ALSA
ASIAN LAW STUDENTS' ASSOCIATION

UNIVERSITAS BRAWIJAYA

ALSA LEGAL ENGLISH HANDBOOK VOL. 2

A Guide to Improve Your English

FOREIGN DIRECT INVESTMENT

2023

ENGLISH DEVELOPMENT DIVISIONS

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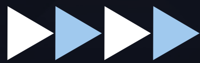


INTRODUCTION

ASSALAMUALAIKUM WR. WB,
SHALOM,
OM SWASTYASTU,
NAMO BUDDHAYA,
SALAM KEBAJIKAN,

Greetings everyone!

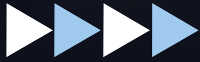
We give our highest praise and gratitude to the presence of God Almighty who always gives all His blessings, gifts and protection to all of us.

Asian Law Students' Association Local Chapter Universitas Brawijaya is an organization that aims to connect all students of the Faculty of Law in Asia. As one of the 15 Local Chapters under Asian Law Students' Association National Chapter Indonesia, ALSA Local Chapter Universitas Brawijaya is always focused and has firm principles to carry out the Vision and Objectives of ALSA which are based on the ALSA Constitution. In order to achieve this goal, ALSA Local Chapter Universitas Brawijaya always put forward the 4 pillars of ALSA in order to create individuals who can understand the different legal systems of each member of the National Chapter in ALSA, develop its members to become individuals who have international insights, responsible to the community and society, has a high commitment to academics and also has competitive legal skills in order for it to be beneficial to the surrounding community. With that, I, Edelweis as the Director of ALSA Local Chapter Universitas Brawijaya term 2022-2023 is proud to present this ALSA Legal English Handbook Vol 2.

Edelweis
Director ALSA Local Chapter Universitas Brawijaya 22/23

We sincerely hope that this handbook could be a comprehensive guide related to Foreign Direct Investment to all readers. May this Legal English Handbook Vol 2 brings benefits and accelerate two of our pillars in ALSA which are Legally Skilled and Internationally minded.
Finally, we hope all of our readers could gain new knowledge and resources for future references. Hopefully we can all contribute well by giving our full support to young Indonesian students that aim to build our beloved country, Indonesia.

"Small Changes, Big Impacts"
Wassalamualaikum Wr. Wb,
Shalom,
Om Shanti Shanti Shanti Om,
Namo Buddhaya,
Salam kebajikan untuk kita semua.
Together Will Be,
Connected as One,
May ALSA, Always be One!



INTRODUCTION

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Greetings everyone!

First, with a heart filled with gratitude let us praise the almighty God for His blessing and mercy that surround us.

I am Ni'matus Sa'bin as the Person in Charge of the ALSA Legal English Handbook Vol. 2 (August) would like to begin by expressing my gratitude to everyone who assisted and contributed to the creation of this handbook.

ALSA Legal English Handbook is an activity held by the English Development Division. This activity will be in the form of a handbook that contains everything about legal english, which will discuss and explain the legal understanding of current topics as well as important subjects that need to be known by law students and the general public alike.

In an era of connectivity and international business ventures, understanding foreign direct investment (FDI) is highly important. Foreign direct investment plays a significant role in today's global economic growth. Exploring knowledge about FDI will contribute to enhancing intellectual growth and perspectives on global economics, politics, and international relations.

Nur Ro'in Ni'matus Sa'bin

PIC ALSA Legal English Handbook Vol. 2

Also, I extend my gratitude to the legal scholars, practitioners, and experts whose insights have contributed to the creation of this handbook. Their collective wisdom underscores the collaborative nature of understanding foreign direct investment, and we are honored to share their perspectives with you.

Imagine this handbook as your compass, guiding you through the dynamic legal world of foreign direct investment. Again, thank you to all the readers I hope this handbook will help to enrich readers understanding about foreign direct investment.

Wassalamualaikum Wr. Wb,
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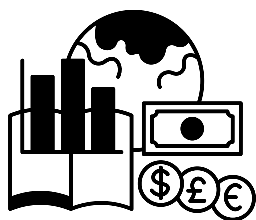

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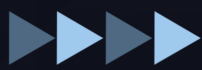

DEFINITION OF
FOREIGN DIRECT INVESTMENT

Foreign Direct Investment (FDI) is a category of cross-border investment in which an investor resides in another economy.[1] FDI is an ownership stake in a foreign company or project made by an investor, company, or government from another country. [2]

The direct investment reflects the aim of obtaining a lasting interest by a resident entity of one economy (direct investor) in an enterprise that is resident in another economy (the direct investment enterprise). The "lasting interest" implies the existence of a long-term relationship between the direct investors and the direct investment enterprise and a significant degree of influence on the management of the latter. Direct investment involves both the initial transaction establishing the relationship between the investor and the enterprise and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated.[3]

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[1] OECD Library. Foreign Direct Investment (FDI).
[2] Hayes, Adam. Investopedia (2023). Direct Foreign Investment (FDI): What It Is, Types, and Examples.
[3] Duce, Maitena. Banco de España (2003). Definitions of Foreign Direct Investment (FDI): a methodological note.

