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Foreign Investment Strategies, Performance and Risk Management in Emerging Economy

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Abstract

FDI, or foreign direct investment, is widely regarded as a means by which developing economies can grow and prosper. Case studies investigate and clarify the emergence of entry modes, resource transfers, ownership, and control in a company's early years of operation. Cross-country acquisitions are a significant aspect of FDI globally, and they are rising as a percentage of inbound FDI in developing countries. Developed nations can promote OECD Guidelines for Multinational Enterprises, facilitate access to international markets and technology, use ODA to leverage public/private investment projects, and disseminate the organization's peer review-based approach to building investment capacity to guarantee policy coherence for development. Financial and strategic responses to corporate risk are outlined in this paper, along with a framework for classifying the uncertainties international firms face. This article analyses the issue of risk management and risk management techniques in global supply chains and shows that sub-national institutional factors have a major effect on both aspects. It analyses how businesses in India evaluate risk and use available data to determine the factors that lead to FDI clustering and the globalization of venture capital firms. Secondary data from the "Finances of Foreign Controlled Rupee Companies" section of the Reserve Bank of India Bulletins and the Organisation for Economic Cooperation and Development and Foreign Direct Investment provide the basis for the estimates shown here. Specifying the variable selected to signify technology import and performing relevant research on a company's technology import expenditure is vital. Foreign investors now see the opening of Eastern European, post-Soviet, and Chinese economies as an inevitable trend.

Keywords: OECD, FDI, ODA, Economy, Agglomeration

Introduction

The importance of FDI to the economic growth of developing countries is well acknowledged. Both multinational corporations and domestic policymakers benefit from attracting foreign capital. This research looks at the factors that influence foreign investors' choices in developing economies and the policy and economic effects of such decisions. Corporate and social returns from FDI are extremely sensitive to how the business is established. Attractive to investors from outside are nations with both sizable consumer markets and promising economic development. According to research (Globermann, 2003)

Where and how FDI is established is heavily influenced by the local institutional setting, especially in developing countries. Scholars in international business and strategic management have weighed the benefits of various modes of international entrance and assessed their effects on firm performance. Most studies have concentrated on factors unique to individual projects and businesses, such as the investor's worldwide strategy, the effort put into research and promotion, and previous foreign business expertise. Developing markets like Eastern Europe and China have recently been the focus of empirical studies analyzing entrance modes, while other developing markets still need to be explored. (Chen, Hu, et al., 201l)

Focusing on resource transfers, ownership, and control and how they change during the first years of a project's operation, this study examines the relationship between the host country's environment and the strategies employed by foreign investors. Through a survey, we investigate the factors that influence the selection of an entrance method and the connection between FDI motivation, entry modalities, and the performance of the newly founded affiliate. We also examine how knowledge transfer and diffusion might assist the host economy due to interaction with foreign investors. Foreign investors often funnel money into their subsidiaries, which they then use to launch new enterprises, expand existing ones, and streamline their operations. This procedure impacts affiliates' interactions with local establishments. (Fan 2002)

Better quality goods and services and guidance on maximising their use or promotion should be mandated for both suppliers and consumers. 'Demonstration impact' refers to the possibility that unconnected businesses might gain insight by seeing the implementation of innovative business practices in their immediate environment. The bigger the technology gap between the source and destination economies, the higher the potential for such an effect, making it especially crucial in developing countries (Meyer and Estrin, 2004).

Fdi in Emerging Markets

Foreign direct investment (FDI) has increased significantly in developing nations during the last decade as MNCs adopt more global strategies. From US$ 200 billion in 1990 to US$ 1,500 billion in 2000, then back down to US$ 735 billion in 2001, the total FDI flow throughout the globe increased dramatically. However, foreign direct investment (FDI) in developing economies is highly unevenly distributed, with China obtaining the greatest proportion (US$ 47 billion) and then Mexico, Brazil, and Hong Kong, all of which received over US$ 20 billion in 2001. Despite their appeal, investors should be wary about developing markets because of the state of the country's institutions. Competition policy, regulatory policy, corporate taxes, and the definition and enforcement of property rights are areas where the legal framework around business law tends to be less established. (UNCTAD, 2002)

A lack of competent accountants, bureaucrats, and attorneys may impede the implementation and enforcement of the relevant laws even when they are in effect. There may be a dearth of intermediaries and information systems, and the regulations may be revised often. Relationship-based interactions with business partners are increasingly popular, as are conventional value systems. This research focuses on four developing countries that saw a surge in foreign direct investment (FDI) inflows between 1995 and 1999, even though their markets were either weak or illiquid. Although their economies were largely closed with high levels of state involvement before the 1990s, India, South Africa, Egypt, and Vietnam saw significant liberalization. (Khanna & Palepu, 1999)

