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Research Paper Draft (Establishing and Operating a Foreign Investment)

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The FDI or Foreign direct investment is the adaptable concept founded on a datum that it performs a significant role in the country's growth, and there are numerous facets connected to this subject that must be carefully inspected. It is very vital to examine and appreciate which elements are the major elements of FDI. The frequent empirical researches that have been expose the social, economic, and cultural factors of FDI have normally absorbed in economic growth and size, openness, inflation, tax rates, financial development, physical infrastructure, economic freedom, institutional development, the distance between countries, religion, and mutual culture.

In this background, establishments play a foremost role in establishing and operating strategies that might create a suitable and favorable atmosphere for Foreign Direct Investment¹. There are numerous other facets that must be clarified that are connected to concerns of FDI. In the last few years, the development of the financial sector has turned out to be an important economic development factor composed with the flow of financial liberalization. The significant expansion of a global monetary segment through the effective allocation of capitals attained by the simplification of risk management, distribution of resources, observing managers, organising savings, and simplification of output transferrals².

The MNCs or multinational companies and connected FDI play a significant part in an international budget. It is recognized that the activity of FDI might bring numerous significant possessions to host nations. Overall, the host nations, especially the developing nations, might benefit from FDI. In this paper, efforts for establishing FDI from three

¹ Iamsiraroj, Sasi. "The foreign direct investment–economic growth nexus." *International Review of Economics & Finance* 42 (2016): 116-133.

² Zanello, Giacomo, Xiaolan Fu, Pierre Mohnen, and Marc Ventresca. "The creation and diffusion of innovation in developing countries: a systematic literature review." *Journal of Economic Surveys* 30, no. 5 (2016): 884-912.

different facets are discussed which are the effect in output, effect in pay, and effect in the development of economics.

Discussion

In this segment, the explanation of the FDI, effect the host countries' wages stage. Whether native firms might benefit from existence or entrance of foreign firms would be analyzed. Almost all the existing researches demonstrated that foreign corporations did pay greater wages in emerging countries³. In one of the research made on a diverse range of companies' presentation in Morocco, they have found that in unweighted resources, foreign companies paid around 70 percent higher earnings than native firms⁴. According to subjective sources, foreign firms still paid greater real wages than native firms or companies. Greater wages paying by multinational companies was also maintained by some research studies of other emerging countries. In another research, it has been stated that when occupied the educational stage into the account, blue-collar workforces might get 25 percent higher salaries and white-collar workforces might get 50 percent higher salaries in foreign firms.

The authors of various papers and studies stated that those higher salaries for workforces of a given scholastic level do not replicate the bigger size and larger efforts per employee in foreign units, or their business or location. If consider all these aspects, the foreign corporations paid 12 percent and 20 percent more wages than local or native firms for blue-collar workforces and white-collar workforces correspondingly⁵. Another research

³ Bilgili, Tsvetomira V., Ben L. Kedia, and Hansin Bilgili. "Exploring the influence of resource environments on absorptive capacity development: The case of emerging market firms." *Journal of World Business* 51, no. 5 (2016): 700-712.

⁴ Iamsiraroj, Sasi. "The foreign direct investment–economic growth nexus." *International Review of Economics & Finance* 42 (2016): 116-133.

⁵ Iamsiraroj, Sasi. "The foreign direct investment–economic growth nexus." *International Review of Economics & Finance* 42 (2016): 116-133.

indicated the five East Asian economies which include Indonesia, Hong Kong, Singapore, Malaysia, and Taiwan and prepared a report that salaries in foreign firms, locations or plants were greater than domestic plants, firms or locations over 15 to 24 years⁶. However, the variances were not so noteworthy in Taiwan and Singapore.

It is a world-wide portent that the pays in foreign firms are greater than the domestic firms. There might be several clarifications of this portent. Initially, greater wages might be produced by host country rules. Foreign companies and firms are essential to pay a higher wage to similar quality employees in order to preserve a good affiliation with the host nations⁷. Furthermore, it might regard as a reward for the workforces because they incline to select local firms rather than choosing foreign businesses. Also, as foreign firms possess certain innovative technology, these firms would rather salary more currency to the workers to decrease the technology dripping caused by stuff throughput⁸. Furthermore, the greater wages might count as an expenditure for appealing better workers as the foreign firms are not acquainted with the labor marketplace in host nations.

