CHAPTER 2
REVIEW OF LITERATURE

2.0. INTRODUCTION

This chapter provides an overview of few studies from the vast literature available on various dimensions of international FDI. We have reviewed literatures from two angles. First dimension is to see the impact of FDI on economic growth/development. FDI is considered as one of the explanatory variable of economic growth and growth variable is dependent variable. Second dimension is impact of growth/development variables on FDI. This means that what extent growth or developmental variables influence FDI. FDI is considered as the dependent variable.

2.1. IMPACT OF FDI ON ECONOMIC GROWTH/DEVELOPMENT

Reichert and Weinhold (2000): There is conflicting evidence in the literature regarding the impact of multinational enterprises (MNEs) and FDI on both transitional and long-term economic growth. While some studies, both theoretical and empirical, indicate that FDI may have a strong positive effect on growth rates in developing countries, others suggest that these positive effects may not be unconditional and point to the lack of technological spillovers and the possibility of the development of enclave economies. This paper has focused attention on whether FDI flows to developing countries over the last decade enhances overall economic growth. One important finding of this study is that the relationship between investment, both foreign and domestic, and economic growth in developing countries is highly heterogeneous. Second, despite the large amount of variation across the countries, the paper can draw some policy relevant inferences from this analysis. While domestic investment seems be strongly correlated contemporaneously with growth, it is not as strong a causal determinant of future growth as foreign direct investment. There is some evidence that the efficacy of FDI in raising future growth rates is higher in more open economies. This relationship is also highly heterogeneous across countries.¹

¹ Note that is does not analyze country grouping.
Carkovic and Levine (2002): This study estimates the effects of FDI inflows on economic growth after controlling for other growth determinants and the potential biases induced by endogeneity, country-specific effects, and the inclusion of initial income as a regressor. This paper examines whether the growth-effects of FDI depend on the level of economic development, level of educational attainment, the level of financial development and trade openness of the recipient country.

FDI has increased dramatically since 1980s. Furthermore many countries have special tax incentives and subsidies to attract foreign capital. An influential economic rationale for treating foreign capital favourably is that FDI and portfolio inflows encourage technological transfer that accelerate overall economic growth in recipient countries. While microeconomic studies generally, though not uniformly, shed pessimistic evidence on the growth effects of foreign capital, many macroeconomic studies find a positive link FDI and Growth. Previous macroeconomic studies, however, do not fully control endogeneity, country specific effects, and inclusion of lagged dependent variables in the growth regression.

The paper finds that FDI inflows do not exert an independent influence on economic growth. Thus, while sound economic policies may spur both growth and FDI, the results are inconsistent with the view that FDI exerts positive impact on growth that is independent of other growth determinants.

Sun, Xiaolun (2002): Economic development is an all-encompassing concept. It centres on economic and social progress, political freedom, social justice, and environmental soundness. All these matters combine to contribute to an overall high standard of living. Generally, the countries with faster economic growth have more rapid improvement in health and education outcomes, progressively freer political system, increasingly more equitable distribution of wealth, and enhanced capacity for environmental management. Therefore, while economic growth does not bring about automatically other aspects of social, institutional and environmental improvements, without economic growth, there are limited prospects for such achievements. In this context, the paper examines the role of FDI in economic development as a key ingredient for successful and sustainable economic growth and as part of a mechanism to social development.
The role of FDI in economic development—while not a panacea, it is a critical ingredient to the long term sustainable growth. For developing countries, it presents the most effective way to enhance productivity and to develop an internationally competitive private sector; it creates employment and income opportunities; and it provides an important vehicle to raise environmental and social standards. Many developing countries have reaped these benefits. But neither FDI nor all its benefits flow automatically. Foreign investors are fallible people whose first and foremost objective for investing anywhere is to maximize their global profits, with or without benefits to host countries. Recognizing this simple business principle, it is possible to bring out the good sides of FDI and avoid its negative aspects.

Moreover, despite the tremendous potential of FDI in economic development, it does not provide answers to all developmental problems. For example, while FDI helps raising income levels, it cannot automatically reduce existing inequalities and can even exaggerate them in the short run by putting a premium on people with higher skills. Public policies need to be in place to support the poorer segments of society. The role of FDI in this process is, by virtue of its impact on productivity and growth, to generate the resources needed to fund the government-led programs that improve social safety nets and provide basic social services. Moreover, the delivery of social services to the poor—from insurance schemes to access to basic services such as water and energy—can also benefit from reliance on foreign investors. It is thus imperative for the national governments to create the pre-conditions for FDI to flow in and work its wonders.

Thus the governments need to provide:

1. Basic political and macroeconomic stability that offers reasonable predictability so that investors can make normal business decisions;
2. A rules-based legal and regulatory environment that facilitates doing business rather than harassing it;
3. An adequate physical and social infrastructure that assist the smooth functioning of the market and transferring of knowledge; and
4. Appropriate investment promotion efforts that disseminate information about the investment site and service existing and potential investors.
Beyond these basic conditions, the governments will also need to address several specific issues in order to ensure the realization of the benefits of FDI. They include:

- An even and competitive playing field
- Domestic capacity to exploit FDI benefits
- Building up environmental and social standards

**Alfaro, Laura (2003):** This paper shows that the benefits of FDI vary greatly across sectors by examining the effect of foreign direct investment on growth in the primary, manufacturing, and services sectors. This paper revisits the FDI and economic growth relationship by examining the role FDI inflows play in promoting growth in the main economic sectors, namely primary, manufacturing, and services. Often-mentioned benefits, such as transfers of technology and management know-how, introduction of new processes, and employee training tend to relate to the manufacturing sector rather than the agriculture or mining sectors.

The paper examines whether FDI in the primary, manufacturing, and services sectors exerts different effects on a country’s growth. This paper finds that FDI flows into the different sectors of the economy (namely primary, manufacturing, and services) exert different effects on economic growth. FDI inflows into the primary sector tend to have a negative effect on growth, whereas FDI inflows in the manufacturing sector a positive one. Evidence from the foreign investments in the service sector is ambiguous. Despite the limitations of the data used, the results are robust to the inclusion of other growth determinants, such as income, human capita measures, domestic financial development, institutional quality, different samples, and the use of lagged values of FDI.