India has had a mixed socialist-capitalist economy for many years, but since 1991 it has begun a massive, though slow, liberalization of its internal economy and FDI policy. In 1971, Egypt legally rejected central planning, but liberalization progressed slowly until the 1990s. Vietnam joined the communist bloc in the 1970s and began implementing modest reforms in 1986. The worldwide embargo imposed on South Africa by the apartheid administration significantly hampered the country's economic growth; however, once the rule changed in 1994, the country's economy became more open, creating new chances for entrepreneurs. (Meyer and Estrin, 2004)

Strategic Management Issues

Foreign direct investment necessitates various strategic choices, including when and where to shop inside the target market nation. Scholars in international business and strategic management have weighed the benefits of multiple modes of international entrance and assessed their effects on firm performance. The framework developed by Meyer and Estrin (2001) and the literature on entry mode choice serves as the basis for this investigation, which also makes use of literature from the field of international business strategy on topics such as post-acquisition management, the function of subsidiaries within multinational enterprises, and the influence of institutions on business practises. Due to the flawed institutional frameworks and limited resource bases in most developing nations, the major emphasis is how foreign investors adapt their companies to a given setting.

Entry Modes in Emerging Markets

Greenfield investments (startup investments) are the least prevalent foreign investment, followed by acquisitions and joint ventures. Building a subsidiary from the ground up is called a greenfield project, whereas acquiring a controlling stake in an established business is called an acquisition. Acquisitions in different nations are the most common kind of foreign direct investment (FDI) today, and their proportion of total FDI is growing in developing economies. The origin of the resources used in the new activity is a key distinction in the study of entry mode. In a greenfield scenario, the investor pools their resources with those of a local partner, whereas in an acquisition scenario, the investor pools its resources, including its management expertise, with those of a local partner. (Anand and Delios, 2002)

Three key entrance strategies into developing markets are discussed at length in this article: greenfield initiatives, acquisitions, and joint ventures. In contrast to assets allowing for a slower but more sure footing into a market, greenfield ventures include starting from scratch. In developing countries, where fewer enterprises and capital markets are less established, acquisitions may be more difficult because of the need for extensive restructuring to address a mismatch between the two organizations. To form a joint venture, two or more companies combine their resources to create a new company. With a partial purchase, you invest in an already established company rather than starting from scratch, but you still share ownership with the other shareholders. (Meyer and Estrin, 2004)

Foreign Direct Investment (FDI)

FDI, or foreign direct investment, plays a crucial role in the global economy and spurs growth. However, only some countries, industries, or communities will reap the same benefits from FDI. Developing the necessary human and institutional resources is essential for any host country hoping to attract foreign investment. To further this agenda, developed nations can encourage non-OECD governments to integrate further into rules-based international frameworks for investment, promote the OECD Guidelines for Multinational Enterprises, and increase developing nations' access to global markets and technology by, among other things, promoting policy coherence for development. Focusing on the total impact of FDI on macroeconomic development and other welfare-enhancing processes and the pathways through which these benefits effectuate, the study Foreign Direct Investment for Development aims to give insight into the second problem. The upsides as a whole. (OECD, 2002)

Financial and strategic approaches to business risk are outlined in this study, along with a system for classifying the uncertainties encountered by multinational companies. The risk implications of strategic choices cannot be adequately analyzed using the current management literature's separate handling of uncertainty. (Miller, 1992)

This research analyses the impact of FDI timing on business unit performance in a developing market from both a multivariate and univariate perspective. The timing of foreign direct investment (FDI) in China considerably impacts the overall and individual components of the venture's success, as shown by a longitudinal examination of industry-wide, firm-specific data. It has been demonstrated that early entrants do better than late movers in domestic market growth and asset turnover, while late movers perform better in risk mitigation and accounting return in the early stages of foreign development. (Luo, 1998b)

Literature Reviwe

This essay examines the topic, "Will an early mover strategy or a late mover strategy yield better performance in these markets?" through the eyes of foreign investors in China. Early versus late entrants' performance was compared in two different experiments. The findings illustrated the risk-reward tradeoff between early and late entry and the benefits of being a first mover. There are irreversible forces at work to open up economies in transition, and many foreign investors have come to realize this as Eastern Europe, the post-Soviet republics, and China all move towards more market-based systems. Most people invest early in China because they want to stay in the market for the foreseeable future and either know or are prepared to learn how to make money in it over time. Most pioneers dabbled in the market via a couple of first joint ventures. Companies that were among the first to invest in China's booming economy are expanding into the country's second wave of foreign direct investment (FDI), hoping to consolidate their position in the domestic market. Those who join the fray later have seen that early adopters now have a distinct edge. Eastern Europe and the post-Soviet republics are expected to undergo a similar transition from the first to the second generation of FDI. We can learn from China that early entrants aren't in it for the money, but rather they're battling for the future and that there are long-term benefits to being one of the first to market. To maintain their competitive edge into the next century, MNEs must strengthen their footholds in the world's greatest developing markets, found in these countries in transition. To cite: (Luo & Peng, 1998)

