How government can regulate foreign investment

Business

How government's can regulate Foreign Investment Lecturer's Due

Enhancing globalisation to work for development of the thirdworld countries stands as a great challenge for many states (Brewer, 1991). One of the debates questions how host countries can influence and control foreign direct investment (FDI). FDIs occur when a country establishes new facilities directly into a foreign country for business purposes. FDI provides great benefits such as increased capital inflows, transfer of technology, and improved access to export markets (Cavusgil, 2008). The paper aims at discussing some of the policies available to state policy makers in order to attract and regulate foreign investment.

However, a host country needs to have a minimum absorptive capacity and the ability to link these investments with domestic enterprises (Ruane & Gorg, 1998). FDI policies affect both potential and existing foreign investments either directly or indirectly. The host country justifiably sets its policies based on information, business failure, and intervention (Lall, 2000; Moran, 1998). Some of the policies include:

1. Screening, Ownership restraints and performance requirements.

A government should efficiently analyse and evaluate international firms before they invest in the country. Screening aids in identifying the purpose of the firm and the validity of its actions. Secondly, in ownership restraints, the host state decides to exclude foreign investors from certain parts of the economy (Hill, 2011). Exclusion based on the grounds of healthy competition and national security. For example, India implemented certain foreign ownership policies, which governed the retail sector since foreign traders almost put local supermarkets out of business (Mukherjee, 2005). Finally, performance requirements enable a country to optimize FDI benefits and minimize on the costs employed to the host country.

2. Operational policies

Operational policies assist in controlling the activities of foreign companies in the host country. Governments implement operational activities through site restrictions, export requirements and persistence on partial ‘ local content.’ Based on location policies, the state needs foreign investors to lay foundation in regions where they provide labour market. Secondly, based on the industrial activities, firms should locate to regions where they will not disrupt other forms of infrastructure or cause harm to the inhabitants. Export policies aim at managing foreign company exports mainly to create a balance between it and the domestic export (Moran, 2005). States implement export regulations through taxation policies. It also permits the exportation of only a set percentage of goods and services. Finally, partial ‘ local content’ refers to the need of foreign manufacturing industry to purchase locally raw materials and intermediate goods. For example, the 1994 treaty between Venezuela, Colombia, and Mexico advocates for local production, labour, and business.

3. Economic integration policies

Some of the economic policies include set constraint on payment of capital and profits abroad. Host countries ensure that a percentage of the profits go to the local economy. The state implements the policy through taxation. Other economic integration policies include formation of partnership links between foreign investments and local businesses, introduction of new forms of technology to the local economy and finally provide employment to the local market (Teece, 1977). The Chinese state policy directs foreign investors to manufacture high-end equipment. For example, the Chinese Dell company utilizes foreign investors to manufacture some of the computer components (Klein, 2009).

In conclusion, regulatory policies aim at controlling foreign investments in host countries. Policies do not utterly pose like restrictions to foreign investment but like limits. The policies broadly include entry policies, operation policies and economic integration policies as discussed. Governments find FDIs attractive, but they should regulate them in order to secure the domestic industries.

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