate growing levels of OFDI flows and the effects they have on the home country. Regrettably, OFDI research and analysis have gotten far less attention despite significant coverage and evidence of governments' activities in regulating inward investment in the literature. One notable exception is Sauvant and colleagues' evaluation of OFDI institutions, policies, and home country indicators among the top 10 developed and developing countries according to OFDI flows. They found a wide variety of organizations, services, financial and fiscal policies, insurance, and treaties that were significant to OFDI in the countries they examined [7].

Savant and colleagues found that the use of HCMs has a long history in developed nations, in contrast to decades of rising capital outflows and the globalization of developed country firms. In developing nations, where OFDI has been subject to a number of restrictions, the use of HCMs to promote and facilitate OFDI has been rare. Several governments in these nations just recently increased the scope of their HCMs in response to rising OFDI flows after understanding their potential to support the local economy. Outside of a few notable emerging economies, the active use of HCMs to promote OFDI in developing countries is currently quite minimal. Similar trends are seen throughout Asia and the Pacific. Evidence from developing countries in the region shows that, with the exception of Japan, which has adopted a significant number of HCMs, their use outside of restrictions on OFDI has been very rare. China stands out since it was the first developing country to make substantial use of HCMs. In order to encourage OFDI that would benefit the home country, the Chinese government introduced a broad range of HCMs in the 2000s. In addition, the existence of HCMs has been verified by Singapore, Malaysia, India, and the Russian Federation. In Singapore, a smaller country in Asia, a wide range of HCMs were originally offered, equivalent to those utilized in China. However, apart from these larger, more developed economies in the region, there is very little evidence in the literature that HCMs exceeding limitations occur in other countries [8].

For governments in impoverished countries, it is especially difficult to figure out how to integrate OFDI into a bigger development strategy that complements other development approaches in areas like inbound FDI, commerce, and migration. Although certain HCMs will be widely applicable across many nations, it may sometimes be necessary to use country-specific strategies to improve developmental outcomes in order to accommodate unique features of domestic economies, national enterprises, and local institutions. Similar to inbound FDI, the potential benefits of OFDI to the sustainable development of home countries in Asia and the Pacific may be more fully realized if the right policies and structure are in place. This calls for the right amount and kind of OFDI as well as investment efforts in sectors crucial to the development of the home country. The establishment and execution of OFDI policies and regulatory frameworks may help nations in Asia and the Pacific realize the full potential of OFDI for sustainable development [9].

A variety of home country activities

The definition of home country measures varies from study to study. Contrary to past definitions, this also entails giving relevant institutions control over how to handle OFDI. After a UNCTAD expert meeting on HCMs in November 2000, a widely used definition of HCMs was developed: "HCMs are all policies, regulations, measures, and institutional adjustments implemented by the home countries of firms that choose to invest abroad in order to manage and encourage OFDI flows to other countries." Instead of being thorough, its goal is to provide a brief summary of all commonly used options that have been discovered so far. The classifications and metrics may alter over time, especially if new ones are found or if new policy changes are made. The paragraphs that follow give further details on each category [10].

Governmental organizations and departments, such as the Ministries of Economic Affairs, Commerce, and Economy, Trade, and Industry, among others, often handle matters relating to OFDI in terms of law, finance, and negotiations of international treaties. For instance, in China, the Ministry of Commerce, the People's Bank of China, the State Council, the National Development and Reform Commission, and others are in charge of handling matters relating to OFDI. Although many of them previously favored inward investment, investment promotion organizations primarily handle specialized investment promotion. As a result, they have had to change to take on responsibility for OFDI. A recent WAIPA and World Bank analysis of IPAs found that 31% of all IPAs had a mandate to cover OFDI in addition to inbound FDI. However, a number of recent articles have made the case that IPAs shouldn't extend their remit to include OFDI since doing so would make it harder for them to attract FDI from outside sources.

Organizations that promote commerce carry out similar tasks. For example, the Economic Development Board and Enterprise Singapore are the main institutions in charge of assisting OFDI in Singapore. Since 1993, when it assumed a portion of the IPA's initial tasks in Singapore, the EDB has assumed some obligations related to the promotion of OFDI. The Standards, Productivity and Innovation Board and International Enterprise Singapore combined in 2017 to become Enterprise Singapore, a government agency under the Ministry of Trade and Industry that has been actively involved in many aspects of OFDI promotion. Additionally, export credit agencies and development finance organizations may support OFDI by providing specialized financial services including loans and insurance. Even though they were founded for reasons unrelated to OFDI, special purpose organizations may take part in activities that support OFDI, such as when they define the guidelines for international cooperation. In certain cases, private organizations may get engaged if the government has given them some of its responsibilities. Last but not least, a group or organization may be created to coordinate all OFDI-related activities carried out by these various institutions. In the worst situation, this may function as a "one-stop shop" for OFDI services. Overall, institutional layout varies from country to country [11], [12].

Government officials say that OFDI regulation may be necessary. These rules aim to prevent the local economy from being negatively impacted by OFDI, hence preventing negative home country effects. Official approval requirements for investment projects and various types of foreign exchange control, such as limiting access to foreign exchange or requiring the repatriation of investment earnings, are common forms of restrictions on OFDI, particularly in developing countries. This is an opportunity to halt capital flight and assess investments for possible negative effects on the home country. In many developing countries, these restrictions have been loosened over time. For instance, during the 1990s, India has been lowering restrictions on OFDI and increasing the number of beneficial HCMs. The

Russian Federation normally allows OFDI with some limitations, although China has recently simplified its licensing procedures and reduced foreign currency prohibitions.

