INTERNATIONAL MANAGEMENT

6TH. PART: FOREIGN INVESTMENTS

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6. Foreign Investments

6.1 Definition of foreign investments

6.2 Investment incentives

6.3 Countries with favorable investment incentives

6.1 Definition of foreign investments

- Investor (stakeholder):
  - Individual person;
  - company;
  - a group of co-operating companies (clusters);
  - country (through government).

- An entity located (established) on the market of another country (the investment entity):
  - foreign branch;
  - foreign affiliate;
  - joint ventures.

6.1 Definition of foreign investments

- Two basic forms of dividing foreign investment:
  - investment in a partially prepared environment (brown field);
  - investment in a non-prepared environment (green field).
- Flows between the investor and the investment entity:
  a) products;
  b) knowledge;
  c) capital.

6.1 Definition of foreign investments

- ad a) Product flows:
  - manufactures;
  - services;
  - non-personal resources (supplies, components, etc.).
- ad b) Knowledge flows:
  - personnel resources
  - intellectual property;
  - know-how.

6.1 Definition of foreign investments

- ad c) Capital flows:
    - granting credit;
    - dividend payments;
    - co-ownership of the authorised capital (stock);
    - other activities related to the movement of capital between headquarters and branches.

- It always depends on the specific relationship between the investor and the investment entity (for example, we do not need to grant the credit to the branch).

6.1 Definition of foreign investments

- The three basic conditions for the realisation of foreign investments are given by the following three advantages:
  - ownership – *the investor owns or controls unique assets and he is concerned in distribution it to the foreign market (company name, image, brand, innovation, technology, etc.);*
  - placement – *for an investor, it is effective to transfer these unique assets to the market of other countries (foreign countries should be selected as much as possible - investment incentives, staff qualifications, availability of resources, infrastructure, logistics, etc.);*
  - internalisation – *ownership (direct capital input) must be more favorable than contractual relationship (capital-free entry).*

6.2 Investment incentives

For each country it is beneficial when foreign investors make investments on the market and when they establish investments entities here.

Individual states attract multinational corporations to invest in their territory through a variety of tools.

There is competition between countries in the struggle to attract foreign investors.

There is a risk of increasing investment incentives to such a rate that contribution of the investments will be less than the public costs for the investments.

6.2 Investment incentives

- Characteristics of investment incentives:
  - production costs (including labor costs);
  - tax system (size of tax and complexity of the tax system);
  - market size;
  - market growth and market potential;
  - economic stability (especially financial);
  - political stability (dangers of regime change, protectionism, social problems, power of unions);
  - the skills and qualification of the workforce;
  - infrastructure (transport, information, etc.);
  - quality of life;
  - geographical location (access to export markets, climatic conditions, etc.).

6.2 Investment incentives

- A number of regulations and incentives to attract foreign investors has grown significantly since the 3rd wave of globalisation (1990s).
- 1992:
  - number of countries applying investment incentives: 43
  - number of incentive activities: 79
- 2004:
  - number of countries applying investment incentives: 102
  - number of incentive activities: 235

6.2 Investment incentives

- Number of incentive activities (in their most active times):

Year	Number of states	Number of activities
2000	69	147
2001	71	194
2002	70	236
2003	82	220
2004	102	235
2005	*93*	*164*

6.2 Investment incentives

Investment incentives … .yes or no???

- Existence of investment incentives brings many key questions, for example:
  - Does it make sense?
  - Does not it bring more worries than positive impacts?
  - Is not it unfair to domestic companies?

6.2 Investment incentives

It is the political decision-making of the government of the state. However, there should be broader political consensus because it is not a decision with a short-term impact!!!

6.2 Investment incentives

- Reasons (advantages) of regulations and incentives to attract foreign investors:
    - transfer of part of profit of the investor;
    - stimulation of demand (new products, higher wages in the investment entity due to higher labor costs in the investor's country);
    - new opportunities for suppliers and subcontractors;
    - increasing productivity of labor (innovation, technology and new approaches).

6.2 Investment incentives

- **Disadvantages of regulations and incentives to attract foreign investors:**
  - environmental issue;
  - administrative and organisational burdens;
  - distortion of equalization and free market principles (disadvantage for domestic economic subjects operating in the same or similar segment as the foreign investor);
  - space for corrupt environment;
  - opportunity costs (foreign vs. domestic investments);
  - all the benefits listed above are questionable (wage growth) and difficult to measure.

6.2 Investment incentives

For illustration, in the Czech Republic, in the first ten years since its establishment (1993 - 2002), it has contributed to one job in terms of investments incentives:

- pessimistic version: - 1.242.000 Kč;
- optimistic version: + 142.000 Kč.

- Since 2000, the Czech Republic has dropped from the second decade to the third (about 25th) in the ranking of the attractiveness of investment places.

6.3 Countries with favorable investment incentives

- Traditionally attractive countries in terms of investment incentives:
  - China;
  - USA;
  - India;
  - Brasil;
  - Hongkong;
  - Singapur;
  - United Kingdom;
  - Russia (till 2014);
  - United Arab Emirates;
  - Tchaj-wan;

6.3 Countries with favorable investment incentives

- Traditionally attractive countries in terms of investment incentives:
  - Vietnam;
  - Germany;
  - Japan;
  - Australia;
  - Canada;
  - France;
  - Malajsia;
  - Indonesia;
  - Turkey;
  - South Korea etc.

6.3 Countries with favorable investment incentives

- Traditionally attractive countries in terms of investment incentives (Central and East Europe):
    - Poland;
    - Czech republic;
    - Hungary;
    - Slovakia;
    - Romania.

Thank You for Your Attention