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Fdi and Economic Development: A Conceptual Framework

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ABSTRACT

Foreign direct investment (FDI) is an imperative element of the globalization and of the world economy. FDI is ascertained to be the key driver of employment generation, technological advancement, skill development, productivity improvements, and eventually economic growth. (Smith, 1976). This paper discusses the impact of FDI on economic growth and development with literature support. From the prior studies it's been identified that most of the studies had been conducted in developing countries. Results ascertained that FDI is becoming an imperative for developing countries. Which are often based on the assumption that greater inflows of FDI. The literature witnessed that FDI remained the huge capital inflow in the developing nations for exceeding portfolio equity investment and private loans. FDI made great impact on host country's economy, furthermore some studies affirmed the FDI impact on social and cultural environment of host countries. Many developing nations now consider FDI as an imperative source of development, but its economic impact is difficult to either measure or predict. However FDI impact have been confirmed by many studies. Empirical studies have proven significant contribution of FDI on human capital, capital formation, technological transfer, and international trade.

INTRODUCTION

Foreign direct investment (FDI) is been defined as foreign investors establishing their business or properties or possession into another nation where the investing company hold authority over the management of assets and profits (Graham & Spaulding, 2005). The Organisation for Economic Co-operation and Development (OECD) defined FDI as "*a category of cross-border investment made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor*". The "lasting interest" is defined as an investment that allows the investor to own at least 10 percent of the voting power of the target enterprise.

Purchasing of shares is not deemed to be FDI (OECD benchmark definition of FDI-fourth edition, 2008). FDI is registered increasing growth in past decades, globalisation is the prime reason for growth of FDI. Many countries adopted open economy to attract investors from various countries. Particularly developing countries formulated many policies to attract investors. There is a drastic change has witnessed in economic growth and development in developing countries by FDI (Eduardo et al. 1998). The literature clearly shows the importance of FDI on economic development of the country. Many studies have ascertained the FDI impact on economic growth with empirical evidence. Local country can acquire fund, new technology, and advanced skills from the host country (OECD, 2003). FDI is generally engaged by multinational companies (MNCs), also known as transnational corporations (TNCs). FDI can also happen in the form of green field investment, mergers and acquisitions, and joint ventures. From the aforesaid methods the investing companies generate more output, create employment, do capital investment, and technology transfer whereby creates a positive impact on countries economic development. Ownership advantage, Location advantage in the foreign country, and Internalization advantages are deemed to be major reasons behind the choice of direct investment in foreign market (Dunning 1977, 1981).

FDI AND ECONOMIC DEVELOPMENT

Laura Alfaro (2004) observed the relations among FDI, financial markets and economic growth. This study observes countries with enhanced financial systems can deed FDI more resourcefully. This study through the empirical analysis, cross-country data between 1975 and 1995, displays that for economic growth the FDI alone plays an indefinite role. Through FDI countries with well-developed financial markets gain considerably on the other hand. The altered measures of financial market development results are strong, the enclosure of further elements of economic growth and consideration of endogenity.

Niels Hermes (2010) analysed for FDI to have a positive force on economic growth, the beneficiary country financial system must have been an developed system. This study states that a well-developed financial system optimistically will contribute to the practice of technical dispersion connected with FDI. The study investigates the affirmative link between FDI and economic development by the task, the development of the financial system plays in pretty. This study sturdily suggest that this is the case by the on hand empirical investigation, among the 67 countries in record set, 37 has adequately developed financial structure to allow FDI donate optimistically to economic development and this prevails mostly in Latin America and Asia. Serkan Sahin (2015) analysed that this pursuits to observe the affiliation between financial development and overseas direct investment (FDI) in Greece and neighbouring international locations (Bulgaria, Macedonia and Turkey) for the duration 1996-2012. Bootstrap causality analyses are used to take a look at this causal linkage for these countries which might be both ECU Union (European) members or applicants for EU accession. The empirical effects suggest that FDI has a predictive strength to forecast financial development in all of the countries besides for Macedonia. Further, findings suggest that there is bidirectional causality in Turkey.

Rodolphe Desbordes (2017) empirically investigates the numerous outcomes that supply and destination countries' economic development (SFD and DFD respectively) have on foreign direct investment (FDI). We establish causality via exploiting versions in both country-particular monetary development and region-unique economic vulnerability. This method is made possible by using our use of exact databases on actual production FDI tasks global. we find that each SFD and DFD have a big positive affect on greenfield, growth, and mergers & acquisitions FDI, by at once growing get admission to external finance and not directly selling production pastime. The overall financial effects of SFD and DFD have a tendency to be comparable but their direct and indirect effects range across margins and types of FDI.

Isaac Koomson (2017) observed the impact of time-dynamic monetary globalisation uncertainty on financial improvement in 53 African international locations for the duration 2000–2011. The empirical evidence is based totally at the Generalised technique of Moments with ahead orthogonal deviations. The following findings are mounted. First, financial globalisation uncertainty does not drastically have an effect on cash deliver, monetary system deposits and economic size. Second, the uncertainty will increase banking system performance, banking device hobby and financial device pastime. Moreover, the wonderful effects are continuously driven via above-median uncertainty levels. It follows that uncertainty in foreign capital flows may be a disguised advantage for domestic financial improvement, especially in handling the appreciably documented difficulty of surplus liquidity in African monetary institutions. Additionally, the sceptical view in the financial globalisation literature that 'allocation efficiency' is best doable in the absence of uncertainty/instability isn't substantiated by means of the findings. Justifications for the nexuses and policy implications are mentioned.