Governments may still impose restrictions on economic activities overseas after companies have made investments there. Some provide guidelines for how businesses should behave overseas, including respecting labor rights, the environment, and communities that would be touched by investments, among other CSR concepts. Governments have the option of monitoring OFDI projects or requiring corporations that make investments overseas to submit reports to them in order to verify whether investments comply with RBC/CSR and other legislation and are in the national interest. Governments may take advantage of this opportunity to learn more about how OFDI initiatives impact host nation development by using these criteria. For instance, China is gradually requiring adherence to RBC/CSR norms of conduct and has a system in place to monitor Chinese firms' activities overseas. Some companies are required to provide India annual performance reports on their investments. Overall, these regulations make it more difficult for companies to invest abroad, and the restrictions often lead to a decrease in the volume of foreign direct investment (OFDI) that takes place [13], [14].

The first set of encouraging policies that a government may do is the offering of various services related to OFDI. These include supplying information on how to do OFDI in other countries, how to do so there, and government laws that have an influence on foreign direct investments. In addition to just sharing information, governments may organize investment missions to host countries to assess the environment for investments there. The establishment of networks between domestic businesses and international governments or corporations may be aided through matchmaking services. This may be done in one of two ways: personally, and in person, or by maintaining and making such links accessible to investors in a database. Collaboration between IPAs in the home and host countries may help to organize such investment missions and matching services. Last but not least, governments could provide a variety of educational and training courses on subjects like running a subsidiary abroad and making investments abroad. Certain government entities may even get more involved in the strategic planning of firms for their international investments via direct consultancy services and business coaching. The governments of China, India, the Russian Federation, and Singapore have all offered a variety of these services to companies making international investments, including information services and foreign embassies. By providing this information and specialized investment advice, governments have the chance to talk with investors about development challenges and encourage them to consider the effects on their own countries when formulating their investment plans [15].

Several countries provide financial support for OFDI activities. Before choosing whether to completely execute an investment project and arrange for management and employee training, grants are one source of financing for comparatively modest investment-related activities including feasibility studies, market research, and the creation of first abroad offices. Additionally, staff members' work placements and consultancy fees may be covered by grants. Loans given to MNEs to fund their investment projects sometimes come with larger financial commitments. It's possible that they are government-sponsored loans with better terms and lower interest rates than those offered on the open market. A non-concessional loan, on the other hand, has no preferential terms but may be more easily accessible to other investors, such as SMEs, who struggle to get funding through the financial markets.

Different forms of structured financing, such as those that link loan repayment to investment performance or allow loan conversion into stock, may be utilized to provide loans.

Governments, commercial financial institutions, or non-governmental organizations may share the risk of lending money for OFDI.

Another kind of financial action is the provision of government financial guarantees to private lenders on the repayment of loans they make for certain OFDI projects. Private lenders may provide more funds to support international businesses by reducing their risk. The last kind of financial aid is a government's direct equity participation in the foreign firm founded by an investment. These agreements may include tiny minority ownership in foreign affiliates as well as exit options, such as allowing the company to purchase back government equity. Loans and other forms of financial support have been given by the Export-Import Banks of China, India, Malaysia, and Thailand, as well as by the Singaporean EDB and Enterprise Singapore. Through financial HCMs, governments have the opportunity to financially support investment ideas that benefit the home country [16].

Another possibility is to provide financial aid for OFDI. Since the help offered depends on the tax systems involved specifically, whether the home country taxes its enterprises and abroad affiliates both worldwide and locally this is a complex area of law. Tax reductions or exclusions from some business income tax components are two possible forms of financial support. During certain investment stages, governments may additionally exclude some company categories from corporation tax or let MNEs to defer paying taxes on overseas income. For certain investment-related costs, tax credits may be offered, and for some investment-related eligible activities, exclusions may be granted. Tax rebates and other financial aid have all been offered by Singapore, China, Malaysia, the Russian Federation, and Malaysia. Thanks to fiscal HCMs, governments have the ability to encourage investment activities that have positive home country impacts, especially at the important investment phases.

Governments may negotiate international treaties that incorporate pro-OFDI terms in addition to the many financial forms of domestic assistance mentioned above. Governments of developed economies have long negotiated investment protection and access to international markets on behalf of their corporations via bilateral or multilateral investment agreements and trade agreements containing investment clauses. Although historically developing countries have negotiated these treaties primarily to attract FDI inward, the protection and market access provisions in these treaties could facilitate their OFDI; going forward, developing country governments may need to focus more on the goal of protecting their own overseas investments when negotiating these treaties. For instance, when China's businesses are making investments abroad, they now give treaty negotiations more thought. One strategy used by ASEAN to go in that direction is the ASEAN Comprehensive Investment Agreement [15].

Along with the formulation of investment treaties, governments may need to consider whose involvement in dispute resolution procedures best serves their interests and the interests of their enterprises doing business abroad. Government to government commercial diplomacy and other international forums may be used by governments to attempt to negotiate less restrictions on market access outside of the formal investment treaty negotiations. Avoiding double taxation may also aid MNE operations in regards to tax issues by lowering the expense of double taxation or making it simpler to provide the aforementioned fiscal support. Governments generally have the opportunity to draft and negotiate treaty language that supports OFDI's positive development implications for home countries.

