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FOREIGN DIRECT INVESTMENT

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Foreign direct investment (**FDI**) is a direct investment into production or business in a country by an individual or company in another country, either by buying a company in the target country or by expanding operations of an existing business in that country. Foreign direct investment is in contrast to portfolio investment which is a passive investment in the securities of another country such as stocks and bonds.

Types of FDI

1. **Horizontal FDI** arises when a firm duplicates its home country-based activities at the same value chain stage in a host country through FDI
2. **Platform FDI** Foreign direct investment from a source country into a destination country for the purpose of exporting to a third country.
3. **Vertical FDI** takes place when a firm through FDI moves upstream or downstream in different value chains i.e., when firms perform value-adding activities stage by stage in a vertical fashion in a host country

Horizontal FDI decreases international trade as the product of them is usually aimed at host country; the two other types generally act as a stimulus for it.

The foreign direct investor may acquire voting power of an enterprise in an economy through any of the following methods:

- by incorporating a wholly owned subsidiary or company anywhere
- by acquiring shares in an associated enterprise
- through a merger or an acquisition of an unrelated enterprise
- participating in an equity joint venture with another investor or enterprise

The Advantages of FDI

- Foreign expertise can be an important factor in improving the existing technical processes in the country.
- Advances in technology and process it improves the competitiveness of countries in the domestic economy

- It improves the quality of products and processes in a particular sector, increased attempts to better human resource.
- Creates job opportunities, in an effort to increase productivity, skilled and semi-skilled workers needed.
- Reduces unemployment problem and thus reduce social problems.
- Expertise transfer, research and development require the fees to the high cost of developing the technology.

The Disadvantages of FDI

- The parts that the host country economically backward is always comfortable when the flow of Foreign Direct Investment is affected.
- They need to ensure that entities that make Foreign Direct Investment in these countries comply with environmental regulations.
- The host country has a number of state secrets is something that not meant to be exposed to the world.
- It is notes that the defense is at risk because of Foreign Direct Investment in the country.
- Requires a higher travel and communication expenses.
- Language and cultural differences that exist between countries and investors of the host country also cause problems in the case of foreign direct investment.

Impact of FDI on Small and Large Scale Business

- Small business enterprise is defined as a capital of less than RM250 thousand, having employees who are not more than 50 people and managed by one or two managers only.
- Small business is divided into sole proprietorships and partnerships.
- Stability FDI – FDI inflows may be affected if there are changes in exchange rates in the country compared with other sources of private investment or loan portfolio – FDI can stimulate product diversification through investments in new business, so reducing market dependence on a few sectors / products (UNCTAD 1999).
- Social development – to generate and grow the business in developing countries
- Increase in job opportunities
- Increase in per capita income
- Replace of declining market sectors
- wage differentials between income groups will be exacerbated

Conclusion

Foreign investors have an important role in economic development. This is because foreign investors have opened a new dimension by creating new industries in developing countries.