Foreign investors must use strategic planning when deciding where and how to establish operations in a developing country. This research provides a theoretical framework for examining institutions' role in selecting an organization's entrance strategy in a nascent market. Sub-national institutional characteristics significantly impact the location of foreign direct investment (FDI) and the possibility of Greenfield entrance. Joint venture entrance is preferred due to institutional constraints from established state-owned enterprises and the investor's focus on the local market. Strategies in developing countries may benefit greatly from the use of the institutional perspective, a relatively recent school of thought in the field of strategic management research. A more nuanced understanding of how institutions impact business strategy might considerably advance future studies on developing economies. as reported by (Meyer and Nguyen, 2005)

The concept of risk management, as well as several approaches to risk management, are investigated in this work. A combination of quantitative and qualitative research methods sheds light on how three moderators interact with environmental factors to affect the efficacy of six different risk management techniques. The model is constructed within a global industrial supply chain; to ensure its generalizability, it should be evaluated in various situations and with other methodologies. The study uses grounded theory, an approach suitable for theory-building, to investigate phenomena with an insufficient theoretical framework, filling a gap in the literature on choosing risk management techniques in global supply chains. Managers in our study frequently mentioned that the complexity, risks, and opportunities in global supply chains would rise as a result of factors like the rise of outsourcing and offshoring, more demanding customers, geographical dispersion of the supply chain, access to markets in emerging economies, and unforeseen events like terrorist attacks and natural disasters. This article is an essential first step in modelling techniques for managing risks in the global supply chain. In a 2008 study (Manuj & Mentzer),

Co-locating with other FDI enterprises allows foreign investors access to local expertise. However, many facets of local knowledge are available at various establishments. This research delineates between being located near other foreign investors in the same sector and is located near other foreign investors from the same nation to determine what factors contribute to FDI agglomeration. Based on data from foreign direct investment (FDI) in Vietnam, we know that FIs that see Vietnamese institutions as especially weak, as well as FIs who feel like they are on the outside looking in, are more likely to seek agglomerations of FIs from the same place of origin rather than from the same industry. This research delineates between being located near other foreign investors in the same sector and is located near other foreign investors from the same nation to determine what factors contribute to FDI agglomeration.

Co-location by the nation of the site is preferred by investors who are unfamiliar with the local environment or see the local institutions as challenging to navigate. Researchers in the field of international business strategy might use these findings as springboards for further investigation. (Meyer and Tan, 2011)

This research analyses the first venture capital company to go global by examining how Indian businesses evaluate risk and gather information. Thirty-one (84%) of the operational VC companies had their leaders interviewed in person. The data is consistent with the idea that VC companies tailor their strategies to suit regional markets rather than exporting tried-and-true methods from their home countries. The results also stress the need to investigate how VC companies act while expanding internationally. Based on the findings, it is recommended that future studies examine whether or not VC companies' investment focuses and industries are correlated with their management approaches.

The results also highlight the significance of information acquisition for valuing choices, which is particularly relevant given that market risks are more problematic for VCs than agency risks. More investigation is warranted into how VC firms in various markets get their hands on the data they need to make screening judgements. Finally, the differences between developing and established markets in how investments are structured and monitored might be the subject of future study. To wit: (Wright et al., 2002)

Foreign investors' trading patterns and investment returns in 60 large-cap Taiwan Stock Exchange companies are examined. In the long run, international investors underperform domestic ones. Price momentum of winners' portfolios, rather than risk-taking, seems this short-term better performance. Short-term performance for foreigners is better in large-sized, high-turnover, high-tech equities than small-sized, low-turnover, non-high-tech stocks after adjusting for firm size, share turnover, and industry. International investors trade based on firm-specific information rather than herding on market consensus during market stress, as seen by an increase in cross-section standard deviations in severe falling markets.