Once an investment has been made, HCMs may provide ongoing operational assistance. First of all, this comprises assistance in navigating entry limitations and other administrative roadblocks, as well as assistance with policy-related challenges that investors encounter abroad. Governments may provide political and diplomatic help when negotiating investments with the host country's authorities. For instance, China has extended diplomatic support to significant international initiatives, especially those led by SOEs, and its flagship foreign policy project, the Belt and Road Initiative, encourages OFDI. For some of its SOEs' largest investment projects, the Russian Federation has extended diplomatic assistance. Plans for investments may also be coordinated between governments and the host country's authorities. To ensure that they support rather than conflict with the host country's inward investment policies, a home country's HCMs may be coordinated. Instead, cooperation between the home and host nations could be advantageous to investors [17].

Second, governments may promote domestic support for OFDI by, for instance, encouraging the corporate sector to finance programs. Businesses may be asked to work together in order to invest abroad, and banks and other financial institutions may be persuaded to consider funding OFDI activities. Third, governments may encourage the growth of assistance services overseas. To do this, it is necessary to recruit the assistance of relevant service providers, such banks, legal firms, consultancies, etc., to help the investment corporations build their own presence in the host country. The public or private sectors in the host countries may establish centers or industrial parks where investors may more conveniently locate their subsidiaries and start their global business operations [18]. To enhance its strategic partnership with China, Singapore, for instance, has financially funded the establishment of offices in the Sino-Singapore Tianjin Ecocity. In order to support Chinese investments overseas, China has actively promoted the establishment of special economic zones. Governments might choose to focus their operational support on areas where OFDI has a significant positive development effect.

DISCUSSION

By using efficient economic strategies, HCMs may maximize the benefits of OFDI for the host country. There are three distinct types. First, it is feasible to enhance the domestic circumstances necessary for the production of effects from the domestic environment. In order to ensure that technology transfer from foreign investment projects may be absorbed into local innovation systems, this includes economic activities to assist broader industry upgrading as well as actions to boost absorptive capacity [19]. The development of skilled human capital via education, training, and investment in homegrown innovation in relevant fields are a few measures to boost absorptive ability. As an example, improvements in education, government R&D expenditure, domestic science and technology legislation, and other initiatives have significantly improved China's capacity to absorb international businesses and innovations. The degree of international competitiveness of a company may be raised via similar measures, enabling it to compete effectively when making investments overseas. Governments may also stimulate the development of networks and collaboration among domestic enterprises to foster links between local businesses and boost spillover effects. They may especially help enterprises integrate into and join global value chains. Second, governments could come up with strategies to improve the channels via which OFDI affects the home country. This may include simplifying money transfers or enhancing logistics and travel between the home country and the host country. Third, governments may encourage companies to have an influence on their native countries. Subsidiaries could be pushed, for instance, to make local investments relating to their OFDI or purchase components from domestic suppliers [20], [21]. This effectively implies that governments should consider encouraging investment-related activities that will have positive effects on the home country, such as increased exports, domestic investments, the creation of jobs, or the flow of natural resources back into the country, in addition to encouraging the investment itself.

CONCLUSION

This might ensure and validate that HCMs have the anticipated outcomes and are cost-effective. To determine how much international investing companies have used and benefited from the accessible HCMs, surveys may be conducted with them. A similar option is to arrange for listening sessions with company representatives. Such surveys may be used to ascertain if HCMs have promoted the generation of home country effects, together with quantitative and qualitative assessments of firm-level and economic consequences in the home country. Overall, more effort has to be done to develop appropriate indicators for how successfully HCMs support the creation of home country effects. There are some indications that when governments create HCMs, they choose a certain policy path. Reduced restrictions on OFDI are the first stage, which is then followed by negotiations regarding relevant international conventions and the provision of information services. The supply of political risk insurance comes next, and the implementation of financial and fiscal services comes after that. Operational support and benefit maximization would be the last HCMs to be introduced. Although this method has been used, different countries may embrace it to different degrees. Some countries could skip phases if they think that OFDI has the ability to speed up technological progress and catch up. Other administrations could liberalize more gradually and have a less belief in the advantages of OFDI. In the Asia-Pacific area, there are a number of limitations on foreign investment, with the exception of several countries Azerbaijan, Cambodia, Kazakhstan, Malaysia, Mongolia, the Philippines, the Russian Federation, Tajikistan, and Thailand where it may be necessary to register or notify an investment. OFDI was allowed with limits in both Sri Lanka and the Solomon Islands. China and India need authorization for some sorts of investments, as was previously noted. All OFDI required prior clearance from Bangladesh, Fiji, the Lao People's Democratic Republic, Nepal, Pakistan, Samoa, Tonga, and Viet Nam, sometimes with extra restrictions or giving exemptions. This illustrates those different countries, regardless of their size or degree of development, have different preferences for addressing OFDI.

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CHAPTER 12
STRATEGIC APPROACHES TO HOME COUNTRY MEASURES FOR FOREIGN DIRECT INVESTMENT

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ABSTRACT:

Although governments may apply these HCMs to every local company and every kind of project involving foreign direct investment, this isn't often the case. There is sometimes a propensity to concentrate on certain OFDI project types and company types while deploying HCMs. Such an approach may help the purpose of optimizing the development benefits of OFDI for the host country by tailoring the plan to economic realities as well as the government's development goals and plans. Different HCM kinds may have various objectives and underlying tactics.Various considerations may be taken into consideration by governments while pursuing certain OFDI programs. When the local economy needs more secure access to resources or when industrial upgrading is a major development goal, they might choose projects based on a preferred investment rationale, such as resource- or market-seeking FDI. HCMs have received investments that the Chinese government considers to be in line with its development objectives, such as OFDI that increases access to information, resources, or trade opportunities.

