

Example of international financial markets report

[Business](#), [Company](#)



There have been deliberate steps in Central and Eastern European countries such as Poland to attract foreign direct investment. As a member of the EU, the political and legislative climate has been favorable to multinational investors. Countries in emerging markets in Asia have also been receiving a lot of attention due to the low labor costs in the region. However, the governments have not taken certain steps to create a welcoming climate when it comes to taxation and corporate governance.

Introduction

The location of the country that a multinational company chooses to invest in is critical. There are certain risks in foreign markets such as changes in tax laws such as VAT, fluctuating currencies, barriers to trade, lack of adequate corporate governance and capital markets transparency. Investors may prefer dealing with a country that is in a regional trading block due to the definitive laws in place and the security it gives in terms of property rights and protection.

In this paper, I will compare and contrast the different risks in investing in Poland and Japan. Poland is located in Eastern Europe and is a member of the European Union. Japan is one of the emerging economies in the world recording great volumes in business transactions and profits annually.

Foreign Direct Investments

In foreign direct investments, there are a number of factors that the multinational company considers. When U. S multinationals plan to set up greenhouse projects in foreign countries they realize there are certain risks that accrue. These risks are higher since the company is not entering into

joint ventures, mergers or acquisition transactions in the foreign market. Comparing the European Union countries and other countries in Asia, EU countries offer numerous advantages to the multinationals.

A comparison of the FDI investments in Japan and EU countries show that Japan continues to lag behind for various reasons. There are great advantages and benefits that a country gets through FDI and the Japanese government had announced in 2003, that the target was to double the FDI investments in the country by 2008. It nearly achieved the target and in 2006, the government announced a new target of 10% by 2010. In Japan, the levels of corporate governance are low. The presence of independent or outside directors in a company's board of directors is one of the signs that the corporate governance in an organization is strong. However, the corporate culture in Japan is different in that there lacks the presence of independent directors on most boards.

In September, 2009, the Governance Metrics International ranked Japan at 36 out of 39 countries due to the overall quality of corporate governance. In 2010, the quoted companies in the Tokyo Stock Exchange were required to have at least one independent board member. However by end of year only 10% had complied with the guidelines. The figure is low considering the size of the stock exchange.

The investors expect capital markets that have transparency to be assured that they will not incur certain risks when they transact with the quoted companies or individuals (LaPorta, Lopez-de-Silanes, Shleifer & Vishny, 2000). Investors are not attracted to countries that do not adhere to the

international set guidelines on corporate governance (Globerman & Daniel, 2003). There are other barriers to FDI in the country such as excessive regulation, slow changes in the economy and high costs in business operations. FDI is also crucial to the European countries as they recognize the importation of human and financial capital by the multinationals and the benefits that the host company will accrue in these transactions.

Countries in the European Union generally have strong currencies and there are no wide fluctuations in the currency rates. That is important to the multinational investor since it reduces currency risks. Volatile currency rates discourage inward FDIs. The investors consider several factors when analyzing the strength of the currency in the nation such as inflation, GDP growth and the ratio of the foreign exchange reserves.

The capital markets in the European countries are fully developed and stable enabling the multinational to raise capital in the stock markets. The company may desire to sell shares or bonds to obtain working capital for its investments. Investors look favorably to countries that have joined the European Union since they are assured that the legal and political regulations towards foreign investment cannot be changed suddenly. The changes must be discussed by the overall or oversight body.

Governance is broad as it includes a number of factors. The investor considers the transparency of the legal system and the honesty of the government officials. There is also economic freedom and the assurance that the private property rights are protected. In this paper, the focus is on an Eastern European country, Poland where the levels of FDI have been

increasing in the recent years. There are several factors that have led to the increase of FDI in Eastern and Central Europe. The labor costs are comparatively cheaper in these Eastern Europe countries attracting a lot of manufacturing companies that aim to cut costs.

Companies have been moving their plants to Eastern Europe and Asia to take advantage of the low costs compared to the Western Europe and American countries (Altomonte & Claudia, 2003). There are certain tax incentives that the EU countries offer. When Poland joined the EU, there was increased interest in the country from the foreign investors. The government has also adopted policies that have encouraged openness to trade by introducing tax exemptions (Barrell & Holland, 2000).

Poland has a structured plan on how tax incentives are given to the foreign investors. If the investor creates a certain number of jobs and exceeds certain costs there are several tax exemptions given. The company however should have invested in what is considered to be a priority sector for the Polish economy. These are areas with high unemployment and are lowly developed. Poland has created economic zones where the tax incentives apply. There is a 50% reduction in income from exported goods. There is also reduction of 10% tax for the income tax for the employees. There is also full exemption from corporate tax when the income reaches certain thresholds (Sedmihradsky & Klazar, 2002). There are also cash subsidies offered and preferential land purchase agreements granted.

When the rates of privatization are high the multinational will desire to invest more in the country. In EU, the sale of the holdings in companies is open to

the foreign investors. In Japan, the conditions are hostile due to the tax regulations and charges. In Japan, there are hostile takeover defense strategies and the law even allows companies to deploy the strategies at any time. In fact, the companies usually increase the levels of cross-shareholdings to ward off takeovers.

The Japanese laws discourage cash mergers due to the tax implications in these transactions. In Japan and other countries as well, the shareholders of the company are taxed on their capital gains in the event of a cash acquisition. However, in Japan, the taxes are higher since the target company is also taxed on the gain on the revaluation gain in asset values on the sale of the company shares. The Japanese enterprising managers have come up with a way to avoid these high taxes known as the callable share method. However there are no clear guidelines or procedures on this new method and the uncertainty discourages the investors from participating in these transactions (The American Chamber of Commerce in Japan, 2010).

Japan may need to modify its laws to allow the foreign investors transact freely through cash mergers without worrying about the tax implications of the transactions. Another barrier to foreign investment in the country is the lack of a tax-deferral system or treatment on mergers and acquisition transactions. The investors are wary of entering into transactions due to the high tax they would be required to pay. The government should look into it and create tax deferral systems that will protect the investors from prohibitive costs. Japan also has complex laws when it comes to corporate reorganizations that cross borders. Poland however has an advantage in that

companies established in the European Union Zone already have preferential treatment when it comes to cross border transactions.

Conclusion

In light of the characteristics in the two mentioned foreign markets, I would advise an investor to select a country in the European Union due to the advantages that it will gain. There will be lower corporate taxes and Vat. There are higher levels or systems of corporate governance. The European Union countries are already operating in a trading block which brings certain advantages. There are tax exemptions and other incentives offered to multinationals that meet certain conditions which will boost the company earnings. Other costs will be set-off.

Japan may need to re-strategize on their tax measures or regulations and corporate governance to determine the changes that need to be made to attract foreign investors. Foreign investors appreciate the role of corporate governance in safeguarding the shareholder's assets and mitigating the risk of corruption and the abuse of power. There needs to be a specific organization set up in the country that is committed to the continual foreign investments in the country.

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