BILATERAL FOREIGN DIRECT INVESTMENT BETWEEN GCC COUNTRIES AND DEVELOPED ECONOMIES, USING A GRAVITY MODEL

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ABSTRACT

Prior study has looked at how companies employ a variety of organisational strategies to protect their R&D expenditures in overseas locations from theft threats. However, little is known about how companies can use non-market elements to gain preferential treatment from host government officials, thereby securing their intellectual property abroad. We look at two non-market factors in this study, one at the country level and the other at the business level, that are likely to impact where enterprises concentrate their innovation activities: host country bias towards the firm's home country and the firm's political capabilities. As a result, we investigate how IPR policies and non-market factors combine to safeguard business invention from piracy and to make countries more attractive for innovation-related activities. A sample of a thousand international R&D investments made by a hundred companies from ten home countries from 2003 to 2016 backs up our estimates. So this article shows a short summary of our whole study, which we will discuss later after completion.

Keywords: Intellectual property Rights, Foreign R&D Investments, Political Capabilities, Intercountry Perceptions, Innovation Policy.

INTRODUCTION

Empirical Study:

Despite the precarious economic and political situations in conflict-affected countries, a large number of multinational corporations (MNEs) enter these markets, especially when conditions improve. We look at the relative effects of peace agreements and MNE capabilities on foreign direct investment to better understand how MNEs respond to favourable institutional reforms in tough environments. We expect MNEs to use institutional arbitrage to join conflict-affected nations by using political capabilities in their home market, as well as environmental, social, and governance capabilities (Insead & Chatain, 2008).

As a result, rather of focusing exclusively on controlling negative risk, we examine the relative value of MNE capabilities as governments attempt to achieve more peace. We hypothesise and show that peace agreements and the resulting favourable changes in the host country's political environment are less essential for MNEs with strong political capacities and excellent environmental and social governance than for other MNEs. The findings raise crucial concerns regarding why and how particular businesses succeed in difficult settings, as well as the influence of positive institutional transformation (Doh et al., 2012).

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We investigate how non-market factors influence enterprises' decisions to invest in R&D in other nations in this article. Non-market elements are those aspects of a firm's surroundings that cannot be influenced by market interactions. All social, political, regulatory, and cultural elements that can directly or indirectly affect a firm but are not part of its market environment are included in this category. Non-market strategies are those aimed at influencing and mobilising non-market forces in the firm's best interests. Firms can get access to lower-cost or better-suited resources, improve product adaption to local markets, and broaden the range of backgrounds from which they might draw in their innovation process by investing in international R&D (Duanmu, 2014).

On the other hand, conducting R&D outside of the United States could put a company's intellectual property at risk of theft. As a result, IPR protection policies have a considerable impact on multinational company's foreign R&D location decisions. IPR policies, on the other hand, do not have the same impact on all businesses. Even in nations with poor intellectual property rules, research has shown that some companies are better than others at protecting their intellectual property, notably through the use of a range of organisational processes (Fernandez-Mendez et al., 2018).

Non-market factors, in addition to these techniques, can influence how confidently a corporation can anticipate taking the benefits of its intellectual property, regardless of the soundness of a country's IPR rules. We distinguish and investigate such non-market characteristics at the country and firm levels, based on earlier research on foreign investment location choice. We build on and extend this line of study by examining how IPR rules and non-market factors interact to safeguard business innovation from misappropriation and to make countries more attractive for innovation-related activities by concentrating on foreign R&D investment site preferences (Gartzke, 1998).

Non-market factors are likely to play a crucial role in how confident firms are that their IPR will be adequately protected in a given country, because IPR regimes are heavily rooted in national legislation and regulation, the implementation and enforcement of which is largely at the discretion of political and administrative authorities. Non-market factors might have a broad impact on a group of companies or be specialised to a single company.

When companies invest in a foreign country, they are likely to face a similar set of non-market issues. Non-market factors, on the other hand, may have a varied impact on each company. When evaluating how much a given firm relies on IPR restrictions when determining where to locate its international R&D investments, we look at non-market factors at both the country and firm level (Gooris & Peeters, 2016).

Authorities in the host country may be more or less disposed to treat enterprises from a specific home country favourably at the country level. This predisposition in the host country may change depending on the host country's general attitude toward the home. Diplomatic links, political affinity, and economic interdependence between the two countries could all impact the outcome. We propose that enterprises will be more confident that their IPR will be protected if they invest in R&D in a country with a favourable host country disposition, regardless of the strength of the country's formal IPR rules.

As a result, we anticipate that enterprises will be less inhibited from investing in R&D in such countries if the IPR framework is weak. Regardless of formal IPR regulations, some firms may expect their political capabilities, which are defined as the "*tacit and non-tacit knowledge and skills that enable firms to manage the public policy process and achieve favourable*

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legislative, executive, administrative, and judicial policy outcomes," to elicit preferential treatment from the host government (Henisz, 2000).