KEYWORDS:

Investment Strategies, OFDI Strategies, Strategic Approaches, Sustainable Development, Targeted Investment, Home Country Impact.

INTRODUCTION

Governments may differentiate the HCMs they provide according on the investment methods used, giving precedence to OFDI projects with strategies that promote development objectives or activities that are anticipated to have a positive effect on the home country. Examples of entrance techniques that may be favored include the construction of greenfield plants for low-cost production or broader market access, as well as acquisitions or R&D centers for acquiring know[1]. For international acquisitions, the EXIM Bank of India has provided loan and equity financing. Singapore has provided financial assistance for overseas purchases meant to bring technology back home and apply it in local operations, and it has provided tax benefits for overseas purchases on the condition that the investment results in the growth of a firm in Malaysia.

HCMs may encourage OFDI, particularly in places where it is anticipated that investments would benefit the home country, such as developed economies for the generation of knowledge or resource-rich countries for access to raw materials. For instance, Enterprise Singapore has stated a preference for supporting projects in certain developing and emerging markets, while the National Development and Reform Commission of China (NDRC) has published three lists of preferred destination countries and sectors[2]. The Sino-Singapore Tianjin Ecocity serves as a direct channel for Chinese investment into China. Furthermore, India still places restrictions on OFDI in its neighbors. The selection of an investment destination may be in accordance with the legislation governing foreign direct investment in the host nation[3].

Investment size may also be a factor in the supply of HCMs, especially if regulatory restrictions are an issue. It is common practice to lower conditions for investment approval for early smaller projects. For example, India follows a standard procedure for approving smaller investment projects.Different types of HCMs may be used by various company types. In this case, the company's size is quite important. Particularly SMEs sometimes face challenging circumstances and have limited access to financial and other resources for OFDI. Nevertheless, they have a big influence on most economies[4]. As a result, HCMs may concentrate on aiding SMEs, as has been the case, for instance, in Singapore, Malaysia, and India. Despite the focus on SMEs in many countries, large corporations may still be necessary in certain circumstances.Corporate ownership is another element that affects whether HCMs should support SOEs or private sector firms. Both state-owned and privately held companies are eligible for HCMs, despite the fact that they sometimes have distinct specific regulatory frameworks. For their SOEs that invest abroad, China and the Russian Federation, for instance, provide diplomatic support. Recent studies have generally shown that neither kind of ownership is favored in most countries.

Since a government may choose to apply HCMs to foreign subsidiaries and affiliates in addition to domestic parent companies, company nationality may also be taken into consideration. For instance, in order to be eligible for financial support from Enterprise Singapore, firms must be registered in Singapore and have three significant commercial activities there. One program with dual nationality as a prerequisite for eligibility is the Malaysia-Singapore Third Country Business Development Fund. It was established to provide funding for joint ventures between companies from both countries into underdeveloped countries, with a focus on South-East Asia.Governments could also prefer to support companies with more commercial acumen, especially when investing overseas when there is a larger likelihood that the project would succeed. Whether or whether an organization is qualified for HCMs may depend on how much of its OFDI promises to provide beneficial and desired developmental consequences[5].

By considering the company sector and investment, one may further differentiate how HCMs are delivered. The government may attempt to encourage certain sectors, such as those it considers priority in its development plan and those that promise to maximize the effect of OFDI on the home nation, in light of the particular economic circumstances of the home country. Priority may be given to sectors with high levels of OFDI in industries critical to the development of the home country. This is a very challenging problem since there are so many different subsectors that must be considered within the primary, secondary, and tertiary sectors. Each country's sectoral mix is unique, therefore choosing which sectors to support via HCMs is a very personal choice. For instance, the Malaysian EXIM Bank has funded projects for infrastructure, industrial, and other types of growth. More particular, it has encouraged acquisitions in the industrial and service industries as well as the expansion of Malaysian restaurants abroad. The Reserve Bank of India must approve any investments in other sectors of the economy. India has restricted and outlawed foreign direct investment in the banking industry[6], [7].

HCMs may be utilized to specifically target OFDI, which would not be the case otherwise. Companies may be discouraged from making investments overseas for a variety of reasons, including a lack of funding for such endeavors or a lack of awareness of potential opportunities. HCMs might help firms get through these and other barriers. As was previously said, SMEs may be a particular target group to look for when seeking to locate such enterprises with potential but unmet investments.Enterprise Singapore, for instance, has stipulated that projects funded by OFDI complement local operations and generate spinoffs for the Singaporean economy. It may be difficult to confidently show the direct correlation between certain types of HCMs and development outcomes from OFDI due to the limitations of the information and evidence presently available in this subject. Knoerich, Stephenson, and Taylor-Strauss have made major strides in this area with their Policy Toolkit for Maximizing OFDI for Home Country Sustainable Development[8].

The numerous benefits of include home country effects from OFDI in investment plans and indicators for developing countries in Asia and the Pacific were discussed in this chapter. First off, OFDI from the region has grown considerably in recent years. This holds true for OFDI from both larger and, to a greater degree, smaller economies. As a result, governments in Asia and the Pacific need to be aware of how an increase in OFDI may affect their countries' economies and development.SeOFDI has the potential to encourage successful domestic development outcomes. By reviewing the home country effects that have been shown to exist and the factors affecting their effectiveness, this chapter identified home country effects that may aid to accelerate economic growth. They have shown their importance for global development strategy and highlighted how OFDI must be on the agenda to achieve specific SDGs by connecting home country repercussions to them.

