Foreign Direct Investment (FDI in Honduras.

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# **Project title**

Foreign Direct Investment (FDI): Foreign Direct Investment is Blessing or Curse? The effects it has on domestic investment and local businesses in Honduras.

**Project Aims: What is the project about?**

* This project is an in-depth analysis of Foreign Direct Investment (hereinafter referred to as FDI) whether it there is an effect on local businesses on the long run.
* Aims to realize if there is negative impact on the countries domestic investment compared to FDI outflows.
* Additionally, this thesis aims to address the bigger picture which is to determine whether it is fair for foreign companies to take over Honduran resources, leaving it hard for Hondurans to take advantage of the resources.
* Lastly, this thesis aims to address whether FDI is necessary at all, or if more efforts need to be made to help domestic capital be mobiles instead, which is in fact accumulated and invested outside of the country in numerous cases (FDI outflows).

# **Research questions**

1. What is the current state of FDI in the country?

* What are the benefits and challenges it provides?
* What is its current economic impact?

1. What are the effects it has on Domestic investment?
2. What are the effects it has on Local Businesses?
3. What policies are in place to attract FDI to the country?

* Have these policies been constructed carefully and cautiously to make sure that both parties involved get an optimum, yet comparatively equal and fair return on their investment?
* What is the short- and long-term effect of these policies?

1. Is FDI in fact necessary for much-prioritised economic growth, as conveyed by global popular belief? Or should the Honduran government focus on retaining and mobilising domestic capital?

* Have there been any efforts to mobilise and utilise domestic capital?

1. How can the country address the research results? Can policies and FDI laws be changed at a national and institutional level? How?

* What will the proposed changes’ economic impact be?

# **Why is the project important?**

* Notably, Honduras is a country that is found in Central American and falls under the Latin American countries. It is one of the countries that has been reported to have high levels of poverty as well as high levels of inequality. In 2017, they saw a drop in the middle-income poverty rate, the poverty rate as per the American standards remains high within the country.
* Honduras, even with its strategic position for growth and economic development, is faced with various issues that cannot be overlooked. They play a great role in influencing the nature of growth that they experience as well as their openness to foreign direct investments. It is one of the countries that is known to have the highest violence rate. In a year, they have an average of 41 homicides per 10000 inhabitants.
* Foreign investments are meant to uplift the nature of the country, but some investors are wary of the nature of their safety and their investments within Honduras. Even then, and given its positioning the resources that it has, there is a great potential of transforming the nation with the right kind of foreign investments. Hence the drive for this project.
* At the same time, then resources will propel economic growth, job opportunities for the people within the country, and even stand a chance to uplift their poverty levels. With foreign Direct Investments, there opens a chance for greater sharing of ideas, improvements in technologies.
* At the same time, foreign investors are a chance to introduce new products and ways of innovations to the local people within the country.
* Therefore, in as much as there will be more chances for employment, there is also the chance to exchange ideas, learn new skills which will benefit the country if the working force does apply them in their daily lives.
* Most countries, like Honduras, may lack the capital to start up so many industries or put ideas into actions. With the openness to foreign direct investments, they get the chance to acquire the capital that they may need, and this is beneficial for their economy, for the citizens as well as the country in general.
* Additionally, coverage of the FDIs in Honduras does open up a chance for the country to advance in other sectors like their infrastructure. Even in the case that the investments are withdrawn after some years, the infrastructure remains. Other sectors to benefits and experience growth like the health sector as they have to be improved towards the latest technology.
* Undoubtedly, the coverage of FDIs in Honduras does offer a chance to learn about the effects that it can have on developing countries. It is also a chance to understand better the implications that FDIs have on developing countries like Honduras.

