CHAPTER II

REVIEW OF LITERATURE

Though there are many studies related to Foreign Direct Investment (FDI), the present study differs from the earlier ones on the following grounds. The reviews have been collected based on the objectives of the study being framed by the researcher i.e., in view of identifying the total FDI inflows into India in the Post-Liberalization period particularly based on Sector-wise FDI inflows. Assessing the sectoral distribution and comparing the overall and Sectoral distribution of FDI. On account of examining the impact of FDI inflows on the growth of various sectors and assessing the performance and problems of FDI in India, thereby suggesting measures for policy making several Asian developing countries have become major exporters, in part by drawing upon the technology, organized skills and marketing networks of transnational Companies from developed market economics. The rest of the world reacted to the width and depth of the Indian reforms, as measured by the Quantum of FDI inflow, global response has been, by and large, positive. The annual flow of FDI rose from a paltry USD 0.1 million in 1991 to USD 23.7 billion in 2010 as against last year inflow of 34.6 billion. India has come a long way since 1991 in So far as Quantum of FDI inflow is concerned.

Comprehensive Literature Centered on economics pertaining to empirical findings and theoretical rationale tends to demonstrate that FDI is necessary for sustained economic growth and development of any economy in this era of globalization.

The present chapter is devoted to make a review of the past studies and notable works on the FDI and its impact that throw light on the present investigation and its significance. These studies have been classified and presented as: (i) Theoretical views and (ii) Empirical views.
2.1 THEORITICAL VIEWS

Akinsanya, Adeoye (1987) discussed the international protection of Direct Foreign Investments in the Third World. He also discussed the measures that have been and are being taken to promote and protect direct foreign direct investment in the Third World. The study finds that in spite of the merits of a multilateral convention such as the ICSID convention and the MIGA convention, bilateral agreements for the reciprocal encouragement and protection of capital investments offer the most practical and effective means of affording treaty protection to alien investors in the Third World.

Alexander, C.H (1952) investigated the foreign investment laws and regulations of the countries of Asia and the Far East. The Indian constitution is, however, not concerned with details relating to foreign investment, but with general principles safeguarding the property rights of individuals, whether nationals or foreigners. The study finds that more national treatment is accorded to foreign traders and experts, the better economic development can be promoted.

B.M (1988) analysed Foreign Investment the New Panacea in the face of the balance of payments position. With liberalisation of economic policies and reliance on market forces and free enterprise, foreign private capital is indeed considered to be not only essential for augmenting total resources for economic growth but also desirable. Initially, the role of foreign capital in India’s development plans was guided by the need to import technology and equipment as part of an import substitution plan for modern industries in heavy and capital goods sectors, largely in the public sector.

Behrman, Jack N (1960) in his study promoting free world economic development through direct investment focused on the major impacts of U.S. direct investment abroad arise less from U.S. dollar flows than from capital formation by U.S interests in the host country and from transfers from the united states of nonmonetary assets such as managerial and technical skills. The study analysed the comparative importance of these elements of direct investment and as to their distribution over the free world. The study
find that to accelerate the development of free world economies through investment, the united states will have to turn its attention not only to the outflow of U.S dollars but also to the availability of other capital sources and to the transfer of managerial and technical Know – how.

Behrman, Jack N (1974) in his study actors and factors in policy decisions on foreign direct investment provided a structure for analysis of the different interests of the actors involved in international investment and therefore a basis for policy discussions.

Bhalla A. S. (1998) aims at exploring the contributions of exports and FDI to growth and economic liberalization in China and India. His study examines the role of FDI, and its sources and composition by sector, Industry, and by overseas ethnic Chinese and Indians. The study concerned mainly with the 1991 phase of comprehensive liberalization which had many similar characteristics. It shows the bulk of such capital inflows into China were in productive sectors, the capital inflows into India were largely in the form of portfolio investments of a short-term speculative nature. There are two types of FDI into China and India, by transnational companies from the industrialized countries and by overseas Chinese and non-resident Indians. While the bulk of Chinese FDI comes from the overseas Chinese, much of Indian FDI is channelled through transnationals. This study has attempted a China-India comparison in respect of the roles of trade and foreign investment. And the study has shown that China has been more successful than India in integrating into the global economy, promoting exports and attracting FDI.