Analysis of trading patterns has shown that international buyers are often momentum traders who choose large-cap, high-book-to-price, and high-tech companies and who do not follow the herd. Three types of returns (raw, risk-adjusted, and momentum-adjusted returns) are used to evaluate investment performance throughout five time periods. When the risk is considered, non-native speakers do even better than natives in the near run. If superior foreign performance is partly caused by short-term price movement rather than risk-taking, correcting for momentum impacts should diminish outstanding performance. Foreign short-term performance is better in large-size, high-turnover, and high-tech stocks than in small-size, low-turnover, and non-high-tech stores, even after controlling for size, turnover, and industry. These findings have implications for investors in emerging equity markets because they suggest that foreign investors' buying behaviour, especially in large-size, high-turnover, and high-tech stocks, reflects new information to the market. (Swanson and Lin, 2003)

Due to economic and political changes, foreign investment in Uzbekistan has risen dramatically in recent years. Effective risk management solutions must be developed to reduce the likelihood of these negative outcomes. Investors may assure the success of their initiatives by completing a comprehensive risk assessment and creating contingency plans. Foreign investors may overcome the obstacles of the Uzbek market and benefit from its economic potential by first understanding the main risk factors they will face and then acting on the advice provided. Due to the country's specific risk environment, Uzbekistan's foreign investment initiatives can only succeed with well-thought-out risk management plans.

The economic environment in Uzbekistan has improved greatly in recent years, but there are still several obstacles for international investors to overcome. To avoid these dangers, businesses must create risk management plans tailored to their investing endeavours. Successful risk management in Uzbekistan typically results from a company taking the long view, engaging in long-term partnerships with local people, and embracing ethical and socially responsible business practices. Foreign investors in Uzbekistan stand to benefit most from and contribute most to an all-encompassing and proactive strategy for managing risk. According to the research (Akintoye, 2022)

Objectives

This research aims to examine the impact of recent policy changes by the Indian government on FDI flows into the country. Various strategies have been tried, from outright prohibiting foreign direct investment to providing equal treatment to foreign and domestic firms. Included are trade, monetary, fiscal, and international investment policy agreements.

1. To better understand the policy challenges faced by developing countries.
2. The significance of foreign direct investment (FDI) in poor nations has to be quantified.
3. We want to know more about India's historical development and the current state of foreign direct investment.

Methodology

The present study provides estimations from secondary sources. The data was collected from the "Finances of Foreign Controlled Rupee Companies" and "Finances of FDI Companies" series of the Reserve Bank of India Bulletins, covering the years 1987 to 1999 and 1999 to 2022, respectively. The web source analyses data from international organizations, including the OECD and foreign direct investment.

Specifying the variable used to represent technology import in this study is critical. To usefully analyse a company's technology import expenditure, at least two types of technology import (TM) need to be conceptualized and proxies selected.

Results and Discussion

The capital account of India's balance of payments reveals that FDI inflows increased from $366 million in the 1970s to $393 million in the 1980s. During the '90s, they spiked to $ 76985 million. 5.95 per cent of all capital inflows in the 1970s were from overseas investments, which do not add to the national debt. However, the proportion of foreign investment inflows has dramatically increased during the liberalization period. Portfolio investment rebounded significantly after the East Asian crisis.

Due to slowing economic development, FDI shares fell again between 1999 and 2000 and between 1999 and 2022. The percentage of debt-creating inflows has decreased from 139.85% in the 1970s to 99.65% in the 1980s' first half and 89.4% in the decade's second half, demonstrating a gradual but steady fall over the previous three decades.

