

Foreign Direct Investment: A Value Proposition Framework

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Emerging as well as frontier economies need to position themselves differently to attract Foreign Direct Investment from developed market firms. A developed market firm takes location decisions by evaluating the host country's FDI attractiveness with its own customer value proposition creation. In order to market itself as an attractive destination for investment, the countries need to match their positioning with the firms' value proposition requirements. A country needs to understand what it can give a foreign firm to invest in its marketplace as well as what a foreign firm will gain by investing in the country. This article examines how to develop its own unique proposition with respect to other competing destinations. The key themes include Government Policy and Administration, Infrastructure, Legal System & Implementation, Economy, Business Ecosystem & Location Advantages.

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Introduction

As per the World Investment Report, 2023 “FDI inflows in developing Asia were flat at \$662 billion but still accounted for more than half of global FDI. India and ASEAN were the most buoyant recipients, with increases of 10 and 5 percent, respectively, and strong growth in project announcements.” India ranked 8th in FDI inflows, 5th in Greenfield investment announcements, and 2nd in International project finance deals. These numbers show India as an attractive FDI investment choice. A growth from 15th ranking in 2014 to 2nd in 2023 is indeed a welcome indicator of acceptance of Indian FDI policy.

“Three decades ago, U.S. producers began manufacturing and sourcing in China for one reason: costs. The trade war brought a second dimension more fully into the equation -risk- as tariffs and the threat of disrupted China imports prompted companies to weigh surety of supply more fully alongside costs. COVID-

19 brings a third dimension more fully into the mix, and arguably to the fore: resilience- the ability to foresee and adapt to unforeseen systemic shocks,” says Patrick Van den Bossche, Kearney Partner (Rapoza, 2020). This brought a ray of hope to India that it will get a big chunk of FDI which was going outside China due to USA-China trade wars, the Covid-19 pandemic, and the Chinese increasing cost of production. Even the Foreign Direct Investment (FDI) Confidence Index results corroborated what Kearney professed. It was found that 43 percent of investors are seeking new opportunities in emerging markets (Kearney, 2019). It was a piece of soothing news for India in the COVID-19 pandemic as the country required FDI to stabilize its economy.

Nomura Group study found that firms leaving China were investing in Vietnam, Philippines and Indonesia. Fifty-six companies shifted production out of China, only three (3) of these invested in India while 26 went to Vietnam, 11 to Taiwan, and eight to Thailand. In April 2020 news by Nikke said that out of 1000 firms that were planning to leave China and invest in Asian countries only 300 of them were seriously thinking of investing in India (Lee Kah Whye , 2019).

Kearney developed China Diversification Index (CDI) in 2013 which tracks the shift in U.S. manufacturing imports away from China. The index showed that in 2013 China held 67% of all U.S.-bound Asian-sourced manufactured goods. By July 2019 U.S. bound Asian sourced manufactured goods share reduced to

56%, a decline of approximately 1,000 basis points. 46% of the U.S. imports that shifted away from China, went to Vietnam. The results can be seen in Vietnam’s exports increased by an additional \$14 billion in 2019 versus 2018 (Jaclyn, J., 2020). More worrisome was the report of FDI Confidence Index results as well as the United Nations Conference on Trade and Development showed that FDI inflows to emerging markets have risen but 42 percent of investors are seeking new opportunities in frontier markets. The average score for frontier markets increased the most (+0.15), followed by emerging markets (+0.12) and then developed markets (+0.09). The data clearly showed that presently India and China are not the favorite contenders for foreign FDI, it’s the frontier markets like Vietnam and Indonesia which are attracting the FDI (Kearney, 2019).

“Frontier markets have lower market capitalization and liquidity than the more developed, “traditional” emerging markets. The frontier equity markets are typically pursued by investors seeking high, long-term returns and low correlations with other markets” (Guerrero, T., 2013). FDI helps in the creation of jobs, economic boost by getting foreign exchange, exports of products, and gives the best technologies and contemporary processes which are very critical for a developing country to have. India’s cost of production is half of China but still China got more FDI than India. Vietnam market is 1/4th the size of India but even if India is an attractive market around 46% of companies leaving China went to Vietnam and only 5% came to India.

Examples show that market size and labor cost are not the only variables to decide on global location decisions.

Examples show that market size and labor cost are not the only variables to decide on global location decisions. There must be many other factors and combinations of these factors used by firms to take decisions on FDI. The research question which arises is what should countries do to make their place more attractive for FDI by the developed market firms? What can India do to attract FDI taking into consideration the competition from the developed, other emerging, and frontier markets?