**Alfaro, Kalemli-Ozcan, and Sayek (2003):** This paper examines the role financial markets play in the relationship between foreign direct investment (FDI) and economic development. The widespread belief that positive externalities and spillovers owing to new products and processes made possible by FDI and disseminated by learning by doing or observing, networking, and training of the labour force, accompanied by the search for more stable forms of capital flows following the turmoil in the emerging markets since the late 1990s, has induced a change in the attitudes of many countries toward FDI. Several governments in both developing and developed countries have
introduced both fiscal and financial incentives to actively pursue foreign investments. Additionally, they have established investment agencies to specifically target multinational firms and have sought to improve the local regulatory environment and the “cost of doing business” (see UNCTAD 1999).

Such policies, however, do not guarantee realization of the potential benefits of FDI that go beyond the “capital” FDI transfers to the host country and the wages it generates. Local conditions in the recipient country can pose binding constraints on such spillovers. This paper studies the constraints that could be posed by local financial markets, one among many conditions, on allowing positive spillovers from foreign direct investment to contribute to a country’s economic development. The paper has focussed, in particular, how poorly developed financial markets can adversely affect the economy’s ability to take advantage of such potential FDI benefits. Cross-country analysis provides supporting empirical evidence that the level of development of financial markets is crucial for the positive effects of FDI on output to be realized.

Two relevant policy results emerge from the analysis. Although FDI flows are less volatile than short-term capital flows, their full benefits may not accrue to the recipient country in the absence of well-functioning financial markets. Hence, as much as bad financial markets render a country too weak to cope with unregulated short-term capital flows, they also limit the benefits that could accrue to the country from long-term stable flows. Second, the net benefit of policies directed at attracting FDI might be significantly lowered owing to the level of development of local conditions. Therefore, countries should weigh the costs of investment incentives targeted at attracting multinational enterprises versus the costs of improving local conditions.

The paper concludes that well-developed financial markets allow significant gains from FDI, while FDI alone plays an ambiguous role in contributing to development.

**Das, Nath, Hiranya and Yildiz (2005):** This paper examines the relationship between FDI and labour productivity. More specifically, it addresses the question if increased FDI flows have reduced the differences in productivity among countries that have received FDIs over last three decades. This study finds evidence of a long-run equilibrium relationship between FDI and productivity differences for developed, and
high and middle income developing countries. There is some evidence that FDI causes productivity differences among petroleum exporting countries. In middle income developing countries, inequality in productivity causes FDI while in high income developing countries GDI (Gross Domestic Investment) seems to cause FDI. There is little evidence of any systematic relationships among productivity differences, FDI and GDI for low income developing countries, major exporters of manufactures, heavily indebted poor countries, LDCs and landlocked countries.

Johnson (2005): The paper starts by discussing the potential of FDI to affect host country economic growth. The paper has argued that the two main channels through which FDI can affect host country economic growth are technology spillovers and inflows of physical capital. The paper discusses and models the effects of FDI inflows on host country economic growth. Based on this discussion the paper argues that technology spillovers provide the strongest potential for FDI to enhance economic growth. Foreign MNEs have a technology advantage over domestic firms and MNE entry in the form of FDI results in a positive externality in the form of technology spillover from the MNE to domestic firms. The domestic firms are thereby able to improve their level of technology and become more productive. The paper investigates whether there are differences in the growth enhancing effect of FDI between developed and developing economies. The paper finds indications that FDI inflows enhance economic growth in developing economies but not in developed economies.

Kholdy and Sohrabian (2005): This study investigates various links between financial markets, FDI and the economic growth. Investigating the effect of FDI and financial markets on economic growth has important policy implications. Evidence on positive effect of FDI on economic growth weakens arguments for restricting foreign investment. Alternatively, evidence on positive effect of financial markets would influence policies on financial sector reforms and would have an impact on the laws and regulations on international financial liberalization.

The results reveal bi-directional causality between growth and financial development where growth causes financial development in more countries than the reverse. The study finds some support for the argument that financial systems will originally grow in
response to services that is directed to it by the economic growth. Once this stage is reached, the direction of causality is reversed and financial sectors directly stimulate the economic growth.

The results also indicate bi-directional causality between FDI and financial development in countries with relatively higher GDP per capita or better-developed financial markets. The results, however, suggest FDI does not induce economic growth. The paper does find causal link from FDI to economic growth even in countries with better-developed financial markets.

**Xuan-Vinh and Batten (2006):** This paper provides the answers to two critical research questions: what is the linkage between FDI and economic growth and does this relationship change under different legal, institutional, educational and economic conditions?

The encouragement of FDI remains at the forefront of policy outcomes for both developed and developing countries largely because of the economic benefits perceived from this form of investment. It has been extensively argued that government policy should be directed to the removal of capital barriers and other regulatory restrictions that may impede FDI to ensure that benefits to economic growth are maximised. The current paper provides a new insight into these issues by investigating the impact of FDI using a wide assortment of variables to proxy for FDI including both flow measures (FDI inflows as a share of GDP, gross FDI flows as a share of GDP) and stock measures (stock of FDI inflows as a share of GDP and gross stock of FDI as a share of GDP). In addition a larger number of indicators are employed to provide a better picture of the FDI-economic growth nexus. The paper controls for endogeneity, country specific effects and include lagged GDP per capita as an explanatory variable.

Overall, this analysis supports the view that FDI helps to promote economic growth, although the picture that emerges is of a more complex relationship between FDI flows and key societal variables: particular attention is drawn to the importance of the level of education and the quality of the institutional environment in maximising benefits. Specifically, FDI has a stronger positive impact on economic growth in countries with higher levels of education attainment, those that are more open to international trade,
have better stock market development and lower rates of population growth and levels of risk.

The paper also confirms a number of existing theories. Firstly, poorer countries tend to enjoy a higher growth rate. Secondly, we find that domestic investment and education attainment exert a positive and strong impact on economic growth. Thirdly, a higher growth rate of population will likely hinder the rate of economic growth, while countries with higher degrees of openness to international trade and stock market development and lower levels of risk tend to grow faster. Overall, the results highlight the importance for those countries undertaking reform of cross-border capital restrictions and controls and other policy aimed at encouraging domestic and foreign investment of the need to incorporate and consider broader social policy objectives—such as education, legal and institutional reform—to maximise benefits from FDI.

