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Address for correspondence:
Dr.Abasaheb Dhondiba jadav
Dept.of Economics sahakarbhushan s.k.patil college kurundwad Tq.shirol Dish. kolhapur
Email:
abasahebjadhav1@gmail.com

The Role of Foreign Direct Investment in Developing Economies

Dr.Abasaheb Dhondiba jadav
Dept.of Economics sahakarbhushan s.k.patil college
kurundwad Tq.shirol Dish. kolhapur

Abstract

Foreign Direct Investment (FDI) has emerged as a critical driver of economic growth and development in many developing economies. This paper explores the multifaceted role of FDI in accelerating industrialization, generating employment, and fostering technology transfer. It highlights the positive contributions of FDI, such as capital inflows, skill development, and innovation, while also addressing the challenges related to political instability, environmental concerns, and monopolistic practices. Case studies from Sub-Saharan Africa, Southeast Asia, and Latin America illustrate both the opportunities and risks associated with foreign investment. The analysis underscores that while FDI is a powerful instrument for development, its impact depends heavily on domestic absorptive capacities, regulatory frameworks, and policy measures of host countries. The study concludes that well-managed FDI can significantly contribute to sustainable growth, provided governments implement effective policies to maximize benefits and mitigate associated risks.

Keywords: *Foreign Direct Investment (FDI); Developing Economies; Economic Growth; Capital Inflows; Technology Transfer; Job Creation; Globalization; Multinational Corporations; Market Integration; Sustainable Development*

Introduction

The rapid, irreversible globalization of the goods and services market, Asia's continued growth, and the expansion of Eastern European countries are just a few examples of the developments that have occurred. There are numerous challenges that arise from the opportunities that modernity presents. Whether labor in Eastern Europe or capital has a reasonable way of influencing the economy of a region, serious questions arise concerning the shift in supply chains. The roles of foreign direct investment (FDI) in developing economies are the topic of this study.

FDI is a long-term economic relationship involving the long-term interest of an investor in an economic entity located in a country other than that of the investor. FDI implies the real possibility for the foreign investor to control and exercise a high degree of managerial influence in the entity subject to the investment (ALINA, 2018). According to the National Bank of Romania, direct foreign investment implies a lasting investment relationship between a resident entity and a non-resident entity. It usually involves the exercise by the investor of significant managerial influence in the undertaking in which they invested. The relevant sectors are: FDI in flow; FDI at a stock level; sectoral distribution of FDI; net investments in FDI; monetary evaluation of the net assets in FDI in Romania (Kurtishi-Kastrati, 2013).
Direct investments are investments in jobs, creating production facilities as never before. "Greenfield" investments are discovered in countries with a lower degree of economic development; they involve the establishment of enterprises by or together with foreign investors. There is potential for growth, exports, and the exploitation of natural and human capital. Technology transfers are expected far in advance. In countries with a high degree of economic development, acquisitions and restructuring of companies are preferred. The requisite resources are less expensive and can be acquired through the simple transfer of capital. Changes imposed by companies with capital from a developed state hardly bring any technique or technological improvements.

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Technocrats from the capital-creating states even oversee the investments.

Understanding Foreign Direct Investment

Foreign Direct Investment (FDI) is an area of study concerned with the means a country, state, or locality acquires technologies, skills, and access to international markets, by attracting subsidiary operations of multinational corporations (Dapra et al., 2019). Foreign direct investment (FDI) is defined as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (the direct investor) in an enterprise resident in an economy other than that of the foreign direct investor. FDI is often conflated with other measures of global economic activities. Portfolio investments, commonly in the form of bonds and stocks, are positions in foreign companies that are entirely divorced from the management or operations of that company. Trade implies exchanges or flows of goods and services between nations, but FDI implies that control over and management of operations are moved from one economy to another. Typically, however, large scale, long-term equity ownership in foreign companies is held by domestic, household investors, mutual funds, pension funds, and bank trusts. Economic investments consist of hard assets which have intrinsic values and hence are not easily convertible into currency or cash.

FDI can take several forms, including the creation of a wholly owned subsidiary from the ground up, purchase of an existing asset in a country, or a joint venture. At its core, the foreign investor obtains access to resources cheaper, or more systematically, than competitors; therefore, FDI is efficiency-seeking. The investor may also seek to create a unique product or service, such as Starbucks or Walmart. Here the foreign investor seeks to obtain access to a market or some other livelihood, primarily contributed by the economic geography attributed to the host country or region. Such an undertaking is termed market-seeking. Multinational corporations operating from developing economies are often called emerging market multinationals (EMNEs), as these nations experience a relatively high growth rate of FDI outward stock, compared with that of developing countries.

1. Definition and Types of FDI

Foreign direct investment (FDI) is an economic term that requires thorough analysis and detailed explanation. The term Foreign Direct Investment (FDI) is applied to different financial transactions. A direct investment is a foreign investment that is purposely aimed for and results in a long-term interest in an enterprise resident in an economy other than that of the foreign investor. This is evidenced by the ownership of 10% or more of the ordinary shares or voting power of a company. Foreign direct investment is specific in that it is in fact a direct investment. A foreign company must develop an actual presence in another country through subsidiary operations that are resident there. In other words, FDI is an active investment in a country. The resulting subsidiary must produce real, tangible outcomes for its host location. Foreign subsidiaries contribute to the local economy in a range of ways. Generally speaking, they contribute to the host location by expanding employment and creating economic value. Foreign subsidiaries also provide new goods or services that supply or otherwise benefit local consumers. They can introduce innovative technologies or business practices that improve the productivity and competitiveness of domestic firms. Often they may serve as a beneficial means of proffer for local firms. These are all often thought of as the primary ways in which FDI contributes to the long-term growth of host locations. FDI also poses challenges to local economies. Some roots of these challenges stem from the notable differences between foreign subsidiaries and their indigenous peers. This recognition of the benefits of FDI for host locations has prompted states around the world to develop new policies to attract FDI. It has also spurred a new line of research in many fields. An initial theme that runs through much of this work is to develop a standard definition of FDI, both as a concept and as a measurement.

The Benchmark Definition of Foreign Direct Investment includes three methods of how one company/entity can invest in another. Foreign direct investment is realized by three methods: investment by Greenfield, by acquisition, and through the merger of two companies. Of these three methods, the most direct way to recognize FDI is through Greenfield investment. This means that foreign companies enter a location by creating new facilities and new operational programs, domestically known as Greenfield investments. Acquisition is the entry by one company into the target country through the purchase of a subsidiary or branch of a company established in that country. A foreign acquisition may or may not have direct managerial implications of more companies entering the location. In this regard, it is somewhat weaker than a Greenfield investment. Merger is the combination of two or more companies into a single firm. This is organized in the form of acquiring shares in the target company or companies that will result in a merger with a foreign company. In this case, the voting shares are secured as agreed upon between two firms for a stated maintenance or management performance period. This is different from an acquisition. With

this notation, increased FDI activity indicates increased value for the host country.

