MODEL QUESTION AND ANSWERS

SUBJECT: BUSINESS ENVIRONMANT

COURSE: MBA II SEMESTER

Q.1. What is EXIM policy? What are the Objectives of current EXIM policy?

A. it is also knows as Foreign Trade Policy. The Ministry of Commerce and Industry, Government of India, pronounces the Indian EXIM policy or Export-Import policy of India. It contains policies in the sphere of Foreign trade i.e. with respect to import & export from the country and more especially export promotion measures, policies and procedure related to it. The Government of India advises the EXIM Policy of India for a phase of five years under Section 5 of the Foreign Trade Development and Regulation Act, 1992.

Objectives of EXIM Policy:

- To establish the framework for globalization.
- To promote the productivity, competitiveness of Indian industry.
- To encourage the attainment of high & internationally accepted standards of quality.
- To increase export by facilitating access to raw materials, intermediate components, consumables and capital goods from the international market ν To generate new employment.
- To provide quality consumer products at reasonable prices.

Highlights of EXIM Policy 2015-2020:

- 1st April 2015 to 31st March 2020. ν Vision, Mission and objectives:
- The vision is to make India a significant partner in world trade by 2020.
- Government aims to increase India's exports of merchandise and services from USD 465.9 billion in 2013-14 to approximately USD 900 billion by 2019-20.
- Raise India's share in world exports from 2 percent to 3.5 percent.
- Initiatives such as "Make in India", "Digital India" and "Skills India" to create an "Export Promotion Mission" to provide a stable and sustainable policy environment for foreign trade.

The Mega Agreements: **Implications for India**

• Trans Pacific Partnership,

• Trans-Atlantic Trade and Investment Partnership and

• Regional Comprehensive Economic Partnership (RCEP) These will add a completely new dimension to the global trading system.

Market Strategy

- India's future bilateral/regional trade engagements will be with countries that are not only promising markets but also major suppliers.

- Employment-generating sectors such as textiles, agriculture, leather and gems & jewellery will continue to receive major attention for promoting exports to the US market.
- India will focus trade promotion activities on new products with higher value addition particularly in the categories of defence equipment, medical equipment, construction material, processed foods, as also services.
- India is negotiating Comprehensive Economic Cooperation/Partnership Agreements with Australia and New Zealand. ν Another focus area is South-East Asia. Trade integration with the CLMV (Cambodia, Lao PDR, Myanmar and Vietnam), to enable the Indian private sector to set up manufacturing hubs in this region

Product strategy:

- The focus will be on promoting exports of high value products with a strong domestic manufacturing base, including engineering goods, electronics, drugs and pharmaceuticals.
- Government aims to encourage and promote hi-tech products and, as a first step, certain products have been identified for a special focus for the duration of the policy.
- The potential of the MSME sector, the problems it faces and its requirements have been kept in view while framing the FTP.

The Services Sector:

- Efforts will be made to gain effective market access abroad through comprehensive economic partnership agreements with important markets.
- A Global Exhibition on Services will be held annually, which will provide a forum for showcasing India's strengths in the Services sector. Institutional Mechanisms for Trade Promotion
- The schemes for trade promotion under the Department of Commerce, namely, the Market Access Initiative (MAI) Scheme and the Market Development Assistance Scheme
- The present allocation for the MAI scheme is inadequate; efforts will be made to augment resources for the scheme.
- A major convention-cum exhibition centre will be developed at Pragati Maidan in Delhi.
- Project exports will be encouraged through special lines of credit offered by the Ministry of External Affairs and the Buyers‟ Credit Scheme of the Department of Commerce through Exim Bank of India.

Q. 2. Differentiate between FERA & FEMA and highlight the features of FEMA.

A.2. **Foreign Exchange Management Act, 1999 (FEMA)** emerged as a replacement or say an improvement over the old **Foreign Exchange Regulation Act, 1973 (FERA)**.