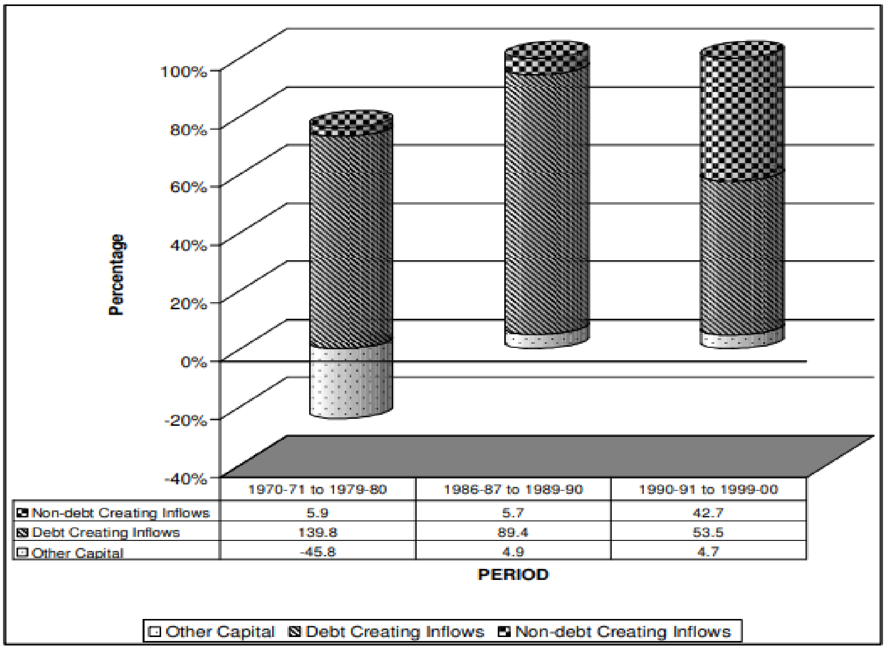
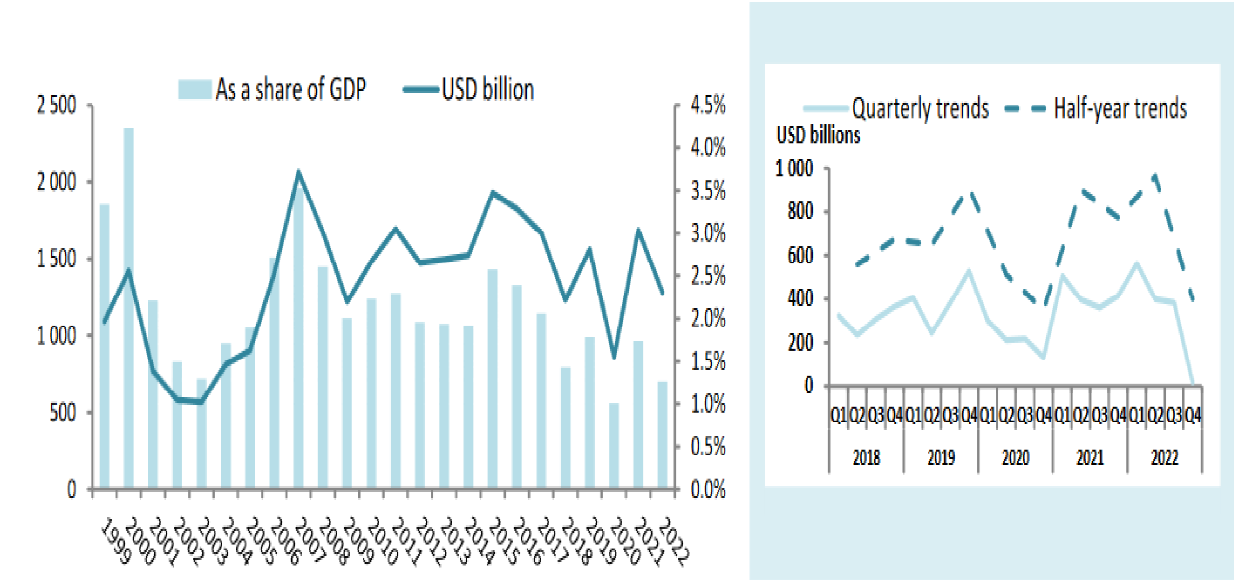


Figure. 1 *Investment Flows into India and the Capital Account of the Country's Balance of Payments.*

Recent developments

In 2022, foreign direct investment (FDI) flowed worldwide fell by 24 per cent, to USD 1 286 billion, reversing the upward trend seen in the previous year. FDI flows worldwide would fall by 5% if Luxembourg was excluded. The volatility of global FDI patterns has been exacerbated by large-scale investment and disinvestment activities involving investors and invested corporations based in selected OECD states. Lower foreign direct investment (FDI) inflows in 2022 were seen by major FDI receivers, including China and the United States, in part because of a slowdown in new investment projects targeting these nations. The declining trend in global M&A activity has persisted, which may be a reaction to tightening financial conditions, geopolitical tensions, and fears of an impending recession.

Deal prices for mergers and acquisitions continued to drop in the first quarter of 2023, indicating gloomy prospects for the year. Positive trends in global greenfield investment activity continued in 2022. However, the number of projects was still lower than before the epidemic. Figure 1 displays yearly, quarterly, and semiannual trends in global FDI flows from 1999 through 2022. Global FDI flows increased by 24% in the first half of 2022 but fell by 58% in the year's second half. Most of the decline in FDI flows worldwide happened in the fourth quarter of 2022, down 95% year-on-year.