Broadman, Harry G. and sun xiaolun (1997) analysed the geographical and sectoral distribution that china has evidence in FDI inflows since reform began in 1978. It shows that despite the impressive overall achievement in attracting an increasing amount of foreign investment, the pattern of FDI within china has been skewed. Foreign direct investment (FDI) has played a major role in china’s push toward a market – oriented
economy. They find that FDI’s geographical distribution in China is determined mostly by GNP, infrastructure development, level of general education, and coastal location.

Chandra, N.K. (1977) in his study analysed the role of foreign capital in India. The study examined to what is the extent of foreign private capital in the Indian economy; is it growing over time. The study find that on the whole, the preponderance of foreign companies acts more as a break on the development of the Indian corporate sector than as a fillip to allround growth of the economy.

Chandra, Nirmal Kumar (1999) explored the complexity of China’s FDI policy. Beginning with size of inflows and their distribution by sector, host region and source country, it goes on to describe the changing policies and the new types of foreign firms emerging in the recent past. A critical look at official data suggests an exaggeration of the stock of inward FDI and an understatement of FDI outflows, which is often misconstrued as capital flight.

Connor John M (1983) analysed the determinants of foreign direct investment by food and tobacco manufactures. The study reviewed the empirical economic literature on determinants of foreign direct investment (FDI) into and out of the U.S food manufacturing industries. It reveals a number of consistent findings, particularly those concerning the characteristics of MNCs and their home country industries.

Davies, Ronald B (2005) discussed the state tax competition for Foreign Direct Investment: A winnable War. The study considered three alternative baselines besides that in which states assume that they win the firm with an exogenous probability. It shows that when FDI benefits states other than its host, this can lead to excessive state taxation that requires corrective federal subsidies. It concludes that under plausible situations, state tax competition can be welfare improving for the country overall even through the winning state may prefer to eliminate competition.

Dehejia V. K et.al (2001) analysed the welfare effects of ‘tariff jumping’ direct investment if mobile capital is subjected to taxation. The high levels of foreign direct
investment (FDI) in a number of economies to be the result of ‘tariff jumping’: since tariffs increase the cost of exporting, foreign firms prefer to jump the tariff and take up production within the protected market. The study concludes that, in the presence of capital taxation, tariff-induced (‘tariff jumping’) FDI may be beneficial to the economy, rather than harmful, as is conventionally argued. Therefore, the study provides a second best rationale for the existence of tariffs in a world with capital taxation.

Dehejia, Vivek H and weichenrieder, Alfons J (2001) reconsidered the welfare effects of ‘tariff jumping’ direct investment if mobile capital is subjected to taxation. The study argument provides one rationale for a small country to levy a distorting tariff in a second best world in which capital taxes already exist. The study concludes that, in the presence of capital taxation, tariff-induced (‘tariff jumping’) FDI may be beneficial to the economy, rather than harmful, as is conventionally argued.

Desai, Ashok V (1984) in his study new forms of international investment in India discussed the new forms of investment which have been prevalent in India. Certain new forms of investment - especially joint ventures and licensing arrangements – have a standing advantage over foreign subsidiaries, and would dominate in a very wide range of circumstances. He viewed that however liberal government policy may become towards foreign investment, the probability is low that foreign subsidiaries would come to dominate Indian industry.

Development Brief (1993) explained foreign direct investment – benefits beyond finance as it stimulates production improvements, contributes to technological advancement, boosts manufacturing employment, and generates exports.

Dominese Giorgio (2007) considers the main drivers of Asian growth and connects them with three groups of analyses tracks. His study demonstrates how the present conditions in Asia and worldwide is forcing regional cooperation to come into action. Countries with a relatively more educated labour force and/or a relatively more stable financial situation tended to attract a larger share of FDI at the expense of their
Regional Trade Agreement (RTA) partners. This evidence suggests it is essential for all RTA countries to improve their business environment to the best available in the region. The study found that partial negative correlation between the FDI received by RTA countries and that received by non-RTA countries possibly reflects a diversion of FDI from non-RTA to RTA countries.

Firebaugh Glenn (1992) in his study analysed the growth effects of foreign and domestic investment. The study estimated the economic effects of foreign and domestic investment, based on data for 76 less developed countries (LDCs). The study used PEN data set and economic growth rate is measured by rate of growth of per capita GNP over the period 1965 – 1977, expressed as an annual percentage. The dependent variable economic growth rate and the independent variable investment rate were included in the study. The study finds that foreign investment spurs economic growth, contrary to the earlier studies that foreign investment harms economic growth.