E.Borenszteina (1998) analysed by using data on FDI flows from industrial countries to 69 emerging countries over the last two periods about the outcome of FDI. This study recommends that than the domestic speculation for the transfer of technology, paying relatively more to growth, FDI plays as an important role. The host country must have a minimum onset standard of human capital to hold the higher efficiency of FDI. This study states that there should be an ample absorptive knowhow of the progressive technologies in the host economy for the FDI to donate for economic development.

Emmanuel A. Cleeve (2015) evaluates sub-Saharan Africa about the part of human capital on FDI inflows. This study to asses if fluctuating proficiency wants impacts FDI inflows uses panel data for the dated 1980-2012. This study to amount whether the eminence of labour explains FDI drifts over the study period uses several methods of human capital. This study evaluated several FDI model and resulted in all methods of human capital will influence FDI. This study also evaluates that there is no indication of the increasing status of human capital on FDI over time, perhaps replicating the sort of FDI rolling into sub-Saharan Africa.

Xiaoying Li (2005) analysed based on the data for 84 countries during the period of 1970-99 whether FDI affect economic development. This study used both single and simultaneous equation system to examine the relationship and also found a endogenous relationship between FDI and economic development from the mid – 1980s. This study analysed that FDI through the indirect way via interaction terms also uplift the economic growth other than direct way. This study analysed in developing countries FDI contact with human capital exert has a strong positive outcome on economic development and with technology gap FDI has a negative blow.

Farhad Noorbakhsh (2001) analysed that majority of the incursions has been focused to only a limited number of countries, inspite of the dramatic increase in FDI. This study finds that by following policies that advance the level of local skills and build up human resource proficiencies, developing countries might improve their appeal as locations for FDI. However, the empirical evidence in the literature in provision of this reference for an outsized sample of developing countries is scarce. This study assesses individualities of FDI and empirically exams hypothesis that level of geographical dissemination of FDI gets affected by the level of human principal in host nations. This study finds that human capital is an important tool and it is higher through time.

Mariana Spatareanu (2017) analysed using firm level board data from Vietnam (2002-2011) inspects how the basis of overseas

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venture capitalist disturbs the degree of parallel and perpendicular technological spill over. This study states that there is no link in case of European and North American members and there is a affirmative suggestion amongst the existence of Asian companies in downstream segments and the output of Vietnamese companies in supply firms. This study analysed that among the Asian countries China and Taiwan creates optimistic erect spill over to native suppliers. This study finds that the local finding considerably influence perpendicular spill over from FDI by assuming the distance, special trade agreements, and technological differences. The parallel spill over properties is in common adverse also statistically important various strength forms are done.

Shaosheng Lin (2017) analysed the productivity of the capitalized organisations can be increased except countries of Hong Kong, Macaw and Taiwan. This study analysed that Chinese native businesses gets upset over upright links by FDI from none HMT regions. This study evaluated that by non-HMT venture in the similar business leads Chinese domestic food firms packed out. This study analysed within manufacturing productivity spill over HMT ventures will create optimistic but adverse upright spill over.

Lin Zhang (2017) through this study the representatives can enhance the efficiency of investment concert. This study emphasis on the surplus-prompted productivity and country level change in productivity. This study evaluated that advance productivity in FDI-rich shires hints to waning due to vastly twisted circulation of FDI. This study examines that in order to firmness the uneven supply of FDI there should be inter-regional government support.

Linjie Li (2017) analysed the OFDI will result in more productivity in developing economy MNEs, but based on the parent industry and venture strategy variety there will be difference in productivity. This study evaluated that developing economy MNEs will have higher and more defensible productivity belongings with robust absorptive ability deprived of national ownership. This study analysed that than capitalising in non OECD countries, productivity achievements are advanced for evolving economy MNEs by capitalising in OECD nations. This study evaluated that together combines the resource based views and institutional theory based on analytical framework.

Christopher Turnbull (2016) analysed via a simultaneous equations model. This study tries to evaluate the innermost bond between IFDI, trade liberalisation and productivity inside Australia's production sector. This study analysed that productivity advanced through trade liberalisation as an instrument among the native production sector by means of two-digit

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periodical time-series data from 1988 to 2012. This study evaluates that IFDI does not have a statistically substantial effect on productivity in the segment. This study suggests foreign investment and manufacturing industry policies for the Australia's international trade.

Wen-Hsien Liu (2015) analysed the effect of Taiwanese OFDI on national events and income circulation. This study used board statistics of 1084 production firms during the retro 2000-2010. This study analysed that there will be a positive influence on national events by the OFDI to the high-gross nations. This study also states that low-gross countries hints to job loss and excavating out at home by the OFDI. This study analysed income variation is determined by FDI regardless of the terminus nation.

Dominique M.Gross (2008) analysed on Japanese firm level FDI hooked on Western Europe all through the 1980s and 1990s for regular and impermanent employment based on the influence of employment safety laws. This study finds that employment safety has different result on employment extent and it has substance for the investors on the selection of location. This study finds that there is a less effect on temporary employment and straight effect on permanent employment. Likewise the guideline of fixed term agreements does not matter while impermanent work agencies matters. This study analysed that during the period of 1990s sometimes European countries emphasizing defence on regular employment and utmost countries attentive on growing flexibility for provisional employment. This study finds that the policy had no strong favourable influence in inviting job generating FDI.

CONCLUSION:

In the globalization era, FDI plays a significant role in growth of any nation across the industry. From the meticulous review of prior studies, it has been identified that FDI registered irrefutable contribution to the nations' development. Comparatively developing countries have got huge benefit from the FDI, new policies have been formulated to attract more FDI inflow. Previous studies ascertained that home countries have got advantage of technological transformation, economic growth, and human capital. Among the Asian countries, China leads the FDI inflow attraction.

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