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EFFECT OF FOREIGN DIRECT INVESTMENT ON THE ECONOMIC GROWTH: REVIEW LITERATURE

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Abstract:

Foreign direct investment (FDI) is an important driver of growth in an open and effective international economic system. Foreign Direct Investment (FDI) is critical to a host country's economic development, especially in developing countries. The paper provides a fair review literature of various empirical and theoretical studies based on the effects of FDI on the economic growth of the host nation. The effect of FDI on economic growth is mixed, but strongly biased in favour of a substantial positive effect, though in some cases it is negative or even null. It also sees global market reach, economic autonomy, and internet access as main determinants.

Introduction:

Many foreign organisations, policymakers and economists commonly regard FDI as an economic development engine, and as a remedy established countries global problems. Economic theories show that FDI flows produce economic growth when effectively allocated (Mencinger, 2003). For certain scholars, the most successful method of achieving economic growth is also considered. In 2002, OECD notes that poorer countries see FDI as the sole driver of development and modernisation of their economies. This is why many governments, particularly in developed countries, treat foreign capital with particular attention (Carkovic and Levine, 2002). Countries are typically operated by state institutions aiming at raising international investors by government funds, which demonstrate that policymakers are prepared to absorb any expenses of attracting those investments (Ford et al. 2008).

The most famous treatment given for foreign investment is testing vacations, exemption from import taxation, land allowance for infrastructure and guarantee of favourable subsidies. Despite the widespread study of the economic growth consequences of FDI, the real impact of FDI and the conditions and forms in which FDI leads to economic growth remain concerned. Indeed, while several studies have reported FDI's beneficial influence on host country economic growth, there is still no agreement on the degree of these consequences (Asheghian, 2004) by some scholars [Blomström and Kokko (1998); Lim (2001)].

Pessoa also (2007) states that some studies suggest that the conclusions are uncertain. The uncertainty of the findings has been clarified by the fact that the number of experiments is large but the number of countries analysed is limited (Pessoa, 2007). Differences in each nation that can have various consequences on development can contribute to the diversity of outcomes (Pessoa, 2007). Mohnen (2001) further points out that a lack of study of host country domestic conditions can contribute to the presentation of conflicting findings in different studies.

It is observed that FDI did not cause financial growth. Others accept that FDI generates economic development, particularly studies. Itconcludes that, in the absence of agreement on the effect of the FDI in the host nation, the present inquiry into this connection needs to be closely investigated. The goal is to determine the effect of the FDI on the host country's economic development. This research could be relevant for learning more about FDI inflow networks that influence host countries economic development. This understanding would make it easier for FDI governments to adopt more effective policies to exploit productive effects and minimise the negative impacts of FDI. The paper aims to understand the effects of FDI on host countries by analysing the theoretical and empirical literature on the topic. The processes by which FDI has an effect on economic growth are clarified in theoretical literature.

The retrospective analyses on the other hand would help to clarify the diversity and ambiguity of the results. This research is to be as broad as practicable for experiments on a wider range of countries, and as I have already stated, this can clarify how the findings diverge and so to get a clearer view. Therefore, to shed light on FDI's economic growth explanations, in particular whether they are based or linked to the characteristics of the host country, including on their degree of development or their political structure, entry into the global economy, and so on. This study, prolonged period, often aids in the analysis of local circumstances, since the shape and location of the nation would be different at different times.

The impact of FDI on economic growth:

The OECD (2002) states that FDI's economic development in the host country can be influenced by a variety of mechanisms/channels. The FDI effects may be favourable and destructive, that is to say. FDI will also invest more on the economies of host countries than on their income (Mencinger, 2003). Emerging innovations and know-how transformation, intellectual resource planning, integration into the global market and FDI processes can have beneficial results in the economic development field and can be categorise into five core classes, expanded host-country competitiveness and company creation and transformation (OECD 2002). However, some of the established processes, including the first four, may also adversely affect economic development. FDI can often create issues with the execution of economic policies.

