International Journal of Innovation and Applied Studies
ISSN 2028-9324 Vol. 20 No. 3 Jun. 2017, pp. 975-982

http://www.ijias.issr-journals.org/

The Dynamic Perception to Attract Foreign Direct Investment: How this Process is Capable to Increase the FDI Inwards?

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ABSTRACT: Globalization has many facets. By this mean, it covers different and heterogeneous sides of the countries' life. No matter how it affects the process of development positively or negatively, the subject of the worldwide economies interconnection becomes more than before an astonishing and fertile ground of research and investigation. Foreign direct investment for instance is considered both as a concrete way to practice globalization and realize the targets of the international business network. This paper attempts to shed light on the capacity of the countries to catch the benefits of the foreign direct investment as a dynamic process to increase the participation magnitude of the country that hosts FDI in the international economics.

KEYWORDS: FDI, dynamic process, benefits, international economics.

1 INTRODUCTION

The evidence that foreign direct investment generates positive spillovers is tainted by a wide misconception. This fact is due to three basic considerations. The first is that FDI represents one kind of the capital that circulates over countries to perform its usage efficiency and thereby increases its returns. The second approach is based on the destination of the capital movement. Under this idea, the issue of the absorption capacity of the host country surges to raise question about the extent to which this or that economy is able to embrace and manage positively the foreign capital flows denoted by foreign direct investment. The third statement is the position of the FDI in developmental strategies of the host country. This fact is about whether the country that attracts FDI has an inward benefits looking or an outward one, i.e the advantages of FDI on the host country are exploited to boost the internal economic growth or enhance the external position of the country *vis-a- vis* the others.

The academic face of the capital movements across countries dates back to the writings of the classical and the neoclassical theory. It asserts that capital is always looking for the best floors that ensure the appropriate investment climate and the high returns. According to this view, the neoclassical theory presents a direction of this movement by postulating that capitals flow from the capital abundant countries the capital scare ones. It argues that there is no difference between capital and the other commodities, so this new item is subjected to the law and demand forces. When the economy holds a considerable measure different quantitatively and qualitatively of capitals, the value (the return) of this capital decreases and vice versa. These assumptions revealed bits of inefficiencies as the capital is not only conducted by the pure economic criteria, but it circulates according to the characteristics of the capital recipient. Under this issue, the institutional firm imposes its prevalence by explaining the organizational channels through which the institution will be an attractive destination to foreign direct investment.

2 THEORIES OF FOREIGN DIRECT INVESTMENT: TOWARDS A NEW UNDERSTANDING

The economic literature is abundant by the conceptions to explain the behavior of the foreign direct investment. Each strand sheds light on one or various angles of analysis depending on a package of conditions and considerations. If you look carefully at the FDI mechanisms of explanation, we touch a bit of an evolutionary trend of explication. This trajectory relies on the developmental stage of the country under study, the socio cultural dimension of the society in which the investment is undergone, the acceptability of the other as well as the degree of the need or the desire to benefit from this kind of investment. In general, the theories that highlight how FDI behaves are classified into four considerations: the market consideration, the institution consideration, the society consideration and the geostrategic consideration. Practically, all these theories overlap and the distinction between them in terms of adoption or application is blurred. Each theory explains the movement of FDI according to such criteria and it captures it vitality both from the environment and the effectiveness of the theory applicability.

2.1 MARKET CONSIDERATION TO EXPLAIN FDI

This view tries to present a schematic picture of the foreign investment flows according to the development of the markets toward them the foreign direct investment is directed. This development is divided into two subsets: the vertical development and the horizontal one. The former means the progress of the interconnection between the core market of the product or the service and the followed market (the market of accessories). This interconnection is backward (necessary items to perform the good and service according to the tastes and developmental stages of the consumers socio-cultural dimension). It is also assumed as a forward connection when the market is strongly interested to serve carelessly and efficiently the consumers by presenting all the subsequent services that strengthen the power of the satisfaction. The strength of the ties between the backward and forward links and the market per se is big concern of the foreign investor to take the decision whether to invest or not. The angle cited above is only about the microstructure of the market. However, the investor is also interest in how the markets are expanding over time and how they are fitting the economic and social development of the country. Consequently, the impact between the both the forward and backward linkages and the economic and socio cultural progress is bidirectional. Since the markets develop, the economic situation of the whole country will be on the development path automatically and the society submits to the movement of these markets (the market model of the development). The above pyramid states clearly the importance of this theory:

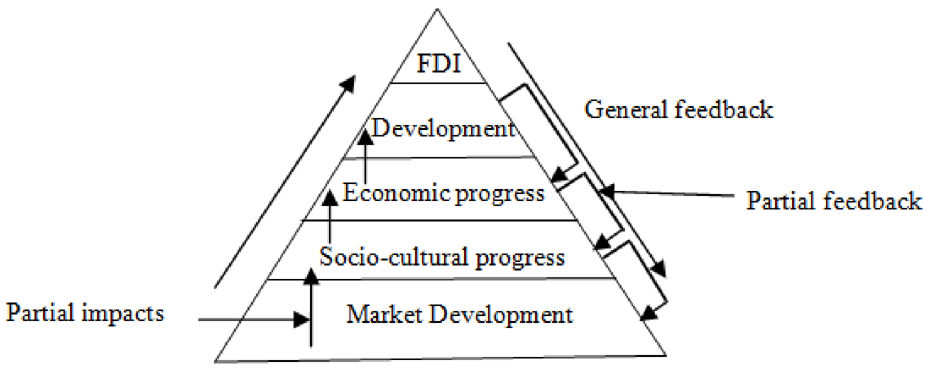

Fig. 1. The market theory of FDI

***Source:** the researchers*

2.2 THE INSTITUTION CONSIDERATION TO EXPLAIN FDI

This theory is vital to give a presentation of the FDI behavior. It assumes that the investor looks at the level of the institution development that is efficient to leverage the capitals invested. For instance, the institution is considered an attractive factor of FDI only if it is designed by a way that absorbs the economical and financial externalities of the foreign investment. In this context, institutions are classified through various criteria: the expansion criterion, the development criterion and the dynamic criterion. The expansion criterion means the expansion of the firm departments (Hierarchal expansion), the firm environment expansion (customer expansion), and the institution culture expansion (the acceptability of the other). Each one of the cited kinds of expansion plays a role in attracting the foreign investments. The structure expansion is the front picture envisaged by the foreigner and it is measure of the firm suitability and appropriateness of the institution to enlarge its activities and run businesses with the others. In addition to the first criterion, the customer expansion comes to determine the level of the interrelation between the firm and its partners. The bigger the network of the firm with its customer, the more efficient is that firm to attract FDI. Besides, the culture of the firm is another institutional dimension should to be investigated carefully. It traces the conduct of the firm to accept the business of the others. The three angles have a simultaneous and uninterrupted effect on the direction and the magnitude of the FDI as it illustrated by the following figure:

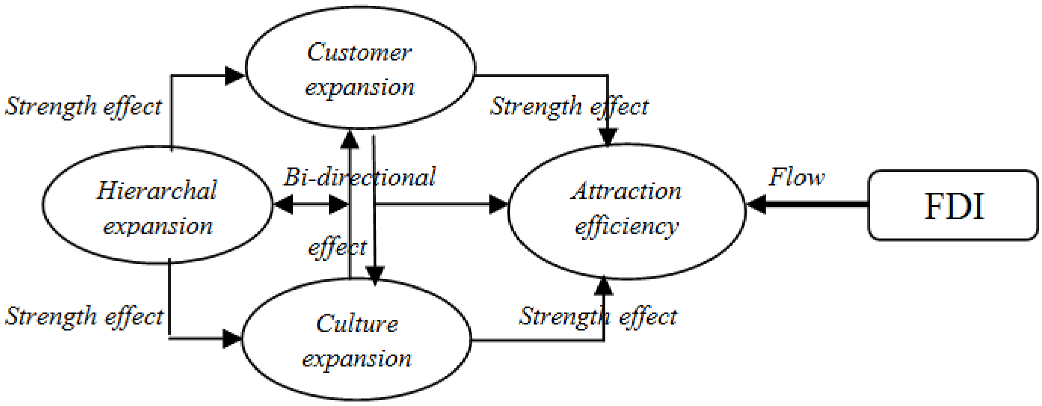

Fig. 2. The institutional square effect and FDI

Source: *the researcher*

2.3 THE SOCIETY CONSIDERATION AND FDI

Within the society framework, several issues are mentioned. At first, society by its components tries to adjust the foreign investment according to the specificities of the societal direction of FDI (Forward linkage). The other linkage is illustrated by harmony effect of the environment. This mechanism means that the society should submit to such rules and adopt ways of conduct going hand in hand with the managerial performance and the culture of running foreign businesses. The adjustment process must respect conditions: the preservation of the society legacy, the protection of the right of both parties (the investor and the society) and the capacity adequacy to absorb more FDI in the future. The society consideration attempts by this conception to highlight that the foreign investor can increase his benefit and expand his investment only if he takes managerially the society into account. In addition to this, the foreign firm submits to the general rule of the society in which it works. This tenet suggests that the correlation between the society considered as an institution and the foreign firm per se must be positive towards what serves the both parties. The links between society and the foreign investor are revealed by the following figure:

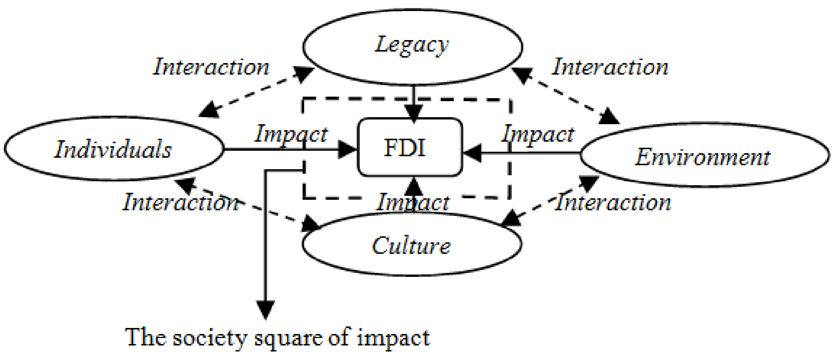

Figure. 3. The society and the foreign direct investment

Source: *the researcher*

2.4 THE GEOSTRATEGIC CONSIDERATION AND FD

Different from the above considerations stated to explain the behavior of the foreign direct investment, the geostrategic view attempts to present a fresh illustration of the flows of the investment into and out from the country according to the political and geopolitical position of the host country. This assumption asserts that the country relations with the foreign investor country may be a strong indicator to enhance the investment in that country. In addition to this, the inner and the outer political safety arena attract the investor in a way that ensures the smoothing and permanent presence of the foreign investor in the country. The purpose of the geostrategic consideration is that it shows the position of the country *vis -a- vis* the others. From this point, the state should maintain the appropriate policies of coordination and cooperation with the others so as it becomes an attractive area for foreign investors. In addition to this, the mismanagement of the country position as an economic capital as well as the relations that tie the countries between them may damper the interest of the foreign to invest in that country. At this level, four variables are mentioned: location variable, political power variable, integration variable, stability variable. These strategic variables impact the flows of foreign direct investment as below:

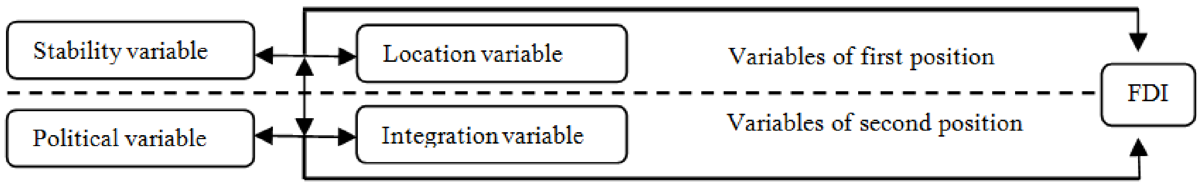

Figure. 4. Positions of the geostrategic variables and foreign direct investment

Source: *the researcher*

3 THE DYNAMIC POSITION OF THE FDI TREND

The dynamic trend of the foreign direct investment took its origins from the idea that the investment in general is conducted by pre and post effects. The former means the necessity to afford all which is necessary to engage in an investment project. The economic literature coined these pre effects by the effects of resources. In this context, it is assumed both theoretically and empirically that the more the resource are effectively available and efficiently used, the more the positive gains of the investment on the economy will be. The post effects denote the influence of the extrinsic impacts that surround the investment process. These impacts take different forms: institutional (law and jurisdiction), behavioral (uncertainty and environment randomness). The pre and post effects represent the amalgamation of the above cited criteria via a dynamic perception. The latter process is about the difference of the correlation between the institutional, societal, societal and geostrategic dimensions both in terms of magnitude and behavior. The instability of the law enactment jeopardizes strongly the institutional capability to generate welfare and manage resources (Micro-dynamic effect). Additionally, the uncertainty takes two forms; the first one is the qualitative uncertainty when the investor fears the future even if the environment surrounding the investment process holds a considerable level of stability (analysis of stability signals). This kind of uncertainty is harmful to the investment in the sense that destructs gradually the psychological incentives to run businesses. Moreover, the other type of the uncertainty refers to what is called the quantitative uncertainty. This concept is persistent and pervasive in all the investment decision without any exception as this process deals generally with the future. However, it differs from the first kind in the context of the occurrence. The possibility to quantify the uncertainty is affordable in the presence of the economic, financial, political and institutional stability signals. These signals are measurable and they can give a general and approximate vision of the investment environment and how things are going. Furthermore, the dynamic perception of the investment works as the SWOT analysis in deciphering the points of the strength, weaknesses, opportunities and threats. The core value of the process is to attach any dimension of the FDI dynamic analysis to its convenient part of the SWOT analysis as it is shown by the following figure:

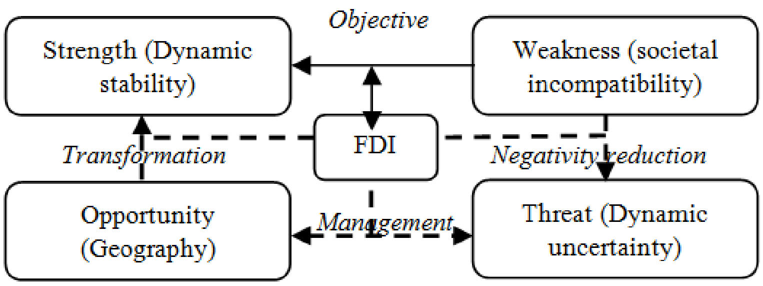

Figure. 5. Dynamic analysis of FDI according to SWOT analysis

Source: *the researcher*

4 THE INCREASE OF FOREIGN DIRECT INVESTMENT OVER TIME

Foreign direct investment is a process characterized by the conduct of different variables. These variables are split into two parts according to the context of analysis: national and international one. Based on the behavioral consideration, the variables are divided into two parts: the uncertainty of the environment events and the randomness of the results generated. Furthermore, the policy makers tend to increase the level of the inward foreign direct investment (apparent goal) by manipulating the variables and their dimensions in favor of objective (inherent goal). Consider the following random model:

$$\sum_{t=0}^{n}\left\{\sum_{i=1}^{n}\sum_{j=1}^{n}\alpha_i\beta_j(U_{t,i})-\frac{1}{n}\int_{t=0}^{n}V\ (N_{t,j}(i))di\right\}/(U_{t,i}=\frac{(S+O)^{1+\varphi}-1}{1+\varphi})\Lambda(V\ (N_{t,j}(i)=\frac{(W+T)^{1+\gamma}}{1+\gamma}) \quad (1)$$

In which: α_i, β_j are parameters of interaction and transformation respectively, $U_{t,i}$ is the function of the strength and the opportunity development within the dynamic system, $V(N_{t,j}(i)$ is the function of weakness and threat development with the dynamic system, φ is the indicator of the strength and opportunity increasing movement in the system, γ is the indicator of the weakness and threat increasing movement in the system.

