Answer on Question #53970, Management / Other

Can a country develop without foreign direct investment?

Explanation:

Investments are all kinds of property and intellectual values invested in objects of entrepreneurial and other activities, as a result of which a profit (income) or social effects achieved. These values include cash, special bank deposits, shares and other securities, movable and immovable property, property rights arising out of copyright, experience and other intellectual valuables, the right to use land and other natural resources.

Foreign investment is long-term capital investment by foreign owners in the industry, agriculture, transportation and other sectors of the economy: the export of domestic capital to other countries. Export of the enterprise capital is carried out mainly through the creation of monopolies, branches or subsidiaries abroad, including in the form of joint ventures with the participation of the national capital.

The modern world economy cannot develop successfully without foreign investment. Many countries are investing their money in the economies of other countries, receiving some income and developing individual sectors of the economy of these countries. It is claimed that FDI can create employment, increase technological development in the host country and improve the economic condition of the country in general.

Currently, foreign investments have a tremendous impact on the economies of many countries. The volumes of foreign investments continue to grow rapidly, increasing the role of international production in the global economy.

It can be argued that the impact of foreign investment in the host economy is contradictory: it can be both positive and negative.

The positive impact of foreign investment in the host economy includes several aspects. First, foreign investment is a stable source of funding. The constant influx of foreign investment provides a continuous flow of capital into the economy of the host country that increases its production capacity, as well as the impact on the accumulation of capital.

Secondly, capital investment in the economy of another country entails the transfer of technology, management skills and experience exchange. Industrial technologies get its development in the territory of the host country that increases its level of technological development.

In turn, raising the level of technology requires skilled workers. Thus, foreign investments stimulate the growth of demand for highly skilled labor force, increase the level of welfare of the population, as the investing companies, countries pay higher wages than local firms.

Investment of foreign capital also increases the competitiveness of the host country. The flow of investment, as mentioned earlier, the performance improves. Investments will also improve the quality of products and this affects the competitiveness of its products, brings it to the international level that is expanding due to external markets.

These positive effects of the investment of foreign capital, in my opinion, are the most significant for the economy of the host country.

Despite the obvious advantages of foreign investment implantation, there are certain disadvantages.

As was noted, that foreign investment increases the demand for highly skilled labor force, in connection with which the level of welfare of the population is growing, as foreign investors pay higher wages than local firms. However, respectively the profits of local firms reduced due to unfair competition. Foreign investments stimulate the production of intermediate products, as it is created by the demand for it. Local firms are forced to create additional capacity, as they are not made to the goods in the absence of demand from foreign companies and countries.

Another aspect of the negative impact of foreign investment in the host economy is the effect of crowding out domestic investment, foreign investment displacement of local firms more competitive overseas, that is, local businesses simply do not have the opportunity to develop, to grow, to break into the world market. It can be marked, that this effect is far ambiguous, because foreign investment can promote national firms at the expense of productivity growth, the external effects of the transfer of technology, which is one of the positive effects of foreign investment in the host economy.

It should be mentioned also about the impact of foreign investment on imports and exports of the host country. Due to the invasion of foreign capital, foreign enterprises export and import of the host country can be significantly reduced, since anticipatory quality products for local production companies by foreign investors is more acceptable to foreign markets. In turn, in connection with the issue of production of foreign investors no longer need to import this type of product by the host country.

It should also be pointed out, the non-economic consequences of foreign investment, such as, for example, cultural changes.

It is also important that in the absence of a clear program and a deliberate policy of cooperation with global companies engaged in financial inflows into the country, foreign investment can negatively affect both the international competitiveness of the country and the prospects for its further growth.

One such study, by Brian J. Aitken and Ann E. Harrison, examined the impact of FDI in Venezuela, a country that received large amounts of foreign investment. The researchers found no evidence to support the claim that FDI causes a net benefit to domestic firms through technology spillover. They found that for small plants (those with less than 50 employees);

there is a positive relationship between increased foreign investment and productivity, suggesting that individual plants do benefit from FDI.

In general, the impact of foreign investment on the host economy can vary significantly in different countries depending on national policies, forms of foreign investment, the competitiveness of domestic companies.

It can be concluded that the investment of foreign capital is an integral part of international economic relations at the present time and has both indisputable advantages and obvious disadvantages to the economies of host countries. Each country, it is important to anticipate in advance all the effects of foreign investments and to determine the need for their involvement.