**Kinoshita and Chia-Hui (2006):** This paper has studied the importance of absorptive capacity in determining the effect of FDI on economic growth. The paper highlights the role of infrastructure as one of the most important conduits or constraints for enhancing the efficiency of FDI. In the overlapping generation model, we show that the degree of technology spillovers is determined by FDI inflows to the host country and a technology gap from the leading country, conditional on the country’s infrastructure level. If it falls short of a threshold, the country stagnates even when there are some FDI inflows and a room for technology catch-up. On the other hand, if the country’s infrastructure is sufficiently high, the country will benefit spillovers from FDI and attain the higher level of growth.

This paper contributes to the FDI-growth literature by confirming that FDI is indeed an important channel of international technology diffusion if the host country has absorptive capacity. It also distinguished three factors that influence the degree of technology spillovers—relative backwardness (initial technology gap), FDI intensity, and absorptive capacity to affirm the complementarity among these factors. More importantly, the main finding of this paper suggests that FDI alone is not a panacea for economic development; the host country should undertake infrastructure investment prior to attracting FDI in order to maximize the incidence of technology spillovers from FDI.
The finding leads to the policy implication that infrastructure development should be an integral part of growth strategy especially when a country is opening up for foreign investment. In developing countries, public investment can provide physical infrastructure prior to attracting FDI. Despite further infrastructure needs, the share of infrastructure investment financed by the public sector has been on a declining trend during the last three decades in a number of developing countries. In the countries that face tight fiscal deficit limits because of fiscal adjustments or institutional constraints, the increasing involvement of the private sector is needed in building physical infrastructure. Other alternative to public investment is public-private partnerships (PPPs). Attracting FDI in the key infrastructure sectors such as telecommunication, energy, and transport could also substitute public financing to support increased infrastructure investment without adding to direct government borrowing and help create a vicious cycle of foreign investment inflows in other sectors.

**Ozturk and Kalyoncu (2007):** This paper investigates the impact of FDI on economic growth of Turkey and Pakistan. It is found that these two variables are cointegrated for both countries studied. The findings suggest that it is GDP that causes FDI in the case of Pakistan, while there is strong evidence of a bi-directional causality between the two variables for Turkey.

**Herzer (2007):** The results reported in this paper clearly challenge the current brief that FDI generally has a positive impact on economic growth in developing countries. The paper first examined the nature of the growth effect of FDI. The paper found that impact of FDI on economic in developing countries is negative on an average; the future impact need not necessarily be negative. This finding is robust to outliers, sample size and potential structural breaks. Nevertheless, there are large cross-country differences in the effects of FDI on economic growth. Economic reforms aimed at:

1. Improving resource allocation by eliminating market-distorting policies,
2. Minimising the regulatory burden on business,
3. Reducing FDI volatility by increasing political and economic stability and
4. Removing natural resource dependence by diversifying the economy.

Can protect developing countries from the negative consequences of FDI and induce FDI-led growth in long run.
**Alfaro and Charlton (2007):** This paper distinguishes different “qualities” of FDI to re-examine the relationship between FDI and growth. The quality means the effect of a unit of FDI on economic growth. However, this is difficult to establish because it is a function of many different country and project characteristics which are often hard to measure. Hence, the paper differentiates “quality FDI” in several different ways:

- The possibility that the effects of FDI differ by sector.
- It differentiates FDI based on objective qualitative industry characteristics including the average skill intensity and reliance on external capital.
- It analyzes quality FDI based on the subjective preferences expressed by the receiving countries themselves.

This paper examines the various links between different types of FDI and growth. An appealing feature of industry analysis is that it mitigates some of the effects of unobserved heterogeneity. The paper finds FDI at the industry level to be associated with higher growth in value added. The relation is stronger for industries with higher skill requirements and for industries more reliant on external capital. FDI quality is also associated with positive and economically significant growth effects. The results suggest that, even within OECD countries, financial development and availability of human capital are important channels through which FDI can affect growth.

Understanding the effect of FDI on economic growth is important for a number of reasons. It has implications for the effect of rapidly growing investment flows on the process of economic development. It also informs foreign investment policy. In 1999 alone, there were 140 changes to state or national laws related to foreign direct investment. More than 90% of these changes liberalized foreign investment policy. One fifth introduced new incentives for foreign investors including tax concessions, financial incentives, import duty exceptions, and infrastructure and training subsidies (UNCTAD (2000)). Such policies however do not guarantee realization of the potential benefits of FDI that go beyond the “capital” FDI transfers to the host country. If FDI does not exert a robust positive influence on growth, these pecuniary incentives and the active international competition for investment should be reconsidered. Local conditions in the recipient country can pose binding constraints on such spillovers. The study has been restricted to OECD countries, which arguably have the local conditions to take advantage of FDI effects.
Mumit, A. (2008): The paper examines the spillover benefits of foreign direct investment (FDI) in relation to their contribution to economic growth over the last four decades. The findings suggest that only when the host country has a certain threshold level of human capital, FDI contributes positively to economic growth through technology diffusion. It is also found that in general terms, the growth of human capital, and not the level of human capital, in the host economy interacts more strongly with FDI to produce the positive externalities. This indicates that countries can compensate for their lower levels of human capital stock by substituting it with higher rates of human capital growth.

There are two major policy implications for an existent co-relationship between human capital growth, FDI and consequential economic growth.

1. Continued investment in human capital formation is necessary to ensure higher levels of FDI and growth,
2. Even for countries with relatively lower of levels of human capital stock (but above the minimum “threshold” level), investment in the growth of the initial endowment will lead to higher levels of FDI and accordingly economic growth.

Therefore, this research lends credence to the theory that countries with lower levels of human capital (usually developing countries) will find it possible to emulate the growth rates of countries with higher levels of capital (usually developed countries) through massive and continued investment in human capital. In essence, they can compensate for their lower levels of human capital stock by substituting it with higher levels of human capital growth.

Prufer and Tondl (2008): Foreign Direct Investment (FDI) has surged in Latin America (LA) since the mid 1990s. European (EUR) and North American (NA) FDI are of capital importance. This paper investigates the FDI-growth nexus in LA (Latin America) allowing for different source countries, regional heterogeneity, interaction terms with FDI, and more than 20 growth determinants. The paper first analyzes total FDI inflows but then distinguish between North America- and European-FDI. It looks at more than 20 different controls which can be clustered into human capital, institutions, infrastructure, trade, macroeconomic policies, and socio-economic structure. To account for potential conditional factors for the FDI-growth nexus in LA,
these controls variables interact with FDI. These interactions also allow accounting for
erogeneity in the spill-over effects of FDI between these countries by making the
coefficients of the interaction terms to be itself functions of FDI. Finally, it allows for
parameter heterogeneity between different groups of LA countries.