Literature review

With the shifting of the global value chain, countries are increasingly finding themselves in a scuffle to grab the biggest slice of the pie. In the first stage, the baton was passed on to the “early convergers such as Japan, China, and South Korea, However, with the emergence of other lower-income countries such as Vietnam, India, and even Bangladesh which challenged these countries on the cost front, there seemed some shift of manufacturing away from China. These emerging and frontier economies gain from the prospect of improved economic growth with the inflow of foreign funds. This is achieved by a mechanism of technology transfer from the developed economies, which is plausible only if an absorptive capacity for

the technology exists (Borensztein, E. et al., 1998). Using 69 developing countries’ data, Borensztein et al. (1998) find that foreign investment adds more value than domestic investment and this is more prominent in countries with better educational attainments of the human resources.

Further, FDI may also benefit host countries by means of spillovers to domestic industries and firms (Lin, P. et al., 2009) which enhances the productivity of the economy as a whole. Lin et al. (2009) find positive spillovers from Organization for Economic Cooperation and Development (OECD) firms investing in the dominion of China. Alfaro et al. (2009), however, suggest that economic spillovers may not take place in case the financial markets are not developed to translate the spillovers from one industry to the other.

The discussion above helps us follow why it may necessitate countries to attract FDI. Hence, low and middle-income countries opt for means to attract and hold investments from developed market firms. The “late-convergers” boast of better government support in the form of cheaper resources and better protection as the industrial sector is weaker. This lobbying power may be one of the reasons for a change in the destination of developed market FDI (Anderson, K., 1995; Cadot, O. et al., 2004). Further, La Porta et al. (1997) suggest that investor protection in countries may affect the amount of external finance it receives, hence FDI may also be impacted by the level of investor protection offered by

these countries. The countries may vary their levels of investor protection as demanded by the investors.

Indeed, the shifting of production from early to late convergers has been evident and it has become clear that countries not only attract FDI from firms, they also compete for the attention and investment of foreign firms. While many indices focus on aspects such as recent investments or purely country-level factors, this index aims to coordinate the country-level sources and the firm-level aspects. Moreover, Lin et al. (2009) also distinguish between two different kinds of FDI, those that seek markets and those that seek to export. As this is extended, we may find that firms may assess countries as differently attractive to investments if they wish to use the country as a hub for manufacturing, compared to when they wish to find a market so as to increase their revenues and geographic diversification.

FDI indices

FDI is a good indicator of external investors' confidence to commit to long term investments in a country. The FDI decision is dependent on multiple factors. There are multiple frameworks that are used to decipher which country is best for investment. Major formats which are used in decision-making are: 1) Global Competitiveness Index, 2) Kearney Foreign Direct Investment (FDI) Confidence Index, and 3). Deloitte Global Manufacturing Competitiveness Index 4) Nomura's Scorecard of FDI Attractiveness.

I Global Competitiveness Index (GCI)

The World Economic Forum (WEF) publishes a yearly global competitiveness report which ranks the countries using 12 pillars segmented under four buckets of competitiveness. (Table 1)

Table 1 The Global Competitive Index 4.0 Framework by Klaus Schwab (2019)

Enabling Environment	Human Capital	Markets	Innovative Ecosystem
Pillar 1 Institutions	Pillar 5 Health	Pillar 7 Product market	Pillar 11 Business Dynamism
Pillar 2 Infrastructures		Pillar 8 Labor market	
Pillar 3 ICT adoption	Pillar 6 Skills	Pillar 9 Financial system	Pillar 12 Innovation capability
Pillar 4 Macroeconomic stability		Pillar 10 Market size	

The GCI was developed by merging two indices namely Global Development Index focused on macroeconomic variables and Business Competitiveness Index developed by Michael Porter using microeconomic variables. The index helps in finding out how countries use their available resources and convert them into

efficient products or services using multiple interventions like institutions, policies, and factors thus increasing economic prosperity. There are three stages that a country climbs to reach the developed stage. In the first stage firm's competitive advantage is due to the factors of production that they are endowed with,

Their competitive advantage is low prices due to low wages and availability of raw materials like commodities.

hence stage one is defined as factor-driven, that is, if the country is low or inefficient in production and competes on factor endowments like unskilled labor and natural resources. These types of countries which basically leverage their factors are at the factor-driven stage (FDS). Their competitive advantage is low prices due to low wages and availability of raw materials like commodities. Frontier countries normally come under FDS. Since the industry is in the nascent stage, more protection is afforded which allows inbound firms more lobbying power, driving them towards getting better outcomes (Cadot, O. et al., 2004) while host countries benefit from technology transfer.