Fosfuri Andrea et.al (2001) analyzed a model where a multinational firm can use a superior technology in a foreign subsidiary only after training a local worker. They provided a specific mechanism through which technology might involuntarily move from a firm towards others located in the same country. The study presented a model where technological spillovers from FDI might occur due to workers’ mobility. A MNE can transfer a superior technology to its foreign affiliate only after having trained a local worker. It showed that the multinational firm might find it optimal to export instead of investing abroad to avoid dissipation of its intangible assets or the payment of a higher wage to the trained worker. The results are consistent with the industrial organization literature on persistence of monopolies. Technological spillovers arise (the monopoly ceases to exist) when the “joint- profit” effect does not hold, that is, when industry profits are higher if both firms can use the technology. It also find that a low level of “absorptive capability” by the local firm, which might be due to technological backwardness, reduces the potential for FDI generating spillovers.
Gao Ting (2005) examined foreign direct investment (FDI) and economic growth in a two-country endogenous growth model. The model shows that economic integration gives rise to FDI, leads to an expansion of R & D activity in the industrial core, and increases the world growth rate. The model suggests that the often-observed positive correlation between inward FDI and economic growth does not necessarily imply any causal relationship – both of them respond endogenously to economic integration. The implications of this model are also consistent with the increased international outsourcing observed in many developed country in recent years.

Glass, Amy Jocelyn and saggi kamal (2002) developed a symmetric two country model of foreign direct investment (FDI) that captures the internalization decision and its implications for both the rate and magnitude of innovations. The study examined how policy interventions that alter the incentive to internalize production within the firm affect economic growth. It find that the ability of firms to switch modes from licensing to FDI in response to policy changes is vital for ensuring that a subsidy to FDI leads to faster economic growth.

Glass, Amy Jocelyn and saggi kamal (2002) examined the effect of strengthening Southern IPR protection on the imitation exposure of multinationals relative to Northern firms, the composition of international technology transfer, FDI, innovation and imitation. They developed a product cycle model with endogenous innovation, imitation, and foreign direct investment (FDI). They used this model to determine how stronger intellectual property rights (IPR) protection in the South affects innovation, imitation and FDI. The study showed that more labour is used in imitation, which crowds out FDI and consequently reduces innovation. The study model has the property that the effect of strengthening Southern IPR protection on the rate of innovation does not depend on whether FDI or imitation is the channel of international technology transfer. It finds, that stronger IPR protection keeps multinationals safer from imitation, but no more so than Northern firms.
Goodman Bernard (1957) examined the Political Economy of Private International Investment. The purpose of the study has been to draw attention to some relationships that seem to have been underemphasized in both official and unofficial American circles with regard to the role of private foreign investment. The study find that the indiscriminate promotion of private American investment in these areas may turn out to have important political disadvantages to the United states; it may strengthen the hand of totalitarian revolutionary forces in underdeveloped areas, thus aggravating the very political "instability" which the United states is seeking to avoid.

Greaney T. M (2003) in his study showed that network affects not only trade but also foreign direct investment (FDI) and they can help to explain bilateral trade friction. The study proposes that differences in the strength of network effects across countries can produce asymmetric trade and investment flows that may lead to trade friction. The study model is particularly useful in explaining some sectoral asymmetries in US Japan bilateral trade and FDI that have led to trade friction in recent years. This study generalizes Baldwin and Ottaviano’s (2001) analysis of reciprocal FDI and trade by allowing for asymmetric outcomes. The model’s predictions fit some of the observed trade and investment asymmetries between the US and Japan, particularly in the auto sector. Higher network costs in the Japanese market may lead to an asymmetric equilibrium with a one-way flow of FDI from Japan to the US in a given industry.

Greaney, Theresa. M (2003) considered the impact of business and social networks on international trade and FDI. The study proposed that differences in the strength of network effects across countries can produce asymmetric trade and investment flows that may lead to trade friction. A model of multi-product firms with asymmetric network effects produces the possibility of an asymmetric equilibrium in which the firm from the country with stronger network effects (the home country) invests abroad while the foreign firm does not. The model’s predictions match observed asymmetric trade and investment flows that sometimes lead to US–Japan trade friction. The study finds that higher network costs in the Japanese market may lead to an
asymmetric equilibrium with a one-way flow of FDI from Japan to the US in a given industry. The study result shows that lower inward FDI, lower total imports but larger volumes of reverse imports into the country with strong network effects.