Whether greater wages salaried by foreign companies will affect the salary level in native firms and then alter the salaries level in host nations is additional important demand. The effects in salaries of the native firms in host nations are mentioned as salary spillovers⁹.

⁶ Lau, Lin-Sea, Chee-Keong Choong, and Cheong-Fatt Ng. "Role of Institutional Quality on Environmental Kuznets Curve: A Comparative Study in Developed and Developing Countries." In *Advances in Pacific Basin Business, Economics and Finance*, pp. 223-247. Emerald Publishing Limited, 2018.

⁷ Rahman, Nida, and Rahman Mohd Nayyer. "Do Foreign Direct Investment Inflows Impinge Gross Domestic Product? A Venture Out for Asean." *Jurnal Ekonomi dan Studi Pembangunan* 10, no. 1 (2018): 2018.

⁸ Lau, Lin-Sea, Chee-Keong Choong, and Cheong-Fatt Ng. "Role of Institutional Quality on Environmental Kuznets Curve: A Comparative Study in Developed and Developing Countries." In *Advances in Pacific Basin Business, Economics and Finance*, pp. 223-247. Emerald Publishing Limited, 2018.

⁹ Sun, Laixiang, In Hyeock Lee, and Eunsuk Hong. "Does foreign direct investment stimulate new firm creation? In search of spillovers through industrial and geographical linkages." *Small Business Economics* 48, no. 3 (2017): 613-631.

Numerous studies concentrated on such salary spillovers and also the consequence to the general salary level of the host nations occupied by FDI. Many researchers have also investigated the relation amongst salaries level and FDI in Mexico and Venezuela and discover zero or null evidence of salary spill overs that outcomes in greater wages for the native firm¹⁰. The lack of salaries spillovers is coherent with the diverse salaries level amongst foreign and native companies. Nevertheless, there was a confident relation amongst foreign possession stocks and averages industry salaries, which stands that greater foreign possession incline to increase industry salaries. Besides, the consequence was additionally important for well expert workers. The salary differences might be clarified by the better human capital creation in foreign companies and lower income, while the swelling industry salaries might be described by the rising demand for employment in the foreign firms. The wage spillovers produced by Foreign Direct Investment in Indonesia has been calculated, and it was found that foreign proprietorship might affect the salary level in domestic firms even if the alteration in salary levels is not important¹¹. Higher foreign proprietorship incline to upsurge the salary level of domestic firms, particularly for white-collar workers than for blue-collar employees.

It can be stated that the activity of Foreign Direct Investment has a confident effect to the general salary levels of the host nations as the greater salaries in foreign firms might upsurge the average salary level of the host nations, although pays spillovers to native firms do not always occur. The optimistic effect might be caused by the greater wages compensated by the foreign companies if there are zero salaries spill over to native firms; if there are

¹⁰ Rahman, Nida, and Rahman Mohd Nayyer. "Do Foreign Direct Investment Inflows Impinge Gross Domestic Product? A Venture Out for Asean." *Jurnal Ekonomi dan Studi Pembangunan* 10, no. 1 (2018): 2018.

¹¹ Sun, Laixiang, In Hyeock Lee, and Eunsuk Hong. "Does foreign direct investment stimulate new firm creation? In search of spillovers through industrial and geographical linkages." *Small Business Economics* 48, no. 3 (2017): 613-631.

optimistic salary spillovers, both greater salary level in foreign firms and the optimistic spillovers to native firms might donate to the overall wage swelling. Even when international firms take an adverse effect to the salaries of native firms, the undesirable spillovers might be offset by international firms' higher wages. Therefore, it might not influence the salary level snowballing in the host nations¹².

