Insights: Publications

Economic Impacts and Determinants of Foreign Direct Investment in Developing Countries

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Through a multidimensional approach, this paper explores the shifts in trends that FDI has experienced over the last 30 years including changes in the types of FDI. Empirical evidence reveals a recent decline in the amount of FDI inflows to developed nations. It also shows a steady increase in the amount of FDI inflows to emerging economies for the last two decades, and in 2010, actually surpassed industrialized nations for the first time. The paper also examines several macroeconomic determinants of FDI based on econometric studies that illustrate the impact each factor has on economic growth in developing nations. Dynamic factors include market size, real GDP growth, economic and political stability, infrastructure, economic openness, and regulatory quality in the host nation. A comparison of the benefits and drawbacks of FDI reveals that not all benefits, such as technology transfer, employment and specialization are alike. Accordingly, countries and multinationals must align opportunities with corresponding objectives in order to maximize economic efficiency, growth, and profitability.

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