The present body of research shows that home country effects do occur in a range of contexts. Inbound FDI, exports, GDP, exports, and, in most cases, R&D are all favorably impacted by OFDI, according to ESCAP's quantitative assessment. Further supporting the need for the countries in the area to enhance regional economic integration and cooperation is the ESCAP research's suggestion that greater regional integration may have a positive impact on these consequences. It's important to keep in mind, nevertheless, that OFDI could sometimes have adverse consequences. To convince governments in developing countries to recognize the need of taking home country impacts into consideration when forming investment strategy, the proof of the advantages should be adequate[9].

The HCMs that have been used to promote, encourage, and regulate OFDI were assessed in this chapter as well. Then, in order to increase the likelihood of achieving the desired economic effects, it was examined how governments may steer HCMs toward certain investments, companies, and sectors. Governments in affluent countries and a few of major developing nations have long used HCMs. Smaller growing countries, including those in Asia and the Pacific, continue to lag behind in the usage of HCMs despite rising OFDI flows. The fact that HCMs have already been created in other countries is another reason why governments of smaller nations should take this into consideration when developing their investment strategy.

A selection of options for developing OFDI policies

The outcomes of this chapter are combined to generate a list of suggestions for developing OFDI policy. Taking into consideration existing development objectives, the characteristics of the home economy and its enterprises, and other criteria, governments should start by determining the effects that may be advantageous to their own country. In reality, home country effects would be the goals that governments would need to achieve via appropriate HCMs. The factors that might influence the effectiveness of certain effects on the home country must therefore be taken into account when applicable methods to utilize OFDI for home country development are defined[10]. The third column specifies the available HCMs; governments must choose those that are most likely to have the intended influence on home country development given the skills and resources at their disposal, the priorities of their policies, and other criteria. Finally, governments must choose from a range of options in order to direct HCMs towards certain investments, companies, or sectors. The menu of alternatives reduces complexity by gathering all of your options in one location. Each column's last dot serves as a reminder that it isn't intended to be a complete list; other choices may be added when they are discovered in the future.

One may navigate the four areas using the menu to develop strategic approaches for OFDI policy. Determine the factors that could have an influence on the impact's course, for instance, if the intended home country effect is to boost export earnings. Particularly. For the production of exports from the home country, investments with market-seeking goals and in sectors where the local economy produces strong, internationally competitive products may be promising. A government may adopt pertinent HCMs as part of the third phase, such as those that focus on providing services to help market-seeking investors join foreign markets. Choosing a group to organize investment delegations to prospective host countries and distribute information on global markets are examples of such services[11]. The host government may also provide operational assistance by developing relationships with relevant government agencies and encouraging banks and law firms to provide services that help market-seeking investors. The government may then, as a last step, steer the HCMs toward potential sectors or companies as well as market-seeking investors. The accountable agency may, for instance, concentrate its services on sectors known for their worldwide competitiveness. Instead, because of their size, SMEs often have difficulties in internationalization and gaining access to markets abroad, therefore its service provision can be especially tailored to helping them with potential OFDI projects[12].

DISCUSSION

The combinations of realistic options within the four categories may vary depending on the intended home country effect and other factors, such as the features of the local economy and its enterprises. When the objective is to improve domestic know-how rather than seek markets, the focus may be more on full acquisitions in developed economies in industries where domestic know-how is necessary and absorptive capacity is sufficient, with promotion efforts focusing on providing financial support and matchmaking services[13]. If resource security is to be obtained via OFDI, the acquisition of foreign mining concessions will be essential, and governments may support this through investment treaties, political risk insurance, and diplomatic assistance. The intended market for HCMs would be substantial natural resource companies with deep mining knowledge. These are but a few general examples of how the options in the four categories may be utilized to develop powerful investment strategies intended to advance particular home nation advantages. Numerous combinations might potentially be employed, with some working better than others. Finding the combinations that most closely reflect best practice in the creation of OFDI policy may be the subject of future effort.Numerous important considerations must be taken into account while assessing the options on the menu[14]. Given the country's existing economic circumstances, sectoral composition of the economy, characteristics of MNEs and their investments, and other variables, any home country impact that is selected for policy support must make a compelling economic case that it can be done there. It is important to consider the available empirical data in this case, at least to the extent that it is possible given the limitations on the number of research that are available. The decision to promote certain effects in the home country may be influenced by development goals.

CONCLUSION

Another aspect is the price and resources that may be used to create the requisite HCMs, which might vary significantly depending on the measure type. For instance, offering information services ought to be less costly and easier to carry out than making loans. Any kind of OFDI has the potential to have negative effects, and the associated capital outflows must be taken into account. In developing countries, a key consideration will be how much capital outflows may harm the balance of payments. Finally, governments may need to anticipate the political effects that the adoption of certain HCMs will have on both the local and global levels. For instance, the governments of the host nations could be worried about maintaining impartiality in the bidding process and might view acquisitions that are supported by financial measures with skepticism. All of these elements might have a big impact on whatever combination of remedies would really work for a certain nation and have the desired effects in the home nation.This menu of options is seen to be helpful for the governments of developing countries in Asia and the Pacific. Given that many of the smaller countries in the region are still refining their approaches to economic policy, it could be helpful to navigate an increasingly important but challenging area of economic policymaking. Therefore, ESCAP, the World Economic Forum, and Kings College of London have further refined this menu of possibilities into an online interactive Policy Toolkit for Maximizing OFDI. Naturally, it is crucial that such a policy toolbox be improved as time goes on, more relevant research becomes available, and governments in Asia, the Pacific, and elsewhere get more experience using HCMs to harness OFDI for development.

