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# Importance Of Investment For A Region; A Study Of Its Merits And Demerits

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***Abstract:*** *Investment has huge impacts on the economy of a country as well as the lifestyles of people living there. This report analyzes several studies and highlights the importance of investment in a country. There are dramatic effects when investors capitalize in an underdeveloped state that can be seen in the example of China where Foreign Direct Investment shortly FDI opened the doors of fast development making it the world's largest growing economy in the world. But this is not the case always, studies suggest that investment in certain regions also has disadvantages which should be looked into before capitalizing.*

**Keywords:** investment, capitalizing, Foreign Direct Investment (FDI)

## Introduction

Investments in a region or state can be regarded as the backbone of the economy that leads to the creation of assets in the direction of improved production, employment, and overall financial development. A state has to accrue or assemble capital to make the economy's intangible investment assets for it to grow (Chernikova, 2010). In order to achieve the desired goal, all the economies should develop reserves, and investment needs to interplay positively. Investment is an essential factor for refining efficiency and growing the competitiveness of the region. An economy could relish significant levels of consumption without investment, but then again, this generates an unstable economy (Kaw, 2020). There are chances of current account deficit and small venture in upcoming growth prospects.

## Review

In the last thirty years, the nature of world-wide business investment in emerging economies has progressed further than a moderately narrow emphasis on the extractive businesses to turn out to be one of the cornerstones, accompanied by trade, of international assessment chains (UNCTAD, 2007). Presently, several unindustrialized states are getting involved in the manufacture of progressively refined goods and chattels. A rising middle class, particularly in the higher middle-income republics, has underpinned surges in market pursuing investments (OECD, 2014). The developing countries in 2010 accounted for more than fifty percent of the international FDI capitals for the first time in history (OECD, n.d.).

Additionally, some developing countries, especially those in the upper category, are important investors and makeup about one-fourth of world-wide Foreign Direct Investment (World Investment Report, 2019), therefore distorting the venerable historical difference among emerging economies as funds importers and industrialized economies as funds exporters. For the developing countries, the investment has a huge impact. It affects the structural basis of the economy as well as the overall social development. Nonetheless, the experiential evidence on the significance of investment in a region is varied. Determining the effects of investment (particularly FDI) in developing states may be hard on procedural as well as on financial grounds (Getzner & Moroz, 2020). The impact of investment can be seen in the multiplier effect when the economy has additional capacity. Basically, the multiplier effect takes place when a preliminary injection into the economy roots a higher concluding surge in state revenue (Baum, Poplawski-Ribeiro & Weber, 2012).

The preliminary increase in investment upturns economic growth; nonetheless, if companies achieve more significant trade and income, they become willing to reinvest. Likewise, households that get hired from the venture have further proceeds to spend. As a result, an investment of two billion pounds can result in a final surge in Gross Domestic Product of three billion pounds (Dynan & Sheiner, 2018). Businesses look at different factors when they choose a region to capitalize on. Studies show that GDP, literacy level, wage levels, FDI inflow, and infrastructure play a significant role in attracting investors. (Khachoo & Sharma, 2016).

Looking at China's example to understand the impact of investment in a region clears things. China's development actually started in 1979 with a great range of innovative market plans. One of them was the open-door policy, which invited investors to venture into the region. It is observed that Foreign direct investment (FDI) contributed a lot to the fast development of China's economy surging its influence in technological and industrial management throughout the world. (Lemoine, 2000). Initially, the investors were not open to several prospects, and foreign investors were stimulated to capitalize on export-oriented businesses like trade in the "Special Economic Zones" set up (Sun, Tong & Yu, 2002). The SEZs and further sectors gave the investors a chance to develop the economy better.

There are advantages as well as disadvantages of investing in a particular region. Some of them are summarized below in points. (Prabakaran, 2020)

## MERITS OF INVESTMENT

**1. Financial Growth Stimulation.**

The economic development of a country in which the investment is made can be aroused, which generates a beneficial setting for the investor as well as doles for the native business.

2. **Easy Global Line of Work.**
   Usually, a state has its personal tariff for imports. This is the reason that trading in certain countries and venture speculation is difficult there. Correspondingly, there are businesses that typically necessitate their existence in the global markets to guarantee their trades and objectives will be achieved entirely. Foreign Direct Investment eases all this up.
3. **Commercial and Employment Boost**
   Investment in a region opens up opportunities for employment creates since investors construct new buildings and shape a business in the region, thus giving more prospects of occupation. This leads to a surge in returns and more buying power to the individuals, which consecutively boosts the economy.
4. **Expansion of Human Assets**
   One of the greatest advantages of investment is the development of human assets, which is normally not highlighted much since it is not apparent quickly. Human capital is the capability and skills of those individuals who are able to execute labor, commonly known as the “workforce." The characteristics achieved by preparing and sharing experience upsurges the edification and general human capital of a state. Its reserve is not a “tangible asset" that is possessed by corporations but as a replacement for something that is hired out. Keeping this in view, a region with Foreign Direct Investment can profit prominently by developing its human resources whereas preserving ownership.

## DEMERITS OF INVESTMENT

1. **Radical Risks**
   Different Countries have different rules for investment, and thus these legislations are important to consider before investing in a country. Some countries or regions have more strict and unstable rules of capitalization, which makes it risky to venture into these regions.
2. **Adverse Impact on Exchange Rates.**
   In cases of FDI, the exchange rate be often affected in a negative manner for the host country and to the advantage of the country capitalizing.
3. **Surged Values.**
   Sometimes investing in a particular region can result in higher charges for the investor due to insufficient planning of money or plans based on the export of goods. This causes a detrimental impact on the economy of the host country as well as the investor.

## Conclusion

The main objective of this research work was to analyse importance of investment in regions. The analysis of above-mentioned studies highlighted its impact on economic growth and GDP. Four significant merits have been shortlisted including financial growth stimulation, easy global line of work, employment boost and expansion of human asset. Three main demerits have also been studied, that include Radical risks, impact on exchange rates and surged values. Overall, it is found that investment in regions have more merits than demerits and those demerits can be managed through efficient and effective management.

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