History of Foreign Direct Investment in the World

It is known that the FDI in the world goes back to ancient times when investments were mostly made in Asia, Middle East, Africa, and different parts of the world. Mira Wilkins stated that in 1600, the East India Company was officially authorized in London and set up branches overseas. 2 years later, the Dutch East India Company was formed with a mission to broaden their powers and establish colonies in Indonesia. Both East India Company and Dutch East India Company were built to dominate the rich Asian trading environment. Other countries like the Portuguese established colonies in India and Africa, the same as the British and French. While in America, the FDI started when the Virginia Company was established as the first permanent English settlement at Jamestown by King James in 1606, but it was bankrupt in 1624. In the mid-seventeenth century, Portugal and Spain began to settle Central and South America, driven by the pursuit of gold.[4] Investments are unilateral from the imperialist states to the colonial states and they generally tended to natural resources, e.g. spices, silk, etc.[5] Those states were aiming to exploit plenteous resources and low-cost labor in lesser developed countries.

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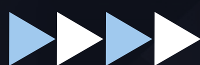
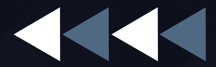
[4] Collins, David. An Introduction to International Investment Law. Cambridge University Press, 2017.
[5] Kronfol, Z. A. Protection of Foreign Investment - A Study in International Law. Leiden, 1972

During the 18th and 19th centuries, the scale of foreign investment in the private sector increased. Even so, most articles on capital mobility do not assert that foreign direct investment has played an important role for many centuries and that it was insignificant until 1913. In 1914, the amount of FDI capital worldwide was estimated at 15 billion dollars; The UK is the main source of investment, followed by the US and Germany. Global FDI had grown to $66 billion in 1938, while British companies remained the largest investors. Most investments have been made in Latin America and Asia, with a large share in the agricultural and mining sectors. These patterns began to change as US companies became the main source of FDI and investment in manufacturing became more common.

In 1914, the amount of FDI in the world was estimated at 15 billion dollars; The UK is the main source of investment, followed by the US and Germany; on the other hand, the United States is also the largest FDI recipient. Global FDI had grown to $66 billion in 1938, while British companies remained the largest investors. Most investments have been made in Latin America and Asia, with a large share in the agricultural and mining sectors. These patterns began to change as US companies became the main source of FDI; manufacturing investment has become more popular.

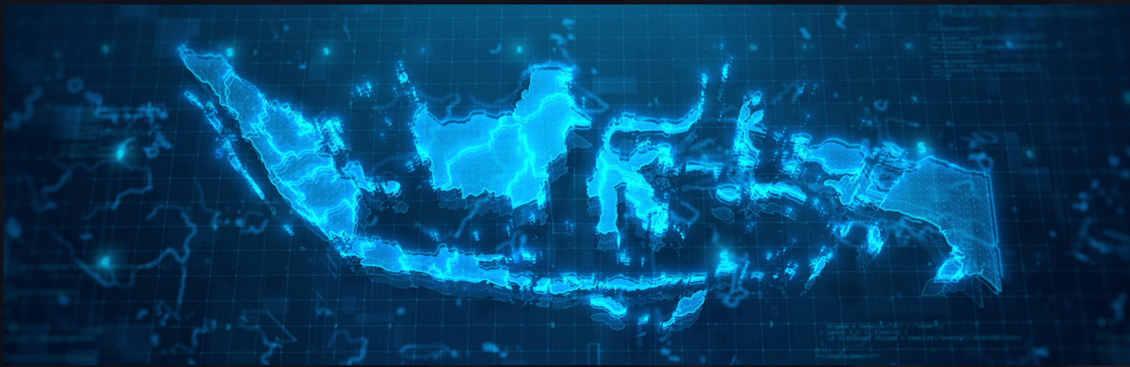
Currently, FDI regulated by treaties has reached a total of 3360 agreements, including 2943 Bilateral Investment Treaties (BITs) and 417 treaties with investment provisions. BITs are independent instruments focused on the protection of foreign investments entered into between two countries or two economies. The TIP includes comprehensive trade and economic cooperation agreements with a chapter on investment protection; and other economic cooperation agreements with certain provisions on investment.





History of Foreign Direct Investment in Indonesia

Foreign investment has been a part of Indonesia's history since the colonial era, specifically during the 17th and 18th centuries when the Dutch had investments from European countries, particularly in the mining sector. Additionally, the Agrarian Law, also known as Agrarische Wet, permitted private investment starting in 1870. However, this trend was interrupted by Indonesian Independence and Soekarno's policy of independently managing the nation's territories.



