CHAPTER 3

Motives for, Barriers to, and Trends in Foreign Direct Investment

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A Definition of Foreign Direct Investment (FDI)

The topic of FDI has been extensively researched by academics and organizations alike (for a recent study see inter alia Bitzenis and Papadimitriou, 2011). The literature originally sought to understand how organizations in developed countries made investment decisions in other developed markets. Gradually, however, as the investment opportunities in developed countries dried up, the literature focus shifted towards opportunities arising in developing markets (for example, South America, Southeast Asia, Central and Eastern Europe) as more and more firms sought greater returns on their investments due to expanded growth potential in these markets (see inter alia Bitzenis, 2008; Bitzenis, 2009; Bitzenis and Szamosi, 2009).

The structure and the nature of international markets is not static in any way, especially in the context of the last three decades, 1980 to 2010, which have been dominated by rapid developments in technology. The deep appreciation of knowledge as a profit-making asset for business transactions (intellectual capital) has turned the world economy in a somewhat different direction. Some of the indicators of the transformation of the global perspective of business operations are the following:

- the intensive globalization of economic activity and the gradual deterioration of trade and investment barriers
- the significant development of technology dealing with transportation and communication

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• the growth of the service sector, especially of industries dealing with knowledge and information
• the rapid growth of a new generation of technology
• the response of state authorities to changing circumstances, in the form of modifications of strategies, policies, and regulations. In some cases, the incentives provided by governments in the form of subsidies, tax holidays, and so on, have been accurately described by Dunning (1980, 2000) as “locational tournaments,” attracting an increasing amount of investors
• the increasing role of the physical and human infrastructure in the choice of a host country, as well as the role of the macroeconomic environment and the institutional framework
• the appreciation of being part of a geographical network, which assists the establishment of the notion that the presence of other foreign investors is preferable, if not essential
• the significant amount of strategic asset seeking
• the emergence of an economic community that shows a tendency for collaboration among the significant holders of wealth for the purpose of achieving their goals (“alliance” capitalism), underlined by the increasing tendency of firms towards cross-border alliances (Dunning, 1977, 1998, 2003a, 2003b)
• the statistical results of analyzing world trade operations.

Nevertheless, there are still advantages that are concentrated in certain geographical areas, and that constitute incentives for MNEs to invest in that given location (Bitzenis, 2003a and 2003b). On the grounds that the commonly accepted goal of a MNE is to maximize shareholder wealth, firms enact strategies in order to improve cash flow and enhance shareholder wealth through the rising price of a stock in a stock exchange market. The goal of a firm is to increase its market share, its sales (turnover), and its profits, and thus to proceed to various profitable local or foreign investments. A foreign investment is preferred over an investment in the local market

• if the foreign market “offers” better opportunities (market size, liberalized economy, market prospects, etc.)
• if the home market (local market, firm’s market of origin) is too saturated, or
• if a firm wants to increase its sales and profits, as a result of globalization and competition pressures