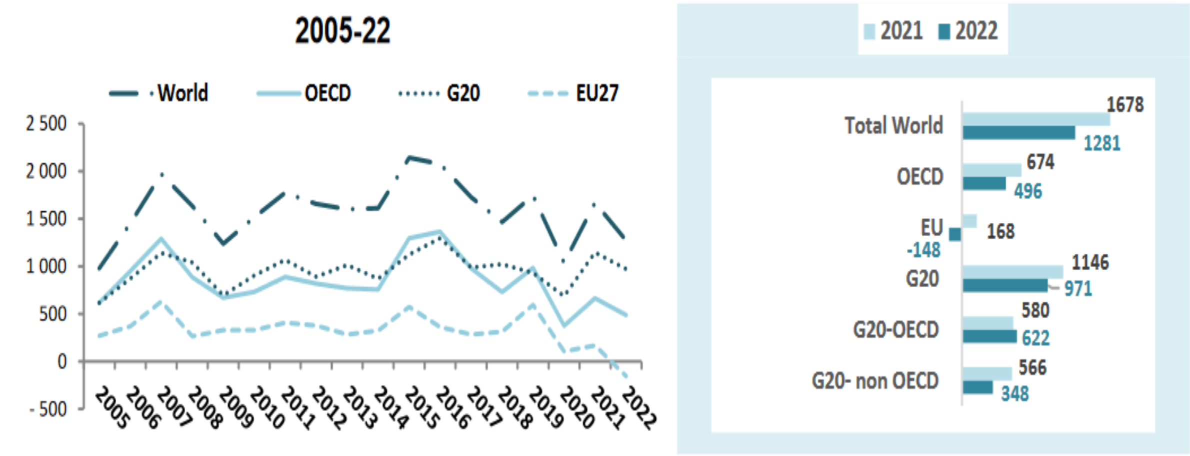


Source: OECD International Direct Investment Statistics database.

Figure 2: *Global FDI flows, 1999-2022*

Inflows

The substantial disinvestments from Luxembourg were a major factor in the 26% reduction in FDI inflows to USD 496 billion in the OECD region. Switzerland and the UK also saw increases, which helped to mitigate the effect. Foreign direct investment (FDI) fell by 2% in all other OECD economies, save those mentioned above three. This conceals a composition impact, with foreign direct investment (FDI) flows into the United States falling by 21% in 2022 while flows towards Australia, Italy, and Sweden all increase. Increased stock inflows were the primary factor in Australia and Sweden, while intracompany debt changes drove Italy's uptick. Foreign direct investment in the EU27 as a whole rose by 22%, excluding Luxembourg.

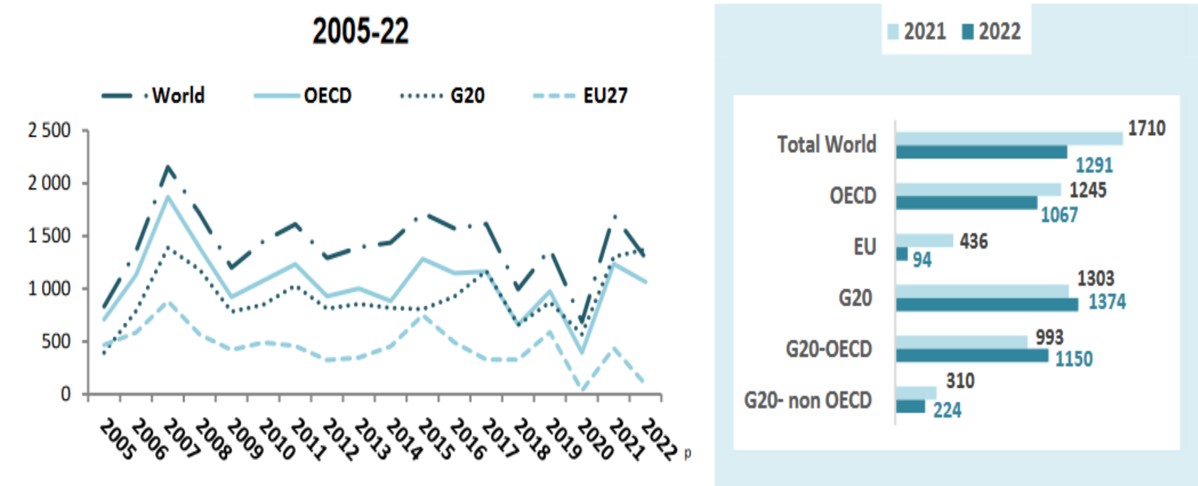


Source: OECD International Direct Investment Statistics database.

Figure 3: *FDI inflows to selected areas, 2005-22 (USD billion)*

Outflows

Dropping 14% to USD 1 067 billion, FDI outflows from the OECD region rose 9% when excluding Luxembourg. This is because people leave unprecedentedly from places like Australia, Sweden, the UK, and Spain. Disinvestments in Irish equities were a major factor in the 7% decline in outflows throughout the EU27 (excluding Luxembourg).



Source: OECD International Direct Investment Statistics database.

Figure 4: *FDI outflows from selected areas, 2005-22 (USD billion)*

OECD equity capital FDI flows

Changes in OECD stock inflows and outflows during the last several years have been influenced by substantial investment and disinvestment activities involving investors and invested businesses in Ireland, Luxembourg, the Netherlands, Switzerland, and the United Kingdom. Foreign direct investment (FDI) equity inflows to OECD nations became negative in 2022, while FDI equity outflows fell to pre-pandemic lows. The capital withdrawals of a multinational telecommunications enterprise based in Luxembourg significantly impacted these tendencies. Foreign direct investment (FDI) equity flows to OECD economies fell 7% from 2021 to 2022, excluding the nations above. In 2021, mergers and acquisitions (M&A) activity peaked, leading to decreased stock flows to Germany and the United States.