The Productivity of Host Country and FDI

In this part, previous works grounded on two queries are discussed. The first query is whether the output is greater in foreign firms than native firms in developing nations. Only if an actuality of greater productivity has been demonstrated in foreign firms might take place the efficiency spillover of FDI in emerging nations¹³. The other query is whether the greater efficiency in foreign corporations spills over to native firms. According to earlier researches, associations of productivity amongst foreign-owned units and native-owned units were focused on a manufacturing subdivision in developing nations.

It has also been found that by assessing both gross and value-added output from causing information of Mexico in the year 1970, the efficiency of foreign firms was further than double of native firms on average. When associating with native companies, the labor efficiency in foreign firms was much greater in twenty manufacturing productions. They also discover that the capital concentration in foreign firms was 2.5 times greater than Mexican native firms. Many researchers have inspected intra-industry spillovers from Foreign Direct Investment in the manufacturing segment of Indonesian. Researchers often used micro-level

¹² Rojec, Matija, and Mark Knell. "Why is there a lack of evidence on knowledge spillovers from foreign direct investment?." *Journal of Economic Surveys* 32, no. 3 (2018): 579-612.

¹³ Bilgili, Tsvetomira V., Ben L. Kedia, and Hansin Bilgili. "Exploring the influence of resource environments on absorptive capacity development: The case of emerging market firms." *Journal of World Business* 51, no. 5 (2016): 700-712.

information to inspect the alteration in labor efficiency amongst foreign and native firms in 28 trades. It was demonstrated that expertise level was greater in foreign companies than native companies in 27 out of 29 productions.

It has also been reported that in emerging nations, foreign firms have higher efficiency than native firms. For Morocco, deviance of firm efficiency from every sector's greatest practice border had been associated in eighteen industries from the year 1985 to the year 1989¹⁴. They discover a higher yield per employee and lesser deviance from best-practice edges in foreign firms than in native firms amongst total twelve businesses. For Uruguay, value added per employee was utilized to evaluate the alteration in productivity amongst foreign and native-owned firms¹⁵. The result discovered that in the year 1988, the efficiency in foreign companies was around 2 times as typical in native companies.

According to the study of Taiwan industrial sector, it has been found that labor efficiency of a multinational company was much greater than native firms, but entire factor efficiency of foreign firms was only somewhat greater than native firms. The research for Turkey in which different rudiments of the manufacturing purpose were taken into explanation. Similarly, the research for five Asian economies which include Indonesia, Hong Kong, Singapore, Malaysia, and Taiwan in which value added per worker was utilized to portion work efficiency. Both research studies discover that the average efficiency of were noteworthy greater in multinational company than in native companies.

¹⁴ Bilgili, Tsvetomira V., Ben L. Kedia, and Hansin Bilgili. "Exploring the influence of resource environments on absorptive capacity development: The case of emerging market firms." *Journal of World Business* 51, no. 5 (2016): 700-712.

¹⁵ Murakami, Yoshimichi, and Keijiro Otsuka. *A Review of the Literature on Global Value Chains and Foreign Direct Investment: Towards an Integrated Approach*. Discussion Paper 2017-19. Kobe: Research Institute for Economics and Business Administration, Kobe University, 2017.

Before discussing the research and study on whether host nations might get advantage from Foreign Direct Investment in respect to efficiency development, the occurrence of efficiency spillover must be clear¹⁶. It has been stated that the output spillovers happen when the formation of foreign corporations' outcome in encouraging the output and efficiency of the native firms in host nations, and the international firms might not totally assume the worth of these advantages. An additional reason that output spillovers take place is the native firms are required to progress the efficacy of utilizing their prevailing resources and technology as the entry of international firms carried fierce opposition to the host nations¹⁷. The robust competition also results in the domestic firms to follow new skills which might outcome in the efficiency spillover. Moreover, one must also categorize different kind of spillovers. Flat spillovers are the possessions from international to native firms fitting to a similar industry¹⁸. Vertical spillovers happen both in upstream businesses and downstream businesses. For flat spillovers researches utilized panel information of Venezuelan corporations determined that there is null evidence of provisions the presence of technology spillovers amongst international and native firms¹⁹. Another research also utilized panel information to study the influence of Foreign Direct Investment in Bulgaria, Poland, and Romania. According to the supposition of these studies, these researches or studies did not discover any indication of

¹⁶ Karlsson, Charlie, Andreas P. Cornett, and Tina Wallin. "Globalization, international spillovers and sectoral changes: An introduction." In *Globalization, International Spillovers and Sectoral Changes*, pp. 1-21. Edward Elgar Publishing, 2018.

