GLOBAL ECONOMICS IN FOREIGN INVESTMENT DECISIONS

Name

Professor

University

City

Date

**Question 1**

Some of the key economic indicators that the company should consider include the government regulation and fiscal policy, interest rates, and gross domestic product. The economic indicators can help in deciding which market between Brazil and Russia Dibimilano should choose to invest. While each economic indicator plays a different role in the market, they all form a complementary outcome to create a certain quality of economy (Asongu, Akpan, and Isihak, 2018, p. 6). In comparing two economies, a company needs to evaluate the government regulation and fiscal policies that exist within the industry. If the government prioritizes the industry, then it makes effort to create subsidies or make it easier to operate a company. Furthermore, Dibimilano will find it easier to operate in an industry where the government does not place too much restrictions in terms of tax levels. The Brazilian government is less restrictive when it comes to the economy as it allows market forces to interact and make decisions. The Russian economy on the other hand maintains a close restriction of economic processes to make sure that they occur according to its preferences.

Interest rates in an economy also affect investment decisions in foreign economies. Interest rates form a lagging economic growth indicator and are rooted in the funds rate of the federal government. When interest rates are high, they indicate a strained economy that is attempting to recover through the collection of more returns from the money circulating in the economy (Asongu, Akpan, and Isihak, 2018, p. 9). However, high interest rates make borrowers reluctant to seek loans, which in return makes consumers disinterested in getting credit. Businesses on the other hand experience difficulties in expanding, stagnating the GDP. Low interest rates on the other hand heighten the demand for money and create a risk of inflation, which can devalue the country’s currency. Interest rates not only communicate the current condition of the economy but also indicate its possible direction. The interest rate in Brazil is 2.75% while that of Russia is 5% (Asongu, Akpan, and Isihak, 2018, p. 13). Therefore, the company would want to invest in Brazil and enjoy the lenient economy that would allow it to access loans and expand.

The GDP in any country indicates the performance of an economy. The indicator measures what everyone in the country’s economy earned within a financial year. Hence, it reflects the productivity of a country’s economy. It also translates into the income per resident depending on the population levels in the country. The GDP or Russia was 1,464 while Brazil had 1,363 billion dollars (Dean, 2020, p.65). However the population levels in Brazil are much higher compared to Russia. Hence, individuals in Russia make much more money than in Brazil, meaning that the economy in Russia is more stable compared to Brazil.

**Question 2a**

While economic indicators form a vital element in deciding foreign investment, the ease of doing business and openness to foreign trade in a country can be equally important. The ease of doing business in a country determines whether or not the government has restrictions to foreign trade and investment (Kannaiah and Murty, 2017, p. 342). If a country sets severe restrictions to foreign trade or investment, then companies may find it difficult to establish operations in the country. However, the absence of restrictions encourages foreign investments because the company can operate within the country and export its products. Similarly, the company would be free to source raw materials they need for their production processes. Hence, Dibimilano would need to choose a country that allows it to continue operating within the international setting.

Comparing Brazil and Russia, both countries have certain restrictions that are directed towards protecting the domestic market. However, the former holds a more open approach to foreign trade compared to Russia. While countries often introduce protective measures against foreign trade or investments, the degree of the restrictions differ and often produce different levels of impacts (Kannaiah and Murty, 2017, p. 344). Over the years, the actions taken by both countries display their attitude towards international trade. The ease of doing business can be evaluated by looking at how a country maintains its interactions in the international setting. Comparing Brazil and Russia, the former has appeared more at ease in terms of political agreements with other countries. The country maintains a close relationship with countries within the American and European continents. Hence, it creates the impression that it would be a good option to associate with when it comes to foreign investments (Kannaiah and Murty, 2017, p. 344). Russia on the other hand maintains a reputation of being offensive towards nations with which it does not agree. Also, the country remains reluctant to engage in peaceful negotiations to improve relations with other countries.

Considering the reputation of both Russia and Brazil, it is evident that Brazil is more open to foreign trade compared to Russia. Since Dibimilano is an Italian company that already operates in Russia, it may seem like an easy decision for the company to invest in another office in the country. However, Russia often changes its foreign trade terms depending on the direction towards which it wishes to drive its economy, which may not be suitable for Dibimilano to increase its investment in Russia (Kannaiah and Murty, 2017, p. 347). For instance, Russia has been involved in trade wars with the United States due to actions taken by the latter to address economic issue arising from Russia. Also, Russia’s administration remains strict with its trade partners, which may force foreign companies operating within the country to stick with certain markets even when they can access better ones.