In the post-independence era, Indonesia took charge of its own territory but continued to rely on importing technology and capital goods. In response to this, the Government devised a plan to establish the Foreign Investment Law in 1953. The purpose of this law, known as Foreign Investment Law, was to encourage foreign investment only in specific sectors that would not hinder Indonesia's development. After two iterations, Law No.78/1958 concerning Foreign Investment was enacted under Prime Minister Djuanda. This law was approved with the condition that the invested capital be utilized for Indonesia's progress without causing hindrance. Over time, Law No.78/1958 was later replaced by Law No.16/1965, which highlighted concerns that foreign investment in Indonesia could impede the growth and well-being of the Indonesian people. The new law revealed that some investments aimed solely at maximizing profits without considering the country's overall development.[6] As a result, Indonesia remains open to foreign investment in designated sectors that align with its development goals, but with a careful consideration of its impact on the nation's progress and welfare.[7]

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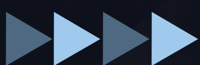
[6] Mahadiansar, R. Setiawan, E. Darmawan, and F. Kurnianingsih. "Reality of the Development of Foreign Direct Investment in Indonesia in 2019". Matra Pembaruan: Jurnal Inovasi Kebijakan, vol. 5, no. 1, June 2021, pp. 65-75, doi:10.21787/mp.5.1.2021.65-75.
[7] Admin. "Sejarah PMA (Penanaman Modal Asing) Di Indonesia." MESO, 31 May 2022, meso.co.id/sejarah-pma-penanaman-modal-asing-di-indonesia/.

Foreign Direct Investment

Legal Aspect in Indonesia

Indonesia holds a significant position in the ASEAN region and globally. This has led the government to prioritize its investment policies as a crucial area of focus. Under the Law Number 25 Year 2007, investment has emerged as a key driver of Indonesia's engagement in the global economic landscape, as well as its involvement in diverse international collaborations. The revised Investment Law No. 25/2007 introduces a novel perspective on "capital investment," extending equal treatment to both domestic and foreign investors for the first time. Based on Law No. 25 of 2007 defines an investor refers to any person or entity, whether domestic or foreign, engaging in investments. Law No. 25 of the year 2007 also mentions foreign investors shall any individual foreign citizens, foreign corporations, or foreign state make an investment within the territory of the Republic of Indonesia. Foreign Investors will receive beneficial treatment when it comes to setting up a company in Indonesia. But, foreign investors must fulfill the stipulated requirements in order to establish a limited liability company stated in the Law No. 40 Year 2007 concerning The Limited Liability Company, the Law requires at least two persons as the founder of the company and can consist of individual or legal entity/a body corporate.

Also, there are some restrictions for foreign investors that want to expand their business in Indonesian territories. If foreign investors intend to expand their business and raise additional capital via a rights issue, certain limitations are in place. In cases where domestic investors cannot partake in this additional capital, the procedures for rights issues applicable to domestic investments will be enforced. This is done in adherence to the relevant laws and regulations governing the limited liability company sector.



In conclusion, The Indonesian Investment Law has been established by the Indonesian government to offer simplicity, convenience, and supportive facilities with the aim of drawing both domestic and international investors. Consequently, the equitable treatment of both domestic and foreign investors adheres to the necessity for an open, transparent, and favorable business environment in Indonesia. This objective serves not only for the sake of the Indonesian population but also extends to the global community as a whole. [8]

[8] Bunawan, Petra. "Dialogia Iuridica Jurnal Hukum Bisnis Dan Investasi." Journal.Maranatha.Edu, vol. Vol. 8 No. 2, no. Vol. 8 No. 2 (2017): Volume 8 Nomor 2 April 2017, 2017, https://doi.org/10.28932/di.v8i2.719. Accessed 24 Aug. 2023.

The Importance of Foreign Direct Investment

Foreign Direct Investment is a crucial component in a country's economic development and growth strategy. It involves the investment of capital from one country into another with the intent of establishing a long-term business interest or acquiring assets in that foreign country. The importance of FDI can be understood from several perspectives:

1. **Economic Growth and Development**

FDI can stimulate economic growth in host countries by providing additional capital for investment, which contributes to increased production, employment, and overall economic activity. According to a study by Borensztein, Gregorio, and Lee (1998), FDI inflows positively impact economic growth in developing countries by enhancing capital accumulation and productivity growth.[9]

2. **Technology Transfer and Innovation**

FDI often brings advanced technologies, management practices, and skills to host countries. This transfer of knowledge can lead to technology spillovers and innovation diffusion within the local economy, contributing to higher productivity and competitiveness. A study by Blomström and Sjöholm (1999) highlights that FDI can have a positive impact on productivity growth through technology transfer.[10]

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[9] Borensztein, E., Gregorio, J. D., & Lee, J. W. (1998). How Does Foreign Direct Investment Affect Economic Growth? Journal of International Economics, 45(1), 115-135.

[10] Blomström, M., & Sjöholm, F., (1999). Technology Transfer and Spillovers: Does Local Participation with Multinationals Matter? European Economic Review, 43(4-6), 915-923.