The Main Features of the FEMA:

i. It is consistent with full current account convertibility and contains provisions for progressive liberalisation of capital account transactions.

ii. ii. It is more transparent in its application as it lays down the areas requiring specific permissions of the Reserve Bank/Government of India on acquisition/holding of foreign exchange.
iii. iii. It classified the foreign exchange transactions in two categories, viz. capital account and current account transactions.
iv. iv. It provides power to the Reserve Bank for specifying, in , consultation with the central government, the classes of capital account transactions and limits to which exchange is admissible for such transactions.
v. v. It gives full freedom to a person resident in India, who was earlier resident outside India, to hold/own/transfer any foreign security/immovable property situated outside India and acquired when s/he was resident.
vi. vi. This act is a civil law and the contraventions of the Act provide for arrest only in exceptional cases.
vii. FEMA does not apply to Indian citizen's resident outside India.

Key Differences Between FERA and FEMA

The primary differences between FERA and FEMA are explained in the following points:

1. FERA is an act which is enacted to regulate payments and foreign exchange in India, is FERA. FEMA an act initiated to facilitate external trade and payments and to promote orderly management of the forex market in the country.
2. FEMA came out as an extension of the earlier foreign exchange act FERA.
3. FERA is lengthier than FEMA, regarding sections.
4. FERA came into force when the foreign exchange reserve position in the country wasn't good while at the time of introduction of FEMA, the forex reserve position was satisfactory.
5. The approach of FERA, towards forex transaction, is quite conservative and restrictive, but in the case of FEMA, the approach is flexible.
6. Violation of FERA is a non-compoundable offence in the eyes of law. In contrast violation of FEMA is a compoundable offence and the charges can be removed.
7. Citizenship of a person is the basis for determining residential status of a person in FERA, whereas in FEMA the person's stay in India should not be less than six months.
8. Contravening the provision of FERA may result in imprisonment. Conversely, the punishment for violating the provisions of FEMA is a monetary penalty, which may turn into imprisonment if the fine is not paid on time.

Q.3. Explain the objective of fiscal policy and its impact on Indian economy.

A. 3. Fiscal policy is the means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy. It is the sister strategy to monetary policy through which a central bank influences a nation's money supply. These two policies are used in various combinations to direct a country's economic goals.

Generally following are the objectives of a fiscal policy in a developing economy:

1. Full employment

2. Price stability

3. Accelerating the rate of economic development

4. Optimum allocation of resources

5. Equitable distribution of income and wealth

6. Economic stability

7. Capital formation and growth

8. Encouraging investment

1. Full Employment:

The first and foremost objective of fiscal policy in a developing economy is to achieve and maintain full employment in an economy. In such countries, even if full employment is not achieved, the main motto is to avoid unemployment and to achieve a state of near full employment. Therefore, to reduce unemployment and under-employment, the state should spend sufficiently on social and economic overheads. These expenditures would help to create more employment opportunities and increase the productive efficiency of the economy.

2. Price Stability:

There is a general agreement that economic growth and stability are joint objectives for underdeveloped countries. In a developing country, economic instability is manifested in the form of inflation. Prof. Nurkse believed that "inflationary pressures are inherent in the process of investment but the way to stop them is not to stop investment. They can be controlled by various other ways of which the chief is the powerful method of fiscal policy."

3. To Accelerate the Rate of Economic Growth:

Primarily, fiscal policy in a developing economy, should aim at achieving an accelerated rate of economic growth. But a high rate of economic growth cannot be achieved and maintained without stability in the economy. Therefore, fiscal measures such as taxation, public borrowing and deficit financing etc. should be used properly so that production, consumption and distribution may not adversely affect. It should promote the economy as a whole which in turn helps to raise national income and per capita income.

4. Optimum Allocation of Resources:

Fiscal measures like taxation and public expenditure programmes, can greatly affect the allocation of resources in various occupations and sectors. As it is true, the national income and per capita income of underdeveloped countries is very low. In order to gear the economy, the government can push the growth of social infrastructure through fiscal measures. Public expenditure, subsidies and incentives can favorably influence the allocation of resources in the desired channels.

