Bachelor thesis – Research Proposal for "Exploring Factors Influencing the Attraction of Greenfield-FDI: A Comparison of India and Indonesia

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I.   Background, problem definition, goal setting

In today's highly globalized and technologically advanced world, the movement of money across continents has become faster and cheaper than ever before (Fernandez et al., 2020). As a result, investors are actively seeking investment-friendly destinations that offer promising opportunities and attractive returns on investment. Among these destinations, Asian countries like India have emerged as prominent choices due to their vast investment opportunities, availability of cheap labor, favorable geographical conditions, and relatively lower risk combined with higher returns. Each country posseses its own unique characteristics, attracting investors - both individuals and corporations - that align with their specific requirements and capabilities.

One form of investment that plays a significant role in the global economy is Foreign Direct Investment (FDI) in form of greenfield investment, where a host country provides investment opportunities to investor countries (Fernandez et al., 2020). This investment takes form through establishment of new companies within the host country. The competition to attract FDI has been increasing worldwide, driven by the potential economic benefits it brings to host countries and the prospect of higher returns for investors (Fernandez et al., 2020).

Foreign direct investment (FDI) is typically seen as the transfer of physical capital and intangible assets, such as technology, between nations (Wang & Wong, 2009). According to conventional theories of economic growth, the accumulation of capital and technological innovation are the key factors driving economic development. Therefore, it is in the best interest of countries to attract FDI in order to enhance their economic growth.

As India and Indonesia are both South Asian countries, a comparative analysis of their attractiveness for FDI greenfield investments can provide insights into how FDI works and what makes countries particularly attractive for FDI-investor.

II.   Puzzle and Research Question

The puzzle addressed in this work is why India attracts Greenfield-FDI, while Indonesia remains unattractive for such investments. Both India and Indonesia are located in Asia and rank among the largest economies worldwide (Zhang, 2021). Compared to other developed and developing countries like Russia and Mexico, both countries have experienced strong economic growth. Under the Modi administration, India launched the Digital India 2025 ambition in 2018 and set a GDP target of 5 trillion USD. Under the Jokowi administration, Indonesia introduced the Global Marine Fulcrum (GMF) and aimed to become the 4th largest economy in the world by 2045. Both countries focus on various sectors, particularly economic support infrastructure such as railroads, ports, and fast trains (Zhang, 2021). Given these similarities, it is interesting to evaluate why one country is more attractive for FDI than the other. The puzzle identified in the work - why India attracts greenfield FDI, while Indonesia remains unattractive for such investments - leads to the broader research question of this thesis, *why are some countries more attractive for Greenfield-FDI than other countries*.

III. Significance

Answering the research question of why India is successful in attracting "Greenfield-FDI" while Indonesia remains an unpopular destination for these projects is important for several reasons. Firstly, understanding the factors that contribute to India's success can provide valuable insights for other countries looking to attract foreign direct investment (FDI). By identifying and analyzing the specific strategies, policies, and conditions that have made India an attractive destination, other countries can learn from its success and potentially replicate it.

Secondly, exploring the reasons behind Indonesia's lack of popularity as a destination for "Greenfield-FDI" can help identify areas for improvement. By understanding the challenges and barriers that hinder investment in Indonesia, policymakers and stakeholders can develop targeted strategies to address these issues and create a more favorable environment for foreign investment.

Furthermore, answering this research question can contribute to the overall understanding of the factors that influence FDI attraction. It can shed light on the role of various factors such as government policies, economic conditions, infrastructure, market size, and business environment in influencing investment decisions. This knowledge can inform policymakers, economists, and business leaders in making informed decisions and formulating effective strategies to attract and retain foreign investment.

IV.   Preliminary Overview of Existing Explanations

Infrastructure as a factor of attractiveness for FDI

Some countries are more attractive to foreign direct investment (FDI) than others (Fernandez et al., 2020). One significant factor that investors consider is the quality of a country's infrastructure. Infrastructure is crucial for the long-term growth and competitiveness of emerging economies. It not only creates jobs but also improves living standards. Well-developed infrastructure, including transportation networks, communication ease, and transmission facilities, stimulates the flow of FDI (Kaur, et al., 2016). Better transportation and communication lead to lower freight costs and influence the inflow of FDI. The telecommunications infrastructure of the host country also plays a significant role in investment decisions.

Another important factor related to infrastructure is logistics, which serves as the backbone of trade (Fernandez et al., 2020). Good logistics can reduce trade costs and enable countries to compete globally. Achieving effective logistics requires the improvement of infrastructure, skills, customs, regulations, policies, and governance in the right proportions.