3. **Employment Generation**

FDI often leads to the creation of jobs in host countries across various sectors. These employment opportunities contribute to reducing unemployment rates and improving living standards. Research by Aitken and Harrison (1999) suggests that FDI has a positive correlation with employment growth in developing countries.[11]

4. **Access to Global Markets**

FDI enables investing entities to access new markets and expand their customer base. This access to international markets can lead to increased sales and revenue, ultimately supporting the growth of the investing company. A study by Zhang and Markusen (1999) emphasizes that FDI provides opportunities for firms to overcome trade barriers and gain market access.[12]

5. **Infrastructure Development**

FDI can contribute to infrastructure development in the host country. Companies may invest in transportation, energy, and communication infrastructure to support their operations, benefiting both the company and the local economy.

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[11] Aitken, B. J., & Harrison, A. E. (1999). Do Domestic Firms Benefit from Direct Foreign Investment? Evidence from Venezuela. American Economic Review, 89(3), 605-618.
[12] Zhang, K. H., & Markusen, J. R., (1999). Vertical Multinationals and Host-Country Characteristics. Journal of Development Economics, 59(2), 233-252.

Types of Foreign Direct Investment

Foreign direct investments are commonly categorized as horizontal, vertical, or conglomerate.

1. Horizontal FDI

a company sets up the identical kind of business operations in a foreign country as it operates in its home country. A US-based cellular phone provider purchasing a network of phone stores in China is such an example.

2. Vertical FDI

a business acquires a complementary business in other countries. For example, a US company might acquire the shares of a foreign company that provides the raw materials it needs.

3. Conglomerate FDI

a corporation invests in a foreign business that is not associated with its core business. As the investing corporation has no previous experience in the foreign company's area of expertise, this frequently takes the form of a joint venture.[13]

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[13] "Hayes Adam" Direct Foreign Investment (FDI): What It Is, Types, and Examples.

Methods of Foreign Direct Investment

In its implementation, there are several methods of foreign direct investment. Like the example described in the previous paragraph, each application of Foreign Direct Investment has a different method depending on the party that wants to do the Foreign Direct Investment and must be adjusted to fit with the type of the company and their goals on investment. Here are some examples of methods of Foreign Direct Investment:

- **Merger and Acquisition**

Merger and Acquisition is a form of corporate consolidation through financial transactions between a few related companies. Although mergers and acquisitions are almost the same in concept, they are actually different. Merger is a consolidation between two or more companies, where the company that takes over will continue to exist while the company that is taken over will cease to exist. The surviving firm is called the surviving firm or the issuing firm, while the company that is merged or ceases to exist after the merger is called the merged firm. The surviving firm will grow larger because of the merger and the merged firm will lose the power to act legally in its own name, because it has become a subsidiary under the authority of the surviving firm. Slightly different from a merger, an acquisition is the taking over of either all or most of the shares of another company which results in the transfer of full power over that company. Unlike a merger, the acquisition method does not eliminate the acquired company as a legal entity, but only takes away most of the voting stock of the acquired company.[14]

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[14] Novtiyaning Pamungkas, Devi. "Telaah Kritis Mengenai Financial Performance Perusahaan Saat Ssebelum dan Sesudah Merger & Akuisisi Pada Industri Telekomunikasi yang Terdaftar di Bursa Efek Indonesia Periode 2002-2009." Lambung Pustaka UNY. (2012). 20 July 2023.

- Joint Ventures

Joint venture means a cooperation between several parties in the form of an international agreement by several independent companies. This joint venture is a collaboration between foreign investment and national investment, in which an existing company or then forms a corporation what is called a joint venture company. Joint venture is a very good and effective way to develop business and foreign investment, and it's very beneficial for both foreign and national parties. The purpose of the creation of this joint venture company is to gain profits and to achieve certain interests. In the process of establishing a joint venture company, a joint venture agreement is required. In the process of establishing a joint venture company, it is certain to require a joint venture agreement, this is done to ensure and determine the provisions/requirements that apply to the running of joint venture cooperation between the parties involved.[15]

[15] Hasanudin, Maulana."Perusahaan Joint Venture dalam Penanaman Modal Asing di Indonesia." Universitas Indonesia Library (2010). 21 July 2023.

EXAMPLE OF FDI

Foreign direct investment has various examples. There are some common examples of real-world foreign direct investment. Each of these foreign direct investment (FDI) cases represents a different type of investment and has various motivations behind it.

- Merger and Acquisition of Local Companies

When a foreign company acquires stake control or acquires a local company in a foreign country, for example, Tata Motors is known as India's largest multi-holding automobile company and the world's fourth-largest truck producer. Since its founding in 1945, Tata Motors has grown significantly over the past 60 years--through joint ventures and acquisition strategies and by introducing new products in various market segments such as passenger cars, commercial vehicles, and commercial vehicles.