2. Historical Context of FDI

After the Second World War, in 1945 in particular, Foreign Direct Investment (FDI) gained a significant role with the internationalization of financial assets based on the rapid growth of multinational enterprises. The International Monetary Fund estimates that between 1950 and 1990, in half a century, the global accumulation of FDI grew from USD 49 billion to USD 5 trillion while the average of the global stock of monetary assets turned from 39% into 1404% based on the GDP, i.e. the average share of monetary assets in the GDP measured by the same method grew from only a half in 1950 to about 3.5% in 1990 (Kurtishi-Kastrati, 2013).

The radical transformation of the economic system in the eastern countries, called by the West "simultaneous collapse", followed by a deep reconstruction in their economy alongside the increasing harvest, deepened the race. Meanwhile, in the early 90s, both western and eastern countries were busy on giving three types of statements to the international society: policies on privatization, property documents, and invitations for foreign investors. Virtually none of these documents explained how to elaborate legal conditions for property and competition. The consequence of western investor faith secured by the state parties plunged eastern countries into a series of financial and economic crises. The IMF and the World Bank stepped in for managing the crises but without entrance clauses. Massive incomes arrived via different channels in the East but investment ratio based on the GDP began to drop dramatically. Thus national capital was displacing; domestic economic structure was rationalized and liberalized to a sharp narrowing.

The theoretical studies on FDI have been developed widely consisting of a very broad spectrum from money and currency to the labor market focusing on micro approaches, and from industry national characteristics to historical voyage of enterprises considering macro approaches. These studies have led to a better understanding of the economic mechanism and also the behavior of economic agents, both at micro and macro level (Dhiman & sharma, 2013). Based on the theoretical foundations, a special methodology for evaluating FDIs on a country or a region basis are developed. With the use of this methodology, we list trends in FDI, growth of FDI, FDI in industrialized countries out of USA and Japan, and FDIs in transitional economies for western European countries and eastern European countries.

Theoretical Framework

The various economic conditions of host countries may determine the effect that FDI will have on them. Host country conditions such as wage level, education, institutional environment, tax laws, and general macroeconomic and political environment are important for FDI impact on growth. The overall finding is that FDI impacts economic growth but the impact is positive only for countries with some threshold level of human capital accumulation. FDI has in many cases impacted productivity growth positively, in many cases by providing additional challenges to domestic firms. However, the area of greatest concern is that the net impact, through foreign competition, might be negative for a significant number of developing countries (Kurtishi-Kastrati, 2013). Foreign competition from FDI might crowd out early-stages domestic investments, productivity declines and eventually negative economic growth will be found. These are possible interpretations for which the empirical process needs to provide further insight. Along with the general conclusion that FDI impacts economic growth, a second issue that needs further insight is how the impact of FDI has differed across countries and why a positive impact on productivity growth has been positive in some countries and not in others. In summary, there are economic variables suggested by both the FDI theory and growth theory to impact growth. In addition to the standard FDI determinants and standard growth determinants, economic variables which are arguments in the FDI-growth relation will be discussed, and will be checked how they differ between the various Asian countries.

1. Economic Theories on FDI

After the Second World War, the international economy has been characterised by the growing importance relatively to international trade, portfolio investment and other forms of international economic activities. Foreign Direct Investment (FDI) is one of the most important inter-industry flows, which has gained a significant role in the international economy. The latter's rapid growth, especially in developing countries is regarded as a favourable factor (Kurtishi-Kastrati, 2013). Following this rapid growth, a change has occurred, more specifically, it has been made easier to overcome the newly emerged obstacles and barriers regarding FDI. Concerns about the relevance of foreign multinationals have included issues such as the brain drain of skilled labour, technological knowhow and profits. The evolution of the underlying motivations for Japanese FDI is outlined, highlighting the major mechanism by which shifting market power is transferred between host and home countries. The impact of FDI on economic growth is an extensively examined topic and is considered of paramount importance by practitioners and policymakers. FDI has been hailed as a potentially effective tool to promote economic development, while concerns about its possible adverse effects have also been voiced. Notably, these documents do not consider FDI in

isolation, as the vast majority of their empirical work relates to the complex relationship between a range of variables: economic growth, trade openness, human investment, inflows of FDI and international capital, to mention but a few. Such convoluted questions have historically proven chastening for social scientists and economists alike, as it has been noted that the same data set could lead to opposite conclusions depending on the particular analytical framework adopted. Any findings relating to direct foreign investments need to be interpreted with due caution. The theoretical and empirical literature on FDI is surveyed, identifying the main trends in FDI theory, and highlighting how these theories were developed, the motivations for new approaches to enrich economic theory of FDI. Also provided is a brief list of theoretical determinants of FDI, plus an account of the impact of FDI on economic growth and, to a lesser degree international trade.

2. Models of FDI and Development

Foreign Direct Investment (FDI) plays an important role in the process of economic development and integration of developing economies into the global economy. Evidence of the importance of FDI as a source of financing and development is growing across the globe. Many developing economies favour FDI as a source of capital and as an effective policy to implement their development strategies. This is corroborated by a wide range of empirical studies for various countries and regions. In contrast to the burgeoning empirical literature on the subject, economic theory has not kept pace with the developing world; and, with a few notable exceptions, analyses of the impact of FDI on economic growth have focused on individual countries or groups of countries, drawing mainly on the new growth framework developed and applied to OECD countries (Kurtishi-Kastrati, 2013). Theoretical models are presently illuminating the sources of growth from FDI as well as ways in which national policies might be directed at harnessing these effects for development. New tools needed to explore more complex areas such as the internal rate of return to FDI as a function of the age and size of investment or to assess policy issues such as the probable impact of alternative incentive schemes on FDI, capital accumulation or growth. Theoretical development and country experience lessons can be used to devise policies and projects to maximize development impact of FDI.

FDI is considered as one of the most important components of international capital flows. Basic types of capital movements include short-term capital flows such as portfolio investment, foreign exchange speculation, etc., which are highly volatile versus long-term capital flows such as FDI, official development aid, which are stable, especially FDI and spread to developing countries. FDI provides a stable source of financing and is generally accepted as a good and often better way of financing development. In the late 70s, developing countries became net recipients of FDI, which was the turning point in the history of capital movements. In recent years, FDI has been the largest single source of foreign resources to the developing world. Nevertheless, there was a sharp divergence is experience among developing economies on FDI and growth. Some developing countries, especially Asian economies, were able to attract large amounts of FDI and were able to grow at high rates. Others, especially in Latin America and in the Third World in general, were not able to attract foreign investment and did poorly.