5. Equitable Distribution of Income and Wealth:

It is needless to emphasize the significance of equitable distribution of income and wealth in a growing economy. Generally, inequality in wealth persists in such countries as in the early stages of growth, it concentrates in few hands. It is also because private ownership dominates the entire structure of the economy. Besides, extreme inequalities create political and social discontentment which further generate economic instability. For this, suitable fiscal policy of the government can be devised to bridge the gap between the incomes of the different sections of the society.

6. Economic Stability:

Fiscal measures, to a larger extent, promote economic stability in the face of short-run international cyclical fluctuations. These fluctuations cause variations in terms of trade, making the most favourable to the developed and unfavorable to the developing economies. So, for the purpose of bringing economic stability, fiscal methods should incorporate built-in-flexibility in the budgetary system so that income and expenditure of the government may automatically provide compensatory effect on the rise or fall of the nation's income.

7. Capital Formation and Growth:

Capital assumes a central place in any development activity in a country and fiscal policy can be adopted as a crucial tool for the promotion of the highest possible rate of capital formation. A newly developing economy is encompassed by a 'vicious circle of poverty'. Therefore, a balanced growth is needed to breakdown the vicious circle which is only feasible with higher rate of capital formation. Once a country comes out of the clutches of backwardness, it stimulates investment and encourage capital formation.

8. To Encourage Investment:

Fiscal policy aims at the acceleration of the rate of investment in the public as well as in private sectors of the economy. Fiscal policy, in the first instance, should encourage investment in public sector which in turn effect to increase the volume of investment in private sector. In other words, fiscal policy should aim at rapid economic development and must encourage investment in those channels which are considered most desirable from the point of view of society.

Q.4. Explain the following terms:

A.4**. Repo rate** also known as the benchmark interest rate is the rate at which the RBI lends money to the banks for a short term. When the repo rate increases, borrowing from RBI becomes more expensive. If RBI wants to make it more expensive for the banks to borrow money, it increases the repo rate similarly, if it wants to make it cheaper for banks to borrow money it reduces the repo rate. Current repo rate is 6.25%

Reverse Repo rate is the short term borrowing rate at which RBI borrows money from banks. The Reserve bank uses this tool when it feels there is too much money floating in the banking system. An increase in the reverse repo rate means that the banks will get a higher rate of interest from RBI. As a result, banks prefer to lend their money to RBI which is always safe instead of lending it others (people, companies etc) which is always risky.

Repo Rate signifies the rate at which liquidity is injected in the banking system by RBI, whereas Reverse Repo rate signifies the rate at which the central bank absorbs liquidity from the banks.

CRR - Cash Reserve Ratio - Banks in India are required to hold a certain proportion of their deposits in the form of cash. However Banks don't hold these as cash with themselves, they deposit such cash(aka currency chests) with Reserve Bank of India , which is considered as equivalent to holding cash with themselves. This minimum ratio (that is the part of the total deposits to be held as cash) is stipulated by the RBI and is known as the CRR or Cash Reserve Ratio.

SLR - Statutory Liquidity Ratio - Every bank is required to maintain at the close of business every day, a minimum proportion of their Net Demand and Time Liabilities as liquid assets in the form of cash, gold and un-encumbered approved securities. The ratio of liquid assets to demand and time liabilities is known as Statutory Liquidity Ratio (SLR). RBI is empowered to increase this ratio up to 40%. An increase in SLR also restricts the bank's leverage position to pump more money into the economy.