¹⁷ Siddharthan, N. S., and Krishnan Narayanan, eds. *Globalisation of Technology*. Springer, 2018.

¹⁸ Karlsson, Charlie, Andreas P. Cornett, and Tina Wallin. "Globalization, international spillovers and sectoral changes: An introduction." In *Globalization, International Spillovers and Sectoral Changes*, pp. 1-21. Edward Elgar Publishing, 2018.

¹⁹ Yao, Yao. "Study on reverse technological spillover from outward direct investment." In *2016 International Conference on Advances in Management, Arts and Humanities Science (AMAHS 2016)*. Atlantis Press, 2016.

spillovers in these developing market parsimonies. There are many other numerous studies and researches that support the ideas, results, and supposition of these studies.

Associated with parallel spillovers, it is fairly positive about the presence of upright spillover. In another research company level panel information and data was utilized in challenging the efficiency spillovers in Lithuania²⁰. The outcomes discovered confident spillovers from Foreign Direct Investment in upstream segments however the confident efficiency spillovers were connected with half owned international investments. Such presence of upright spillovers has also been supported by many other types of research and studies. Though most of the researches have a mutual knowledge on the presence of upright spillovers, they cannot reach arrangements in certain questions, such as whether there are few confident spillovers accepted by Foreign Direct Investment in upstream businesses. A study provided a theoretical supposition that if corporations might get advantage from the improved presentation of transitional input dealers, they will not take events to avert productivity spillovers from an occurrence²¹. Thus, a spillovers station will be recognized amongst foreign firms and their dealers fitting to native companies. In their estimation, confident effects of Foreign Direct Investment might take place in upstream trades as the international firms will impose a snowballing demand and improved quality of transitional products, such necessities would arouse local dealers to improve their expertise in creative activity, temporarily, they might get advantage from scale frugality. It appears reasonable however is not always the circumstance in authenticity. An article also showed undesirable effects of foreign direct

²⁰ Jena, Pabitra Kumar, and Utpal Chattopadhyay. "Impact of Foreign Direct Investment (FDI) Inflows on Productivity: Evidence from Panel Data Analysis." *Productivity* 57, no. 3 (2016).

²¹ Zanello, Giacomo, Xiaolan Fu, Pierre Mohnen, and Marc Ventresca. "The creation and diffusion of innovation in developing countries: a systematic literature review." *Journal of Economic Surveys* 30, no. 5 (2016): 884-912.

investment or FDI in business on efficiency and yield in upstream businesses in Venezuela²². They also delivered a conceivable motive that international units or firms move the request for transitional inputs from native or local producers to international producers which results in decreasing the scale of production, and hence productivity, in native manufacture²³.

Other reasons that might influence spillovers are also present. Research has utilized data and information of various years of United States manufacturing multinational firms in around forty nations to examine whether multinational companies might help world-wide technology dispersion²⁴. This study discovers a weak indication of technology dispersion from multinational companies of the United States in less LDCs or normally called as developed countries (LDCs)²⁵. The description given by the researcher is most less developing countries cannot grasp a human capital edge of around 1.9 years in rappings of mainly secondary school achievement, to get advantage from technology transferal of United States multinational associates²⁶. A supposition that the spillover of technology possessions brought by Foreign Direct Investment are not important in less advanced nations might be preoccupied from this research.

There are few types of research and studies that did provisions that native companies in emerging nations might get advantage from Foreign Direct Investment as the productivity spillover from international companies might help native companies to enhance their

²² Murakami, Yoshimichi, and Keiji Otsuka. *A Review of the Literature on Global Value Chains and Foreign Direct Investment: Towards an Integrated Approach*. Discussion Paper 2017-19. Kobe: Research Institute for Economics and Business Administration, Kobe University, 2017.