Benefits of FDI in Developing Economies

FDI is an investment of funds made by a firm in one country with the intention of establishing a permanent or long-term interest in an enterprise operating in another country. FDI includes the construction or purchase of a plant in a foreign country, the establishment of a branch or subsidiary by a transnational corporation, and the privatization by transnational corporations of state-owned firms. It covers the building or acquisition of a transportation facility, such as a port or airport, opening of bank branches and other financial service firms outside the home country, and the establishment by an oil company of overseas concessions for the exploration and development of oil fields (Lydon & Williams, 2005). Other possible investments include building or purchasing communication networks, and purchasing and repairing ships and airplanes. Regardless of the industry, quite a significant share of foreign investment relies on highly trained personnel and the transfer of unique knowledge and skills.

It is generally accepted by much of the literature and the major institutions whose task is to assist in the development of countries that FDI can have a number of positive effects on the economies of the less developed countries. The establishment of foreign-owned enterprises can increase formal sector employment, which is of prime importance in shifting large numbers of poor people out of poverty in the developing world. The establishment of foreign-owned enterprises usually involves the transfer of skilled personnel and the employment and training of local staff. Foreign-owned enterprises are likely to employ new technologies and, by so doing, to transfer to their local employees new skills and knowledge. Foreign-owned enterprises are likely to raise productivity and, hence, the incomes of their employees, provide a significantly higher than average level of wages, and raise the level of demand for locally supplied inputs and services (Dhiman & sharma, 2013).

Foreign direct investment also involves long-term or medium- to long-term commitments of foreign investors, generally reducing the volatility of foreign exchange movements. The recent high growth rates of GDP in many developing countries have generated an increase in domestic savings. However, much of this is absorbed by the domestic primary advertising and block sectors, and many developing countries still suffer from a lack of sufficient investment funds. In many developing countries, FDI can provide a vital source of capital. FDI not only brings new funds into the countries, but there is also evidence that it stimulates domestic investment. Foreign-owned enterprises are likely to be substantially significant sources of tax revenue. These benefits, which have led many developing countries to design policies to attract FDI, are discussed below.

1. Capital Inflow and Economic Growth

In recent years the growth in capital inflow in developing countries was due to the interest of investors for markets with high growth rates. The countries of AME were among the preferred destinations for attraction of Foreign Direct Investment (FDI) due to economic and political barriers taken down in most of them. Since these investments have the characteristic of being rapidly mobilized between countries or even withdrawn in case of external shocks and evaluation of risks involved or expected profitability by foreign investors is a difficult task for entrepreneurs and national authorities. The return of FDI invests in AME countries is on average higher than in other regions in Asia and similar in magnitude with Sub-Saharan Africa countries. Higher return on investment is an indicator of a greater growth prospects and higher profitability of FDI. However, higher profitability is an indicator of expectation of greater risk. Dynamic systematic risk proposed by FDI returns in AME countries is lower than in Non-AME countries and slightly above the AME group average (Metaxas & Kechagia, 2015). In their turn, FDI returns in AME have a higher specific risk than in other regions and the risk measured by unconditional models seems to be greater than evaluated by GARCH type in AME countries.

The empirical analysis found mixed support for the hypotheses regarding the effects of foreign companies on industry growth but the presence of foreign companies in a sector significantly increases its growth in terms of employment. The analysis of employment losses observed among all companies in the industry did not reveal a negative effect of inflows on domestic companies. However, it is found that observed effects are driven mainly by one sector. The results of the analysis provide evidence of positive externalities from foreign direct investment (FDI) inflows on growth of domestic companies. In particular, it is found that foreign investment is positively and significantly correlated with growth measured by sales of domestic firms, with evidence of the new growth-enhancing effects. This study provides evidence of the heterogeneous impact of FDI inflows among firms of different ownership. In particular, investment by foreign companies in a sector boosts in sales growth of domestic companies in that sector. The results of this study have important implications for both policy and research regarding the efficiency and optimal organization of FDI.

2. Technology Transfer and Innovation

The inflow of foreign direct investment (FDI) promotes not only capital accumulation, but also technology transfer that leads to rapid economic growth in host countries. The spillover effect of FDI is crucial, especially in developing countries, to overcome technological gaps. Recognizing the spillover effect, many developing countries pursue FDI to create a conducive environment for foreign investments. Most firms currently are transnational, and their foreign subsidiaries now account for about one third of total world exports and invest out of the home country about USD 1718 billion annually. Technology transfer from FDI occurs when local companies adopt the technology used by a multinational corporation (MNC) in producing. MNCs' technology comprises knowledge, production process, product design, capital, and goods of plant and equipment (Diakon Debebe, 2018).

Industrial restructuring occurs when the establishment of an MNC affiliate affects competition among existing firms in a country. Spillover effects arise from the linkages forged between foreign direct investors and other economic agents in the countries in which they operate. Linkages refer to the various types of economic interdependence between foreign firms and domestic firms at both upstream and downstream levels. Examples of backward linkages are established when a foreign firm remits contracts to local suppliers or promotes local firms to localize inputs. Similarly, forward linkages are constructed when a transnational corporation supplies domestically produced components to local assembly sites.

Such transfers take place through trained employees who have acquired skills and know-how from their engagements with MNCs, and local firms can also learn from spillover effects. Local companies may mimic advanced technologies available. In developing countries, technological level of MNC foreign affiliates and their degree of integration into the international production system largely determine the scale and scope of substantial intra-MNC technology flows. Furthermore, the technologies that can be transferred to local firms

depend on the potentials of local firms to absorb these technologies.

3. Job Creation and Skill Development

Foreign direct investment (FDI) flows into economies with significant revenue potential. A significant domestic market and a favorable business climate are geographical features of the target countries. Moreover, the presence of competition in the target industry and demand for additional labor are the firm-specific parameters for prospective investors that can lead to an increase in regional employment. The volume of additional employment created in newly entered zones in the short time intervals that immediately follow the geographic spread of FDI provides an opportunity to assess firm-specific factors that contribute to employment growth in the new locations.

One motivating question is whether geographically diffused FDI has an impact on employment in newly entered zones. Furthermore, in a particular country, which of the geographic sites would be disproportionately benefited from the effusion of FDI in a generally attractive industry? Both the question and its motivation arise from the broad range of economic and social implications that firm-level FDI gulfs can have in developing nations. The gap between the so-called main urban centers and rural areas has been an important concern for local policy-makers.