**Question 2b**

The vulnerability of a country to external changes often affects the possibility that the country may be forced to make adjustments to accommodate foreign changes. Evaluating the situation of Russia and Brazil, the former appears more resilient to external changes compared to Brazil. On numerous occasions, Russia defies the norm that the external economic setting holds a major influence on the domestic economy (Kurecic, 2017, p.321). The country focuses on maintaining an internal balance between its economic and political agendas. Hence, it is rarely influenced by external changes in a way that affects its economic stability. Brazil on the other hand attempts to maintain an independent economy from the external environment. However, it has not been as successful compared to Russia because of the fact that it has maintained an open economy for a long time (Kurecic, 2017, p.324). Also, Russia seems to have maintained a closed economy for a long time, which creates a great extent of independence and protection from external changes.

While Russia maintains a well-protected economy, its main exports are crude and refined petroleum and coal. Since the products are easily affected by global demand and supply levels, the country remains equally vulnerable to external changes. For instance low oil process translates to low income for Russia, which in turn results in a drop in the value of its currency (Kilicarslan, 2019, p.291). Therefore, it is important for Dibimilano to consider the possible changes that may occur in the Russian economy and how its operations can be affected by the same. Operating in the cosmetic industry, Dibimilano will need to understand the stability of the market to predict the potential challenges it can face and the advantages it has when operating within Russia.

Also, changes in the value of each country’s currency can poses an important factor in deciding which country a company can invest. Brazil mainly majors in exporting iron ore, crude petroleum, raw sugar, and soybeans. The products have stable market prices that are not easily affected by global trends (Kilicarslan, 2019, p.291). Among the major export products in the country, only the prices of crude petroleum are affected by changes in global demand and supply. However, products such as iron ore, raw sugar, and soybeans tend to maintain a stable demand and supply, which means that their prices remain stable over a long time. As a result, the economy of Brazil does not easily fluctuate due to changes in the process of its main exports (Kilicarslan, 2019, p.291). Therefore, the company’s vulnerability to external changes in the global economy do not have all the power to influence the direction towards which the country’s economy moves. The stability experienced by its main export products reduced the extent to which it is affected by global changes in demand and supply.

Protectionist measures in any country’s economy are meant to protect the domestic setting from external changes. For the longest tome possible, Russia has never hesitated to introduce protectionist measures to guard its economy. However, Brazil often makes notable considerations before setting protectionist measures working against its trade partners (Kurecic, 2017, p.332). Therefore, it would appear that investing in Russia offers a good opportunity to operate in a country that protects its domestic market. Similarly, Brazil would offer a good opportunity to operate in a labor-intensive country where wages are low and reduce the cost of operations for Dibimilano.

**Question 3**

Based on the analysis on Brazil and Russia, Brazil would be suitable for Dibimilano to continue its expansion. Russia has numerous advantages over Brazil and can easily attract the company’s attention. However, the country fails to meet the requirements that the company needs to continue expanding in the country. First of all, trade wars with the United States and other countries affect the economy of Russia not only during the time when they are active but also in the future. Therefore, expanding the company’s operations in Russia would expose the company to such issues and make it difficult for the company to maintain consistent presence in the market. Similarly, Russia experiences a vulnerable economy despite protecting it because its main export products revolve around the oil industry. Prices in the oil sector fluctuate from time to time, affecting the stability of the country’s economy.

Investing in Brazil would not be without challenges because the economy’s GDP per capita is low compared to that of Russia. However, the country’s economy experiences stability following the fact that it majors in products whose prices remain constant over a long time. Products such as iron ore, soybeans, and raw sugar change prices after a long time, which means that the country enjoys a high level of stability. Furthermore, Brazil’s economy has been on a growth state for some time following the government’s decision to focus on improving the economy. As a result, the company will enjoy major benefits of operating in the Brazilian market because of the expanding economy. A growth in economy would increase the country’s bargaining power, which would in turn translate into a positive balance of trade as well as increased power to negotiate in the international market. Further, expanding to Brazil would expose the company to a new market in the world, which would increase its coverage across the globe.

Bibliography

Asongu, S., Akpan, U.S. and Isihak, S.R., 2018. Determinants of foreign direct investment in fast-growing economies: evidence from the BRICS and MINT countries. *Financial Innovation*, *4*(1), pp.1-17.

Dean, E., Elardo, J., Green, M., Wilson, B. and Berger, S., 2020. Comparing GDP among Countries. *Principles of Economics: Scarcity and Social Provisioning (2nd Ed.)*.

Kannaiah, D. and Murty, T.N., 2017. Exchange rate intervention and trade openness on the global economy with reference to Brazil, Russia, India, China and South Africa (BRICS) countries. *Investment management and financial innovations*, (14,№ 3 (contin. 2)), pp.339-352.

Kilicarslan, Z., 2019. The relationship between foreign direct investment and renewable energy production: Evidence from Brazil, Russia, India, China, South Africa and Turkey. *International Journal of Energy Economics and Policy*, *9*(4), p.291.

Kurecic, P., 2017. Small States and Regional Economic Integrations in the Multi-Polar World: Regional Differences in the Levels of Integration and Patterns of Small States' Vulnerability. *World Review of Political Economy*, *8*(3), pp.317-348.