Australian and Swedish stock inflows partly rose due to certain significant M&A deals. The United States received USD 102 billion in FDI equity flows in 2022, followed by the UK (USD 47 billion) and France (USD 47 billion).

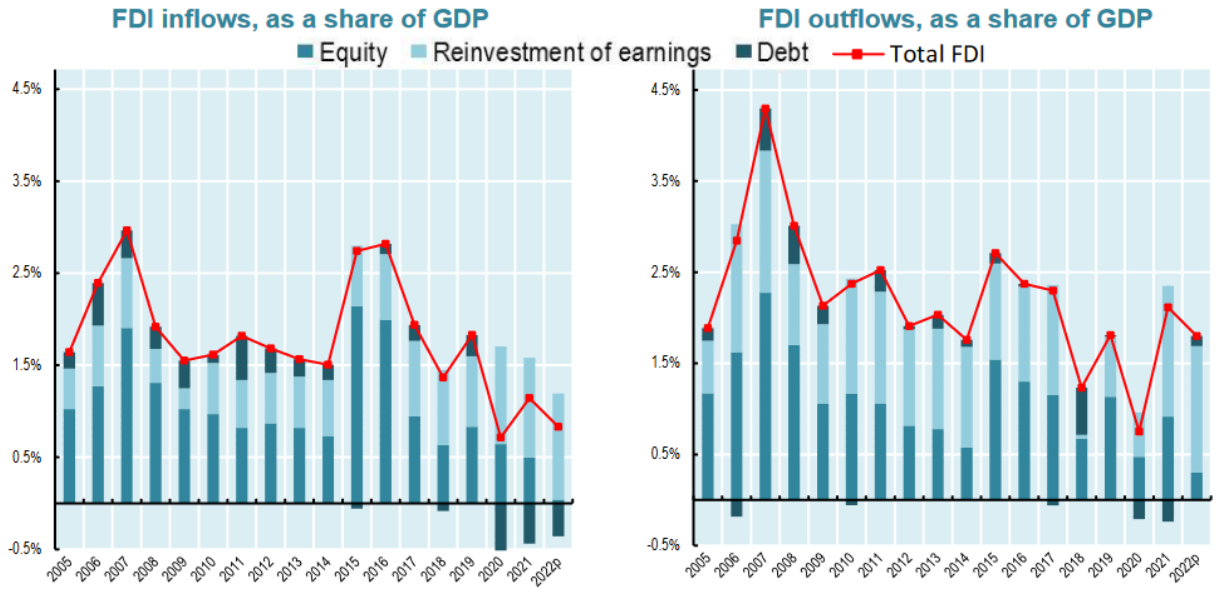


Figure 5: *OECD FDI flows by instruments, 2005-22*

Australia, France, Spain, Japan, Germany, Canada, and Denmark significantly increased FDI equity outflows among OECD nations in 2022. There were fewer outbound FDI equity flows from Japan, Germany, Canada, and Denmark than any other four countries. With USD 109 billion, the United States led all countries in foreign direct investment equity outflows, followed by Australia with USD 104 billion and Japan with USD 58 billion. Reduced international mergers and acquisitions from these nations lent credence to these patterns.