The results suggest that:

1. FDI is robustly correlated with productivity growth in LA subject to certain local
   conditions. Necessary prerequisites are a sufficiently developed rule of law and a
   low share of external debt. The insights gained from the use of conditioning factors
   are important and specific to the situation in LA. In other country contexts
   educational or income threshold as well as trade openness seems to be important for
   productivity effects of FDI. For the FDI-growth nexus in LA, on the contrary, a
   stable legal and macroeconomic environment seems to be most important.
2. Domestic investments are the most robust growth correlate independent of the other
   variables. In combination with other regressors, real trade openness, infrastructure,
   the degree of political risk and of military involvement in politics, as well as human
   capital are important factors, too. Regional heterogeneity does not seem to be an
   issue in our study, only the growth effects of tertiary education differ between large
   and small countries.

Finally, this paper finds evidence in favour of NA-FDI being more robust in and
important for the FDI-growth nexus in LA. Therefore, we conclude that NA-FDI with
its stronger presence in greenfield investments and vertical FDI generates more
productivity spillovers than the primarily horizontal EUR-FDI that is mostly oriented
towards mergers and acquisitions. The large up-front capital transfers of NA-FDI
directly contribute to productivity growth in LA and serve as new vintage capital in
key branches. Moreover, NA-FDI seems to be more important for growth because of
the higher technology and know-how imports of efficiency-seeking (greenfield) FDI.
EUR-FDI, on the other hand, is mainly engaged in mergers and acquisitions. Thus, it
primarily modernizes formerly state-owned firms and enables technological spillovers
through upstream and downstream linkages. However, EUR-FDI is only indirectly
correlated with productivity growth in LA, that is, when it is combined with other
growth enhancing factors.
**Toulaboe, Terry and Johansen (2009):** Theory suggests that foreign direct investment contributes to capital accumulation and technological progress and is an important catalyst for industrial development. Its attractiveness and efficiency in promoting economic growth, however, depend on the degree of spillovers to domestic firms, the extent to which the technology transfers embodied in the FDI are absorbed and diffused, and the value-added content of FDI-related production. This paper has formed several testable hypotheses: 1) that FDI has a beneficial “direct effect” on recipient economies, 2) that the direct effect of FDI is stronger among more advanced (middle-income) economies, 3) that FDI has a beneficial “indirect effect” on recipient economies because of the synergies between FDI and the level of human capital formation, and 4) that the indirect effect will be stronger among more advanced economies. Our results support the conclusion that FDI is a strong contributor to economic growth, that this (direct) contribution is about equal in both lower-income and middle-income countries, that FDI does interact with human capital formation to provide enhanced economic growth, and that this interaction term is more pronounced in more advanced countries. The results lead to the conclusion that absorptive capacity in the host country is important for FDI to fully impact economic growth.

**Gohou and Soumaré (2010):** This paper assesses the impact of Foreign Direct Investment (FDI) on welfare across African regions. The paper uses as welfare measure, respectively the human development index (HDI) and real per capita GDP. As FDI measure, it uses per capita FDI net inflows, FDI net inflows over GDP and FDI net inflows over gross capital formation (GCF). It also control for several other phenomenon pertaining to welfare improving and economic growth as done in previous literature (economic and policy, business environment and institutional quality, and political risks).

The results show that there is a strong positive relationship between FDI and welfare at the aggregate Africa level. This strong positive relationship holds even after controlling for government size, indebtedness, macroeconomic instability, infrastructure development, institutional quality, political risks, openness to trade, education and financial market development. However, when taken at the regional level, the impact of FDI on welfare is no longer obvious and differs across regions.
The policy recommendation is that, although, Foreign Direct Investment can contribute to countries’ development and poverty reduction in Africa, policies put in place to attract these foreign investments should be tailored toward a regional basis and account for economic convergence within regions and differences between regions in order to be effective. In some regions, the channelling of these FDI flows into investments that benefit the poor is missing, although at the aggregate level, FDI contributes to poverty reduction.

_Narayanamurthy, Perumal and Kode (2010):_ In recent days, BRICS countries (Brazil, Russia, India, China and South Africa) the fast developing economies of the world having larger market potentials are expected to attract larger inflow of FDI. This study made an attempt to identify the factors determining the FDI inflows of BRICS countries from the period 1975 to 2007. The determinant factors include: Market size, Economic Stability and Growth Prospects, Cost of Labour, Infrastructure Facilities, Trade Openness, Currency value and Gross capital formation. The study finds that other than Economic Stability and Growth prospects (measured by inflation rate and Industrial production respectively), Trade openness (measured by the ratio of total trade to GDP) all other factors seem to be the potential determinants of FDI inflows in BRICS countries. The results are robust in general for alternative variables determining FDI flows.

The analysis has some policy implications towards the improvement of investment climate to attract higher FDI inflows into BRICS countries that are expected to facilitate their economy in enhancement of Market potential, Infrastructural development and Capital Formation. Inflation (the Economic stability variable) and the Industrial production (the Growth Perspective variable) are critical factors in attracting FDI, which helps to make appropriate policies for improving the performance of domestic economy. Therefore, it is an important object to maintain the stability of the currency of the host country to attract increased FDI. The benefit of trade openness in terms of their impact on FDI is not validated in this study. Thus, BRICS countries as developing nations have to involve themselves in the path of economic reform and liberalisation activities. As expected, the negatively significance of wage rate seems to validate the study as the determinant of FDI.
The tag of fast-paced economic growth notwithstanding, Brazil, Russia, India, China and South Africa (BRICS), will have to tackle the challenge of ensuring and achieving growth without sacrificing equity, and by utilizing the benefits of innovation to address the issues of inequality of economies. The challenge is to have an innovation policy that will ensure growth accompanied by equity, for which they must have necessary institutional mechanisms in place. Thus, BRICS nations should face the challenges, ranging from gradual deterioration of demographics and questions about environmental sustainability to potential international trade frictions. The economic growth should be maintained at least at current levels instead of slow down. The BRICS countries’ short and medium-term outlook remains favourable in relation to the advanced economies. Investment ratios in Brazil remain very low. Russia is highly dependent on hydrocarbons and therefore it faces very adverse demographic developments. India will have to overcome domestic opposition to growth-enhancing and growth-sustaining economic reforms. South Africa has to make initiation in promoting investment flows. Overall, the emergence of the BRICS nations have to be seen in the context of the innovation system that could evolve a proper understanding of the dynamics of innovation in these countries under globalization which would be of immense policy relevance not only for each of these countries but also for the BRICS as a group and other less developed countries that are aspiring to catch up. Thus, the BRICS nations have to figure out that the engine of growth and development including for heavily indebted countries lies in the execution of major infrastructure projects, investment, and technological innovations carried out in an environmentally conscious fashion.