On March 26, 2008, Tata Motors agreed with Ford to acquire Jaguar and Land Rover as part of foreign direct investment. Tata Motors has agreed to pay $2.3 billion to receive 100% of Jaguar Land Rover's business. As part of the acquisition, Tata Motors assumed no debt from Jaguar Land Rover, making the addition entirely debt-free.

After some time, Morgan Stanley, as a Global Leader Company in Financial Services, reported that Jaguar Land Rover's acquisition appeared hostile to Tata Motors. This was due to increased earnings volatility given the difficult economic conditions in Jaguar Land Rover's major markets, including the United States and Europe.[16]

- Joint Venture

When two companies based in a different country form a partnership and invest jointly in a world foreign market, for example, Sony Ericsson is a multinational corporation after its joint venture between Sony Corporation and Ericsson Telecommunication Company.

With its headquarters in Japan, Sony Corporation was a major corporation in consumer electronics and held a sizable market share worldwide.

-On the other hand, Ericsson Telecommunication Company, headquartered in Sweden, was the world leader in mobile communications device manufacturing. By forming a joint venture, the two companies united Ericson Telecommunication's technological know-how and Sony Corporation's global market expertise. The two companies had access to skills and information that exceeded their own. The corporations were primarily forming joint ventures to assist them in acquiring new clients and technologies.
Sony Corporation would profit from access to new technologies from Ericsson, while Ericsson would benefit from acquiring new clients held by Sony Corporation globally. Another reason the two companies formed a joint venture was to take advantage of economies of scale. Both companies operated on a global scale. Therefore their merger meant benefits from significant economies of scale in their operations.

In 2007, the business sold 103.4 million units, which would not have been possible if the companies merged.

[16] "Case Study: Tata Motor'S Acquisition of Jaguar and Land Rover." *MBA Knowledge Base*, www.mbaknol.com/management-case-studies/case-study-of-tata-motor-acquisition-of-jaguar-and-land-rover/, Accessed 5 Jul. 2023.

The two firms' strengths were integrated, which could be reflected in Sony Ericsson's improved financial performance. This has also contributed to the company's improved market share in the global market. The fourth place in the world in 2009 proved the merger's advantages.

In conclusion, the two companies have also benefited from economies of scale and combined resources for strategic marketing. However, Sony Ericsson has experienced a decline in its performance owing to heightened competition within the mobile market, resulting in downward price pressures. Consequently, the company is compelled to seek alternative strategies to maintain and expand its market presence. Given the considerable challenges that the merger has encountered previously, the likelihood of successfully reversing this trend and achieving effective competition in the foreseeable future appears uncertain.[17]

- Manufacturing Greenfield Investment

When some foreign company established a new subsidiary or expanded its operations in a foreign country by building new facilities. For example, when Toyota made a new manufacturing plant in another country.

Toyota stands as a globally renowned and highly lucrative enterprise, manufacturing cars and trucks across 28 nations and distributing them in over 170 global markets.

The automotive manufacturing industry is profoundly global and characterized by advanced technology. Given its need for substantial capital, achieving economies of scale is crucial for ensuring profitability. Toyota's success has been bolstered by the infusion of foreign direct investment, involving manufacturing in a foreign nation rather than its domestic one. In order to maintain competitiveness, international car manufacturers have strategically split their production processes into segments that are either capital-intensive or labor-intensive. The latter segments are often shifted to developing countries with large local consumer bases.

[17] "Sony Ericsson Merger: Joint Venture and Acquisitions Case Study." Ivy Panda, 25 Apr. 2023, ivypanda.com/essays/the-merger-of-sony-and-ericsson/. Accessed 13 Jul. 2023.

-For example, upgraded and expanded plants in Thailand (Toyota Motor Thailand or TMT), Indonesia (PT Toyota Motor Manufacturing Indonesia or TMMIN), Argentina, and South Africa as assembly and export bases for a line of innovative IMVs under the Innovative Multi-Purpose Vehicle (IMV) Project.[18]

[18] "Assessing the Spillover Effects of FDI to the Philippines." Aldaba, Rafaelita & Aldaba, Fernando. (2009).

ADVANTAGES AND DISADVANTAGES OF FOREIGN DIRECT INVESTMENT

Over the past few years, there has been a rise in foreign direct investment, driven by companies aiming to grow their global presence. Nevertheless, foreign direct investment comes with both advantages and disadvantages. This handbook will delve into these aspects

Advantages

Foreign Direct Investment offers the advantage of enabling developed nations to initiate enhancements in emerging market prospects. Developing countries can experience advancements in prosperity and possibilities, while developed nations can reap advantages such as heightened profits, the cultivation of connections, and an elevated degree of market leverage.

1. **The Foreign direct investment provides local economic benefits in multiple locations.**

The entities engaged in Foreign Direct Investment have the capacity to foster economic expansion within local communities where their headquarters or origin is based. Frequently, profits are channeled back into augmenting workforce conditions or expanding the scope of organizational prospects. This dynamic can generate fresh employment opportunities, consequently paving the way for additional FDI endeavors. Similarly, these investments also yield analogous benefits for the domestic market of the foreign entity.

