Impact of Economic Nationalism on FDI Behavior: An Empirical Assessment

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Abstract: Purpose: To provide latest and extant literature review and assessment of different environments on foreign direct investment (FDI)

Design/Methodology/Approach: This paper reviews some relevant literature in the area and tries to built empirical model linking recent political developments to foreign direct investment.

Findings: The findings of the research shows that present business environments affects the FDI growth negatively, in this case the role of economic nationalism plays an important role.

Originality/Value: This study is original and proper as it is offering an assessment of how recent political events and overall business environment may impact FDI process in future.

Keyword: research shows that present business environments affects the FDI growth negatively

I. INTRODUCTION

The concept of economic nationalism is not a newer concept, it was also prevalent and exercised after World War II, However now some countries are also practicing it. It includes high protectionist policies, restricted mobility of labor like in 1930s. this concept is apparent from two recent developments. firstly, the withdrawal of UK from Brexit. Secondly, the victory of Donald Trump in the US. Thirdly, the withdrawal of the US from international trade treaties. Fourthly, US levying heavy tariffs and punishment on companies investing abroad.

However, on the other hand, there are several nations and events which don't support the concept of economic nationalism.

As Canada negotiated Foreign trade Agreements with European Union and many new countries joined Asia Pacific Economic Cooperation.

All these changes in International business environment affect FDI on the part of MNCs.

The primary aim of this study is to link FDI by international business environment. The study is structured as follows. Initially overview of recent FDI patterns was discussed and conceptual understanding was developed to understand the link between FDI and international business environments. The third section reviews conceptual and empirical model relating FDI to international business environment. Further models were assessed for unidimensionality and structural relationships. Finally results were presented relating to measurement models and structural models.

II. OVERVIEW OF RECENT FDI PATTERNS

FDI is linked to international trade environment and migration patterns.

There are several studies on Trade patterns and FDI some of the insights regarding this issue is presented in the next section.

TRADE and FDI

It is now evident that a restriction on trade flows has an impact on FDI flows as it is believed that trade and FDI are linked, this has also been established by investigating the ratios of global GDP to FDI outward. The series is positively correlated. However, a simple correlation does not establish anything structurally however, on this issue Martens (2008) study is a cornerstone and summarizes the relationship of trade and FDI through 21 empirical studies for developing economies. It was also established in his study that trade leads to FDI and the relationship is only one way, in another study the conceptual linkage between trade and FDI was established (Bloningen, 2005).

MIGRATION and FDI

There has been arguments showing in migrants leads to loss of jobs or cut in wage rates for native workers and finally on FDI patterns too (American Immigration Council, 2016). The research calculated Pearson correlation coefficient between the two series is .89. Such restrictions can be implemented by reduced visa quotas and some other extreme methods, which were adopted by US Administration in the recent political scenario. Therefore the link between migration and FDI can be safely established and analysis can be performed on this conceptually strong model.

III. METHODOLOGY

The study follows primary data collection method; responses were collected from international finance managers/ Vice president/Presidents of 56 Indian MNCs. The research instrument was developed and structured into independent and dependent variables.

Measures

All the study variables are categorized here

Independent variables

1) International political environment (IPE) 3 -item Scale
2) International regulatory environment (IRE) 4-item Scale
3) International Legal Environment (ILE) 3-item Scale

Dependent Variable

1) FDI Behavior (FDIB) 5-item Scale

IV. DATA ANALYSIS

The data thus collected coded into excel sheets and imported in LIsrel 8.80, MLE was used for conducting SEM. Initially scale was refined and then structural model was assessed

Measurement Model

The study uses the tools of Lisrel 8.80 in assessing unidimensionality, Reliability and Validity of all research constructs. According to Anderson and Gerbing (1981) in order to assess SEM, the researcher should assess the measurement model for reliability, unidimensionality and Validity. Therefore the data was analyzed for CFA and all the research constructs were found unidimensional, reliable and Valid. Initially IPE Scale was not unidimensional but following the footsteps of previous researchers the scale was trimmed till standard loadings for that particular scale were estimated under acceptable ranges (i.e. not below 0.40). The measurement model showing CFA is given as under:

Fig 01: Measurement Model showing CFA results for research variables

Chi-Square=577.73, df=137, P-value=0.00000, RMSEA=0.172
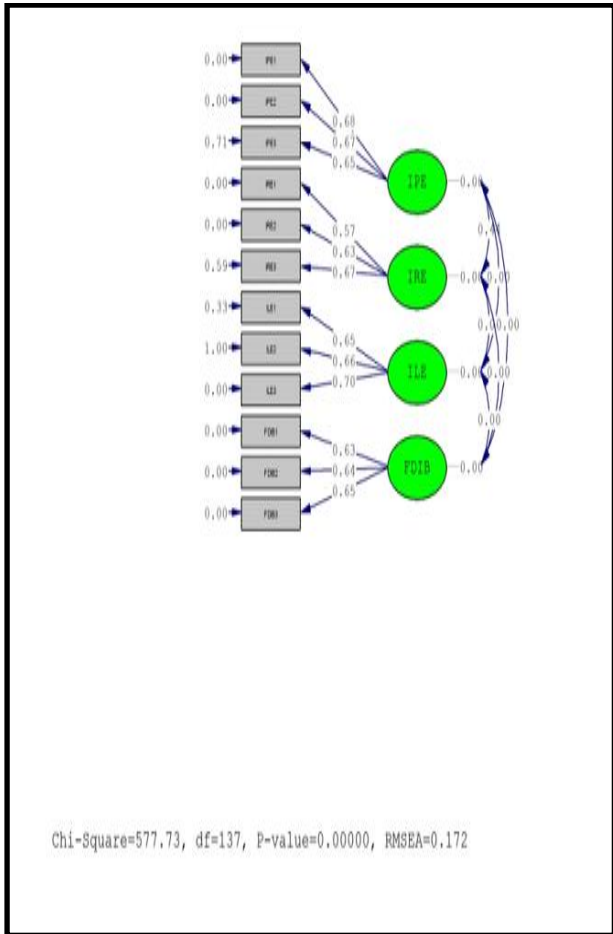
The study scales were trimmed and some items were deleted until scale becomes unidimensional, reliable and valid. Cronbach alpha for all scales was greater than .70. The highest standard loading was 0.70 and the lowest was 0.64. All the path values were in acceptable ranges. After the assessment of measurement model structural model was assessed.

Structural Model

The structural model was assessed for the data collected. The data was assessed before proceeding with structural model and found to be unidimensioanl reliable, unbiased, symmetrical, normally distributed and Valid. Post Analysis it was evident from the structural Model that all types of environmenyes influence FDI behavior.

Fig 02: Structural Model showing relationships between independent and dependent variables

Chi-Square=616.93, df=199, P-value=0.00000, RMSEA=0.117
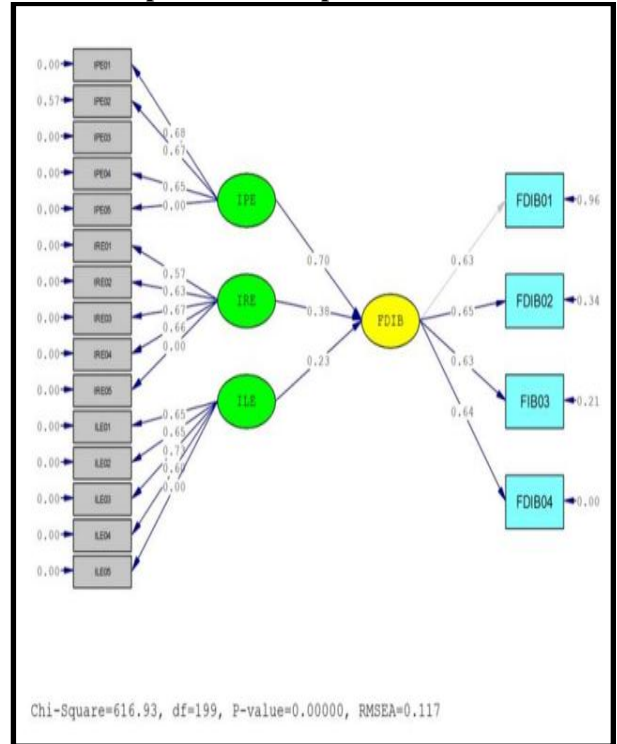
V. SUMMARY AND CONCLUSIONS

The values in Fig 01 shows that all the study scales were unidimensional, reliable and valid. Structural model shows that there is a significant relationship between independent and dependent variables. The low values for ILE and FDIB suggests that FDIB has a decreasing trend. This can be attributed to the financial crisis of 2008-2009. The strongest relationship is noted with international political environment (IPE) i.e (0.70*) this can be due to recent unstable political developments. The values for IRE to FDIB were moderate (0.38**) can be due to substantial improvement in regulatory environment leads to better institutions and growth in business.

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Dr. Firdos Ikram, had Worked as a Part Time Teacher of Commerce in Senior Secondary School Girls (10+2) of Aligarh Muslim University, since August 19th , 2002 to 13th January 2015. Recently joined as Assistant Professor in the Department of Commerce Aligarh Muslim University, Aligarh on 13th January 2015.