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CHAPTER 13
FOREIGN DIRECT INVESTMENT FUELS THE RAPID GROWTH OF INDIA'S RETAIL SECTOR

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ABSTRACT:

Retailing is an essential component of the maker-consumer connection. Over the last ten years, the Indian economy has seen substantial growth, and the retail sector is now in great demand. India, which led the globe in the Global Retail Development Index in 2017, is anticipated to overtake the United States as the third-largest retail market by 2025. In terms of retail space, India is now positioned sixth. There are organized and unorganized retail industries in India. Only 7% of firms in the retail sector, or around 93% of all businesses, are unorganized. India is seen as the ideal location for the introduction of FDI due to the developing economy, rising levels of technology, and other considerations. However, acquiring FDI has been restricted for a number of economic sectors. Single brand retailing and multi brand retailing are the two segments of the retail market. By permitting 100% FDI in online retailing of products and services, the Indian government has taken steps to automatically promote "MADE IN INDIA" and "E COMMERCE" The goal of the government program is to encourage both small and major merchants to promote and boost the sale of products and services produced in the nation.

KEYWORDS:

Retail Sector, Rapid Growth, Economic Development, Investment Opportunities, Market Expansion, Fdi Policy, Retail Industry, Indian Economy.

INTRODUCTION

Retail in India is expanding and offers investment possibilities. The country could only accept a certain amount of foreign direct investment up to 2006. But since 2006, the government's policy has changed in a way that now permits foreign firms to invest in India as owners. The article explains tax breaks, variables affecting the influx of foreign direct investment, and the growth of several Indian retail businesses. India becomes an appealing investment place by facilitating small, medium, and big international firms and enterprises, and by removing any obstacles to Indian retail that may have existed[1]. The retail industry in India is the biggest overall, accounting for more than 10% of the country's GDP and more than 8% of all employment. Due to the entry of several enterprises into the market, India's retail industry has grown to be one of the most dynamic and quickly-moving industries. Not all of them, however, have done so. success due to the high start-up expenses necessary to compete and make a profit in comparison to other firms. The Indian retail industry is constantly progressing toward becoming the next big industry[2].

An organization is regarded as an FDI participant if it makes direct investments in the construction of a plant in another nation. One makes a direct investment in buildings, machinery, and equipment as opposed to portfolio investments, which are regarded as indirect investments. Foreign investment, often known as foreign direct investment, is the net inflow of funds used to acquire a long-term management ownership interest in a firm that does business outside of the investor's home nation. Joint ventures, management engagement, technology transfer, and expertise are often included. Retail accounts for more than 8% of all employment and more than 10% of India's GDP, making it the country's biggest industry. Indian retail has become one of the most dynamic and quick-paced industries as a result of a lot of rivals entering the market[3], [4]. However, none of them have yet seen success because of the high startup expenses required to compete with other firms and achieve a break-even point. India's retail business is on the verge of overtaking agriculture as the country's next major industry. India's retail industry is undergoing a revolution as a consequence of the sector's overall startling structural changes and changes in customer buying habits. As seen by the packed malls, big buildings, and vast complexes that provide food, entertainment, and shopping, India's retail business has modernized. India's organized retail business will grow as a result of an increase in urban nuclear families, a rise in working women, a sizeable youthful workforce with a median age of new prospects in the services sector. Given the continued growth of both organized commerce and consumer purchasing patterns, it will be simpler for new businesses to join the Indian retail industry. Foreign direct investors are those who are citizens of or legally established in a country other than the one in which they are making their investment. According to the IMF, foreign direct investment is an investment made to acquire a lasting interest in a firm operating in an economy other than that of the investor[5].

FDI Requirement

The nation lacks sufficient internal capital to support economic growth; Foreign funds are often required while the capital market is still developing, at least briefly; Foreign currency often bring other highly prized skills, such commercial savvy, technical know-how, and awareness of current trends in international trade.International giants like Wal-Mart, Carrefour, and Tesco are joining the market, as are significant local firms like Reliance Group, Future Group, and AV Birla Group. Furthermore, the Indian government, which is now in power, is projected to provide FDI in this sector a fresh boost by allowing 51% of FDI under single-brand products retailing. The Indian government put up retail modifications in November 2011 for both single-brand and multi-brand companies. These market changes created the door for retail innovation and rivalry with multi-brand retailers like Wal-Mart, Carrefour, and Tesco as well as significant single-brand companies like Nike and Apple. New government rules that allow anybody in the world to innovate in the Indian retail industry with 100% ownership were authorized in January 2012. There is fierce rivalry in the retail sector nowadays. The degree of rivalry will rise as more global retail chains set up shop in India. Retailers must thus ensure that consumers enjoy browsing at their stores. Stores in this situation need to set themselves apart from rivals[6], [7].

Growth in Retail

In the past, India's unorganized market dominated the retail sector. This industry has expanded dramatically over time. After the 1980s, more companies entered the supply chain, sharply raising the degree of competition in this sector. There have been various changes made to marketing methods in addition to new developments like the creation of sachets for a variety of products that are specifically targeted to rural clients. With the advent of "malls" and "hypermarket" formats in the early 2000s, a large number of new Indian enterprises entered this sector. In addition, the Indian government has relaxed restrictions on foreign direct investment, which will aid in the expansion and advancement of this industry[8].