The aim of the dynamic system explaining the movement of FDI over the period stated is to increase the gap between the positive forces (strength and opportunity) and the negative ones (weakness and threats) in one hand; at the other, the system looks at maintaining efficiently the transformation processes from the positive block to the negative one. Henceforth, the technical goal of the system is shown as follow:

$$(U_{t,i})=\left\{\begin{array}{l}\max\frac{(S+O)^{1+\varphi}-1}{1+\varphi})\\ Under\\ (0\le\varphi\le1)\Lambda(0\le t\le n)\end{array}\right\}\quad\Lambda\quad(V_{t,j})=\left\{\begin{array}{l}\min\frac{(W+T)^{1+\gamma}}{1+\gamma}\\ Under\\ (0\le\gamma\le1)\Lambda(0\le t\le n)\end{array}\right\} \quad (2)$$

Thus, the aim of the country looking for the foreign direct investment as a way to boost growth and generate welfare is resumed by the following dynamic system:

$$FDI_{t,i,j}=U_{t,i}+V(N_{t,j}(i)) \quad (3)$$

$$(3)\Rightarrow\left\{\begin{array}{l}\frac{\partial FDI_{t,i,j}}{\partial U_{t,i}}=0\forall t\in[0,n]\\ \frac{\partial FDI_{t,i,j}}{\partial V\ (N_{t,j}(i))}=0\forall t\in[0,n]\\ \frac{\partial FDI_{t,i,j}}{\partial U_{t,i}}-\frac{\partial FDI_{t,i,j}}{\partial V\ (N_{t,j}(i))}=0\forall t\in[0,n],\forall i,j\in[0,n]\end{array}\right\} \quad (4)$$

The last formula means the policy makers tend to increase the gap throughout the period of analysis between the positive forces that conduct the increasing process of FDI inward and the negative ones that damper it. This is intended at every time point during the interval [0, n]:

At the first point of time $t=1$:

$$(4)\Rightarrow\left\{\begin{array}{l}\frac{\partial FDI_{1,i,j}}{\partial U_{1,i}}=0\\ \frac{\partial FDI_{1,i,j}}{\partial V\ (N_{1,j}(i))}=0\\ \frac{\partial FDI_{1,1,1}}{\partial U_{1,1}}-\frac{\partial FDI_{1,1,1}}{\partial V\ (N_{1,1}(i))}=0\end{array}\right\} \quad (5)$$

At the second time of time $t=2$:

$$(5)\Rightarrow\left\{\begin{array}{l}\frac{\partial FDI_{2,i,j}}{\partial U_{2,i}}=0\\ \frac{\partial FDI_{2,i,j}}{\partial V\ (N_{2,j}(i))}=0\\ \frac{\partial FDI_{2,2,2}}{\partial U_{2,2}}-\frac{\partial FDI_{2,2,2}}{\partial V\ (N_{2,2}(i))}=0\end{array}\right\} \quad (6)$$

At the penultimate point of time $t = n-1$:

$$(6) \Rightarrow \left\{ \begin{array}{l} \dfrac{\partial FDI_{n-1,i,j}}{\partial U_{n-1,i}} = 0 \\ \dfrac{\partial FDI_{n-1,i,j}}{\partial V\,(N_{n-1,j}(i))} = 0 \\ \dfrac{\partial FDI_{n-1,n-1,n-1}}{\partial U_{n-1,n-1}} - \dfrac{\partial FDI_{n-1,n-1,n-1}}{\partial V\,(N_{n-1,n-1}(i))} = 0 \end{array} \right\} \quad (7)$$

Then, the policy maker strives to achieve the point that resolves the following equation:

$$\left[(\alpha_1\beta_1(U_{1,1}) - \int_{t=0}^{1} V\,(N_{1,1}(i))di\right] + \left[(\alpha_2\beta_2(U_{2,2}) - \int_{t=0}^{2} V\,(N_{2,2}(i))di\right] + \ldots$$

$$+\left[(\alpha_{n-1}\beta_{n-1}(U_{n-1,n-1}) - \int_{t=0}^{n-1} V\,(N_{n-1,n-1}(i))di\right] + \left[(\alpha_{n-1}\beta_{n-1}(U_{n-1,n-1}) - \int_{t=0}^{n-1} V\,(N_{n-1,n-1}(i))di\right] + \left[(\alpha_n\beta_n(U_{n,n}) - \int_{t=0}^{n} V\,(N_{n,n}(i))di\right] = 0 \quad (8)$$