Gugler Philippe & Brunner Serge (2007) provided a comprehensive conceptual framework for assessing the effects of FDI on competitiveness. They connected two approaches in the study: Porter approach, and by reference to the work accomplished by international business economists. The study reviewed, the existing theoretical and empirical literature on technology transfer and the upgrading of human capital on the basis of this framework and refocus their lens from the usual national dimension to the cluster dimension. MNEs potentially have a beneficial impact on the host country, as they are a source of technology in a broad sense and can lead to an upgrading of human capital. The effective impact of FDI, however, depends on the type of activity undertaken and the absorptive capacity of the host State. They argued that the existence of a cluster may allow domestic firms to benefit more from spillovers from MNEs and, thus, to get better results in terms of increased productivity. The study finds that the cluster dimension is more significant in analysing the effects of FDI on a micro level as both MNE activity and absorptive capacity, are better captured on the cluster level.

Iqbal, Badar Alam (2006) examined FDI: A tool for economic development. The study analysed and suggested how FDI would be an effective medium to promote growth and development of the country and how it can help to attain global competitiveness.

Islam, Saiful (1994) examined the possible benefits and various costs involved in private foreign investment. He evaluated the private foreign investment in the ready – made garment industry, the fastest growing export industry in Bangladesh using time – series data. The study provided an overview of the export performance of ready – made garments and the extent of private foreign investment in the industry; looks some basic characteristics of selected garment units; describes theoretical models for examining the external effects of private foreign investment and the results of the sample
survey concludes that the net total balance of payments effects of the joint-ventures garment unit under study is inconclusive.

Loll Sanjaya (1974) reviewed the private foreign manufacturing investment in less-developed countries (LDCs). The analysis was based on published and unpublished information as well as on direct interviews with about 80 investing firms, and claims to be a major contribution in this field. He discussed some of the basic values underlying the study of foreign investment. The study used a simple taxonomy to highlight some of the important elements on which different approaches to foreign investment are based. The study find that the higher the extent of local gearing, the higher, of course, is the profitability of the foreign capital invested; and investigations have shown that foreign investors try to gear themselves as highly as possible in their host countries.

Long Frank (1976) examined the role of foreign direct investment in the setting of the Republic of Ireland. The purpose of the study was to look at some of the implications of foreign direct investment within the context of a relatively underdeveloped Western European economy—that of the Republic of Ireland. The study concludes that the unbridled accommodation of foreign capital initiated since 1958 and still in vogue, offers important obstacles to long-term socioeconomic and political development in the country.

Mani Sunil (1992) analysed the distinct aspects of the New Industrial Policy against the backdrop of the experience of industrial planning in the country over the last three decades. The most important component of NIPS is the free attitude towards foreign collaborations, both technical as well as financial and, especially, a more open-door policy towards foreign direct investments (FDI). There are considerable variations in its definition across various countries. The study discussed three objectives: FDI would bring in substantial investment flows into the country's industrial establishment; a freer attitude towards FDI is that it would bring in new possibilities for promoting
exports; FDI is linked to the fact that by giving a higher degree of control over ownership and decision-making would entice the foreign collaborator to part with more state-of-the art technology. The study shows the implications of foreign collaborations arising out of the NIPS. The study also argued that given the changes in the external environment, may not attract much FDI.

Mutti John and Grubert Harry (2004) assessed the sensitivity of the operations of multinational corporations (MNCs) to host country taxation. The study was based on two different measures of MNC activity by U.S. majority-owned foreign affiliates: panel data for aggregate real gross product in manufacturing that originates in a given host country and micro data for a single year regarding the likelihood of a firm locating in a given host country. Probit analysis of MNC location decisions was used to assess whether the factors are relevant. The study relies on real GPO reported for three different benchmark census years of U.S. direct investment abroad: 1982, 1989, and 1994. A panel of observations across 47 countries for these three years was the basis for the empirical analysis. The empirical estimates indicate that investment geared toward export markets, rather than the domestic market, is particularly sensitive to host country taxation, that this sensitivity appears to be greater in developing countries than developed countries, and that it is becoming greater over time.

Nagaraj R (2003) analysed the trends in foreign direct investment in India in the 1990s, and compares them with those in China. The study raises some issues on the effects of the recent investments on the domestic economy. The study concludes by suggesting a realistic foreign investment policy.

Palmade Vincent and Anaylotas Andrea (2004) viewed that the fall in foreign direct investment (FDI) since 1999, and China’s growing share, worry most developing countries. But an in – depth look reveals new and promising trends. The decline is largely a one – time adjustment following the privatisation boom of the 1990’s. FDI is coming
from more countries – and going to more sectors. Sorting out the microeconomic issues by sector will be good not only for FDI but also for domestic investors.