**Literature Review**

## In search of FDI-led growth in developing countries: The way forward

* Remarkably, the effects of FDIs, in capital flow, technology transfer, as well as economic growth, has been an issue that has been researched on. Various outcomes do a showcase in the studies, and at times, they do depend on the country at hand. FDIs do have both direct and indirect effects of an economy within a nation. Some of the direct effects include the improvement in the infrastructure and job creation, while indirect effects include things like technological know-how, managerial transfers within the market, among others.
* At the same time, there is the consumption of goods and services and the productions of goods once the FDIs are injected into the economy. All these lead to domestic demand, which enhances economic growth, which is beneficial for the country at hand: Honduras.
* The study sheds light on the relationship that does exist within the income per capita with the FDIs offered within a state.

## 2. Foreign direct investment, economic freedom, and economic growth: International evidence. Economic Modelling by Azman-Saini, W. N. W., Baharumshah, A. Z., & Law, S. H.

* Other studies have shown that once the FDIs are injected in the economy, they do not have any direct impact on the output growth. Instead, they do affect the economy in that it gives a nation economic freedom to explore more, which enhances its growth.
* Without economic freedom, it is almost impossible to experience any growth. That is the economic freedom does stem from the easy access and presence of the existing multinational corporations.
* Undoubtedly, for Honduras to experience any economic growth with the injection of the FDIs, they have to embrace the economic freedom that comes with it.

## 3. Foreign Direct Investment Theories: An Overview of the Main FDI Theories by Denisia

* Different theories exist to explain how FDIs are seen in different nations.
* In such, we have to understand the drives that lead other countries to want to invest in Honduras and if it can sustain them.

# **Methodology**

* There has been the use of several research methods in a bid to understand the effects that FDIs have on economies. In our case, we will be using some of the methods to better understand the effects that FDIs have in Honduras so that we can determine if they are beneficial or detrimental.
* One, we have the cost-benefit analysis, which involves the cross-checking on the benefits that FDIs have in the costs within the nation. That is checking the benefits and the costs that are associated with the enactment of FDIs within Honduras.
* We also have econometrics studies, which will be very beneficial in the gathering of information. This deals with the micro and macro effects that the investments will have ion the country. That is, factors like growth, productivity, job opportunities, among others, will determine the effects of the FDIs within Honduras
* At the same time, it can be used to show the relationship between the growth, productivity, and wages that are allocated to the workers within an economy. With the two methodologies, we will manage to come up with data that is conclusive and open that helps in better analysis of the effects that the FDIs have on an economy.
* All these will also be facilitated by the interviews that must be conducted to acquire the necessary information on the cost benefits and the econometric studies.

# **Project Plan**

* Undoubtedly, for the project to be complete, there is a need for a great and realistic plan. Studying the effects of FDIs within a nation is not something that can be achieved overnight. There is a need to have a workable time frame like five months so that we can see the differences that it brings to the economy and country as a whole. Also, there will be a need to liaise with some of the shareholders within the economy so that we can have access to the outcomes of the FDIs as well as the changes that are prompted by the investments. Also, a survey will be necessary to determine the changes and effects. By the end of this, then we can determine and rule on whether the idea of FDIs within Honduras will be a blessing or a curse.

### Table 1.1 project plan

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| --- | --- |
| Identification of a project title and consultation with the supervisor | **February 2019** |
| Research on the project title, exploration of the academic literature that is available | **1st Feb-29th Feb** |
| Getting into the field to gather information: interviews with respective agencies, people. | **March- April** |
| Organization of the collected data, compiling, analyzing the data to make sure it is relevant to the project title. | **April - May** |
| The writing of the project based on the data acquired. | **May** |
| Presentations and follow-ups with the supervisor while still proofreading from colleagues | **July** |
| The Official submission of the thesis to the supervisor | **July** |

# **Conclusion**

* Honduras contains so many factors that are not present in other countries. In as much as it has so many resources, it is also prone to violence and other natural disasters like the effects of climate. All these are factors that foreign investors consider before they can commit to a country.
* Even then, they can manage to make profits by investing, and in most cases investing does involve risk-taking. FDIs are bound to bring change within Honduras, but to what extent is the question here. FDIs are essential for the survival of many countries, especially developing countries. It is my conviction that they bring more good than bad, especially in countries that are struggling to make a step towards economic growth.

# Bibliographies

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