Q.5. Explain the functions of RBI in detail

A.5. The broad objectives of the Reserve Bank are:

(a) Regulating the issue of currency in India;

(b) Keeping the foreign exchange reserves of the country;

(c) Establishing the monetary stability in the country; and

(d) Developing the financial structure of the country on sound lines consistent with the national socio-economic objectives and policies. Main functions of the Reserve Bank are described below:

1. Note Issue:

The Reserve Bank has the monopoly of note issue in the country. It has the sole right to issue currency notes of all denominations except one-rupee notes. One-rupee notes are issued by the Ministry of Finance of the Government of India. The Reserve Bank acts as the only source of legal tender because even the one-rupee notes are circulated through it. The Reserve Bank has a separate Issue Department, which is entrusted with the job of issuing currency notes. The Reserve Bank has adopted minimum reserve system of note issue. Since 1957, it maintains gold and foreign exchange reserves of Rs. 200 crore, of which at least Rs. 115 crore should be in gold.

2. Banker to Government:

The Reserve Bank acts as the banker, agent and adviser to Government of India:

(a) It maintains and operates government deposits,

(b) It collects and makes payments on behalf of the government,

(c) It helps the government to float new loans and manages the public debt,

(d) It sells for the Central Government treasury bills of 91 days duration,

(e) It makes 'Ways and Means' advances to the Central and State Governments for periods not exceeding three months,

(f) It provides development finance to the government for carrying out five year plans,

(g) It undertakes foreign exchange transactions on behalf of the Central Government,

(h) It acts as the agent of the Government of India in the latter's dealings with the International Monetary Fund (IMF), the World Bank, and other international financial institutions, (i) It advises the government on all financial matters such as loan operations, investments, agricultural and industrial finance, banking, planning, economic development, etc.

3. Banker's Bank:

The Reserve Bank acts as the banker's bank in the following respects:

(a) Every Bank is under the statutory obligation to keep a certain minimum of cash reserves with the Reserve Bank. The purpose of these reserves is to enable the Reserve Bank to extend financial assistance to the scheduled banks in times of emergency and thus to act as the lender of the last resort. According to the Banking Regulation Act, 1949, all scheduled banks are required to maintain with the Reserve Bank minimum cash reserves of 5% of their demand liabilities and 2% of their time liabilities. The Reserve Bank (Amendment) Act, 1956 empowered the Reserve Bank to raise the cash reserve ratio to 20% in the case of demand deposits and to 8% in case of time deposits. Due to the difficulty of classifying deposits into demand and time categories, the amendment to the Banking Regulation Act in September 1972 changed the provision of reserves to 3% of aggregate deposit liabilities, which can be raised to 15% if the Reserve Bank considers it necessary,

(b) The Reserve Bank provide financial assistance to the scheduled banks by discounting their eligible bilk and through loans and advances against approved securities,

(c) Under the Banking Regulation Act,1949 and its various amendments, the Reserve Bank has been given extensive powers of supervision and control over the banking system. These regulatory powers relate to the licensing of banks and their branch expansion; liquidity of assets of the banks; management and methods of working of the banks; amalgamation, reconstruction and liquidation of banks; inspection of banks; etc.

4. Custodian of Exchange Reserves:

The Reserve Bank is the custodian of India's foreign exchange reserves. It maintains and stabilises the external value of the rupee, administers exchange controls and other restrictions imposed by the government, and manages the foreign exchange reserves. Initially, the stability of exchange rate was maintained through selling and purchasing sterling at fixed rates. But after India became a member of the international Monetary Fund (IMF) in 1947, the rupee was delinked with sterling and became a multilaterally convertible currency. Therefore the Reserve Bank now sells and buys foreign currencies, and not sterling alone, in order to achieve the objective of exchange stability. The Reserve Bank fixes the selling and buying rates of foreign currencies. All Indian remittances to foreign countries and foreign remittances to India are made through the Reserve Bank.

5. Controller of Credit:

As the central bank of the country, the Reserve Bank undertakes the responsibility of controlling credit in order to ensure internal price stability and promote economic growth. Through this function, the Reserve Bank attempts to achieve price stability in the country and avoids inflationary and deflationary tendencies in the country. Price stability is essential for economic development. The Reserve Bank regulates the money supply in accordance with the changing requirements of the economy. The Reserve Bank makes extensive use of various quantitative and qualitative techniques to effectively control and regulate credit in the country.