1. Simplifying international trade becomes achievable.

Numerous nations impose import tariffs on goods and services, posing challenges for import/export enterprises to maintain cost-effective product pricing due to these levies. FDI offers the potential to mitigate or eliminate these tariffs by virtue of holding a minimal share in a foreign entity. This empowers local businesses with greater market influence while upholding competitive pricing dynamics.

2. Increasing Foreign Income

In various international markets, workers earn wages that would be categorized as poverty-level incomes in the United States. A significant portion of the global population earns below $4 per hour, and certain foreign markets even provide compensation below $1 per hour. Through FDI, there is the prospect of elevating foreign income levels, leading to heightened worker wages. In turn, generates fresh resources that can initiate the process of community growth.

3. Increasing Foreign Income

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Generates fresh prospects for employees.

Workers employed by the investing enterprise can journey to foreign countries, immersing themselves in novel cultures and concepts. This exposure has the potential to enhance their effectiveness within their home country. Additionally, foreign workers gain improved access to well-established best practices, aiding them in the creation of new opportunities. This reciprocal process accelerates the growth of both parties more rapidly than if they were operating independently.

Enhances human resources

In regions that are underdeveloped or in the process of development, human skills often remain confined to rudimentary labor, agricultural tasks, and introductory competencies. Foreign direct investment opens up avenues for education, enabling individuals to enhance their personal skill sets. This, in turn, facilitates the attainment of higher wages and elevated levels of productivity. Both the company and the individual stand to gain, and these benefits permeate throughout each community. [19]

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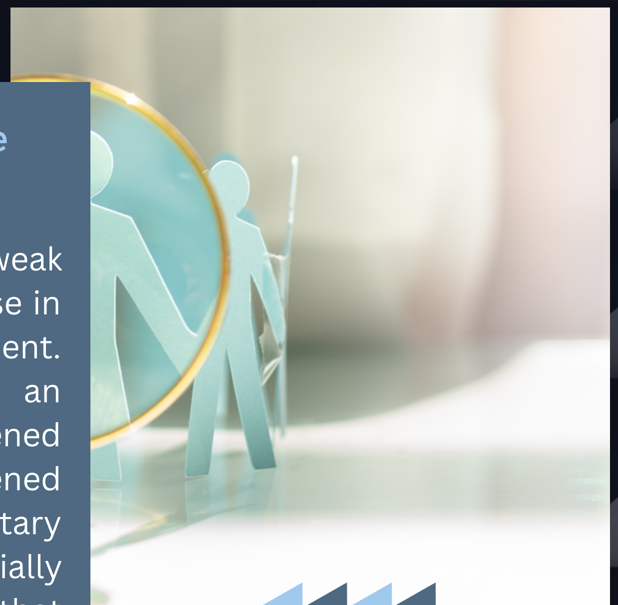
[19] Hove, Massie. 12 Foreign Direct Investment Advantages and Disadvantages, www.academia.edu/37444378/Home_Big_Issues_12_Foreign_Direct_Investment_Advantages_and_Disadvantages. Accessed 12 Aug. 2023.

DISADVANTAGES

The disadvantage of foreign direct investment is the risk that is involved. There exists no assurance that an investment will yield returns in the upcoming period. Moreover, the global political environment inherently carries instability, implying that a company's investment could be jeopardized shortly after its initiation due to occurrences like expropriation or acquisition.

1. It stops domestic investment opportunities.

In fields of investment allocating a minimum of 10% of an investment into a foreign enterprise redirects funds away from domestic businesses. While foreign direct investment does inject capital into local areas, the value derived from a local investment is nearly equivalent to an additional dollar for every dollar spent.



2. Affect currency exchange rates.

A developing nation grappling with a weak currency might experience a sudden increase in popularity following foreign direct investment. Investors view such an investment as an indicator of stability, sparking heightened interest in the target market. This heightened interest can result in a more favorable monetary valuation for the foreign country, potentially leading to fluctuations in exchange rates that could destabilize the economic scenario

3. Causing capital intensity and risk

Foreign direct investment frequently necessitates substantial capital infusion, thereby amplifying the level of risk and potentially rendering it economically unfeasible in specific circumstances or for the company involved.

4. The risk from political change

After foreign direct investment occurs and when political parties transition into power, alterations in rules and regulations often follow suit. This phenomenon exerts a direct influence on foreign direct investments and can impinge upon the interests of investors.

5. Rise in Environmental Contamination

In various international markets, workers earn wages that would be categorized as poverty-level incomes in the United States. A significant portion of the global population earns below $4 per hour, and certain foreign markets even provide compensation below $1 per hour. Through FDI, there is the prospect of elevating foreign income levels, leading to heightened worker wages. In turn, generates fresh resources that can initiate the process of community growth. [20]

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[20] Rajpal, Dharna. "Advantages and Disadvantages of FDI." Enterslice, 23 Feb. 2023, enterslice.com/learning/advantages-and-disadvantages-of-fdi/. Accessed 12 Aug. 2023.