²³ Santarelli, Enrico, and Hien Thu Tran. "Young innovative companies: Are they high performers in transition economies? Evidence for Vietnam." *The Journal of Technology Transfer* 42, no. 5 (2017): 1052-1076.

²⁴ Siddharthan, N. S., and Krishnan Narayanan, eds. *Globalisation of Technology*. Springer, 2018.

²⁵ Yao, Yao. "Study on reverse technological spillover from outward direct investment." In *2016 International Conference on Advances in Management, Arts and Humanities Science (AMAHS 2016)*. Atlantis Press, 2016.

²⁶ Siddharthan, N. S., and Krishnan Narayanan, eds. *Globalisation of Technology*. Springer, 2018.

prevailing technology as well as to attain economies of scale. Though, in further circumstances, the spillovers are not noteworthy, even harmful. So it cannot be supposed as whether the constructive spillover is actually present is hinge on a diverse range of elements in various situations.

Economic Growth of Host Country and FDI

Economic development, which is a mutual motive for all emerging nations, might be attained from efficiency spillovers²⁷. Numerous authors have considered communication amongst economic growth and FDI in developing nations. It has been found that knowledge and technology spillovers from the foreign nations were two elements of long term development in host nations and FDI has confident effects on the development of economy in developing nations²⁸. An annual data of the year 1970 to the year 1996 have been utilized to research Asian nations and displayed that in Malaysia, Indonesia, and the Philippines there is a confident impact supported by FDI. Another research has utilized information and data amongst the year of 1970 and 1999 of Latin countries of America and discovery that optimistic consequence only take place in nations with additional economic liberty²⁹. In these researches and studies, a positive connection between FDI and GDP development were displayed in Malaysia, Indonesia, and the Philippines³⁰. The different data and methods selecting might direct to such a diverse range of results. Some unidentified elements will also

²⁷ Javorcik, Beata S. "Harnessing foreign direct investment to boost economic growth." In *Boosting European Competitiveness*. Edward Elgar Publishing, 2016.

²⁸ Javorcik, Beata S. "Harnessing foreign direct investment to boost economic growth." In *Boosting European Competitiveness*. Edward Elgar Publishing, 2016.

²⁹ Jena, Pabitra Kumar, and Utpal Chattopadhyay. "Impact of Foreign Direct Investment (FDI) Inflows on Productivity: Evidence from Panel Data Analysis." *Productivity* 57, no. 3 (2016).

³⁰ Yi, Jingtao, Yan Chen, Chengqi Wang, and Mario Kafourous. "Spillover effects of foreign direct investment: how do region-specific institutions matter?." *Management International Review* 55, no. 4 (2015): 539-561.

affect the outcomes. However, they do not devour so much influence on the conclusion.

Founded on the verdicts of previous researches, generally talking, emerging countries might get advantage from FDI and attain economic development.

Conclusion

The motive of this research is to try to analyze how to established and operate the Foreign Direct Investment and developing countries might get reimbursements from FDI or foreign direct investment. The result of FDI has been categorized into three facets. Firstly, it is the world-wide portent that the salaries in foreign firms are greater than native firms. The activity of FDI has a confident influence on the complete salary levels of the host nations, though salaries spillovers to native firms are not always occurred. Furthermore, foreign firms have greater efficiency than native firms might be maintained by the utmost of the obtainable researches no matter what events have been utilized. Although there are certain findings which reflected that native firms in emerging countries might benefit from FDI by efficiency spillovers, in most of the circumstances, the efficiency spillovers are not noteworthy, even undesirable³¹. Thirdly, emerging countries might benefit from Foreign Direct Investment and attain economic development. Generally, here a constructive conclusion might be building that the host nations, especially the emerging countries, might benefit from the establishment and operation of FDI or foreign direct investment.

³¹ Yi, Jingtao, Yan Chen, Chengqi Wang, and Mario Kafourous. "Spillover effects of foreign direct investment: how do region-specific institutions matter?." *Management International Review* 55, no. 4 (2015): 539-561.

Footnotes

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