6. Ordinary Banking Functions:

The Reserve Bank also performs various ordinary banking functions:

(a), It accepts deposits from the central government, state governments and even private individuals without interest,

(b) It buys, sells and rediscounts the bills of exchange and promissory notes of the scheduled banks without restrictions,

(c) It grants loans and advances to the central government, state governments, local authorities, scheduled banks and state cooperative banks, repayable within 90 days,

(d) It buys and sells securities of the Government of India and foreign securities,

(e) It buys from and sells to the scheduled banks foreign exchange for a minimum amount of Rs. 1 lakh,

(f) It can borrow from any scheduled bank in India or from any foreign bank,

(g) It can open an account in the World Bank or in some foreign central bank.

(h) It accepts valuables, securities, etc., for keeping them in safe custody.

(i) It buys and sells gold and silver.

7. Miscellaneous Functions:

In addition to central banking and ordinary banking functions, the Reserve Bank performs the following miscellaneous functions:

(a) Banker's Training College has been set up to extend training facilities to supervisory staff of commercial banks. Arrangements have been made to impart training lo the cooperative personnel,

(b) The Reserve Bank collects and publishes statistical information relating to banking, finance, credit, currency, agricultural and industrial production, etc. It also publishes the results of various studies and review of economic situation of the country in its monthly bulletins and periodicals.

Q.6. Power & function on SEBI

A.6. **Securities and Exchange Board of India (SEBI)** was first established in the year 1988 as a non-statutory body for regulating the securities market. It became an autonomous body in 1992 and more powers were given through an ordinance. Since then it regulates the market through its independent power.

Objectives of SEBI:

As an important entity in the market it works with following objectives:

1. It tries to develop the securities market.
2. Promotes Investors Interest.
3. Makes rules and regulations for the securities market.

Functions Of SEBI:

We can classify the functions of SEBI in three categories :-

1. Protective functions
2. Developmental functions
3. Regulatory functions.

1. Protective Functions:

the main focus of this function of SEBI is to protect the interest of investor and security of their investment

(i) SEBI checks Price Rigging:

Price Rigging means some people manipulate the prices of securities for inflation or depressing the market price of securities. SEBI prohibits such practice to avoid fraud and cheating which can happen to any investor.

(ii) SEBI prohibits Insider trading:

Any person which is connected with company such as directors, promoters, workers etc are called Insider. Due to working in the company they have sensitive information which affects the prices of the securities.Such information is not available to people at large but Insider get this key ful knowledge by working in such company. Insider can use this information for their personal benefits or make profit from it, such process is known as Insider Trading.

For Example - Managers or Directors of a company may know that company will issue Bonus shares to its shareholders at particular time and they purchase shares from market to make profit with bonus issue.

SEBI always restricts these types of practices when Insider are buying securities of the company and take strict action to avoid this in future.

(iii) SEBI prohibits fraudulent and Unfair Trade Practices:

SEBI always restricts the companies which make misleading statements which are likely to induce the sale or purchase of securities by any other person.

(iv) SEBI some times educate the investors so that become able to evaluate the securities and always invest in profitable securities.

(v) SEBI issues guidelines to protect the interest of debenture holders.

(vi) SEBI is empowered to investigate cases of insider trading and has provision for stiff fine and imprisonment.

(vii) SEBI has stopped the practice of allotment of preferential shares unrelated to market prices.

(viii) SEBI has stopped the practice of making preferential allotment of shares unrelated to market prices.

2. Developmental Functions:

Under developmental categories following functions are performed by SEBI:

(i) SEBI promotes training of intermediaries of the securities market.

(ii) SEBI tries to promote activities of stock exchange by adopting flexible and adoptable approach in following way:

(a) SEBI has permitted **internet trading** through **registered stock brokers**.

(b) SEBI has made underwriting optional to reduce the cost of issue.

(c) Even initial public offer of primary market is permitted through stock exchange.

