Chapter 2
Analysing Foreign Direct Investment in Singapore Through Soft Power

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ABSTRACT

The purpose of this chapter is to analyze how soft power components affect foreign direct investment in Singapore. The chapter aims to investigate the impact of soft power elements on foreign direct investment from 2000 to 2021, which includes governance, the population, education, financial, and development variables. A matrix of correlations of soft power variables is constructed and GMM techniques are used for analysis. Results concluded that soft power factors variables have a significant positive relationship with foreign direct investment. Meanwhile, enrolment in secondary schools, regulatory quality, political stability, no violence have a significant negative relationship with foreign direct investment. In addition, control variable exchange rate has a significant positive relationship with foreign direct investment. This chapter will theoretically improve existing research and offer major implications for both private and government organizations. In other words, regions with more 'soft power' have a tendency to have higher levels of foreign direct investment.

INTRODUCTION

Foreign investment largely affects two aspects of national influence: national hard power and national soft power. National resources or power, such as the military, diplomatic, and economic, have been referred to as "national hard power" (Wang, 2011). Businesses may achieve an advantage in competition by participating in foreign investment through using their economic, technological, and other types of power. The second is national soft power, which is defined as a country's culture, values, and public perception. By exerting a variety of hidden forces and having an impact on the goods and attitudes generated by those firms, these variables have an effect on how other countries view their own country. Soft power of a country is crucial to the success of an investment as well as to the cooperation and mutual

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prosperity of domestic and international firms, despite being hard to define and evaluate. But in some ways, developing soft power is more difficult than developing physical force. Building national soft power requires an extended procedure that involves collecting and development in the areas of politics, diplomacy, culture, and national image to promote foreign investment operations. It is crucial to study how national soft power influences foreign investment.

The benefits of soft power have been well acknowledged (see Andrabi and Das 2017; Nye 2004). The ability to influence other people's decisions is the basis of soft power. As contrary to being driven into submission, people can be manipulated. It involves leading by example. The nation's intangible assets, such as its appealing personality, culture, political institutions, and ethics-based public policies, are developed. Because of their common beliefs and because it is appropriate and important to make an effort toward reaching those goals, it bonds people together. Good leadership has relied primarily on soft power. Its popularity is influenced by a number of things, including credibility, trust, fairness, authority, and good intentions. If the country shows ideas that other countries want to emulate, leading will be less expensive (Nye 2004). Soft power always encourages other countries to want to collaborate in trade and investment as well as adopt its commercial concepts and governmental policies, allowing the cooperating countries to advance together. Soft power has increased in crucial since the launch of social media and communication technology.

Despite its extensive explanation, academics and practitioners are opposed to the term "soft power" totally because they think it is very challenging to use. By claiming that soft power can only be employed when a party's proposed policies are helpful to other parties as well, academicians have criticized the concept. Soft power cannot be used by any party to mask or alter bad policies, just as unpopular items cannot be sold despite the best promotion. If competitors judge policies to be narrowly self-serving or smugly presented, there are less possibilities for them to confer soft power on the party implementing them (Nye, 2008).

In order to better understand how soft power affects foreign direct investment, this study examines at factors such as population, governance, education, financial, and development. In this study, we aim to empirically investigate the importance of so-called "soft power" attributes, which include a country's institutional, political, social, and demographic foundation and are currently mostly ignored in the literature. We use a range of control variables that were collected from the literature on modeling foreign direct investment in order to reflect the typical macro financial drivers of foreign direct investment. With regard to the soft power factors, we adopt an agnostic methodology and consider a wide range of demographic, institutional, political, and social indices.

Background

When defining institutions like social, political, legal, and economic characteristics of a nation, researchers from around the world are in agreement. Acemoglu et al. (2003) extended this negative association to macroeconomic volatility, which is defined as the variability of the growth rate of production per worker. This study has also shown that, after controlling for institutional effect, macroeconomic policies lack predictive power. The institutional theory focuses on how different organizations and groups may better protect their positions and validity by adhering to the norms and regulations of the institutional environment. Researchers have previously demonstrated that there is a difference between formal institutions (codified regulations and laws) and informal institutions (codes of behavior, values, and norms). In order to explain, explain widely, and overcome the absence of reasons for many entrepreneurs functioning in

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