Indian Retail Challenges

According to the other sources, the majority of Indian retail businesses have shop spaces that are fewer than 500 square feet in size. In order to expand their shopping malls, international merchants will hunt for space in and near cities. There haven't been many sites, especially in desirable areas, in many big cities[9]. Real estate costs will therefore soar.

- **a)** For the majority of regulated merchants, rent for retail space must represent a larger proportion of revenue. According to Makol and Rajput, the variation in stamp duty rates throughout the country for property transactions is also extremely considerable and contributes to the rise in real estate prices.
- **b)** According to Jain and Godha, weak supply chains are a challenge for Indian retail operators. Since the unorganized sector still controls a significant portion of Indian retail, there are issues like inadequate storage conditions, a lack of cold storage for certain kinds of cold storage, a lack of investment capacity for storage facilities, etc.
- **c)** Diverse customer preferences: customer preferences in India vary by area as a result of the country's cultural and socioeconomic diversity. Manufacturers must segment their markets in order to successfully adjust their goods.
- **d)** Another big issue in Indian retail is a lack of skilled and well-groomed personnel. As a result, employers struggle to locate suitable workers[10].

FDI Regulations

Over the last ten years, international money transfers have become more and more common via foreign direct investment. Several FDI theories forecast its scale and growth across nations and sectors. Activities that increase an economy's capacity for output or draw in outside money are included in foreign direct investment. A business or organization from another nation makes an investment in a company or entity having its headquarters there. According to Froot, the timing of FDI may be explained by three theories: value impacts, tax increases, and trade obstacles. The first point is stressed: Changes in internal funds might assist to explain differences in FDI since they are less expensive than externally produced funds. On FDI, trade restrictions and currency rates have a greater impact. FDI would be directly impacted by any changes in manufacturing prices and currency appreciation or depreciation. Import limitations significantly affect FDI as a trade substitute, according to Plummer and Cheong. According to Plummer and Cheong, there are valid arguments to support the notion that FDI has a muddled effect on domestic employment, trade, and sector competitiveness[11]. Foreign Exchange Management Act and Government of India regulations apply to foreign investment in India.

Since many years ago, the government has liberalized its FDI policy. Numerous advancements have been accomplished in the nation. Prior to the liberalization of these policies, the economy of the nation was in decline, but now it is the second-most lucrative and alluring investment destination after China3. Collaborations between international merchants and local small manufacturers support the adoption of cutting-edge technologies like packaging and the barcode system. FDI benefits the economy of the nation as productivity rises. Economic growth in the host nation leads to market diversity and stronger incentives. Therefore, FDI and economic expansion are mutually beneficial.The three primary reasons against permitting FDI in the retail sector are, however, that it would stop the development of the local organized retail industry, compel the liquidation of small retail establishments, and have more serious repercussions. The goal of FDI policy is to manage and regulate foreign investment inflows into the nation. In wholesale cash & carry, 100% of FDI is permitted, and an automated trading channel is in place[12], [13]. The Foreign Investment Promotion Board, in contrast, permits 51% FDI in the selling of goods under a single brand.

Advantages of FDI in Indian Retail

a) There are several benefits that foreign direct investment (FDI) in the Indian retail industry has brought about that have greatly influenced the economic climate of the nation. First and foremost, FDI has significantly increased the amount of capital invested in the retail sector, which has allowed for the growth of contemporary retail infrastructure, such as shopping centers, hypermarkets, and organized retail chains. Along with enhancing the physical shopping experience for customers, this financial injection has also increased job possibilities throughout the nation, addressing the problem of unemployment.

b) The improvement of supply chain effectiveness is a key benefit of FDI in Indian retail. Best practices in inventory management, transportation, and storage have been established by international retailers, who are renowned for their highly developed logistics and supply chain management systems. This has decreased the waste of perishable items and increased the overall effectiveness of the supply chain, which is advantageous to both producers and consumers[14].

c) Furthermore, FDI has aided the Indian retail industry's embrace of cutting-edge technology. International merchants often introduce state-of-the-art retail practices and technology, such as inventory management, data analytics, and point-of-sale systems, which offer improved consumer insights and individualized shopping experiences. This technology infusion has enhanced customers' overall shopping experiences while also increasing the efficiency of retail operations.

d) FDI has promoted robust competition in the Indian retail industry in addition to these operational advantages. Domestic merchants have been inspired to innovate and improve their offers in order to stay competitive by the advent of international retail giants. As a result, customers now have access to a broader range of options, competitive pricing, and higher-quality goods[15].

e) Additionally, by establishing a direct connection between farmers and merchants, FDI has promoted investments in the agriculture industry. Large global retail chains often purchase goods directly from farmers, cutting out middlemen and guaranteeing fair rates for growers. This has increased agricultural revenue while also lowering the country's food inflation rate.

f) Last but not least, FDI has improved India's standing as a major retail hub. Not only has the presence of well-known multinational shops encouraged FDI, but it has also improved India's reputation as an advantageous destination for investors. As a result, the nation's economy has continued to expand and flourish[16].

FDI in the Indian retail sector offers a number of benefits, including greater competition, supply chain efficiency, economic development, and better possibilities for both producers and consumers. It is clear that FDI has greatly influenced the present Indian retail scene and has made a big contribution to the country's economic growth.