In the second stage, the countries in FDS stage embark upon the development cycle. A country can do so by investing heavily in infrastructure, education and institutional reforms. These investments take the FDS countries into the efficiency-driven stage (EDS) where the country needs to invest in more efficient production processes and increase the quality of products and services. A country in EDS invests in education, market efficiency, builds efficiency in labor markets, and develops financial markets and technology. As the economic prosperity of the country in EDS rises, its citizens start to get better quality of life and hence increase in domestic market size takes

place as consumption increases. The country at the top of this stage becomes a good place for investment in production, markets, and exports. Emerging market economies like India come under EDS stage. According to Alfaro et al. (2009), this is the relevant stage where positive spillovers from FDI occur as markets are developed enough to transfer these spillovers to other industries as well as firms.

The third stage of development is defined as the innovation-driven stage (IDS). As the wages increase and consumption increases in the EDS countries, the quality of life increases. The increase in the quality of life coupled with wage increases makes the country difficult to sustain its competitiveness until it upgrades its capabilities. The countries in IDS stage develop and produce new or unique products. In this stage companies compete by producing new and value-added goods through using benchmarked production processes and innovation. Developed countries come under IDS stage. These form the sources of FDI for other countries.

Further, the weight of each pillar in a country's competitiveness depends on the stage of economic development of the country. For instance, if a country is in the EDS, then innovation factors contribute 10% to the final score while in IDS innovation factors contribute 30% to the final score. The rankings of various countries on the GCI assessed using the above-mentioned pillars according to the level of economic development scores are presented in Table 2.

Table 2 Global Competitiveness Index Ranking of Countries: GCI (2014 - 2019)

Countries	2014	2015	2016	2017	2018	2019
India	71	71	39	40	58	68
Vietnam	68	55	60	55	77	67
Indonesia	34	37	41	36	45	50
Taiwan	14	15	14	15	13	12
China	28	28	28	27	28	28
Singapore	2	2	2	2	2	1
UK	10	9	10	10	8	9
USA	3	3	3	1	1	2
Brazil	57	75	81	80	72	71
Thailand	31	32	34	32	38	40
Korea, Rep.	26	26	26	26	15	13

After analysis of Table 2, China, USA and Taiwan have managed their ranking quite well. Indian and Indonesian rankings are declining, and Vietnam is steadily increasing its ranking.

11: Kearney Foreign Direct Investment (FDI) Confidence Index (KFDIC)

“The Kearney FDI Confidence Index is developed by taking surveys of global business executives. These executives rank the markets/countries on likely attractiveness in the next three years. “The rankings are calculated based on questions about the likelihood of the respondents making a direct investment in companies of the particular market in the next three years. KFDIC is a forward-looking analysis of the market’s investors” (KFDIC Report, 2019).

The KFDIC 2019 Report found that 43 and 42 percent of the investors were looking for an investment in emerging economies and frontier markets respectively, while 41 percent of them showed an interest to invest in developed markets. This implies that some of the investors were looking for investment in more than two

segments: emerging, frontier and /or developed markets (KFDIC Report, 2019).

The managers surveyed mentioned that multi-localism is increasing, as host countries now prefer products being produced locally in their countries. Political and policy risks, divergent economic conditions, and unique culture and customs are forcing the MNCs to customize the products for host markets. As per KFDIC (2019), managers are prioritizing FDI in host markets and 75 percent of the investors surveyed said that FDI is more important in the present circumstances than in the past. About four-fifths of the companies surveyed indicated that they will increase their FDI in the next three years in emerging economies. About 75 percent of the surveyed firms mentioned their intentions to invest in cities in host markets, with large cities and megacities being among the most popular investment destinations. These managers also maintained that city-level engagement of the stakeholders shall be quite important in the future. Mexico (-8), India (-5), and Switzerland (-4) have come down in their preference but developed markets have increased their rankings (Table 3)

Table 3: The A T Kearney FDI Confidence Index (2017.2018.2019)

Countries	2019	2018	2017
USA	1	1	1
Germany	2	3	2
Japan	6	6	6
China	7	5	3
Singapore	10	12	10
India	16	11	8
South Korea	17	18	18
Taiwan (China)	22	-	-
Mexico	25	17	17

77 percent of investors have mentioned that FDI is important for profitability and competitiveness; hence FDI will become more important in the future. In 2018 India’s inbound FDI was \$38 billion (235 deals), \$6 billion more than the corresponding number for China. The reason for more FDI in India compared to China could be attributed to a stable government, the presence of a bankruptcy code and investment opportunities in

growth industries like health care and retail. The China–USA trade war may be one among many of the external factors which made firms come to India. Walmart’s \$16 billion buyout of Flipkart constituted 42 percent of the total share of FDI capital inflow to India in 2018.

III: Deloitte Global Manufacturing Competitiveness Index

Deloitte uses 12 factors to analyze manufacturing competitiveness (Table 4). As per the index, talent is the top decision-making criterion for manufacturers. Firms see talent as the most critical drive of manufacturing competitiveness. Talent is closely followed by cost competitiveness at number 2, productivity and number 3, and supplier network as the number 4 top drivers of manufacturing competitiveness. The 2016 rankings of countries are as in Table 4.