The impact of the FDI on economic development of the host country is focused on a number of longitudinal researches. These analyses cover several countries with varying stages of growth and more or less long-time analyses. Although the supposed advantages of FDI in the host country, the observational literature has struggled to achieve a conclusive beneficial effect (Campos and Kinoshita, 2002). In every 14 surveys, 11 indicated that FDI leads favourably to economic development OECD (2002) estimates. UNCTAD (1999) evaluated 183 experiments in 30 countries since 1980 and noticed that the majority of (55 percent to 75 percent) had an important beneficial influence on the host nation economy as a consequence of FDI, but the effect was strongly negative in other studies analysed. Observational experiments display beneficial or detrimental results, based on the factors they use, according to UNCTAD (1999). FDI can influence development through multiple channels, which are not always correctly observable (Sohinger& Harrison, 2004).

Asheghian (2004) suggests that the study of consequences is issue dependent on the premise that all nations have similar characteristics. This presumption is not correct, according to the author. According to the author, the inequalities occur not only in the economic, political and institutional structures between host countries but also in their response to international shocks. Itinferswhat Istated above in the study of some empirical studies. Most of these surveys have had a beneficial impact on FDI's economic development in the host nation. This often refers to countries with variations in geographical, political, fiscal, etc. This study also indicates that studies are focused on various variables, all of which depend on the characteristics of countries. It is necessary to emphasise that it will see various stages of growth, different proportions, contrasting political systems, and locations in these analyses. Because of these reasons, the study's disparities would be detailed in Chile, China, the USA, Malaysia and Thailand. The same is not valid for the variables used.

This phenomenon may clarify the contradictory outcomes since, according to our experience; the multiple variables used are also referenced as one of the causes for the observational discrepancies. Moreover, Kasibhatla et al. (2008) carried out analyses on a variety of countries and found no positive influence in China. In Malaysia and Thailand, Zhang (2001a) had no positive impact on economic development, although in Thailand, Kohpaiboon (2003) had positive effects. The analyses of ASEAN countries by Bende-Nabende (2001) have revealed positive impacts for both ASEAN members. The two Asian countries listed have both had positive impacts for Chowdhury and Mavrotas (2003). This same research involved Chile, for which FDI did not detect positive economic growth results. The author used FDI and Gross Domestic Product (GDP) only for his research. In comparison, experiments concluding that there are beneficial results have utilised more variables. In addition to GDP, Ashegian (2004) has used the current FDI inventory and jobs for its study. Besides the GDP and FDI factors, it was covered domestic spending, exports, imports and current human resources in the United States. In Malaysia and Thailand, the opposite effects can also be clarified by the significant disparity in the used variables.

Bende-Nabende (2001) used only FDI and GDP as variables, as variable for human capital, labour power, transference of expertise, international and training exchanges and mavrotas(2003), FDI has observed a strong impact in Malaysia and Thailand on economic development. Baharumshah and Almasaied (2009) also demonstrated in Malaysia the positive impact of the FDI on the usage of human resources, FDI, national budget and economic factors. The variability of the used variables may also justify the contradiction in Chile's studies.

In reality, the impacts for Chaudhury and Mavrotas (2003) have not been positive, whereas the inclusion of an index measuring economic freedoms has seen positive results for Bengoa and Sanchez-Robles (2003). China is another world with various results and factors. Chinese are different. Kasibhatlaand others (2008) confined itself to FDI-GDP ratio testing and concluded that FDI has no positive developmental impact. The writers use employment, domestic capital stocks and the total output element (Zhang, 2001a), domestic and import and export spending (Xu and Wang, 2007). In summary, I understand that variables used in experiments with opposite outcomes were distinct and/or more used. Some experiments provide external variables in order to incorporate the country's especially domestic factors into the study. Sen (1998) findings can also suggest that experiments with no beneficial consequences have ignored means of affecting economic development by FDI. It is important to stress that the generality of these observational research reflects on the expertise of the workers in particular. However, these capacities are assessed by various measured variables. Studies often concentrate on foreign business convergence, mostly calculated as factors by exports and imports. These results are compatible with the hypothesis that FDI will affect the host economic development positively and negatively.