Economic growth and service-sector expansion in the former may not necessarily translate into employment in the latter. Rather, massive demise of jobs in traditional industries that predominantly employed laborers in the periphery can occur. The result is persistent unemployment in the rural areas. Additionally, high spillover effects on the domestic economy cannot be taken for granted. Domestic industries can only benefit from the FDI-based investment in the new economic activity when knowledge and input-output linkages exist among the foreign and the domestic firms, and when domestic firms possess sufficiently high absorptive capacity (Abdelaal Mahmoud, 2010).

Challenges and Risks of FDI

FDI has been the primary engine for global economic growth. By investing in emerging markets, firms can reduce their production costs. Low-cost labor is just one of the many advantages developing countries have to offer. By establishing facilities abroad, firms can reduce their tax burden and transfer part of their profits to countries with lower taxation obligations. New facilities and the accompanying financial inflows boost local investments (Coetzee et al., 2016). Moreover, an increase in the capital stock can bring about an improvement in technology, education, and economic growth.

There are, however, risks associated with FDI. Some are universal, yet others are local problems. How countries fare in terms of investment safety, taxation, tariffs on imports or exports, and expropriation of facilities determines the amount of FDI they can expect to receive. FDI is necessary for sustaining a competitive edge in the global economy; hence embarking on a risk mapping of countries can provide valuable insight to local economies wanting to win more business. This focuses on the identification of potential risks to investments in each country as well as the construction of country-specific investment indexes.

The role that FDI plays in the promotion of economic development for developing countries is widely acknowledged, particularly in terms of new employment, infrastructure development, capital transfer, and an influx of technology and management skills (Leelavathi, 2014). FDI provides new and improved technology, including the establishment of technologically advanced plants; improvements to existing plants and other tangible assets; assistance with the identification and assessment of new technology; and the introduction of new and improved machinery and equipment. Technology spillovers occur between foreign and domestic firms at several levels through labor mobility, linkages, and competitor effects. Technology diffuses through labor mobility when employees gain experience and knowledge working for MNEs and subsequently either move to or start up domestic firms or take their know-how to other firms at home or overseas.

1. Political and Economic Instability

The role of FDI in the growth of developing economies is hotly debated. The economic gain that countries receive through FDI is examined by developing economies through both empirical studies and theoretical ground. Many countries want to attract more investors as a tool to counteract economic disadvantages. MNC operations have greater force, wider scope, and of longer duration than any individual unit wishing to enter into interaction with a host-country economy. They want to explore these advantages while cross-border investment decisions are under a strong influence of the host economy. In developing economies, government policies become an important factor in the international investment decision of MNCs. A fair measure of growth is capital investments, which on the other hand are determined by the level of direct foreign investment outflows. MNCs would like to make the best choice for economic survival, which may be in the interest of both host and home countries, but this often involves the use of market and non-market power. Under the influence of macroeconomic factors some MNCs were driven from host countries.

However, the implementation of a suitable policy that directly increases FDI is difficult. This is because those variables considered to represent

an attractive investment strategy cannot be influenced in the short-run. Trying to implement such policies generally proves costly in regard of lesser FDI. They show that host-target countries benefit from a more stable macroeconomic environment, closer cultural proximity, lower levels of political risk, and corruption. Interest group pattern of FDI flow is greatly determined by the behavioral model of MNCs; no action taken by home countries is able to increase FDI. The influence of these factors on the level of new building investment was examined for Southern European countries. Macroeconomic instability is the most important deterrent of greenfield FDI to African economies; a fall in the efficiency of the system of government greatly increases FDI. This result contradicts some other studies which found transactions cost relative to the capital stock ratio be an important deterrent to new direct investment.

2. Environmental Concerns

The attractiveness of developing countries as host countries for foreign direct investment (FDI) has fostered a new concern among international organizations, governments, and non-governmental organizations (NGOs) regarding the environmental effects of this investment. The location of industry is determined by many factors; a clear determination of the environmental concern is actually quite recent. In this new political dimension of dealing with increasing pollution and waste from industries, the level of environmental regulations, especially concerning anti-pollution policies, has taken a new relevance (Hipólito Leal et al., 2021). As well as targeting technology, infrastructure, tax benefits, incentives for exports, or a low cost of labor, the managements of multinational firms are now looking for low levels of environmental regulations. When policies are geared to the reduction of costs and improving benefits, the concern is that companies that have been curtailed in their activities in developed countries because of stringent environmental laws will relocate their plants to less controlled developing countries. As a result, pollution-haven hypotheses have been formulated. The empirical study of these hypotheses in this paper aims at analyzing both the relocation of pollution and different aspects of environmental concern around foreign direct investment.

New theories have focused mainly on expected improvements in the environment of the countries receiving FDI. One of the most important hypotheses concerning these expected improvements in environmental quality is the Pollution Halo Hypothesis. Under this hypothesis, the globalization of economic activities, especially FDI, would result in a preservation of global environments. The main reason behind this statement, to be supported later on, is that FDI is associated with the transference of more advanced, eco-friendly, and less polluting technologies as well as with pressures for adherence to more stringent safety and pollution regulations. The opposite case, under which FDI would be associated with a deterioration of environmental quality in recipient countries, is provided by the Pollution Haven Hypothesis.

3. Market Dominance and Monopolistic Practices

The flow of financial capital across national boundaries takes place in many forms. One form is the Foreign Direct Investments (FDI), in which investors acquire ownership stake in foreign firms. Most types of FDIs are long-term in nature but institutional investors can also invest directly or indirectly through the stock market in different types of assets in the host economy. In recent days, FDI has attained prominence over other forms of financial capital. Consequently, countries have opened up their economies for FDIs from foreign sources. Available estimates indicate that the share of FDI in total global capital flow increased from merely 8% in 1980 to 54% in 2000 and thereafter remained almost the same (around 50%) till recently. During the last six decades, FDI has become a flag bearer of development. Governments of both developed and developing nations consider the attraction of foreign investment as key priority. In 2008, the World Bank identified investment climate as the main factor affecting the growth of industries in developing countries. These countries have invested heavily in developing appropriate Investment Climate Reforms (ICR) that can successfully attract Foreign Direct Investments (FDIs).

Industrialization and economic growth during the last sixty years have been the primary objectives of all the developing economies. Countries across the world adopted different paths to achieve this objective. Two different models emerged- the Eastern Block socialist model and the Western capitalist model. The socialist economies adopted planned economic development whereas the capitalist economies opted for market orientated development. Following the collapse of the Eastern block countries and the rise of US hegemony, the wave of liberalization swept across the world. WTO was established and all member countries agreed to abide by its rules and regulations. The then prevailing Nehruvian model of not opening the economy sought an alternative. IMF/WB suggested the opening up of the economy to International Financial Capital (IFC) in recognition of the notion that FDI would lead to the transfer of knowledge and increase the productivity of local resources (Dash, 2014). In the aftermath of the liberalization of trade in goods and services, the Floodgates of FDI were thrown open. The change in policy panorama regarding the acceptance of

FDI is a TWILIGHT shift that occurred due to the recognition that FDI would ease the foreign exchange crisis afflicting the economy.