Table 4: Drivers of Global Manufacturing Competitiveness

Market forces		
1. Talent	Global Manufacturing Competitiveness	7. Physical Infrastructure
2. Cost Competitiveness		8. Economic, trade, Financial, and tax system
3. Workforce Productivity		9. Innovation policy, and infrastructure
4. Supplier Network		10. Energy policy
5. Legal and Regulatory System		11. Local market attractiveness
6. Education Infrastructure		12. Health care system
Govt. Forces		

Source: Deloitte Touche Tohmatsu Limited and US Council on Competitiveness, 2016 Global Manufacturing Competitiveness Index

IV: Nomura’s Scorecard of FDI Attractiveness.

With the gradual increase in the labor cost in China and the aging of the Northeastern Asia population, there began a rise of other economies that could

compensate for the increased cost and the population aging. Nomura developed an index and evaluated 25 countries in FDI attractiveness. The FDI index was based on six factors, which include market size, market potential, investment climate, trade openness, economic and po-

Table 5: Deloitte Global Manufacturing Competitiveness Index (2015-16)

Countries	2015-16
India	11
Vietnam	18
Indonesia	19
Taiwan	7
China	1
USA	2
Brazil	29
Thailand	14
South Korea	5

litical stability, and labor cost. Nomura Report found that India and five ASEAN countries namely Indonesia, Malaysia, Thailand, the Philippines, and Vietnam will attract good FDI investment. The “BCG manufacturing competitiveness index” (BCG, 2014) also found a trend of increasing labor and electricity costs in China over the past 10 years, while exports to India became cheaper mainly due to currency depreciation. The 2014 report also suggested that Thailand and Indonesia were among the potential destinations for cheaper FDI, although manufacturing became more expensive in comparison to 2004. However, the manufacturing costs were significantly lower compared to that in China.

Nomura (2017) professed that “FDI flows into Asia’s tiger cubs – India and the ASEAN-5 (Indonesia, Malaysia, the Philippines, Thailand and Vietnam) – will surge from around \$100 billion per year in 2019 to around \$240 billion by 2025. With gross FDI inflows into ASEAN-5 doubling to \$113 billion and those into India nearly tripling to \$126 billion”. They have nicknamed this phenomenon as flying geese formation. Nomura’s scorecard

Table 6: Nomura’s Scorecard of FDI Attractiveness

	Market size	Market Potential	Investment climate	Trade openness	Economic and political stability	Labor cost	Aggregate Score
Weights	23.6	23.6	20.8	12.5	9.7	9.7	100.0
China	3.8	0.9	0.1	-0.6	0.3	-0.1	1.1
India	1.8	1.6	-0.4	-0.6	-0.1	0.7	0.7
Vietnam	-0.3	1.0	-0.1	3.0	0.3	0.7	0.6
Malaysia	-0.4	0.3	0.3	1.3	1.4	0.4	0.4
Indonesia	0.1	0.6	-0.1	-0.6	-0.2	0.5	0.1
Thailand	-0.3	-0.3	0.3	1.2	0.0	0.4	0.1
Philippines	-0.3	1.2	-0.1	-0.4	-0.1	0.7	0.2

also found that Asia is more attractive for FDI than other emerging markets from Eastern Europe or Latin America.

Customer Value Proposition

Customer value proposition is defined as “an innovation, service, or feature intended to make a company or product attractive to customers”. (Anderson et al., 2006). A firm or a country can differentiate itself by creating a unique value proposition (VP). VP is the core of a firm’s competitive advantage. VP helps the firms to differentiate through clearly defined ways in which they can add value to their customers which ensures that the customer chooses the firm which leads to the maximum of satisfaction. Slater (1997) suggests a possible “theory of the firm” perspective such that the aim of a firm is to exist so as to create value for the customer and a successful firm must be defined by its ability to generate such value. Further, the customer value that is left uncaptured by the firm is a source of innovation that leads to a sustainable change in the business model (Yang, M. et al., 2017).

A firm needs to develop its VP after studying the customer needs and conducting in-depth analyses from the customer perspective. (e.g. Anderson et al., 2006; Webster, 1994). “Value propositions are reciprocal promises of value, operating to and from suppliers and customers seeking an equitable exchange” (Ballantyne & Varey, 2006). From a country’s point of view, in order to attract FDI, they have to carefully study the steps that firms undertake while deciding FDI in a host country. The country policy markets need to link

the understanding of the firm’s requirements in creating customer VP to the competitive advantage of the country. This amalgamation of a firm’s VP with country’s strengths helps a country to successfully meet customer value propositions that can happen by the firm’s FDI.