The new FDI-related literature has very different effects on the host countries. Sometimes, this variation in findings is explained differently. The truth is that research is short. There are explanations. However, since tests at the same times had differing effects, it realise that this was not valid. Moreover, researchers have found that the claim that FDI impacts are only seen in the long term. Moreover, some reports find out that the bulk of studies concentrate mainly on the issue of whether FDI induces economic growth and whether economic growth in the host nation enhances FDI. The findings are often unclear in these situations. Studies explore the duality of partnerships with contrasting findings. Itcannot consider that FDI's economic growth effects rely on or position of the host nation. Studies in industrialised countries have produced various findings and studies have been performed at several sites in emerging and underdeveloped countries. The same applies to samples in a heterogeneous country. Nearly all work demonstrates that the influence of FDI in every area differs from one region to another. Whether they are financial, political, social, and cultural or else when FDI is generated or subsequently given.

The key factors mentioned are the ways that multinationals are active and the incentives they offer can be used to improve the productivity of the host country industry in the country. The key subjects include how the host country will benefit from modern technologies and skills. While the overwhelming majority of observational research demonstrates the beneficial impact of FDI on economic development, others do not prove these effects. As I have mentioned, this can be justified by variations in the variables used. However, in the aforementioned cases, the variables applied to the models still refer to the characteristics of host countries. It can also assume that the findings are often impacted by the domestic features of the host nation in the methodological studies.

It may infer that there is no single response to the question which led to this study: the FDI has positive or negative effects in the host nation, depending upon the condition of the country and also on investment. The aim of this study was to benefit from FDI economic influxes. As it can see, the outcomes depend on the host nation’s circumstances. Public councils therefore take a leading role in achieving the desired results. These officials should negotiate such that the nation has the resources required to take advantage of good outcomes and minimise the negative results. Another choice is to pick international investment ventures that better fit the country’s requirements.

About the fact that FDI is very relevant for the countries, the positive association between FDI feedback and economic growth is not widely accepted. Many of the analyses indicate that only less developed economies have had a strong positive interaction, although analysis based on results from only developed countries did not show a growth gain for the receiving region. For eg, the ground-breaking work of Caves in Australia (1974) and Kokko (1994) in Mexico have shown positive results for FDI.Dess (1998) finds that FDI has a substantial positive impact on Chinese long-term economic development in study that focuses on China. The causality between Pakistan and Turkey is investigated by Ozturk and Kalyoncu (2007).

They find that it is GDP which causes FDI in the case of Pakistan, whereas the two variables for Turkey show clear bi-directional causality. The empirical effect of FDI on Georgia's economic development for the period 1997-2010 was examined by Gursoy and Kalyoncu (2012). They find that FDI in Georgia triggers GDP. The FDI’s beneficial impact on economic development was noticed by Mullen and Williams (2005) and Choe (2003). FDI can only foster economic development if such economic requirements in the host nation are fulfilled, such as the human resources threshold. Hansen and Rand (2006) suggest, however, that the degree to which FDI supports a nation depends on its exchange strategies, expertise and absorption capacities, and that FDI facilitates economic development.

In their research, Agrawal and Khan (2011) say that economic growth depends on the favourable economic environment. FDI can be detrimental in the absence of such a climate; it can thwart rather than encourage development. The findings of Haddad and Harrison (1993) in Venezuela as well as the findings of Aitken and Harrison (1999) do not, however, help the FDI’s optimistic relationship with economic development. In other studies, performed by Carkovic and Levine (2005), it was observed that FDI has no major effect on the host country's economic development. Herzer et al. (2007) concluded that there is no long-term or short-term impact of FDI on growth in 28 of the developed countries results. No region, in particular, has a positive long-term, unilateral impact of FDI against GDP. Finally, analysis for developed countries indicates that an agreement on economic climate has been achieved-FDI appears to have positive implications for overall economic growth.

Conclusion:

As way of conclusion, I can say that the vast majority of the investigations on the association of Foreign Direct Investment and Economic Growth remembered for this survey demonstrate that FDI applies positive effect on the host nation's economy. The positive outcome no uncertainty is an element of the absorptive limit of the host country, the accessibility of nature of human and physical capital and critically financial opportunity of the host country. I have similarly noticed the variations of negative and invalid impacts which are relatively few yet they remain as a significant justification the review. It is the thing that has educated the assortment regarding papers to discover the determinants of FDI. It is tracked down that human resources, market size, monetary turn of events; financial opportunity and political solidness are a portion of the variables that impact the area and effect of FDI in the host country.

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