Thus, the overall significance this study would contribute to a greater understanding of the FDI determinants in the emerging markets, as well as, the findings of this study would also lay emphasis on the importance of liberalisation and economic policy reforms.

**Conclusion**

The papers under this heading are mainly concerned with the impact of FDI on economic growth/development. FDI is taken as an explanatory variable which try to establish relationship with economic growth. Most of the studies have been concluded that there is a positive link between FDI and economic growth. FDI has positive contribution in economic growth. However studies are mainly focussed on developing countries.
2.2. IMPACT OF GROWTH/DEVELOPMENTAL VARIABLES ON FDI

This heading has been mainly devoted to studies related to impact of growth/developmental variables on international FDI pattern.

Banga Rashmi (2003): In her working paper, “Impact of government policies and investment agreements on FDI inflows” found following major results by the study:

- Economic fundamentals, namely, large market size, low labour cost, availability of high skill levels, lower external debt, and extent of electricity consumed in the economy are found to be significant determinants of aggregate FDI.
- After controlling for the effect of economic fundamentals, FDI policies are found to be important determinants of FDI inflows. Results show that lower tariff rates attract FDI inflows. However, fiscal incentives offered by the host governments are found to be less significant as compared to removal of restrictions in attracting FDI inflows.
- Bilateral investment treaties (BITs) which emphasis on non-discriminatory treatment of FDI, play an important role in attracting FDI inflows into developing countries. However, BITs with developed countries have a stronger and more significant impact on FDI inflows as compared to BITs with developing countries. Different regional investment agreements have different impact. While APEC is found to have a significant positive impact on FDI inflows. ASEAN is not found to affect FDI inflows.
- Economic fundamentals differ in terms of their significance in attracting FDI from developed countries and developing countries. FDI from developed countries are attracted to large market size, higher education levels, higher productivity of labour, better transport and communication and lower domestic lending rates, while cost factors play a more significant role in attracting FDI from developing countries.
- The impact of FDI policies is also on FDI from developed and developing countries. Fiscal incentives (i.e. lower tariff rates) are found to attract FDI from developing countries but it is removal of restrictions on their operations that attract FDI from developed countries.
The above results of the study highlight the importance of government policies in attracting FDI inflows into developing countries. They show that apart from the economic fundamentals of the economy, which may attract FDI inflows, FDI policies of the host governments and investment agreements also play an important role within the national FDI policies adopted by the government, it is the removal of restrictions on the operations of foreign firms in the host country that matter the most, especially to FDI coming from developed countries. Bilateral investment agreements that focus on the non-discrimination in the treatment of foreign firms lay specific standards of investment protection and contain provisions for the settlement of disputes, have an important impact on FDI inflows. BITs and regional investment agreement can, therefore form an important policy instrument for attracting FDI inflows into developing countries, however, policies with respect to cost factors, e.g. lower tariff rates, tax concessions, tax holidays etc. play an important role in attracting FDI from the developing countries but these policies may not attract FDI from developed countries. What matters more to FDI coming from developed countries are the policies that facilitate business of foreign firms in the host country.

**Pantelidis and Kyrkilis (2005):** This paper evaluates the relevance of the source country idiosyncratic factors in determining the firm’s foreign direct investment (FDI) propensity and consequently the country’s outward FDI position.

The results show that investing firm should have a certain level of ownership-specific advantages adequate to support differentiation at home and market adaptation abroad. The latter indicates that market-seeking FDI out flawing from each country group should be oriented towards markets of similar development level because, first, demand structures are expected to be similar due to similar per capita incomes; second, firms face fewer barriers to entry due to rather comparable firm competitive advantages.

The source countries should have pass a certain development threshold in order to be in a position to offer their firms the necessary infrastructure that would assist them in acquiring inputs required for efficient product differentiation. In that respect only developing countries that belong to the upper range of their group would have outward
FDI activity. However, the statistical significance of the openness variables in all country cases shows that FDI activity may be undertaken against a background of a home country liberal and deregulated economic system. If this is the case the economic policy lesson, especially for the developing countries, is that liberalization of the economy is an effective instrument towards firm internationalization. To the extent that an increasing number of countries in various development stages would accept that as a target, economic policy regimes should converge around the globe.

Middle-income countries have an additional motive to undertake market-seeking FDI. As countries of that development stage improve their organization and R&D ability the number of firms capable of undertaking successful product differentiation increases and that makes competition stiffer in sectors intensive in product differentiation, mainly consumer and consumer durable industries. That sets pressure on market shares and capital returns. The enhanced access to the home capital market due to higher liquidity and reduced interest rates may form a basis for foreign expansion that is expected to compensate for reduced profitability at home. Consequently, economic policy should target to enhance competition in the financial sector, with the view of improving the access of firms to debt or equity financing.

The advanced countries undertake efficiency-seeking FDI, in addition to market-seeking FDI, as indicated by the statistical significance of both the PAHU (the ratio of patents issued in home country over higher education R&D personnel of the same country) and HUN (the ratio of higher education R&D personnel of a country over the same country’s population variables). FDI is an efficient mode of exploiting technology and human capital related resources and enhances profitability. Profits accrue to the firm at the international level as it seeks opportunities worldwide. Firms are searching for locations that may be endowed by resources complementary, and even enhancing in some cases its technology competitive advantages. The role of the home state is to provide assistance to firms in their effort to acquire technological inputs. On top of that the statistical significance of the ER variable implies that firms are borrowing at the international capital market and FDI offers an effective solution to the negative competitive effect a strong currency might have for the country’s products in foreign markets.
The paper may conclude that market structure differentiation and openness are the only variables affecting outward FDI in all country groups. Marginal efficiency of capital is the significant variable in advanced and middle-income countries. All other variables, namely technology, human capital and exchange rate affect outward FDI position of advanced countries. However the list of FDI explanatory variables is not an exhaustive one.

