Why does the us allow foreign real estate investment?

Research proposal: Why the U. S. allowsforeign real estate investment and why there is limited regulation in thisregard?

Chapter one: Introduction

1. 1 Background of the Study

Today, investors across the globe pryon markets that yield higher returns and security of the investments. As thedesire to control diversify investments across countries through the FDIincrease, so are prospective countries liberalizing their policies to allowinflux of these anticipated investment funds (Grant, 1991). On the basis of themacroeconomic theory, investment flows are enhanced by the theory ofcomparative advantage which points to the need to actualize investments in safeand secure environment which promise higher yields (Carkovic and Levine, 2005). The high growth rates and strong institutional framework in the US has receivedthe attention of investors across the globe.

Concept of International Business

International business refers tocommercial exchanges that occurs across the borders of a country. Thedefinition includes both small and large corporations that import and exportgoods. As internal demand for externally produced goods increase, so are thecommercial transactions expected to rise. The growth of international businessis attributed to market liberalization and increased government policyimplementation to expand its political influence in other economies. As thegrowth takes shape, policymakers and legislators have got the regard forlimiting the negative impacts of trade barriers through viable legislation andpolicy frameworks (Grant, 1991). Regardless of the size of the business that pursues the internationalmarket, the impediments of such a trade are influential in determining thedirection. A country’s policy on international business could either foster todetriment international engagements. Essentially, the organization has toconsider the prevailing economic and legal issues in the desired trade partner.

1. 2 Foreign Direct Investment

The US definesForeign Direct Investment (FDI)as the ownership or control, which can either be directly or indirectly by a foreigner. The foreigner can be an individual, association, government, partnership, or branch. The crux of FDI is enhanced flow of investments into the country. regardless of the size of the economy, FDI is a crucial aspect in economic growth. The related issues such as technologies, job creation, productivity and increased networks are inevitable in realizing growth in any sector of the economy. FDI contributes to the revenue generation for the economies that accept the investments. The technology and related externalities are critical in determining the growth index of a country. Such issues as employee experience and licensing of organizations are key in fostering a general understanding about external markets and their influence in generating revenues (Ford, Fung, and Gerlowsky, 2014). As a result, government policies will always seek to define capacities for which FDI can be tolerated in the economy.

Foreign Direct Investment Real Estate in the US

The investors involved in the FDIREin the US are investors from Japan, Canada, and the United Kingdom. The growthof FDIRE has been growing in the recent past because the government has createdan enabling environment upon which investors can create funds. However, therehas been loopholes in the policies in real estate in the US has got theattention of real estate moguls who would wish to take up chances and maximizeincomes (Hampton, 2016). Throughout the Obama administration, several attemptswere made through government ministries such as Commerce and State Departmentsto create viable frameworks that spurs growth in FDIRE. According to Jenniges, Derrick and Fetzer (2016), FDIRE for the US stood at $70. 5 billion shared byEuropean countries, Latin Americas, Asia, Middle East and Africa.

1. 3 Research Problem

The role of FDI in the developmentprocess of US is critical. The admissibility of US FDI in other countries iscontingent on how well they accept investors from other countries to invest inthe country. As a result, the two impeccable issue that drive such investmentsare policies that bolster the undertaking. Alternatively, the growth ofinvestments in real estate is attributed to the prevailing economic and policydecisions about the need to create more jobs in the localities as well asincrease bilateral diffusion of US firms in other countries (Ford et al., 2014). Moreover, the economic issues that has impacted on the US such as thefinancial crisis of 2008, and the rising debt index has limited developments inthe real estate has imperceptibly necessitated increased investments. Also, FDIRE is estimated to contribute immensely to a country’s growth anddevelopment index. According to Levy, Ralph and Fatheree (2016) FDIRE isattained through restructuring of the sector achieved by use of moderntechnology in building and construction as well as optimizing distribution ofresources across global economies.

Research Objective

The objective of the study is to findout why the U. S. allows foreign real estate investment and why there is limitedpolicy regulation on these real estate investments.

1. 4. Value of the Study

The research findings are believed tobe useful for the government in appreciating the essence of reduced regulationof the sector for the economic benefits for the economy. As a regulator, thegovernment will also be able to construct viable policy recommendations thatwill improve revenue flows from the sector. Further, the findings will helpreal estate investors targeting the US housing market to increase theirinvestments. Essentially, the finding will also add to the bulk of the recentliterature on real estate investments in US.

Chapter two: Literature Review

2. 1 Introduction

The chapter will provide a review ofthe documented literature on the research on real estate in the US. Additionally, it will evaluate the theoretical perspectives as regards thetopic under consideration.