In relation to my research question, this consequently means that a well-developed infrastructure increases the attractiveness of a country in terms of FDI.

Political stability as a factor

Another factor that contributes to a country's attractiveness for foreign direct investment (FDI) is political stability. Political unrest can have a devastating impact on any economy (Haudi et al., 2020). It creates challenges for conducting business and making informed decisions. Therefore, political stability is crucial for promoting domestic business and attracting FDI. When the political environment is stable and not prone to rapid changes, it benefits both businesses and society. For instance, many African countries face significant political issues,

which hinder their economic and social development. In contrast, European countries enjoy political stability, resulting in strong economies and higher living standards. In Pakistan, political problems have led to a decrease in foreign investment. Specifically, when a military government takes control in a democratic country, FDI trends tend to decline. FDI investors prefer politically stable countries and seek friendly relationships with governments to facilitate progress.

In relation to my research question, this implies that a country with high political stability becomes more attractive in terms of FDI.

V.   Preview of Your Explanation

I argue that the attractiveness of countries for foreign direct investment (FDI) depends on the skill level of their labor force, particularly the English proficiency of the population. Skilled labor is associated with high-quality production and increased profitability in business (Haudi et al., 2020). Foreign direct investments involve investments from foreign countries or companies, which often operate in a different language. This language barrier can make collaborative work difficult and hinder the success of the venture. However, when the involved stakeholders have a high level of English proficiency, it makes everything easier. A shared language allows for effective communication, smoother collaboration, and a greater chance of success for the venture.

I argue that this explanation can be applied to India and Indonesia to explain the difference in their ability to attract Greenfield-FDI. According to the EF Education First (2023a) and its English Proficiency Index of 2023, which ranks countries based on the equity of English language skills among adults who took the EF test, India is ranked 60 out of 113 countries, indicating moderate English proficiency. On the other hand, Indonesia is ranked 79 and labeled as having low proficiency (EF Education First, 2023b). Therefore, in relation to the research question, this suggests that the disparity in English proficiency between Indonesia and India could be one of the reasons for their varying success in attracting Greenfield-FDI.

# VI.	Approach and methodology

The foundation of this work will rely on existing scientific literature related to foreign direct investments and a comparative analysis of Indonesia and India in relation to Greenfield Investments. To start, a scientific article with a research question similar to that of this work will be sought. Based on this article, further studies will be identified using snowball sampling and online research. These studies will be used to formulate a deductive explanatory approach, which will be considered relevant for the case study. Additionally, inductive explanatory approaches will be developed based on noticeable differences between the two units of the case study that have not been explored in existing literature regarding their impact on the success of attracting Greenfield-FDI.

The second part of this work examines the three explanatory approaches in terms of their persuasiveness. For this purpose, statistics and economic reports about India and Indonesia will be primarily used.

VII. Structure of the thesis

1. *Introduction*

    o   Background and significance of the puzzle

    o   Objectives and research question

    o   Introduction to theories and factors influencing FDI attraction

2. *Explanatory approach 1*

    o   Presentation of the explanatory approach

3. *Explanatory approach 2*

    o   Presentation of the explanatory approach

4. *Explanatory approach 3*

    o   Presentation of the explanatory approach

    o   Presentation of the three hypothesis based on the three explanatory approaches

5. *Methodology*

    o   Justification for choosing a literature review as the research methodology

    o   Explanation of the process used to select and analyze relevant literature

6. *Empirical evidence*

    o   Evaluation and operationalization of the three explanatory approaches

7. *Conclusion*

    o   Reflection and summary of the discussed hypothesis and the research question

    o   Evaluation of the strengths and limitations of the explanatory approaches

    o   Recommendations for policymakers and future research directions

8. *References*

    o   List of all sources cited in the thesis using *APA 7*

VIII. Preliminary reference list

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IX. Timeline

Timeline Bachelor Thesis

	December (preperation)					Jan.24				Feb.24				
Calendar week	49	50	51	52	1	2	3	4	5	6	7	8	9	10
Orientation and planning phase	orientation													
finding a topic and a research question	▓													
preliminary literature research	▓													
writing of the research proposal		▓	▓	▓										
handing in the research proposal					▓									
Research and acquiring of materials						research & acquiring of materials								
intensive literature search and analysis						▓	▓	▓	▓					
Writing phase						writing								
collecting sources		▓	▓	▓	▓	▓	▓	▓	▓	▓	▓	▓		
writing introduction						▓	▓							
writing the methodical part							▓	▓						
writing the conclusion										▓	▓			
writing the discussion part										▓	▓			
Completion phase													completion	
proofreading													▓	
checking for plagiarism													▓	
checking format and layout														▓