Palit and Nawani (2007): The objective of this paper is to identify the reasons behind some developing economies from Asia being able to consistently attract more FDI than others in the region. The paper examines whether the success of these economies in getting more FDI can be explained by their technological capabilities and modern IT-based communications infrastructure. It also try to identify the country-specific features influencing FDI inflows into India and the reasons behind India’s recent emergence as a key FDI destination in developing Asia.

Most of the FDI in developing Asia is export-oriented. This is the FDI that seeks to exploit some particular assets of host locations for producing exports for third-country markets. Traditionally, East and Southeast Asian economies, offered low-cost labour as the ‘pull’ factor for attracting FDI in large-scale labour-intensive export facilities. But this paper finding indicate with production processes becoming more complex and technology-intensive, domestic technological capabilities, particularly innovative capacities, along with the ability to apply such innovations efficiently through advanced IT-based techniques, have become more important locational advantages than cheap labour.

The level and quality of technological development achieved by different developing Asian economies does explain why some of them have remained attractive destinations for FDI, while others have fallen behind. The more mature Asian ‘Tigers’ – Hong Kong, Korea, Singapore – and China continue to be the top FDI destinations in developing Asia, while the ‘new’ Tigers – Indonesia, Malaysia, Thailand and the Philippines – are not so any longer. It is interesting to note that none of the latter has shown as much technological ‘deepening’ as the former. Indeed, barring Singapore, none of the other Southeast Asian economies have been able to develop R&D-based frontier technological capabilities (UNCTAD, 2003). While the mature Asian Tigers have successfully
graduated from the initial know-how based ‘learning-by-doing’ stage of technological development to the more advanced R&D-based ‘learning by design’ level, the new Tigers have lagged behind. As a result, while the former have harnessed innovative capabilities and developed domestic technological strengths as strong sources of comparative advantage for drawing technology-intensive FDI, the latter have remained only capable assemblers of high-tech exports and are losing out in the race for attracting advanced R&D-based FDI.

It is also interesting to note that advanced communications infrastructure, in terms of availability of modern ICT facilities and large IT users, is not sufficient for making a country an attractive FDI destination. Had it been so, then Southeast Asian economies (barring Singapore again), almost all of which have made good progress in creating such facilities would not have experienced decelerations in FDI inflows. The recipe for attracting technology-intensive export-oriented FDI appears to be a combination of R&D based technological capabilities and the ability to apply ICT facilities in using such capabilities efficiently. Indeed, this also appears to be the reason behind India’s recent entry among the top five FDI spots in developing Asia.

The latest data on FDI flows indicates that India is on the threshold of breaking into the big league of FDI countries in Asia. Technological capabilities, particularly R&D-driven innovation capacities, are a major factor in this regard. Indeed, this attribute, along with the prowess registered in using IT-based techniques in business operations, can signal a significant change in the nature of FDI inflows into India, from the market-seeking (including ‘tariff-jumping’) kind to the export-oriented variety. The surge in FDI inflows in the last couple of years might be indicative of this virtuous shift. In this regard, India’s attractiveness as a FDI destination is reinforced by the quality of its human resources that is capable of handling complex, technology-intensive processes efficiently.

What implications do our findings have for FDI-targeting strategies? The Asian experience underlines the critical importance of technological development as a host country feature in drawing FDI. Such development, along with skilled labour, can be strong ‘pull’ factors for FDI. This is particularly relevant in a globalized world, where production processes are becoming increasingly fragmented among countries in line with
country-specific features enabling efficient production. Unless developing countries acquire competencies in technological innovation and develop technically articulate work forces, liberal policies for drawing FDI are unlikely to yield results. This is, of course, not to deny that other factors, like quality of business climates, do influence investor confidence and FDI inflows. In this regard, the difficulties involved in ‘starting’ businesses in India, as well as the procedural inflexibilities in factor markets preventing efficient factor deployment, are critical handicaps. However, overall business environments, in terms of enabling rules, transparent procedures and efficient institutions, while being ‘necessary’ for drawing FDI, cannot be treated as ‘sufficient’ (Palit, 2006). Had it been so, then China and India ranked much below Malaysia and Thailand in terms of ease of doing business would not be attracting more FDI than the latter. So while quality of business practices does matter as determinants of FDI, they are not substitutes for technological capabilities and skills.

**Mottaleb, K. A. (2007):** By bridging the gap between domestic savings and investment and by enhancing knowledge spillover, FDI can play important role in industrial advancement and economic growth in the developing countries. Although most of the developing countries have been taking measures to attract FDI, such as by offering incentive packages and liberalizing the trade regimes, only a few countries are successful in attracting a FDI. This study has focussed to find out the influential factors that determine the FDI inflow. To find out the influential factors, the socio-economic condition of the sample top and low FDI recipient countries is compared. The findings show that top FDI recipient countries in 2005 have large domestic market with high GDP growth rate. They are also well equipped with modern infrastructure, such as telephone and internet. Moreover, business environment in the top FDI recipient countries in 2005 is friendlier compared to other countries indicated by high score of corruption perception index and low business start-up costs. Thus the paper concludes that large GDP and high GDP growth rate, business friendly environment and modern communication facilities, such as internet encourage FDI inflow in the developing countries.

The paper is suggested that developing countries should try making the more business friendly environment and ensuring create business friendly environment, developing countries, in the long run need to develop some necessary institutions to reduce the
extent of corruption and to control the factors that increase both visible and invisible business start-up costs. A reduction in corruption and the expansion of infrastructural facilities can reduce transaction, information, communication and business start-up costs. It can contribute to the development of a business friendly environment, which might encourage inflow of FDI to the developing countries and also might contribute to attain rapid economic growth in the developing countries.

**Poelhekke and Ploeg (2008):** This paper examines the determinants of outward FDI from the USA. The paper has tried to shed some light on this topical question by investigating the empirical evidence for the effects of urbanization, city formation and primacy on FDI and growth performance.

The results suggest that the urban landscape of a country and its neighbours have important implications for how much FDI it is able to attract. Besides the well known effects of distance and market potential, the paper finds that accessible market potential and locations for production in the form of agglomerations appear to be beneficial for FDI flows. The development of local transport infrastructure and new cities of sufficiently large size thus seem to attract more investment by USA multinationals. There is a risk that cities grow too large, so that congesting, pollution and over-crowding forces outweigh the positive agglomeration forces. Primacy is usually a sign that cities have grown too large and have become inefficient. The result suggests that such regions will attract relatively less FDI. It also suggests that high quality institutions as manifested by good rules of law, low corruption and efficient bureaucracy as well as a sound financial system boost FDI. However, after taking into account the presence of natural resources, institutions cease to be important. Cities on the other hand are a much more robust determinant of FDI. Although this could not confirm a robust and significant direct impact of cities on growth performance, there may well be a strong indirect effect of cities on growth as FDI appears to be a strong driver of knowledge and technology transfers and thus of growth.