FDI in a host country should help a firm to increase the benefits to the firm, in terms of more customers serviced, higher market shares or addition to the bottom line.

A country also needs to develop a positioning strategy for itself. A country needs to understand what it can give to a foreign firm to invest in its market and what a foreign firm shall gain by investing in a particular country without such policy intervention. A firm needs to define “who is the target customer?” as well as “why should the customer buy it?” and “what are we selling?” (Anderson et al, 2006). A country should help a firm to develop a unique VP and simultaneously help in reducing cost of producing that unique VP. FDI in a host country should help a firm to increase the benefits to the firm, in terms of more customers serviced, higher market shares or addition to the bottom line, whatever the unit of measurement is deemed appropriate by the firm.

There are four factors (Table 7) that are used by a firm in deciding location choices (FDI investment) to create and capture value, namely firm fit, location characteristics, government incentives, and competitive effects which help a firm undertake its location decision (Alcacer, J., 2014).

Table 7: Using Location Choices to Create & Capture Value

Factors	Characteristics
Firm fit	Distance, fit with firm capabilities, complementarity with existing locations, fit with a business model
Location Characteristics	Institutional environment, presence of clusters, country vs site characteristics, natural endowments.
Government incentives	Incentives types, firm bargaining power, government willingness to allow FDI
Competitive effects	Completion for inputs, product completion

Source, Juan Alcacer (2014)

FDI Value Proposition Framework

After due analysis of four FDI frameworks, and four factors of location choices to create and capture value and discussion with 15 MNCs, we have come out with the value proposition model of FDI. The model has six pillars and 20 sub-factors. These pillars are segmented into pull and push factors (Table 8). Push factors are those that are controlled by

the government like, government policy and administration, infrastructure, and legal system and implementation. Pull factors are those that attract MNCs to invest in the country not majorly related to government interventions namely economy, business ecosystem, and location advantages. These pull factors are mediated by government interventions but are independent in their germination, hence they are shown separately.

Table 8: FDI Value Proposition Framework

Pillar 1 Government Policy & Administration	Tax rates and ease of tax payment General security environment Ease of moving capital in and out of the country Government incentives for investors
Pillar 2 Infrastructure	Countries' participation in trade agreements Quality of digital infrastructure Quality of Physical infrastructure Availability of land and real estate Health care system
Pillar 3 Economy:	Domestic economic performance (economic stability and market size) Availability of financial capital in the domestic market
Pillar 4 Business Ecosystem:	Domestic market size (market potential) R&D and innovation capabilities Talent and skill level of labor pool Availability of raw materials and other inputs including supplier relations
Pillar 5 Legal system and implementation	Strength of investor and property right Regulatory transparency and lack of corruption The efficiency of legal and regulatory process
Pillar 6 Location advantages	Cost of location (labor and energy) Global Logistics (port and distance from major markets)

Chart 1 Pull vs Push factors



These pillars will help India and other emerging economies develop a unique value proposition for its customers viz. FDI firms. This index is very comprehensive and any country can use it to compare with other countries and analyze the gaps for further making its country’s proposition attractive.

Analysis

To study the robustness of this FDI VP index, we mapped India, Vietnam, Indonesia, Thailand, and Taiwan on this index. The values for pillars and factors were taken from WEF, IMF, World Bank, JETRO, Eurostat, Conference Board, ILO, CEIC, Nomura Global Economics Estimates. (Tables 9-15).

Table 9: Government Policy & Administration: Weight 22.5

Factors	India	Vietnam	Indonesia	Taiwan	Thailand
Tax rates and ease of tax payment	2	3	3	4	2
General security environment	3	4	3	3	2
Ease of moving capital in and out of the country	2	4	3	3	3
Government incentives for investors	2	4	3	3	3
Country’s participation in trade agreements	3	4	4	2	4
Total	2.4	3.5	3.2	3	2.8

Table 10: Infrastructure: Weight 20

Factors	India	Vietnam	Indonesia	Taiwan	Thailand
Quality of digital infrastructure	3	3	2	4	2
Quality of Physical infrastructure	2	2	2	4	2
Availability of land and real estate	4	3	3	3	3
Health care system	3	2	3	3	2
Total:	3	2.5	2.5	3.75	2.25

Table 11: Economy: Weight 22.5

Factors	India	Vietnam	Indonesia	Taiwan	Thailand
Domestic economic performance (Economic stability and market size)	4	2	3	2	2
Availability of financial capital in domestic market	3	2	2	3	2
Domestic market size (Market Potential)	4	2	2	2	3
	3.66	2	2.33	2.33	2.33

Table 12: Business Ecosystem: Weight 15

Factors	India	Vietnam	Indonesia	Taiwan	Thailand
R&D and Innovation capabilities	4	2	2	4	2
Talent and skill level of labour pool	2	4	2	4	2
Availability of raw materials and other inputs including supplier relations	4	2	2	2	2
Total	3.33	2.66	2	3.33	2