Case Studies of FDI in Developing Economies

Agricultural FDI entails funds and investment made within the agricultural sector by a company or individual based in another country. Agriculture FDI comprises a wide range of activities within the agricultural sector, such as land purchase, agricultural input production, production of food and beverages, processing and packaging of those foods and beverages, and food and beverage wholesale, distribution, and retail activities (Ismail & Barnard, 2009). The catalytic role of public investments in increasing agricultural sector productivity, with evidence from nine African countries. Public investments in agriculture raise sector productivity, which in turn reduces rural poverty. Public investment is most effective in the irrigation and rural road sectors, while agricultural inputs and research raise productivity in some contexts. While agriculture is vital for developing countries to achieve food security and rural poverty reduction, public investments in agriculture have declined at alarming rates. Consequently, there is an urgent need to assess the efficacy of public investments in raising agricultural productivity through a systematic and rigorous evaluation.

Foreign direct investment (FDI) in the agriculture sector is expected to complement domestic private investment through various channels such as net proposals, business—government relations, domestic lobbying, and information dissemination. However, FDI may also crowd out domestic private investment under certain circumstances and conditions (Dhiman & sharma, 2013). Case studies of two Chinese firms' agricultural FDI in Zambia illustrate how FDI can also be inequitably distributed and the benefits captured by the elite or foreigners, leading to negative impacts on sustainable agriculture. The barriers to the emergence of domestic private investments are identified along with recommendations addressing those barriers in the Agri-Business sector. This study aims to unpack the black box of the processes of how agricultural FDI complements or crowds out domestic private investment through the examination of path-breaking agricultural FDI in food value chains by two China-based firms in Zambia, with supporting evidence from key stakeholders.

This study offers empirical evidence that agricultural FDI complements domestic private investment through business—government relations, net proposals, risk-spreading, domestic lobbying, and information dissemination. However, this study also provides evidence that agricultural FDI crowds out domestic private investment in some circumstances and conditions through crowding and competition effects. This study contributes to the literature by integrating FDI and domestic private investment literature with agriculture and food value chain studies, providing new insights into how agricultural FDI in developing countries complements or crowds out domestic private investments. This research has both academic and policy implications, though further case studies and quantitative work are warranted to substantiate the results.

1. FDI in Sub-Saharan Africa

Sub-Saharan Africa (SSA) is classified as a developing region with low levels of Income per Capita (IPC) and poverty levels above 40%. The poor economic performance of SSA countries continues to receive widespread attention. There is a shared sentiment that a whole range of policies and performance measures must be put in place to meet the development needs of the populations. Multilateral institutions continue to advocate for the promotion of Foreign Direct Investment (FDI) by developing countries. It is believed that FDI brings with it the critical capital, skills and technology that are needed to spur economic growth and development. Financial markets in the greater part of SSA are illiquid and inefficient, a factor that has been identified as a barrier to the development of the region. Funds apparently do not flow to the best opportunity costs as the returns are not commensurate with the risks. Developing countries, in particular SSA, are being encouraged to open up their economies to FDI in an effort to attract the funds and technologies that are needed for economic transformation (Hlomayi Marandu, 2018).

A positive relationship is hypothesized between FDI and economic growth, with the view that FDI promotes domestic investment, technology transfer and skills development. Most of SSA countries are endowed with rich natural resources of diamonds, gold, platinum, forest, oil, uranium, etc. These resources are abundant, yet have remained unexploited primarily due to the lack of capital, technology and skills. Several studies have been conducted globally and at regional level to investigate the relationship between FDI and economic growth. The results of the studies, however, remain inconclusive and controversial. It is important to note that the main drivers of FDI are the Multinational Enterprises (MNEs).

The concern is that the MNEs are oftentimes not driven by the same developmental objectives as those of the SSA host countries. The MNEs are usually in search of profit and better markets for their products, which is at odds with the pursuit of economic growth and development. Thus, the flow of FDI to developing countries does not necessarily mean an investment in activities that benefit the domestic economies. The main

criticism against FDI is that it potentially stifles domestic investment, technology transfer, human capital development and broader economic growth (A Mayom, 2015). Countries that fail to absorb or benefit from FDI may end up worse off with negative growth rates. Where this reasoning prevails, there is a counterhypothesis that there may be some conditions under which FDI might promote growth in SSA.

2. FDI in Southeast Asia

According to (W. Almasaied et al., 2008), the dynamic relationships between foreign direct investments (FDI), domestic investments and other determinants of economic growth were examined in this article. The focus was placed on five ASEAN countries, namely Malaysia, Indonesia, Thailand, Singapore and the Philippines. The short-run and long-run growth processes were modelled using the ARDL approach. From domestic investment, FDI, human capital and financial intermediation, significant and concurrent relationships were found with economic growth. The results suggest that the models for both the short-run and long-run growth processes are stable, and there is no problem of mis-specification. In the long-run relationship, domestic investment, FDI, human capital and financial intermediation significantly affected economic growth. By the results of the short-run equations and Granger causality tests, it appears that FDI has a positive and significant effect on growth but is of lesser magnitude compared to domestic investment. It was also observed that a strong support was found for an export-led-growth hypothesis and the impact of technology transfer from international trade was larger than direct technology transfer from FDI.

Based on (Tri Ho et al., 2019); before the two financial crises in Asia and the global economic crisis, ASEAN4 members (Singapore, Malaysia, Indonesia, Thailand) are popular destinations for FDI inflows, ranking fifth behind the U.S., China, UK and France. ASEAN5 (Brunei, Cambodia, Laos, Myanmar) countries are less popular. The initial conditions of ASEAN5 greatly affect the countries' assessment of the impact of existing factors on FDI flows. After the Asian financial crisis, a group of ASEAN5 countries, Cambodia included, increased their speed in attracting FDI flows with an average growth rate of over 20% per year from 1998 to 2006, even amid the global economic crisis when other countries worldwide saw a decline in FDI inflows. ASEAN4 members decline quite quickly, especially in 2001 when the internet boom burst, an event that had little impact on ASEAN5 member countries. However, the FDI value dropped below 2% of GDP in nine years, it declined greatly. In contrast, ASEAN5 countries took advantage of the global value chain shift and began pouring the capital.