2. 2 Literature Review of Globalization of Real Estate

Loungani (2017) describes argues thatglobalization of real estate has been necessitated by increased wealthaccumulation in emerging economies, low-interest rates in the most of theeconomies as well as the geopolitical risks enabling a shift to other economies. Globalization has impacted the prices of assets as well as open up viableeconomic conditions upon which investments in the assets has taken shape. Globalization is associated with increased accessibility of funds, goods andtechnical experience that is spurred by the increased mobility of factors ofproduction. As a result, globalization has impacted immensely on the flow ofgoods through manufacturing, distribution, and asset management (Hampton, 2016). Additionally, the relocation of skilled experts to the developedeconomies necessitates the investments in assets, with real estate being a keyfocus for the immigrants.

2. 3. Literature Review of FDIRE in the US

The turbulence in the major globallike Japan and the UK has indicated tendency to favor foreign investments inthe US. The Advent of the Brexit negotiation and its impending implications, the negative interest rates in Japan, and the China's macroeconomic policy torebalance its economy has seen shifts in the investment in assets in othercountries (Urquhart-Bradley, 2017). Theincreased flow of financial instruments, with many researchers indicating aconvergence of these instruments at New York, London, Singapore, and the HongKong; and the positive economic growth indices in these countries invariableclassify them as the most secure places to invest in for long-term initiatives(Hampton, 2016). According to Rsmus Report (2017), the US poses as a worthwhileenvironment because ' there is strong rule of law, and a relatively stablegovernment and strong growth prospects" which are attractive for investments inassets. The tendency is also aggravated by the presence of highly informed andstrategic decision maker in the asset management. The review of the ForeignInvestment in Real Property Tax Act (FIRPTA) in December 2015 saw a 10%investment that a foreign investor can invest in the Real Estate InvestmentTrust (REIT). Such a step has bolstered cross-border investment in real estate(Partners Trust Blog, 2018).

2. 4. Literature Review of Location Preferences

Changes in the FIRPTA has impacted onthe asset type and geographical location of assets. While the conventional realestate investments had been widespread in cities like New York, Washington, D. C. and Boston where office space were of interest. Today the focus isshifting to secondary markets where the new FIRPTA legislation promisesafter-tax-risk-adjusted returns that are associated with increased incomes(Levy, Ralph and Fatheree George, 2017). Gocial, Boggs and Luskin (2017)evaluation of the role of CFIUS found out the investments in asset is allowedas long as it does not appear to breach the internal secrecy of the US. Forinstance, the CPIUS reviewed the Chinese acquisition of a mining companylocated near a military base.

2. 5. Summary of the Literature

The section has explored the criticalissues that determine and contributes to investment in real estate byforeigners in the US. From the mainstream understanding of FDI as an enhancedflow of goods, people, and financial resources, investment in real estate iscrucial for the growth of the US.

Chapter three: Theoretical Framework

3. 1. Introduction

This section presents the theories ofFDI that would ensure the objectives of the study is materialized.

3. 2. Theoretical Foundation of the Study

To adequately conceptualize why theUS allows FDIRE and the accompanying legislative issues, it is essential thatthe study adopts the neoclassical theory of capital mobility, imperfect markettheory and the internationalization theory.

3. 2. 1. Imperfect market

The market imperfection theorydescribed by Hymer, Kindleberger and Caves is based on the assumption that FDIis necessitated by imperfection in the market of foreign economies. Theimperfection could be as a result of government regulations on tariffs, etc. that limits efficient resource allocation (Dunning, 1993). As such, for theforeign investors to control the market, they should demonstrate that they haveadequate technological know-how, cost-effective procedures as well as financialstrengths. Essentially, the theory establishes its influence by internalizingthe multi-dimensional incapability that an economy may have in order to qualifyas a viable FDI destination.

3. 2. 2. Eclectic paradigm

The primary hypothesis of theeclectic theory is that international production occurs due to the interactionof three basic advantages which include; ownership-specific benefits (O), location-specific benefits (L), and the market-internalization benefits (I). The operation of the paradigm is contingent on the internalization and themarket imperfection theories. The propositions of Dunning and Vernon magnifiesthe need to serve internal markets because of the associated opportunities andadvantages. The theory further creates a reasonable understanding that it isthe available conditions in a country that will attract foreign investors tothe location.

3. 2. 3. Macroeconomic approach

The proposition of Kojima gainedrepute in understanding the necessity of FDI. The analogy of the comparativeadvantage in internalizing investment initiatives between countries creates theneed for investment flows. The macroeconomic fashion of analysis integrates thereason for international trade and subsequent impacts of FDI. It borrows from acomparative reasoning between countries, and countries with sufficientinvestment needs usually create viable conditions upon which FDI is pursued. The approach illuminates the function of FDI under different economicconditions and establishes a future rationale for the present investment.

3. 3. Summary of the Theoretical Framework

The theoretical framework for thepaper illuminates the intriguing issues that necessitates FDI. It is from thesetheoretical frameworks the study will develop to present findings about thecrucial factors that allows US to pursue FDIRE.

4. Conclusion

To this end, the proposal hasenlightened a reasonable understanding about the topic as well as described theprocess through which the study will develop its findings. The review ofliterature perceptibly described the scope and depth of analysis of the topicas anticipated to yield best results.

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