Table 13: Legal System & Implementation Weight 10

Factors	India	Vietnam	Indonesia	Taiwan	Thailand
Strength of investor and property right	2	3	3	3	3
Regulatory transparency and lack of corruption	1	3	2	4	2
Efficiency of legal and regulatory process	2	3	2	4	2
Total	1.66	3	2.33	3.66	2.33

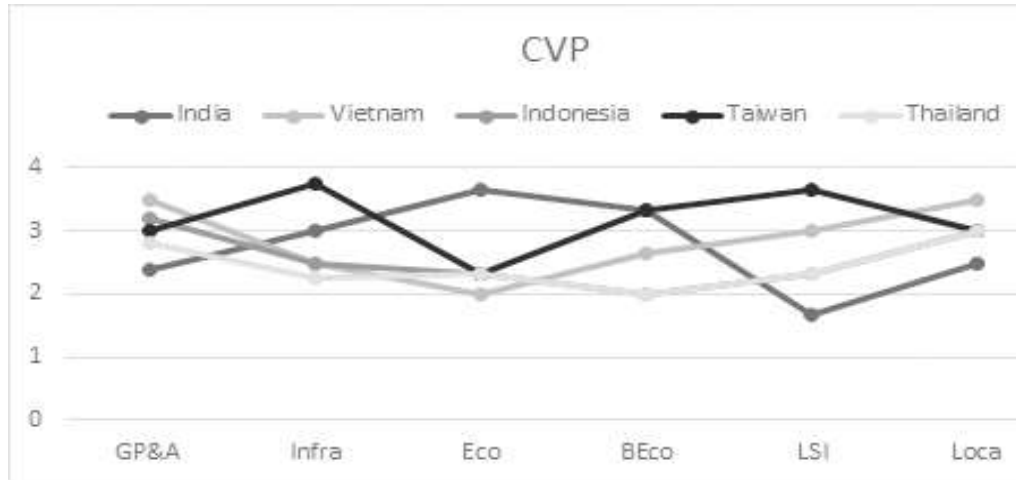
Table 14: Location Advantages: Weight 10

Factors	India	Vietnam	Indonesia	Taiwan	Thailand
Cost of location (labor and energy)	3	4	3	3	3
Global Logistics (port and distance from major markets)	2	3	3	3	3
Total	2.5	3.5	3	3	3

Table 15 FDI Value Proposition Index

Countries/Factors	Governance Policy & administration GPA	Infrastructure: (Infra)	Economy (Eco)	Business Ecosystem (BEco)	Legal system and implementation (LSI)	Location advantages (Loca)	Aggregate Score
Weights	22.5	20	22.5	15	10	10	100
India	2.4	3	3.66	3.33	1.66	2.5	2.879
Vietnam	3.5	2.5	2	2.66	3	3.5	2.78
Indonesia	3.2	2.5	2.33	2	2.33	3	2.57
Taiwan	3	3.75	2.33	3.33	3.66	3	3.11
Thailand	2.8	2.25	2.33	2	2.33	3	2.43

Chart 2 Country Value Proposition



Government Policy & administration is the first and quite an important pillar for FDI. Countries are implementing many strategies to attract FDI. Frontier countries like Indonesia, has introduced tax incentive for foreign companies setting up manufacturing facilities in the country and making it easier for businesses to obtain a license. Ethiopia another frontier country has opened nearly 12 special economic zones to attract foreign investments. Ethiopian Government has hired professionals and consulting organizations to attract foreign investment plus, Ethiopian Government has transformed itself into a professionally managed public service. The World Bank has also on record lauded the Ethiopian Government for their concrete steps in attracting foreign investment.

Vietnam did amazingly in the ease of doing business. Vietnam started economic liberalization in 1986 around 10 years after China started its liberalization process. Vietnam overhauled its administration process,

minimized red tape, and developed attractive tax structures. During our interview with an electronic firm chief executive, we were informed that in Vietnam, there is a single point of contact, a person who takes care of everything from the government side. Being a communist government there is no bureaucratic lethargy and democratic red tape in Vietnam. 60 to 70 % of all FDIs in Vietnam are in special economic zones (SEZs) which were formed for labor-intensive industries in late 1990s. Vietnam also has cultural, political, and geographical proximity to China and its system.

Countries should strategically give tax incentives to those industries which it wants to attract to the country. For countries in EDS need to attract high-tech industries to accelerate to IDS. The processes need to be simplified for the import of components so that more of the assembly work can be done in India.