3. FDI in Latin America

FDI (foreign direct investment) is a major sourcing of money in Latin America, especially in telecommunications, infrastructure, energy and resource exploration, banks, and retail trade. There are both fiscal benefits associated with FDI and concerns about economic power and nationality. The contours of these debates vary, however, by country, resulting in proposals that range from outright denial of entry to full and unconditional acceptance. Countries that anticipate FDI barriers have strong closure strategies ready to be put into place. They may be monitoring prospective investments expeditiously or building an elaborate policy of regulation, ideally on a regional basis, may already have cogent criteria rooted in statute under which FDI applications can be vetted for national security implications and cognates. Countries that anticipate more relaxed rules of entry, in contrast, hope for meek enforcement of restrictive laws or are pursuing strategies of preemptive capitulation. Absent much investor pushback today, Brazil's "founding contracts," for example, are in danger of vaporizing outright. In an increasingly competitive international market for FDI, they are model frameworks against which countries of cognate or equivalent assets are expected to act defensively. With respect to strategy, discriminatory treatment alone isn't enough: both domestic and foreign firms must be able to access the good in a fair, predictable, and open manner. Only then can exclusion (to avert wasteful entrepreneurial jockeying preentry) be credibly enforced. Once it is, entrants must receive sufficient sunk costs (albeit adjusted for risk) to allow incumbent firms to retain a role in the market. Meanwhile, entry regulation must not affect domestic firms' incentives to invest or to lobby against FDI openings (D. Ramirez, 2017). One possibility is a system of limited auctioning (whereby a number of licenses are awarded without compensation). Alternatively, a deck of sliding scale regulatory stages may be introduced after a certain threshold. For example, entrants may be required to meet a 50% domestic employment quota. As history shows, the longer this task is studied, the sooner who gets what gets decided. An archaic charter system, informal agreement, or tacitunderstanding clay holds back entry in important sectors, even into the 1990s in Mexico. Generational service concessions, meanwhile, are in danger of collapsing into the de facto public ownership of telecommunications, gas, and electricity (Montero, 2008). Spreading company law and contract law norms to statutory law is expected to be a bi-directional, interdependent process.

Regulatory Framework for FDI

A plethora of political and economic factors may influence the establishment of a more

suitable regulatory framework concerning FDI. As a general rule, even in the light of recent signs of "backlash against FDI", those countries likely to improve their investment regulatory framework are those which currently possess a more welcoming framework. These findings may help policymakers identify risk levels, and design and implement appropriate investment policy. As regards transitional economies, the establishment of a more transparent and predictable regulatory framework for FDI in general is a priority, along with the liberalization of fully-owned foreign ventures. However, as an exception to the general rule, certain features of the current regulatory framework in some developing countries may discourage FDI flows and should be removed.

As a matter of fact, the present investment climate in developing countries is often criticized at international and multi-national fora, both for posteriori reasons (such as bankruptcies, changes in rules, erosion of returns, and lack of recourse) as well as a priori ones (the use of treaties as bargaining chips against tough domestic issues). As a response, many of these states are drawing upon the "best practice" prescriptions of the multilateral round table negotiations. As a side note, one subtle feature of the Recommendations is that developing states are not encouraged to join the Treaty until their structures are up to the required standard, however, they are urged to adopt all the "best practice" measures of the Treaty, thereby becoming "contracting parties" without any treaty responsibilities. A good candidate conduct code to examine is the Recommendation on FDI. However, this code should be viewed in the context of states' current regulatory climate due to "backlashes against" FDI, beginning with the President of the United States. Similar shifts in public opinion have occurred in European and Asian states. Consequently, any state will find it untenable to ignore a large part of its citizenry, who may view the economic dividend of foreign investment as illusory if the discriminatory grey areas are not legislated. Ultimately this need not lead back to the investment walls of yesteryear, yet it is reasonable to predict that some countries will foster more discriminating and controlled measures for foreign investors than currently exist (Esplugues Mota, 2018).

1. National Policies and Incentives

In a broad sense, "incentives" cover a multitude of public assistance, including financial, financial, or other benefits out of the government budget. Incentives have become an integral part of policy in countries that attract and benefit from foreign direct investment (FDI). Apart from explicit policies aimed at attracting FDI, governments have also used financial, fiscal, or other types of incentives to achieve goals. For example, in many countries, budgetary expenditures of public administration have been used to build new local infrastructure, which is then made available to the foreign investor free of charge (CHIRILA DONCIU, 2014). Similar initiatives can take the form of a direct purchase by governments of production tools, machines or equipment that the resident foreign companies are allowed to use out of the government budget for free.

Yet again, well-founded initiatives are not enough to promote FDI. Attention should shift towards risk-benefit analysis, so the level of incentives does not exceed the benefits reflected upon society. In some cases, direct costs with incentives are to be ineffective tools that are contrary to economies. Campaigns are being used to advertise a country as a business-friendly economy and thus attract foreign investors it would take decades to match infrastructure improvements offered by incentives. Likewise, foreign investors are being received very warm in all turmoil areas where corruption is a roadblock for otherwise lucrative investments. The main argument against incentive practices is their cost. Consequently, a greater orientation of resources to improve infrastructure, workforce education, or other factors of production would bring more long-term benefits to an economy than granting incentives. On the contrary, it seems that developed countries have been more prone to financial practices, while developing countries have turned to fiscal incentives.

2. International Treaties and Agreements

For much of history, international investment, its regulation, and the protection of foreign investors have been governed primarily by the laws and regulations of host countries. Over the past several years, however, international rules and treaties governing investments made by transnational corporations (TNCs) abroad, as well as international rules protecting foreign investors, have been established. The initial agreements were relatively few in number, but there has been a virtual explosion, so that there are now thousands of such treaties. They have emerged at the bilateral, regional, and multilateral levels, as well as in the context of various international organizations.

International investment agreements (IIAs), which have been signed by governments, are treaties that protect and promote TNC investments abroad. They cover the foreign investment measures and policies that host countries implement and include agreements between two or more countries, some covering a region, and some covering only certain economic sectors (i.e., partial treaties). A hallmark of IIAs is that they grant specific rights to foreign investors, usually privately owned firms and nationals, which cannot be denied except in accordance with the treaty. The laws and regulations of the host

countries of the investors are, with certain exceptions stipulated in the treaty, not covered by the IIAs. In 2011, there were over 6,000 known IIAs. Most are bilateral, but there are also several multilateral agreements.