The regional spatial dimension is also important. Neighbouring attractive locations compete for FDI with locations in the potential host country. So if neighbours suffer from the problem of primacy, bad institutions, restrictions on international trade and not
having enough cities, it is easier to attract FDI. This suggests that most FDI aims to serve the local market or is motivated by vertical production chains which seek out good locations for production. Goods are then sold on world markets or at home, rather than in the immediate region. Cities therefore do not necessarily function as a regional hub, since surrounding market potential actually decreases FDI in the host country. Therefore this shows that urban characteristics of both the host and neighbouring countries matter for FDI and that a better grasp of FDI requires one to unbundle spatial lags. Furthermore, neighbouring urban attributes have different effects than neighbouring economic and institutional characteristics on FDI in the host country.

This may be concluded that cities are important for FDI and growth: more medium-sized cities stimulate growth but congestion; pollution and over-crowding associated with mega-cities seem to depress economic performance. Although there may be potential benefits of regional integration for FDI and growth performance as good institutions and high road density in neighbouring countries attract FDI, countries also attract more FDI if their neighbours restrict international trade, are less urbanized and low market potential.

**Dabla-Norris, Honda, Lahreche, and Verdier (June 2010):** This paper has addressed these questions for middle and low-income countries: What accounts for variations in FDI flows from advanced to developing countries? How have FDI inflows explained cross-country growth experiences? Two key results emerge: (i) lower borrowing costs and positive real-side external factors were increasingly important drivers of FDI outflows to low-income countries in the pre-crisis period; (ii) economic fundamentals, the strength of economic reforms, and commitment to macroeconomic discipline are crucial determinants of the growth dividends of FDI. Their paper suggests that low-income countries can turn to domestic policy solutions to mitigate the adverse effects of a potential decline in FDI in the post-crisis world.

This paper documents the relevance of global conditions for FDI to low-income countries and examines the growth implications of FDI inflows in the pre-crisis period. The paper finds that economic conditions in advanced countries are important factors in explaining cross-country variations in these flows in the recent period. The results indicate that low-income countries are particularly sensitive to changes in the cost of
borrowing in advanced countries. This also offers new evidence on the link between FDI inflows and growth in low-income countries. The result shows that growth is increasingly associated with higher FDI inflows and illustrates how the growth dividends of FDI depend crucially on economic fundamentals and macroeconomic stability.

Much uncertainty surrounds the speed of the recovery in advanced countries, the form of future regulatory reforms, and the future dynamics of global interest rates. The results, however, indicate that low-income countries need not idly accept this negative shock, but can take steps to alleviate the effects of potentially painful adjustments related to a worldwide tightening in financing conditions. In particular, countries should carry-out needed reforms and policy changes, which would have the added benefit of improving the growth dividends of FDI even beyond the current crisis.

The results in this paper point to a large and unfinished research agenda. One issue is to delineate more clearly the specific channels through which financial conditions in advanced countries influence FDI outflows to low-income countries. Another important issue is to identify more definitive thresholds that drive the growth dividends of FDI. The paper illustrates the relevance of domestic financial and institutional development and other policy factor.

**Conclusion**

The papers under this heading are mainly concerned with the impact of growth/development variables on FDI. FDI is taken as dependent variable. The growth variables try to explain FDI flows. The studies conclude positive relationship between FDI and growth except few studies. Minimum level of growth variables available in the country is able to attract more FDI. However the studies are mainly focussed on developing countries.

**2.3. CONCLUDING REMARKS**

The literature discussed above is mainly focussed on relationship between FDI inflows and economic growth in developing countries. In general, the papers found positive relationship between them with some reservations. Most of the studies have taken FDI
as an explanatory variable of the economic growth. However there is a need to find relationship between patterns of FDI and economic development because economic development is something more than economic growth. There is also a need to study about pattern of FDI outflow, inward stock and outward stock and link them with economic development. There is also need to take FDI as the dependent variable and link it with developmental variables as explanatory variables. This is missing link in the literature. The studies are mainly focussed on economic growth. Therefore, this study is a modest attempt to fill the gap and complete the missing link in the literature. This chapter is followed by the international FDI policies which include its features, policies structure and its implications.
## Table 2.1: Summary Table of Review of Literature