Getting financial capital for production in a foreign land is a good attraction

for FDI. When Tesla was told to close its San Francisco Bay Area plant due to the broader impact of the coronavirus, it started looking for production outside the USA. China came to Tesla's rescue and Industrial and Commercial Bank of China Limited gave a working capital loan of up to 4 billion yuan (\$565.51 million) for its Shanghai car plant. Financial help in the host market is a plus for FDI. (Table 11)

India has many challenges regarding attracting foreign investment. Indian history of managing MNCs is not laudable. In the 1980s India curtailed MNCs of their ownership rights along with the imposition of other severe economic restrictions. The economic and energy crisis of 1991 made the Indian Government open up for foreign investment. India has reduced the corporate tax rate etc. but it needs to invest more in labor laws and offer tax breaks for foreign investors.

Infrastructure (Table 10) is quite important for making countries attractive for MNCs. Infrastructure development includes ports, roads, water, ICT (information and communication technologies) adoption, and health care system, developed land including electricity, water and logistics.

Frontier countries are investing huge amounts in infrastructure e.g. Indonesia announced their intention to spend 40 percent of annual GDP on infrastructure. Bangladesh developed its first deep sea port at Matarbari. Vietnamese government invested in port city of Hai Phong, which has helped develop the country's northeastern region.

Indian government allowed foreign direct investment but did not focus on infrastructure. Indian Government started investment in the Golden Triangle project in 1999-2001 which laid the foundation of 14,000 KMs of road construction. Indian economy reached a 7.86% growth rate in 2003 due to the infrastructure push. In May 2020 Indian Government announced that it offers land twice the size of Luxembourg to firms leaving China.

In 2018 Indian manufacturing attracted an FDI of \$ 28 billion up from \$ 4 billion in 2014. Manufacturing FDI in India is quite low at 0.6 percent of GDP, whereas Indonesian manufacturing FDI is 1% of its GDP. Critics still highlight the need for land and labor reforms which seems to be discouraging overseas investors. The recent announcement by Karnataka Government that firms can buy land directly from farmers has helped in reducing the land acquisition period from three years to just 30 days.

India needs to invest in its health infrastructure. India has been ranked 109th out of 141 countries in World Economic Forum (WEF) healthy life expectancy. India's health infrastructure is one of the poorest outside Africa and below even the South Asian average.

India's health infrastructure is one of the poorest outside Africa and below even the South Asian average.

A firm needs growing markets to sell its products and services, hence a growing economy is an attractive proposition. India is doing amazingly well in this factor vs other countries (Table 11).

Vietnam's labor cost is low compared to those in other ASEAN countries but it has managed to increase its labor productivity. Vietnam strategically invested in education especially primary education and a good health setup. This helped Vietnam develop skilled labor and fostered innovation and through schools onwards increased the reliance on new technologies. These are key factors in encouraging FDI. (Tables 10, 12)

India needs to develop the culture of manufacturing which is prevalent in countries like Germany, Japan, China and South Korea. India needs to have contemporary and readily available vocational training programs. Indonesia only produces eight STEM (Science, Technology, Engineering and Mathematics) graduates per 1,000 citizens, while the figure is 20 for India and 34 for China. (Table 12)

The legal system and law implementation (Table 12) is very critical for FDI. In Vietnam, the court and the executive are not equal but are under the same legislative control. As a single party rules Vietnam, thus, once the legislature clears a project it is final. In India, even after a project is cleared by the central government issues like land acquisition, farmer's rights, bureaucratic lethargy, corruption, NGOs, and local trade unions have to be managed by the firm separately.

Vietnam's geographical proximity to China is an attractive location advantage to it (Table 14). "India can attract FDI to a ratio of 1.5 percent to 2 percent of its GDP by further improving on ease of doing business and building infrastructure" (Sonal Varma, Chief India Economist at Nomura)

Conclusions

As can be analyzed through Table 15 and, Charts 1 and 2, India must invest in government policy and administration, infrastructure, and legal system and implementation. India does not have any location advantages that Vietnam or Indonesia enjoys, it can compensate for those effects by investing in the business ecosystem and enhancing its economic growth.

Vietnam needs to invest in Infrastructure and business ecosystem which will further enhance its economy. Thailand and Indonesia need to work on Government Policy and Administration, Infrastructure Legal System and Implementation which will enhance their economies. As the economy improves automatically ecosystem will be created for innovation, new product development and entrepreneurship. Taiwan has to enhance its business ecosystem to remain competitive and manage its relations with China.

The FDI value proposition framework is an excellent tool for emerging and frontier countries to map themselves vs other destinations.

The FDI value proposition framework is an excellent tool for emerging and frontier countries to map themselves vs other destinations thus helping to know their position gaps and develop their unique proposition vs others.