We propose that corporations can indirectly influence host governments through political capacities, either openly by eliciting home government intervention or implicitly by possessing the perceived ability to elicit such intervention. We estimate that, regardless of the severity of the IPR restrictions, companies with higher political capacities will be more inclined than others to invest in R&D in a given host country.

Despite the fact that empirical evidence of FDI's effects on host-country foreign trade varies widely among nations and economic sectors, a consensus is emerging that the FDI-trade correlation must be seen in a larger context than the direct influence of investment on imports and exports. The key trade-related benefit of FDI for developing nations is its long-term contribution to more tightly integrating the host economy into the global economy, a process that is likely to include increased imports as well as exports (Holburn & Zelner, 2010).

To put it another way, trade and investment are increasingly seen as mutually reinforcing cross-border activity pathways. However, host-country authorities must also consider the short and medium-term effects of FDI on foreign trade, especially when faced with current-account pressures, and they must sometimes consider whether some of the foreign-owned enterprises' transactions with their mother companies may deplete foreign reserves.

Vertical linkages with suppliers or purchasers in the host country; horizontal linkages with competing or complementary companies in the same industry; skilled labour migration; and internationalisation of R&D are the four interrelated channels through which technology transfer and diffusion takes place. Vertical links, particularly "*backward*" linkages with local suppliers in poor nations, provide the strongest and most consistent evidence of beneficial spillovers. MNEs are known to provide technical support, training, and other information to suppliers in order to improve the quality of their goods. Many MNEs help local suppliers buy raw materials and intermediate goods, as well as modernise or upgrade manufacturing facilities.

The transfer of technologies is subject to a caveat on their applicability. The innovations must be relevant to the host-country business sector beyond the company that acquires them first in order for technology transfer to generate externalities. The host country's corporate sector's technological level is quite important. The "*technical gap*" between local firms and foreign investors must be relatively small for FDI to have a greater beneficial impact on productivity than domestic investment, according to evidence. Local firms are unlikely to be able to absorb foreign technology conveyed *via* MNEs if significant differences exist, or where the absolute technological level of the host country is low (Jandhyala & Phene, 2015).

When it comes to establishing an enabling climate for FDI, investing in general education and other generic human capital is critical. Achieving a specific level of educational attainment is critical for a country's ability to attract FDI and maximise human capital spillovers from foreign firm presence. The required level varies by industry and other aspects of the enabling environment in the host country; education alone is unlikely to make a country appealing to foreign direct investors. However, no major spillovers are probable if a significant *"knowledge gap"* exists between foreign entrants and the remainder of the host sector.

While the advantages of MNE presence for human capital enhancement are widely acknowledged, it is also known that their scale is far less than that of general (public) education. The positive impacts of FDI training can complement, but not replace, a general improvement in skill levels. The presence of MNEs, on the other hand, may provide a useful demonstration

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effect, as these businesses' desire for skilled labour gives host-country authorities an early indication of what skills are in demand. The authorities' task is to supply this demand in a timely manner while also offering education that is of such general utility that it does not implicitly favour specific businesses (Lester et al., 2008).

While significant national and sectoral differences persist, empirical and anecdotal data suggests that MNEs provide more training and other human capital upgrading than domestic firms. However, there is far less evidence that the human capital developed in this way spreads throughout the host economy. Policies aimed at improving labour market flexibility and encouraging entrepreneurship, among other things, could assist to mitigate the effects of such spillovers.

Technology transfers are inextricably linked to human capital levels and spillovers. Human capital spillovers are more likely to occur in technologically advanced sectors and host nations, while economies with a large human capital component are more susceptible to technology spillovers. As a result, attempts to enjoy the benefits of technology and human capital spillovers may be more effective if technical and educational initiatives are implemented together.

CONCLUSION

Our research contributes to the growing body of knowledge about the impact of political economy on the placement of innovation activities in different countries. Our findings imply that companies apply a different reasoning when deciding where to locate their innovation operations than when deciding where to locate their other international expenditures. Firms generally use the overall quality of the local institutional environment to mitigate the danger of their local assets being expropriated when determining where to put their foreign investments. Misappropriation is difficult to detect and analyse since investments for innovation are associated with intangible assets. The complexities of local IPR legislation are so crucial, even above and beyond the overall quality of the local institutional system. Our findings from comparing high-tech and low-tech investments back up this assertion. While measures of the general quality of the institutional environment are relevant for both high-tech and low-tech investments, the strength of IPR regulations appears to be important exclusively for high-tech investments. These are the investments that are most likely to be misappropriated, despite the fact that they are also a significant source of competitive advantage.

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