VI. Country Risk in Foreign Direct Investment

Foreign Direct Investment (FDI) plays a crucial role in driving economic growth and development, especially in emerging economies. Country risk is a composite not only to political risk but also to financial risk.[21] These economies offer promising opportunities for investment due to their potential for rapid growth, burgeoning consumer markets, and abundant natural resources. However, alongside these opportunities come inherent risks and uncertainties collectively known as country risk. We delve into the intricate relationship between country risk and FDI in emerging economies, examining how various risk factors impact investment decisions and exploring the strategies that can be employed to attract FDI despite the challenges posed by country risk.

Country risk encompasses a spectrum of factors, including political instability, economic volatility, regulatory uncertainties, corruption, and social unrest. These factors create an environment of uncertainty for investors, potentially influencing their investment decisions. FDI, on the other hand, involves the investment of resources, capital, and technology from one country into another to establish business operations or acquire assets. The significance of FDI lies in its potential to stimulate economic activity, create jobs, and facilitate knowledge transfer.

The relationship between country risk and FDI is multifaceted and nuanced. Higher levels of country risk can lead to increased uncertainty for potential investors, impacting their risk perception and decision-making process. Investors may exhibit caution, delaying or reducing their FDI commitments in response to perceived risks. Moreover, political instability and regulatory unpredictability may deter FDI inflows, as investors seek stable and transparent business environments.

Countries that manage to maintain political stability, robust governance, and transparent regulatory frameworks are better poised to attract FDI. A stable and predictable business environment mitigates some of the risks associated with investing in emerging economies. Investor confidence is bolstered when they perceive a low likelihood of abrupt policy changes or arbitrary interventions.

Investors often adopt a risk diversification strategy, spreading their FDI portfolios across countries with varying levels of risk. This approach enables investors to mitigate potential losses by reducing exposure to adverse events in a single country. By diversifying their investments, companies can maintain a balanced risk profile while still benefiting from the growth potential of emerging economies.

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[21] How does country risk matter for foreign direct investment? (n.d.). https://onlinelibrary.wiley.com/doi/full/10.1111/deve.12002

Understanding the interplay between country risk and FDI has important policy implications for both host countries and international organizations. Host countries must focus on implementing reforms that address specific risk factors and enhance their overall business environment. Improvements in governance, regulatory clarity, and political stability can attract FDI inflows. International organizations can play a role by offering guidance, expertise, and support to help emerging economies navigate risk-related challenges and create a conducive environment for FDI.[22]

VII. Difference between Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI)

Direct investment involves investing capital in a company for returns and management participation. Portfolio investment refers to purchasing securities without direct control or information about the company's operations. Over time, the distinction between the two terms becomes blurry. Direct investment offers reduced risks of misinformation or expropriation, especially with good relationships with political rulers. FDI implies investment by foreign investors directly in the productive assets of another nation. In contrast, portfolio investment means investing in financial assets, such as stocks and bonds of entities located in another country. And relies on publicly available information and suffers in societies with weak governance, low trust, and easily manipulated financial information. Minority shareholders in such environments are at a disadvantage.[23]

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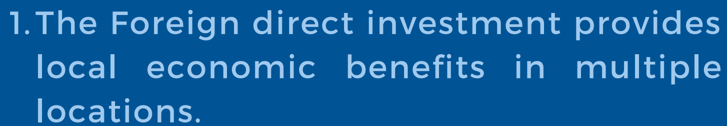
[22] Al-Gasaymeh, Anwar, et al. “Does Country Risk Affect Foreign Direct Investment: Evidence from Emerging Countries.” Academy of Accounting and Financial Studies Journal, 17 Nov. 2021, www.abacademies.org/articles/does-country-risk-affect-foreign-direct-investment-evidence-from-emerging-countries-13325.html.
[23] Wu, Jun, Prof, Shaomin Li Prof, and David D. Selover Prof. "Foreign Direct Investment Vs. Foreign Portfolio Investment." Management International Review 52.5 (2012): 643-70. ProQuest. 17 July 2023.



1. The Foreign direct investment provides local economic benefits in multiple locations.

The entities engaged in Foreign Direct Investment have the capacity to foster economic expansion within local communities where their headquarters or origin is based. Frequently, profits are channeled back into augmenting workforce conditions or expanding the scope of organizational prospects. This dynamic can generate fresh employment opportunities, consequently paving the way for additional FDI endeavors. Similarly, these investments also yield analogous benefits for the domestic market of the foreign entity.

2. Simplifying international trade becomes achievable.

Numerous nations impose import tariffs on goods and services, posing challenges for import/export enterprises to maintain cost-effective product pricing due to these levies. FDI offers the potential to mitigate or eliminate these tariffs by virtue of holding a minimal share in a foreign entity. This empowers local businesses with greater market influence while upholding competitive pricing dynamics.