Impact of Covid-19 on FDI Flows

“Investment Trends Monitor” a UNCTAD publication dated January 24, 2021, expectedly reports that global foreign direct investment (FDI) shrunk by 42% in 2020 from approximately US D1.5 trillion in the previous calendar. UNCTAD notes that such levels were last witnessed in the 1990s and is 30% lower than that during 2008-09.

According to the experts at multilateral agencies, consequent to the COVID-19 pandemic, the outlook on the global investment policy environment remains a key concern and will persist to impact FDI flows even in the current calendar. For under-developed economies, the prospect is considered bleak however it is transition economies that were the hardest hit in 2020. Drop in FDI was highly bumpy across developing economies with a ~37% decline in Latin America and the Caribbean, Africa (~18%) and developing economies in Asia witnessing a 4% decline. Transition economies were the hardest hit with a decline of approx. 77%. UNCTAD further reports that cross-border acquisitions witnessed maximum decline (~43%), investment in green fields declined by ~29%, and project finance transactions fell by ~2%. Experts maintain that this impact is likely to linger given

that investors shall be prone to stay cautious while committing capital to overseas assets given uncertainty on the further evolution of the pandemic.

Disruptions in FDI flow which are intricately linked with the process of economic globalization is a foregone conclusion. What is worth analyzing is the manner in which the pandemic has been displacing economic globalization. Given the imperative for containment by national governments, the demand and supply sides have witnessed simultaneous shocks, and the production and supply chain networks across the globe have been disrupted at a scale never witnessed before. COVID-19 has revealed how seamless the flow of goods and services is across geographies, and economies are now reconsidering their international trade strategies to lessen their susceptibility to global economic shocks. Developing economies shall witness maximum contraction in FDI given the following reasons:

First, it can be expected that FDI flows to developing economies will drop more than the global average, given that such industries have been more severely impacted by COVID-19 which account for a lion's share of FDI flows to emerging economies, most importantly consumer cyclicals.

Second, over the last few decades, emerging economies have placed higher reliance on FDI. UNCTAD notes that between 1985 and 2017, the share of FDI flows to developing economies as a proportion of the total flows increased from 25% to 46%. The underpinning is

in the rise of offshoring and fragmentation of both productive industrial activities and economic services activities. Against this backdrop, the fall in FDI flows is an offshoot of supply chain disruptions caused by the pandemic.

FDI flows to emerging economies, bumpy as they are, diverge in terms of both quality and quantity. Developing economies in Asia, not just in China and India which are at the forefront, but in others with increasing populations as Cambodia, and Vietnam have led the surge in recent decades. The inward flows to these countries were both in manufacturing and services.

Policy Measures

Developing economies in particular will require significant fund-flows to recover from the stress induced by the pandemic. While FDI flows can assist in the process, governments will need to put in place enabling policy measures not only to attract and retain investments but also to ensure that the development benefits are maximized. COVID-19 might have in fact offered an opportunity to administrators to re-evaluate their approach toward investment attraction and retention. Three particular areas may be highlighted that would require the attention of policymakers:

First, measures to alleviate supply-side concerns need to be instituted and/or strengthened, particularly measures aimed at developing strong linkages with global firms and increasing global competitiveness. The former would require a system of quality certification, which

is often mandatory for the supply chain of firms in developed economies. The latter can be achieved through investment in digital infrastructure.

Second, special economic zones (SEZ) and export processing zones (EPZ), which are often a tool for attracting FDI should be designed in a manner that links up with the domestic economy. This entails appropriate SEZ/EPZ regulations that lead to supplier development appropriate to cater to targeted foreign firms.

Third, actions of multilateral agencies focused on mitigating measures consequent to the pandemic need to pay special attention to underdeveloped economies. These countries often face significant budget constraints that do not allow them to offer substantive measures to support their local private firms.

Altered Nature of FDI Flows

1. Nature of Competition: Competition among developing countries to attract FDI flows or to act as suppliers for consumers in developed markets has and shall become fiercer than ever, especially in manufacturing. IMF points out that the share of developing economies in low-skill labor-intensive industries has tripled since the 1980s and this pool of unskilled labor globally has doubled. A case in point is the premature opening up of the garment industry in Bangladesh, even if contained, despite health hazards. Garment firms in Bangladesh were worried of losing out to competition from Cambodia and Vietnam if they did not resume production quickly enough.

2. *Diversification* This implies that large global firms would be in the quest to optimally diversify their input supplies across their existing suppliers across different geographies, in their global supply chains (and such ancillaries are typically based out of developing economies). Diversification will assist such firms in addressing future COVID-19 type disruptions.

3. *Regionalization*: The pandemic underscored the issues underlying global value chains that large geographical spreads and complexity impeded restarting a smooth operationalization consequent to the pandemic. Firms will now focus on creating more regionalized value chains. A case in point : India may now have to focus on creating a regional value chain in industries where such value chain offers regionally established markets like textiles and mining.

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