<table>
<thead>
<tr>
<th>Author</th>
<th>Title</th>
<th>Countries</th>
<th>Variable(s)</th>
<th>Model</th>
<th>Periods</th>
<th>Results/Conclusions</th>
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<tbody>
<tr>
<td>Das, Nath, Hiranya and Yildiz (2005)</td>
<td>Foreign Direct Investment and Inequality in Productivity across Countries</td>
<td>93</td>
<td>GDI and FDI</td>
<td>Spatial Gini Coefficient, Pairwise Granger Causality Test</td>
<td>1970-2000</td>
<td>FDI seems to reduce inequality in productivity among high and middle income developing countries while it widens productivity gaps among developed countries</td>
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<tr>
<td>Author and Year</td>
<td>Title</td>
<td>Countries</td>
<td>Variable(s)</td>
<td>Model</td>
<td>Periods</td>
<td>Results/Conclusions</td>
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<tr>
<td>Xuan-Vinh and Batten (2006)</td>
<td>The Importance Of Social Factors When Assessing The Impact Of Foreign Direct Investment On Economic Growth</td>
<td>79</td>
<td>FDI, GDP, Real per capita GDP; Education; Population growth rates; Government size; International trade; Inflation; Financial and Stock market and Country risk.</td>
<td>Panel Techniques with controls for simultaneity bias</td>
<td>1980-2003</td>
<td>FDI has a stronger positive impact on economic growth in countries with a higher level of education attainment, openness to international trade and stock market development, and a lower rate of population growth and lower level of risk.</td>
</tr>
<tr>
<td>Ozturk, and Kalyoncu, (2007)</td>
<td>FDI and Growth: An Empirical Investigation Based on Cross-Country Comparison</td>
<td>02</td>
<td>GDP and FDI</td>
<td>Engle–Granger Cointegration and Granger causality tests</td>
<td>1975-2004</td>
<td>It is GDP that causes FDI in the case of Pakistan, while for Turkey; there is a strong evidence of a bi-directional causality between the two variables.</td>
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<tr>
<td>Herzer (2007)</td>
<td>How does FDI really affect developing countries’ Growth</td>
<td>44</td>
<td>FDI and GDP</td>
<td>Heterogeneous Panel Cointegration Techniques</td>
<td>1970-2005</td>
<td>The growth effects of FDI are positively related to freedom from government intervention and freedom from business regulation and negatively related to FDI volatility and natural resource dependence.</td>
</tr>
<tr>
<td>Alfaro and Charlton (2007)</td>
<td>Growth and the Quality of Foreign Direct Investment: Is All FDI Equal?</td>
<td>29</td>
<td>FDI Inflows and Stocks, Industry Growth, Share of Value Added, Number of Foreign Firms, Comparative Advantage (Size), Dependence on External Finance (Equity), Skill Intensity Measure, Total Factor Productivity (TFP)</td>
<td>Two-stage least squares methodology</td>
<td>1985-2000</td>
<td>Growth effects of FDI increase when we account for characteristics which might affect the quality of FDI.</td>
</tr>
<tr>
<td>Mumit, A. (2008)</td>
<td>Level or growth, which is more important? Influence of Human Capital on spillovers from Foreign Direct Investment</td>
<td>68</td>
<td>FDI, Technology, Human Capital, GDP</td>
<td>Cross-country panel framework</td>
<td>1970-2000</td>
<td>When the host country has a certain threshold level of human capital, FDI contributes positively to economic growth through technology diffusion.</td>
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<tr>
<td>Author</td>
<td>Title</td>
<td>Countries</td>
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<tr>
<td>Prüfer and Tondl (2008)</td>
<td>The FDI-growth nexus in Latin America: the role of source countries and local conditions</td>
<td>16</td>
<td>FDI with human capital, trade, Macroeconomic variables, infrastructure, and institutions.</td>
<td>Bayesian Model Averaging</td>
<td>1990-2003</td>
<td>A positive FDI-growth nexus in LA requires a functioning legal framework and macroeconomic stability. European FDI is only indirectly correlated with productivity growth, whereas North American FDI is more robust and thus directly correlated with productivity growth.</td>
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<tr>
<td>Toulaboe, Terry and Johansen (2009)</td>
<td>Foreign Direct Investment And Economic Growth in Developing Countries</td>
<td>31</td>
<td>FDI, Domestic Capital, Population, Government Consumption, Trade, Term of Trade, Exchange Rate, Inflation</td>
<td>OLS regression analysis</td>
<td>1978-2004</td>
<td>Absorptive capacity in the host country is important in allowing FDI to positively and fully impact economic growth.</td>
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<tr>
<td>Banga, R. (2003)</td>
<td>Impact of Government Policies and Investment Agreements on FDI Inflows</td>
<td>15</td>
<td>Market size, Labour cost, Education, Real exchange rate, Financial health, Transport and communication, Electricity, Lending rate, Exchange rate volatility and FDI</td>
<td>Random Effects Model and Fixed Effect Model; Panel Data</td>
<td>1980-2000</td>
<td>Fiscal incentives do not have any significant impact on aggregate FDI, but removal of restrictions attracts aggregate FDI. However, FDI from developed and developing countries are attracted to different selective policies. While lowering of restrictions attract FDI from developed countries, fiscal incentives and lower tariffs attract FDI from developing countries.</td>
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<tr>
<td>Author</td>
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<tr>
<td>Pantelidis and Kyrkilis (2005)</td>
<td>A cross country analysis of outward foreign direct investment patterns</td>
<td>25</td>
<td>FDI, Market structure, openness, Marginal efficiency of capital, technology, human capital and exchange rate</td>
<td>Ordinary Least Squares (OLS)</td>
<td>1976-1999</td>
<td>Market structure differentiation and openness are the only variables affecting outward FDI in all country groups. Marginal efficiency of capital is the significant variable in advanced and middle-income countries. All other variables, namely technology, human capital and exchange rate affect outward FDI position of advanced countries.</td>
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<tr>
<td>Palit and Nawani (2007)</td>
<td>Technological Capability as a Determinant of FDI Inflows: Evidence from Developing Asia &amp; India</td>
<td>14</td>
<td>Size of domestic market, exchange rate stability, cost of capital, quality of communication infrastructure, technological capabilities, outward orientation, political stability</td>
<td>OLS, Augmented Dickey Fuller (ADF) test</td>
<td>1994-2003</td>
<td>In the absence of strong technological foundations and well-developed communications infrastructure, liberal policies alone are not enough for drawing FDI, once initial advantages, like cheap labour, fizzle out.</td>
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<tr>
<td>Mottaleb, K.A. (2007)</td>
<td>Determinants of FDI and its impact on Economic growth in developing Countries</td>
<td>60</td>
<td>GDP, GDP Growth rate, Industry value added, Internet User, Telephone line, time required to enforce contract and start business, trade(% of GDP), Cost of business start-up, Corruption Perception Index</td>
<td>Hausman test-Panel Regression – Fixed or Random</td>
<td>2003-2005</td>
<td>Countries with larger and high GDP growth rate and business friendly environment with infrastructure can successfully attract FDI and FDI on the other hand, significantly affect economic growth of a country.</td>
</tr>
<tr>
<td>Poelhekke And Ploeg(2008)</td>
<td>Growth, Foreign Direct Investment and Urban Concentrations: Unbundling Spatial Lags</td>
<td>71</td>
<td>GDP per capita, population growth, investment as a fraction of GDP, human capital and openness market potential, production costs, trade costs,</td>
<td>Spatial Vector Autoregression</td>
<td>1984-1998</td>
<td>Cities are important drivers of FDI and growth and unbundling spatial lags matters. Robustness is verified by re-estimating our regressions with fixed effects and for the sample of OECD countries.</td>
</tr>
<tr>
<td>Dabla-Norris, Honda, Lahreche, and Verdie (2010)</td>
<td>FDI Flows to Low-Income Countries: Global Drivers and Growth Implications</td>
<td>100</td>
<td>Financial sector, Institutional quality, Capital endowments, Macroeconomic policies GDP, FDI, Output, Real Interest Rate</td>
<td>Gravity model</td>
<td>1885-2007</td>
<td>Low-income countries can turn to domestic policy solutions to mitigate the adverse effects of a potential decline in FDI in the post-crisis world.</td>
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</tbody>
</table>