3. Regulatory Functions:

These functions are performed by SEBI to regulate the business in stock exchange. To regulate the activities of stock exchange following functions are performed:

(i) SEBI has framed rules and regulations and a code of conduct to regulate the intermediaries such as merchant bankers, brokers, underwriters, etc.

(ii) These intermediaries have been brought under the regulatory purview and private placement has been made more restrictive.

(iii) SEBI registers and regulates the working of stock brokers, sub-brokers, share transfer agents, trustees, merchant bankers and all those who are associated with stock exchange in any manner.

(iv) SEBI registers and regulates the working of mutual funds etc.

(v) SEBI regulates takeover of the companies.

(vi) SEBI conducts inquiries and audit of stock exchanges.

Other Functions

1. Registering and regulating working of stock brokers, sub - brokers, share transfer agents, bankers to issue, trustees of trust deed, registrars to an issue, merchant bankers, underwriters, portfolio managers, investment adviser and such other intermediaries who may be associated with securities markets in any manner.

2. SEBI also perform the function of registering and regulating working of depositories, custodians of securities. Foreign Institutional Investors, credit rating agencies etc.

3. Registering and regulating working of Venture Capital Funds and collective investments schemes including mutual funds.

4. Promoting and regulating self - regulatory organizations.

5. Calling for information form, undertaking inspection, conducting inquiries and audits of stock exchange, mutual funds and intermediaries and self - regulatory organizations in the securities market.

6. Calling for information and record from any bank or any other authority or boars or corporation established or constituted by or under any Central, State or Provincial Act in respect of any transaction in securities which are under investigation or inquiry by the Board.

7. Conduct research for any matter described if any.

8. Calling information from any agency, institution, banks etc.

Q.7. Explain the stages of Globalization and its impact on Indian economy.

A.7. The four stages of globalization:

i. **Domestic stage:**

Market potential is limited to the home country

Production and marketing facilities located at home

ii. **International stage:**

Exports increase

Company usually adopts a multi-domestic approach

iii. **Multinational stage:**

Marketing and production facilities located in many countries

more than 1/3 of its sales outside the home country

iv. **Global (or stateless) stage:**

Making sales and acquiring resources in whatever country offers the best opportunities and lowest cost. Ownership, control, and top management tend to be dispersed

The Benefits Of Globalization:

- **More Efficient Markets**

Many Americans do not appreciate how efficient our markets are (efficiency here meaning supply and demand). These efficient markets allow economies to grow, and in a global world, when one economy grows, it spurs growth in all the other economies that are connected to it. In this way, reverberations of success are felt across the world, even when they are most profound in one area. Needless to say, this is a very good thing.

- **Wealth Equality**

This is partially a result of what I just mentioned, but wealth equality around the world goes much deeper than that. Perhaps a better phrase than wealth equality is "standard of living." Globalization does several things nobody can deny: it creates jobs, it improves infrastructure and it allows more people to live at a higher global level every day (access to medicine, clean water, food production, housing, etc.).

- **Friends With Benefits**

Globalization results in partnerships between countries and organizations. This makes relations much more stable between both. Agreements are agreed to, and as long as these are upheld, a kind of world-cooperation is sustained. Having these friends with (economic) benefits provides both stability and security for countries that wish to remain peaceful and prosperous.

- **New Solutions**

Globalization allows important processes to happen more efficiently and important ideas to become reality. There is a certain irony involved in this, however. For example, globalization is going to allow the world to work together to (hopefully) solve our apocalyptic environmental predicament; but of course, this predicament is a *result* of globalization.

The Disadvantages Of Globalization

- **Competition: Someone Has To Lose**

Unfortunately, while competition is generally thought to be a good thing, it does not come without a sour side. If I were to say, "Some companies won't survive because of globalization," then you might say, "Then they don't deserve to survive; that's the beauty of it; the companies worth sticking around usually do."

- **When The Home Team Loses**

I was raised in what was once the Apple Capital of the World: Winchester, VA. Over the last two or three decades, this title has (inevitably) been stripped from us; first it was by Pennsylvania, but then Pennsylvania had it stolen by China.

