Foreign direct investment essay

As requested, I have set out below a discussion regarding the attractiveness of alternative countries based on the potential return of Foreign Direct Investment (FDI). I have set out below in the appendix 1 the Foreign Direct Investment (FDI) confidence index and I have also provided an explanation of how the index is constructed. Finally, I have also set out my thoughts on the alternative countries that the company can invest which may provide higher returns to the company. Discussion and recommendationsIdentifying a foreign country or creating a strong international presence is not often as simple; requires due diligence, especially when our company is considering an investment destination in foreign countries.

There are numerous things to think about when producing, selling and marketing in another country, and these factors must be considered carefully. Foreign direct investment (FDI) is an internationalisation strategy in which the firm establishes a physical presence abroad through acquisition of productive assets such as capital, technology, labour, land, plant, and equipment. FDI requires substantial resource commitment, local presence and operations in target countries, and global scale efficiency. Sources of Information on FDI attractiveness There are many excellent sources of information on FDI attractiveness on alternative countries such as the global management consulting firm A. T.

Kearney which dedicate significant coverage to overseas events. The following is a table showing the top 25 countries ranked according to their attractiveness to FDI. It is commonly known as the FDI Confidence Index. How FDI Confidence Index is constructed? The FDI Confidence Index is constructed using primary data from a proprietary survey administered to senior executives of the world??? s leading corporations.

Respondents include C-level executives and regional and business heads. The 300 participating companies represent 26 countries and span all industry sectors. All companies report global revenue of more than $500 million. Companies surveyed are evenly distributed across the globe, with roughly and third headquartered in Europe, a third in Asia-Pacific and a third in the Americas. The index is calculated as a weighted average of the number of high, medium, and low responses to questions about the likelihood of direct investment in a market over the next three years.

Index values are based on non-source-country responses. For example, the index value for the United States was calculated without responses from U. S. -based investors. Higher index values indicate more attractive investment targets.

FDI flow figures are the latest statistics available from the United Nations Conference on Trade and Development (UNCTAD). Other secondary sources include investment promotion agencies, central banks, ministries of finance and trade, and major periodicals. The FDICI is updated periodically to take into account any changes that would have taken effect to the FDI lows. Developed, Emerging and Frontier Markets When considering international investments, there are three types of markets from which to choose: Developed markets, this consist of the largest, most industrialised economies. Their economic systems are well developed, they are politically stable and the rule of law is well entrenched. Developed markets are usually considered the safest investment destinations, but their economic growth rates often trail those of emerging markets.

The FDI confidence index clearly shows that United States remains the FDI magnet which continue to claim the top spot for the past three years to date followed by China. Eight of the top 10 spots in the 2016 FDI confidence index are developed markets this is due to the fact that global executives have grown less optimistic over the past year about the economic prospects of most of the emerging markets in the index, with the notable exception of India. Emerging markets, these experience rapid industrialisation and often demonstrate extremely high levels of economic growth. This strong economic growth can sometimes translate into investment returns that are superior to those available in developed markets. With reference to the FDI confidence index, China is topping the list of emerging markets followed by India and then Brazil which claimed the 12th spot in 2016 FDICI.

Although countries like China and India are currently poor, their economies are already large in absolute terms and growing more rapidly than those in many advanced nations. It can be concluded that although India has about 1. 1 billion people the market may still not be very lucrative for consumer products because comparing in terms of the purchasing power parity basis, an Indian citizen can consume about 7% of the goods and services consumed by the average US citizen. If we are to be optimistic about investing in emerging markets, countries such as China have to remove major impediments to freedom: poverty as well as tyranny, poor economic opportunities as well as systematic social deprivation, neglect of public facilities as well as the intolerance of repressive states.

Frontier markets represent “ the next wave” of investment destinations. These markets are generally either smaller than traditional emerging markets, or are found in countries that place restrictions on the ability of foreigners to invest. The majority of African countries falls under frontier markets which include Nigeria, Botswana, Morocco, Tunisia and Ghana. Although frontier markets can be exceptionally risky and often suffer from low liquidity, they also offer the potential for above-average returns over time.

Recommendations Investment optionsIf this arrangement is acceptable, I would like to believe that investing in the developed markets is the best possible option as more global executives are more optimistic about the economic outlook of the developed markets with U. S. topping the list (see appendix 2). However, according to the sentiments made by the executives on the U. S.

coming elections if Americans choose to elect a populist (far-right) in November elections, the FDI flows will go down insignificantly by a margin of about 2. 8%. I would say the election will not change the pre-conditions of a safe investment destination. This can be supported by what had just happened in Europe where the people of United Kingdom voted to leave E.

U. (BREXIT), the statistics show that, FDI inflows from the Chinese investors actually increased and are expected to invest in properties up to $13. 2 billion by 2020. Europe attracts more than a quarter of the world??? s total FDI inflows, due to its highly qualified labour force, sophisticated, well-heeled consumers, and world-class infrastructure. Regarding investing in the emerging markets, the argument is that, there is a slowdown in the GDP growth rate (in particular China) from 10. % to a forecasted average of 6.

1% per year. This slowdown is as a result of the transitioning from an export based to a consumption led economy. Despite this growing pessimism (see appendix 2) about the Chinese economic outlook, some investors will continue investing because of the continuous growth of the middle class. In terms of loosening the investments obstacles, it remains to be seen on how Beijing will implement privatisation of some of the key industries that will open opportunities for foreign investors. Referenceshttps://www. atkearney. com/news-media/news-releases/news-release/-/asset_publisher/00OIL7Jc67KL/content/2014-a-t-kearney-fdi-confidence-index-u-s-increases-its-lead-an-overridingly-positive-outlook-develops-for-global-economy-fdi-news-release/10192