

Economics: foreign direct investment

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What impact will the prospect of deprivatization have on investment by managers of privatized firms? The prospect of deprivatization will impact managers of privatized firms because under this policy, certain past privatization would be declared illegal and the transactions would be reversed. These privatized firms would have to be either run as a state-owned enterprise or sold to another party.

This will affect managers of privatized firms in that they may not have the power to make decisions on their own, decisions will be made by the state and this may limit levels of efficiencies in these firms, also the firms may not respond quickly to changing market conditions due to long process of decision making. What effect will deprivatization have on foreign investment in Russia? Many of the private buyers were foreign companies and investors and their idea was to move from a centrally planned economy to a market system.

The courts would rule that the company's initial privatization was illegal. They suggested that the company was to be resold. Deprivatization will discourage foreign direct investment, this is because investors will fear the occurrence of such a situation in the future and therefore will prefer to invest in other regions. There are some factors that encourage foreign direct investment which include political stability and well defined property rights and when investors learn that political influences will occur they will not invest.

Foreign direct investment has advantages in that it increases job opportunities, pay taxes to the government from profits earned, lead to the sharing of information and technologies and also stimulates economic

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growth, in future less foreign direct investment will decline and these advantages will not be realized. Who gains from deprivatization? Who losses? State-owned enterprises that were privatized loses. Managers who lost their jobs when new investors entered the picture gain deprivatization. Investors have over the years developed the firms they acquired and this has added value to the firms over the years, previous loss making firms have been improved by these investors who have converted the firms into profit making firms. Therefore when the investors are deprived off their firms they will lose and the individuals, government or investors who are accorded the firm will gain.

In some cases where products produced by the government are subsidized then privatization leads to an increase in prices, when the government owns these firms then the consumers will experience a reduction in the price of goods and services produced by these firms and therefore gain. Assuming more people are hurt by deprivatization than helped, why would a local politician support such a policy?

Politicians want mass deprivatization of these firms due to some disadvantages they cause in the economy, one of this disadvantage is that foreign investors will repatriate profits to their home country and therefore does not benefit the host country, the other problem is that they bring stiff competition to the various industries and host country firms will close down due to competition. Finally the politicians will want investors in the country to invest in these firms and not foreigners and they will not want illegal allocation of these resources to some individuals.

The performances of a government in power is required to safe guard state property and not transfer property to individuals, for this reason therefore politicians may want to increase government popularity by safeguarding public property by deprivatization. The public owned firms in the market are seen as a tool to further the governmentgoals, when the government acquires these firms then it will be possible for the government to further economic and social goals in the whole nation.

Finally private firms may be producing less than the demanded amount, this is because the private owners aim at increasing profits in the short run but the state will have long term goals and therefore these firms will be used to implement policies that will have long term benefits rather than short term.

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