So now China is the Apple Capital of the World. They produce the cheapest apples, which account for roughly half the world's supply of apples. A lot of people up and down the East Coast lost their jobs, but here's the kicker: China isn't allowed to export apples to the U.S. This might change soon, but for the time being, China is able to put a lot of people on the East Coast out of business without even selling apples *in the same country*.

- **Environmental Devastation**

Globalization has created a global-sized need for energy and industry, and this need has been abused and ignored to the extent that the future of life as we know it has been brought into question.

Q.8. Explain the advantages & disadvantages of FDI.

Advantages of Foreign Direct Investment

1. Economic Development Stimulation.
Foreign direct investment can stimulate the target country's economic development, creating a more conducive environment for you as the investor and benefits for the local industry.

2. Easy International Trade.
Commonly, a country has its own import tariff, and this is one of the reasons why trading with it is quite difficult. Also, there are industries that usually require their presence in the international markets to ensure their sales and goals will be completely met. With FDI, all these will be made easier.

3. Employment and Economic Boost.
Foreign direct investment creates new jobs, as investors build new companies in the target country, create new opportunities. This leads to an increase in income and more buying power to the people, which in turn leads to an economic boost.

4. Development of Human Capital Resources.
One big advantage brought about by FDI is the development of human capital resources, which is also often understated as it is not immediately apparent. Human capital is the competence and knowledge of those able to perform labor, more known to us as the workforce. The attributes gained by training and sharing experience would increase the education and overall human capital of a country. Its resource is not a tangible asset that is owned by companies, but instead something that is on loan. With this in mind, a country with FDI can benefit greatly by developing its human resources while maintaining ownership.

5. Tax Incentives.
Parent enterprises would also provide foreign direct investment to get additional expertise, technology and products. As the foreign investor, you can receive tax incentives that will be highly useful in your selected field of business.

6. Resource Transfer.
Foreign direct investment will allow resource transfer and other exchanges of knowledge, where various countries are given access to new technologies and skills.

7. Reduced Disparity Between Revenues and Costs.
Foreign direct investment can reduce the disparity between revenues and costs. With such, countries will be able to make sure that production costs will be the same and can be sold easily.

8. Increased Productivity.
The facilities and equipment provided by foreign investors can increase a workforce's productivity in the target country.

9. Increment in Income.
Another big advantage of foreign direct investment is the increase of the target country's income. With more jobs and higher wages, the national income normally increases. As a result, economic growth is spurred. Take note that larger corporations would usually offer higher salary levels than what you would normally find in the target country, which can lead to increment in income.

Disadvantages of Foreign Direct Investment

1. Hindrance to Domestic Investment.
As it focuses its resources elsewhere other than the investor's home country, foreign direct investment can sometimes hinder domestic investment.

2. Risk from Political Changes.
Because political issues in other countries can instantly change, foreign direct investment is very risky. Plus, most of the risk factors that you are going to experience are extremely high.

3. Negative Influence on Exchange Rates.
Foreign direct investments can occasionally affect exchange rates to the advantage of one country and the detriment of another.

4. Higher Costs.
If you invest in some foreign countries, you might notice that it is more expensive than when you export goods. So, it is very imperative to prepare sufficient money to set up your operations.

5. Economic Non-Viability.
Considering that foreign direct investments may be capital-intensive from the point of view of the investor, it can sometimes be very risky or economically non-viable.

6. Expropriation.
Remember that political changes can also lead to expropriation, which is a scenario where the government will have control over your property and assets.

7. Negative Impact on the Country's Investment.
The rules that govern foreign exchange rates and direct investments might negatively have an impact on the investing country. Investment may be banned in some foreign markets, which means that it is impossible to pursue an inviting opportunity.

8. Modern-Day Economic Colonialism.
Many third-world countries, or at least those with history of colonialism, worry that foreign direct investment would result in some kind of modern day economic colonialism, which exposes host countries and leave them vulnerable to foreign companies' exploitations.