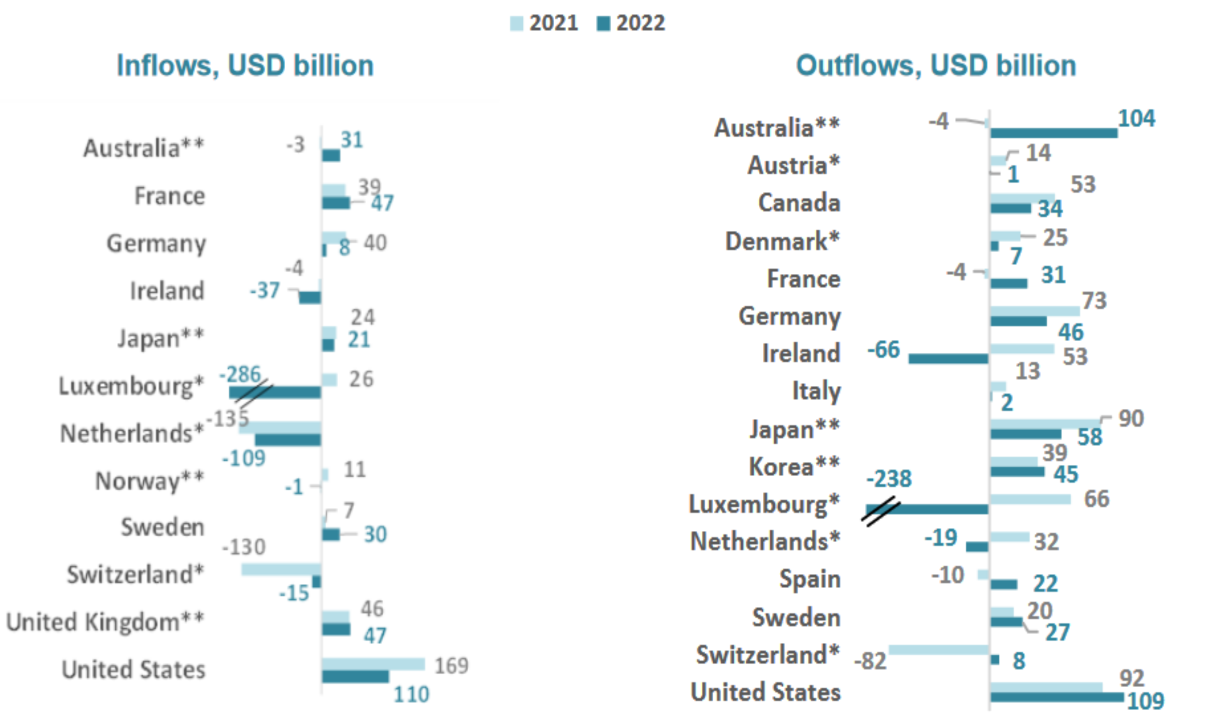


Figure 6: *FDI equity flows of selected OECD countries, 2021-22*

Financial flows may be broken down into three categories: equity capital, retained earnings, and debt inside the corporation. In contrast to equity capital, often associated with new investments, reinvestment of profits refers to the portion of profits the parent decides to reinvest in the affiliate rather than receiving as a dividend. The reinvestment ratio calculates the percentage of an affiliate's profits reinvested by the parent company. This indicates the parent's belief in the company as an investment opportunity. The rate of profits reinvested would decrease, for instance, if the parent company paid more dividends due to financial hardship. Short-term financing needs within a corporation sometimes create the most volatile financial flow component, intracompany debt.

Sales of assets, borrowing from an affiliate, or failing to reinvest earnings are all potential causes of negative cash flows due to FDI financial activities. Profit from direct investments accounts for a significant proportion of the returns on equity and debt investments. Payouts of FDI income by enterprises in the reporting economy to their foreign investors will equal the total returns on direct investment stocks distributed within a year, and payouts of FDI income by investors in the reporting economy to their direct investment enterprises abroad will equal the total returns on direct investment stocks distributed within the reporting year.

Policy recommendations

To fully profit from FDI, the right policies must be in place. A country's ability to attract foreign investment depends on three interrelated factors: the projected profitability of individual projects, the simplicity with which a subsidiary's operations in that country can be integrated into the investor's global strategies, and the quality of the enabling environment in the host country. Policymakers have very little control over factors like local market size and geographic location, which may significantly impact predicted profitability. The potential return on investment for certain investment initiatives in underdeveloped nations may be as great as elsewhere. In contrast, established countries continue to have discernible advantages in the abovementioned second and third criteria, which should motivate less developed nations to take policy action to catch up. Infrastructure, global trade connectivity, and the availability of appropriate national competencies in the host country are all crucial considerations.

Conclusion

The Chinese government has suggested a dual circulation economic growth plan to address the complexity of global concerns brought on by COVID-19. Since then, China has been more reliant on FDI. The capital account of India's balance of payments has grown significantly from US$ 366 million in the 17s to US$ 39317 million in the 80s. The growth in foreign direct investment (FDI) witnessed worldwide in 2021 slowed down in 2022, leading to a smaller share of FDI in GDP. Foreign direct investment (FDI) flows into the remainder of the OECD economy fell by 2% in 2022 compared to the previous year. This was due to changes in intracompany loans, whereas increased inflows in Australia and Sweden might be attributed to growing stock flows. Foreign direct investment (FDI) departures from the OECD area fell 14% to USD 1 067 billion but increased by 9% when omitting Luxembourg. Changes in OECD stock inflows and outflows during the last several years have been influenced by substantial investment and disinvestment activities involving investors and invested businesses in Ireland, Luxembourg, the Netherlands, Switzerland, and the United Kingdom. Equity foreign direct investment (FDI) outflows from OECD nations reached pre-pandemic lows in 2022, while inflows became negative. The two greatest destinations for FDI equity flows from the OECD were the United States and Sub-Saharan Africa.

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