Disadvantages of FDI in Indian Retail

a) Foreign Direct Investment (FDI) provides benefits for the Indian retail industry, but it also has drawbacks and causes for worry. The possible effect on tiny, disorganized merchants is one of the main worries. Smaller local merchants may find it difficult to compete with the immense resources, economies of scale, and marketing strength of these giants as a result of the advent of major multinational retail chains. Small merchants may be displaced as a consequence, and some companies may even close, which might result in employment losses and economic instability in the neighborhood.

b) The potential for cultural and economic imperialism is yet another serious disadvantage of FDI in Indian retail. International retail behemoths can put their own items and brands ahead of locally made products, which might diminish India's cultural heritage's variety and depth. Additionally, their market domination may cause the revenues from the retail industry to be sent back to their home nations, which would reduce India's total economic gains[17].

c) Concerns regarding the effects on conventional supply chains are also raised by FDI in the retail industry. International merchants often have their own supply chain networks, and by procuring directly from suppliers, they may displace conventional middlemen and intermediates. This has the potential to lower prices and improve efficiency, but it also has the potential to negatively impact individuals whose jobs rely on the current supply chain, such as regional distributors and wholesalers.

d) Additionally, there are concerns about the dominance and influence of foreign businesses in the Indian retail sector. Local stakeholders may lose influence over crucial facets of the retail market as a result of these corporations' propensity to impose their will on price, product choice, and supply chain procedures[17].

e) Concerns exist on how FDI may affect India's small-scale agriculture producers. While some contend that foreign retailers' direct sourcing might help farmers by removing middlemen and guaranteeing fair pricing, others are concerned that the negotiating clout of these big businesses may result in bad conditions for local producers.

f) The independence of Indian retail firms may also be affected by the FDI inflow. Retailers from other countries sometimes bring their own operating procedures and business strategies, which may not always be compatible with the preferences and ideals of the Indian market. The retail environment may become homogenized as a result, with an emphasis on standardized, international goods and services at the cost of regional and traditional goods and services[18].

Although there are certain advantages to FDI in Indian retail, there are also a number of drawbacks and issues to be aware of. Small stores may be forced out, cultural and economic imperialism, disruptions to established supply networks, a loss of local authority, and effects on small-scale agricultural producers are a few of these. For India's retail sector, finding a balance between using the benefits of FDI and tackling these negatives is a difficult task.

DISCUSSION

An essential component of the economic environment of the nation is captured in the article Foreign Direct Investment Fuels the Rapid Expansion of India's Retail Sector, which highlights the considerable contribution that foreign investment has made to the growth and expansion of the country's retail business. The study of this subject offers an intriguing perspective of how FDI has aided in the extraordinary expansion and modernization of India's retail sector. The influx of cash into the retail sector is one of the boom's most obvious repercussions. FDI financial resources have helped India create a sophisticated retail infrastructure, in major part. India's socioeconomic issues have dramatically improved as a result of the growth of shopping malls, hypermarkets, and organized retail chains throughout the nation [19]. These developments have also greatly increased job prospects and enhanced customer shopping experiences. FDI has been essential in enhancing supply chain efficiency in addition to capital infusion. International retailers, known for their sophisticated supply chain management and logistics practices, have used cutting-edge technologies that have reduced perishable products loss and simplified the supply chain, benefitting both producers and consumers equally. The increased effectiveness has reduced costs, and total product availability has increased. Furthermore, FDI has an impact on the retail industry's adoption of cutting-edge technologies. International merchants have introduced modern point-of-sale systems, data analytics, and inventory management. In addition to streamlining retail operations, these technologies provide customers more individualized shopping experiences, bringing the sector into compliance with international norms. Foreign corporations' entrance into the Indian retail industry has sparked healthy rivalry among regional businesses as well [20]. In order to stay competitive, domestic merchants have been forced to innovate and improve their services. Due to increased competition, consumers now have more options, more affordable goods, and typically better quality. Direct connections between agricultural producers and retailers are now possible because to FDI. International retail giants often buy goods directly from producers to bypass middlemen and guarantee fair rates for farmers. As a result, agricultural revenue has increased and the nation's rate of food inflation has dropped. Foreign investment, which has increased capital infusion, technical developments, supply chain efficiency, and healthy competition, is significantly responsible for the growth of India's retail business [21], [22]. There is no doubting that FDI has considerably contributed to the defining of India's contemporary retail environment and improved the nation's economic development, despite the fact that there are still issues and impediments.

CONCLUSION

In conclusion, it is indisputable that Foreign Direct Investment (FDI) has played a significant role in the retail sector of India's explosive rise. A new age of economic growth, modernity, and competitiveness within the Indian retail sector has been ushered in by this dynamic interaction. Along with providing crucial financial support, FDI has also enhanced technology, increased supply chain effectiveness, and promoted healthy store rivalry. Consumers now have a better shopping experience because to the expansion of contemporary retail infrastructure, such as shopping malls and hypermarkets, which has also helped the economy nationwide by generating much-needed job opportunities. International retailers' effective supply chain management techniques have reduced waste and improved total product availability, which is advantageous to both manufacturers and customers. Additionally, FDI-encouraged competition has led to a variety of options, competitive pricing, and increased product quality, all of which have benefited consumers. Direct connections between farmers and retailers have been established in the agricultural sector as a result of FDI, assuring fair pricing and increasing agricultural revenue. However, it is crucial to recognize that FDI in the retail sector also poses difficulties and causes worry, such as the possible eviction of small merchants and the impact of multinational businesses on regional markets. For India's retail business, finding a balance between using FDI's advantages and resolving these difficulties continues to be difficult. Nevertheless, FDI has had a fundamentally positive overall influence on India's retail industry. It has not only sped up development but also elevated India to the status of a desirable investment location on the international arena. FDI will probably continue to play a significant and influential role in determining the future of this important industry as India navigates the changing retail environment, fostering the growth and prosperity of the Indian economy.

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