Throughout the period of the investigation, foreign direct investment flows towards the locations where the positive forces exceed the negative ones. This attempt is being developed along the period as the previous gap of the previous period fosters the increasing process of the gap of the upcoming periods:

$$Incentive_{FDI} = gap_1 + (gap_1 + gap_2) + (gap_1 + gap_2 + gap_3) + \ldots + (gap_{n-2} + gap_{n-1} + gap_n)$$
$$Incentive_{FDI} = ngap_1 + (n-1)gap_2 + (n-2)gap_3 + \ldots + 3gap_{n-2} + 2gap_{n-1} + gap_n \quad (9)$$

This incentive is shown graphically as follow:

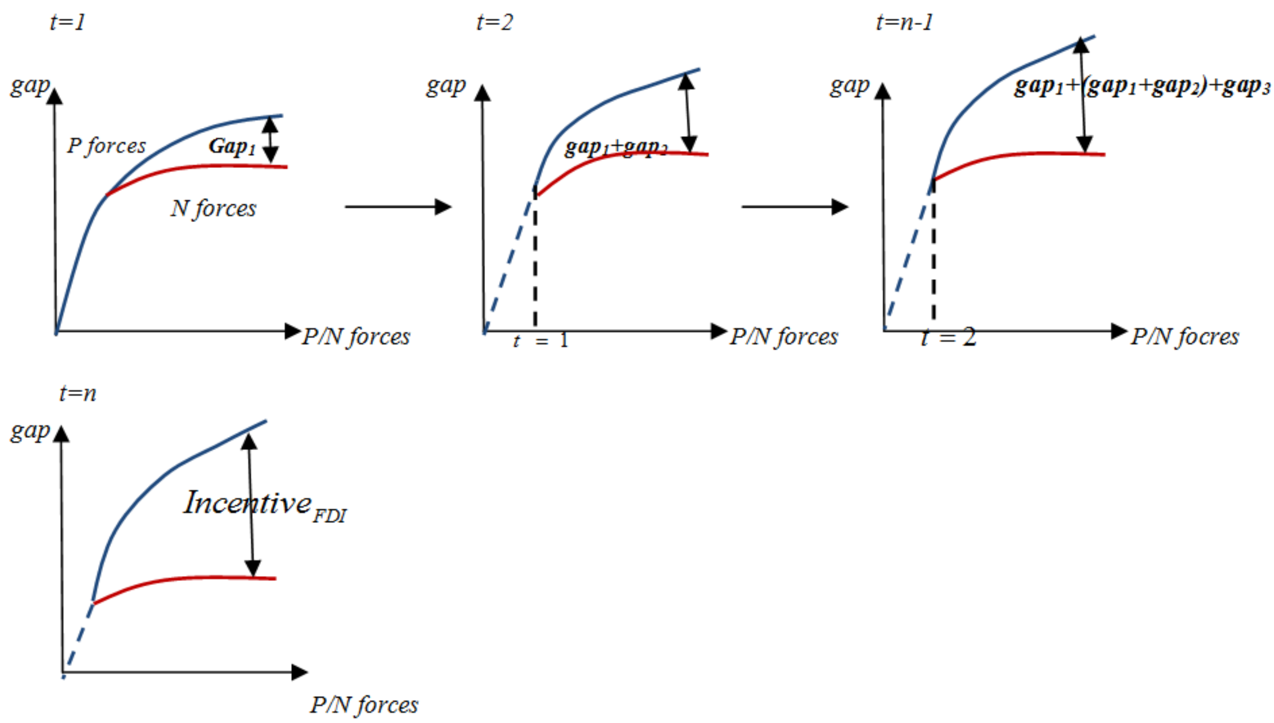

Figure. 6. The dynamic incentive of FDI

Source: *the researcher*

5 CONCLUSION

Foreign direct investment is considered as the most stable kind of investments undertaken at the international level. In this context, the policy makers in various countries tend to attract the diverse forms and flows of FDI as possible as it could be. For this reasons, the incentives and encouragements are established in a way that facilitates the investing task in the view of the foreign in one hand; and at the other to boost growth and development of the host country. The dynamic perception comes as process to be managed efficiently over time in order to direct the environment forces that surround the investment in favor of both the investor and the host country.

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