The General Agreement on Trade-related Investment Measures (TRIMs) and the General Agreement on Trade in Services (GATS) are the most important agreements governing foreign direct investments (FDI) in services, as a significant part of the FDI stock in most countries is held by TNCs in the service sectors. GATS came into force in January 1995 and had the same membership as the World Trade Organization (WTO). There were also regional agreements, such as the North American Free Trade Agreement (NAFTA) and the Asia-Pacific Economic Cooperation (APEC) arrangement. However, GATS is unique as the only instrument promoting a liberalizing regime for trade in services, which is especially relevant for the developing countries. (P. Sauvant, 2011)

The Role of Multinational Corporations

foreign direct investment in developing economies often takes the form of foreign direct investment from large, experienced, technologically sophisticated and successful companies. Besides the direct capital inflow, knowledge and skills spillover from parent to subsidiaries are important, including the learning and upgrading of production and marketing capabilities by local management and employees who inevitably interact with foreign investment. Some developing economies are more concerned about the proportion of foreign ownership and equity than others as they fear attempts by MNCs to dominate their market. Also at stake are the control of local economic policy and regulation of ownership, operating style and corporate governance. These and similar motivators determine the varying reactions in foreign direct investment by developing economies (Dash, 2014).

The multinational corporations enter into developing countries, empty handed, through foreign direct investments. Foreign market enters century's old national market of domestic industries by way through foreign direct investments by MNCs. They take the initiative by acquiring the large and medium companies having efficient technology, establishing joint ventures with them, collaborating with them, buying controlling stock, nurturing a company for few years and then shunning it. They have their own idea as to which company they would pick up. It is the developing industries which instead of being a research and development wing turn into a tourist spot by giving the best cries to the MNC potentials. The MNCs after investing abroad would expect to repatriate a large part of the foreign earnings. Hence the MNCs or the investor countries would think over and propose how best these can be achieved.

1. Influence on Local Economies

Foreign Direct Investment (FDI) acts as the key driving force that enhances the economic capacity of a developing nation. FDI in developing economies is neither a one-way flow nor a homogeneous phenomenon. The nature, motives and extent of participation in two countries in any project differ and are influenced by the trade and investment barriers of the government, their policies and environment of both the host and home countries, cultural differences, attitudes of the people and geographical factors. Policies of developing host nations encourage the inflow of FDI as it is considered as an important source of capital. They are deficient in domestic public and private savings. This situation has led to the creation of a gap between domestic resources and the required investment. The ability of FDI to overcome savings and foreign exchange constraints in a developing economy leads to economic growth. India with a sizeable population offers enormous potential for private sector investment and development.

FDI cannot be the only answer for the economic maladies of a developing economy. Global capital markets have become integrated and the capital flows towards developing economies. Such flows help in financing increasing balance of payments deficit and in turning around weak currency. The capital outflows by residents of developing economies can be plugged through making provision of clause that does not allow such flows. The offer of tax concessions, privileges, guarantees, stability for long periods, etc., for inducing FDI may not be possible (Dhiman & sharma, 2013). Also, there are restrictions for the mode and method of entry. For competitive equity, foreign firms can be restricted to operate in the high technology and huge resources of financial sectors. Such policy leads to the underdevelopment of the services sector and enhances foreign monopoly. In this regions co-operative structures and institutions are needed to overcome market failure and underdevelopment in a developing economy. The reasons for FDI concentrate on productivity, cost reduction, minimization of government intervention and market-seeking motives. The issues that force public sector firms to pursue FDI have been particularly modeled and tested.

Empirical evidence on the effects of FDI on host economies in terms of economic growth are contradictory. Countries with varying political and social backgrounds have been often considered for similar time periods and analysis units like firm, industry and country. Further, the development of a foreign subsidiary is also expected to create a continuous process through the medium of

spillovers of knowledge and efficiency improvement (ALINA, 2018). The theory of the value base co-operation has also been considered, blending the inter-firm and management perspectives for explaining the gradual diffusion and internalization market support mechanisms over time.

2. Corporate Social Responsibility

Corporate social responsibility (CSR) is a relatively new concept. The global trend regarding CSR ensures a universal performance. It seems that it has been adopted by companies operating in both economically developed and developing countries (el Woujoud Bousselmi et al., 2019). This promotes the idea that CSR companies care about their employees and engage in philanthropic activities. It helps to positively project the image of companies for investors, society, and promote a favourable context for the implementation of corporate strategies. Due to the specificities and characteristics of each country, this pacifying image associated with the above concepts may not fit properly. At the same time, companies operating in Tunisia are engaged in CSR and enhanced it actually. This, in turn, raises the question of what are the reasons underlying the enhancement of CSR by companies operating in Tunisia. The answer lies primarily in the fact that the government policies in Tunisia encouraged the companies to adopt CSR. This finding responds to very current debates on the role of host country government policies on the attraction of foreign direct investment (FDI).

Thus, the empirical objective of this study is to clarify this type of influence in the case of Tunisia. The information and data collected allowed testing a conceptual framework that describes this influence and distinguishes two processes: (a) the direct influence of corporate social enhancement by companies on the attraction of FDI; and (b) the indirect influence of the companies, through the mediation of their CSR enhancement, on attracting FDI encouraged by public policies favouring foreign direct investment. CSR has lately become usually associated with different concepts. In this study, CSR is considered as a corporation's commitment to society beyond its contractual obligations towards its stakeholders. Thus, through corporate social activities, companies create benefits for society and improve the conditions for the implementation of their corporate strategies in a stable environment. CSR can therefore be seen as an instrument supposed to favour the companies and the countries as it is the case for fighting corruption and crime, improving the transparency of public institutions, etc. According to this benefit logic, following the policies encouragement to engage in CSR results in the creation of a virtuous circle where companies enhance their commitment towards society and, in turn receive advantages from the institutional environment.

Future Trends in FDI

FDI is an important factor to drive country wise economic growth. The purpose of this text is to identify key trends which have influenced FDI, present and future and how these will affect developing economies. Accordingly, the text will briefly discuss on past trends of FDI prior to discussing on current and future trends.

Numerous motives have been attributed to FDI. Commercialization of FDI by MNCs, owing to the annexation of patents and production patents, has led to expansion of profits and markets. Growth of new economic powers (China, India and Brazil) of global significance has compelled developed countries to view FDI and seek markets of FDI (Ullah et al., 2019). However, present trends of determining FDI are on a more complex level, comprising a number of deeper roots which are vital in political and economic systems.

Professionals in financial international laws, banks, stock exchanges and MNCs have converged on assessments of risks which a country cannot choose to undertake if intending to attract FDI. Macroeconomic stability, absence of perceived corruption, fair and efficient financial systems, political stability and effectiveness of law and order are some of the key factors used to assess a country as being prudent for undertaking FDI. If these intents have not been adduced, it is extremely difficult for any country to satisfy other terms. The rapid loss of capacity to undertake any form of assessment other than those instruments confined to macroeconomic stability is extremely alarming as development is not sustainable unless contexts of investigating the investment climate extend beyond issues of the macro level.