3. Increasing Foreign Income

In various international markets, workers earn wages that would be categorized as poverty-level incomes in the United States. A significant portion of the global population earns below $4 per hour, and certain foreign markets even provide compensation below $1 per hour. Through FDI, there is the prospect of elevating foreign income levels, leading to heightened worker wages. In turn, generates fresh resources that can initiate the process of community growth.

4.Generates fresh prospects for employees.

Workers employed by the investing enterprise can journey to foreign countries, immersing themselves in novel cultures and concepts. This exposure has the potential to enhance their effectiveness within their home country. Additionally, foreign workers gain improved access to well-established best practices, aiding them in the creation of new opportunities. This reciprocal process accelerates the growth of both parties more rapidly than if they were operating independently.

5. Enhances human resources

In regions that are underdeveloped or in the process of development, human skills often remain confined to rudimentary labor, agricultural tasks, and introductory competencies. Foreign direct investment opens up avenues for education, enabling individuals to enhance their personal skill sets. This, in turn, facilitates the attainment of higher wages and elevated levels of productivity. Both the company and the individual stand to gain, and these benefits permeate throughout each community. [21]

In simple terms, we can divide the differences between the two as follows:[24]

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[24] Ponaka, Sannihitha. "FDI vs FPI." Scripbox, 28 Nov. 2022, scripbox.com/pf/fdi-vs-fpi/. Accessed 19 July 2023.

Basis of Difference	Foreign Direct Investment	Foreign Portofolio Investment
Definition	An investment made in a foreign country to expand a firm, build new infrastructure, or make long-term investments in that country's economy	Investment in a foreign country's financial assets, either stocks or bonds. It is mainly done to generate significant returns from the stock markets
Type Of Investor	Active	Passive
Type of Investment	Direct Investment	Indirect investment
Degree of Control	High Control (Includes Managerial Power)	Very Low Control (Does Not Include Managerial Power
Investment Term	Long Term	Short Term
Involvement	Long Term Interest in Company, hence includes managerial control	Short Term Gains, no active involvement in managerial activites
Project Management	Managed Efficiently	Less Efficiency
Type of Assets	Physical assets and stakes in the foreign companies (Financial and Non-Financial Assets)	Financial Assets of the foreign country like stocks, bonds, and also ETFS

Basis of Difference	Foreign Direct Investment	Foreign Portofolio Investment
Entry and Exit	Difficult	Less Difficult
Motive	Business Expansion	Generating returns to the investor
Leads To	Transfer of technology, funds, and also resources to the foreign country	Capital inflow to the foreign countries
Volatility	Stable	Volatile

GLOSSARY

Foreign Direct Investment (FDI) : Ownership stake in a foreign company or project made by an investor, company, or government from another country

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Investment : Asset or item acquired with the goal of generating income or appreciation

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Enterprise : An organization, especially a business, or a difficult and important plan, especially one that will earn money

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Investor : Person or other entity (such as a firm or mutual fund) who commits capital with the expectation of receiving financial returns. Investors rely on different financial instruments to earn a rate of return and accomplish important financial objectives like building retirement savings, funding a college education, or merely accumulating additional wealth over time

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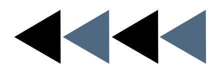
Capital Transaction : Transactions relating to share capital and reserves, long-term debt capital, or fixed assets of a company, as opposed to revenue transactions



GLOSSARY

Private Sector : Part of the economy that is run by individuals and companies for profit and is not state controlled.

Joint Venture : Business arrangement in which two or more parties agree to pool their resources for the purpose of accomplishing a specific task. This task can be a new project or any other business activity

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Mergers and Acquisitions : Form of corporate consolidation through financial transactions between few related companies

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Debt : Something, usually money, owed by one party to another

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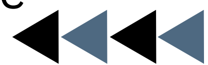
Trade : Voluntary exchange of goods or services between different economic actors.

Manufacture : the act or process of producing something

Portfolio : The securities held by an investor/the commercial paper held by a financial house



GLOSSARY

Infrastructure : The underlying foundation or basic framework

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Sector : a sociological, economic, or political subdivision of society

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Bilaterall Investment Treaty : an agreement establishing the terms and conditions for private investment by nationals and companies of one state in another state.

Global Market : The market in which goods and services of one country are traded (purchased or sold) to people of other counties.

Green Field Investment : Type of foreign direct investment (FDI) in which a parent company creates a subsidiary in a different country, building its operations from the ground up.

Introductory : of, relating to, or being a first step that sets something going or in proper perspective.

Expansion : The act or process of expanding

Currency : Something (such as coins, treasury notes, and banknotes) that is in circulation as a medium of exchange

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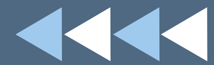

THANK YOU!!

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Connected as One,
May ALSA,
Always be One!