An optimistic future of FDI in the context of globally upgraded fundamentals can remain enticingly conceptual if country wise decision only emphasizes n developed issues in a analysis for simplicity. Claims for good economics environments only foster relative stability in comparative indices of inflation, foreign debts, fiscal deficits, money supply growth and stave off institutional decay in assessing a developing country's FDI objectives. These variables do not capture all emerging markets and less developed economies contexts which are politically the most turbulent and economically the most susceptible for a damaging loss in real growth under policies from which no recovery is feasible. A comparative study of macro level issues will inevitably lead the global competitiveness to largely be driven by the conventional pervasive conditions leading notably to the continuing war of the currencies following Osborne's demonization of the British economy as a facilitating tool for globalized insufficiencies in growth.

1. Impact of Globalization

The world economy and globalization are growing closer, leading to improvements in communication and transportation. This has spurred economic growth in several countries. As a consequence, all countries are now interconnected into a singular vast economy. India is presently held in the vise grip of globalization, with foreign investments pouring in and all potential Foreign Direct Investment (FDI) in the country being scrutinized. FDI is basically fund flow from one country to another, which is usually in the form of equity investment in that country's company. If an investor participates in the established firm of another country, further control is acquired over the means of decisions. FDI is needed for three main reasons, which include Resource seeking, Efficiency seeking, and Market seeking. Countries with scarce resource exploited FDI by either cheap raw material or cheap labor. In developing economies like India, there are also amenities like cheap manpower, which triggered large inflows of FDI to India subsequently. At present, almost all industries are entertained for FDI influx in the country except in the sectors like atomic power generation, signal communications, broadcasting, Lottery and gambling, and others. There is a huge potential of FDI in the sectors like infrastructure, service sector, Power generation, Education, and Health. Review of literature reveals that GDP growth is the most crucial factor motivating FDI in any economy (Dhiman & sharma, 2013).

Many economists and policymakers contend that foreign direct investment (FDI) can have important positive effects on a country's development effort. According to this view, FDI can be a source of valuable technology and know-how, which can enable host country firms to be more productive, and can induce an influx of best practice management techniques, which can help develop or strengthen linkages between new foreign entrant and local firms. By providing jobs and improving income levels at all skill levels, the argument goes, FDI will foster the development of local firms, which will lead to an improvement in the economy's overall productivity. As local firms increase in number, and more importantly as some of them become more competitive in global markets, an economy's need for foreign capital will diminish (Dash, 2014).

Industrialized as well as developing countries have offered a variety of incentives to encourage foreign direct investment in their economies. Therefore, the role of FDI in the growth process has been a burning topic of debate in several countries including India. Because by acquiring a controlling interest in foreign assets, corporations can quickly acquire new products and technologies, as well as offer existing products for sale in new markets. By encouraging foreign direct investment, governments can create jobs and increase GDP and growth rates. This is all the more important particularly in respect to developing economies. However, it is also true that technology transfer and the creation of linkages with local firms persist only if there is some credible evidence to suggest that foreign firms will remain in place.

2. Technological Advancements

To the best of the author's knowledge, this is the first study to investigate the impact that high tech FDI may have on economic development. Hence, no directly comparable work exists. However, some studies approach the problem from a different angle and investigate the determinants of the pattern of FDI in the OECD countries. First of all, a negative relationship between the share of high tech FDI and a country's economic development was found. This finding is in line with the conclusion reached by the new endowment explanatory variables of the CEV model. However, the latter's rejection of the expected sign concerning the share of expenditure in R&D was contrary to what was found earlier (Marasco, 2002). In this model, this share was expected to have a negative relationship with the incoming share of high tech FDI, since richer countries should have a higher share of high tech FDI. Control variables were consistently significant, albeit with lower pseudo-R^2. One could interpret the overall descriptive performances of the CEV variables as a clear indication that developing countries are rather peculiar with respect to technological change. On the contrary, the individual coefficients with respect to the share of high tech FDI were significant, the former with a positive sign and the latter with a negative sign. Given that such a pattern did not hold for the basic model, this is a rather clear indication that a higher share of technology embodied into FDI may have a different effect, through a trade balance channel, on the country's market value depending also on the total amount of receiving nation's assets in a short and long run basis. Past experiences in R&D and production capability path may play a role in realizing spillover or helper effects. In this case, unlike the overall descriptive performances, knowledge has to be shared among the main major and more developed OTTs and recipients or receivers. In any case, it was concluded that, along with the previous section, such contrasting findings relative to the effect that a higher share of technology embodied into FDI may have on development, show that more work on the matter can reasonably be pursued in the future.

Conclusion

In modern era, due attention is being paid to the flow of FDI into developing economies. This is primarily so because of the growing realization that FDI can help foster economic growth and accelerate development in both developing

countries and emerging economies. FDI refers to cross border flows of funds for equity investment in the form of establishment or expansion of direct productive tangibles or intangible assets (Dhiman & sharma, 2013). Investment can take the form of establishment of new enterprises, expansion of existing enterprises or acquisition of undistributed shares of enterprises abroad. FDI is regarded as the preferred vehicle for the transfer of resources across borders. Compared to other forms of capital flows, FDI is associated with a variety of compensating advantages in terms of access to capital, ability to mitigate risks and access to technology and knowledge. Developing countries face many challenges today, viz., inadequate infrastructure, increasing stock prices, widening current account deficits and growing trading volume. It is contended that better infrastructure would facilitate foreign investment. Improved water, electricity, telecommunication, railways and road network speeds up production processes. It is asserted that to accelerate the pace of economic development of their countries, the developing economies of the South have to promote foreign equity capital inflows. The recommendations made take into account the perspective of developing economies which are small and poor in natural resources.

FDI has gained importance in development economics as it may play an important and helpful role in the development process. It serves as a source of capital that generates domestic investment and output. Additionally, it provides a complementary source of foreign exchange by generating export revenues which can be used to finance imports. It may help developing countries to acquire advanced technology and skills from the parent country that may be the seed for creating domestic research and development. In addition to technology, FDI provides managerial and marketing skills that may enhance the productivity of local firms. Further, it may make an important transfer of knowledge about how to do business (Shafique & Hussain, 2015). This kind of information is important for competition that increases production capacity. FDI is perhaps the most important source of external development finance. Flows are currently about $854 billion a year, more than five times the direct aid flows of $165 billion a year. In that, 78% of the FDI flows are into developing and transition economies and 25% into the LDCs, which collectively rank the lowest on the human development index. The global top 500 multinational enterprises operate over one-half of their production facilities abroad and account for a sizable share in world exports and sales, and they are becoming the dominant players in the telecommunications, finance and transportation systems of many developing countries. If handled properly, FDI is likely to have an important impact on economic growth and a source of finance.

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