Pigato, Miria A (2000) examined the magnitude, origins and destination of recent foreign direct investment flows to Sub-Saharan Africa, as well as changes in the sectoral composition of FDI and the relationship between economic reform and FDI. The study aims to re-examine the "old tales" claiming that except for natural resources sector, African countries fail to attract significant FDI flows. The analysis focuses on the last ten years, with particular emphasis on the most recent period 1995-98, which, for many African countries, represents a return to political and economic stability. The study find that however, by and large Sub-Saharan Africa is still failing to attract the kind of manufacturing investment that provides technology, skills and market access.

Rao, Chalapathi K.S and Murthy, M.R (1999) seeks to provide a broad picture of state and industry-wise distribution of approved FDI during the post-liberalisation period and location of registered and administrative offices of FDI companies. The sectoral pattern of FDI approvals in different states appears to be related to the importance of that sector for the state as also resource endowment. Mergers and Acquisitions have become a major form of FDI flow at the global level, it should be expected that regional pattern of industry may not be affected to the same extent as the amount of FDI inflow.

Reis, Ana Balcao (2001) showed that foreign investment may decrease national welfare due to the transfer of capital returns to foreigners. Taking into account all the relevant effects, the study showed that welfare does not change monotonously with FDI and it characterize the conditions that imply a positive or a negative welfare effect of foreign investment. It discussed the welfare effect of foreign direct investment, when foreign investors have lower costs of introducing new goods in the economy because they already know the technology.
Reserve bank of India (2005) assessed the financial performance of 490 selected non-government non-financial foreign direct investment (FDI) companies for the period 2000-01 to 2002-03 based on their audited annual accounts. The data were presented at the aggregate level for all selected companies and also for major industry groups and country groups depending upon the origin of the largest FDI share in the company. The results of the selected companies showed improved performance in terms of higher growth in sales, values of production, manufacturing expenses and gross profits during 2002-03 compared with the respective growth rates in the previous years.

Roy, Ramashray (1994) in his study India in 1993: The Struggles of Economic Reform discussed that politically, India awoke long ago, took a few firm steps forward, and then became afraid of the roar of its own footstep and faltered. He explained that with regard to private foreign investment, an open ended fund launched by the Indian investment company raised over $135 million for investment in India, its success attributed to the positive image India has projected among potential foreign investors.

Sattar Zaidi et.al (1999) addressed some of the implications of this changing landscape in Bangladesh’s development. They assessed the potential future foreign exchange liabilities concomitant with FDI inflows. Their study concludes that Bangladesh has experienced a more stable form of capital inflow, with FDI making up about 85 – 90 percent of the total inflows so far.

Schneider, Freidrich and frey, Bruno S (1985) analysed four models explaining the flow of foreign direct investment in 80 less developed countries were econometrically estimated and compared by ex post forecasts. The study find that the higher the real per capita GNP and the lower the balance of payments deficit are, the more foreign direct investment is attracted. Among the political determinants the amount of bilateral aid coming from Western countries and multilateral aid has a stimulating effect, while help from communist countries has a negative effect. Political instability significantly reduces the inflow of foreign direct investment. It
concludes that foreign direct investment in developing countries is simultaneously determined by economic and political factors. It may further be concludes that an amalgamation of economic and political influences into a credit risk indicator is not advisable because it is not able to do justice to the complexity of politico-economic interdependence.

Sen Pronab (1995) addressed the central problematic that FDI inflows improve the short-run balance of payments or do they require additional foreign exchange funding in the form of foreign borrowings or through depletion of foreign exchange reserves. The study concerned primarily with the role of FDI in short-run BOP management. FDI improves the short-run BOP position requires its proponents to not only have a specific set of behavioural relations in mind, but that they must also hold some a priori views on the values taken by a few key parameters. The study shows that for a FDI to have a positive BOP effect two conditions must obtain: there must be 'crowding out' of investments; and Imports should he negatively related to the interest rate. The limited objective was to clear up certain misconceptions regarding the effects of FDI and to raise the issues for further work.

Sinn, Hans Werner et.al (1997) in their study Foreign Direct Investment, political resentment and the privatization process in Eastern Europe argued that FDI via this participation contract is better than other forms of direct investment: it generates more privatization revenue and provides better investment incentives in the host country.

Skaksen, Mette yde and Sorensen Jan Rose (2001) in their study analysed that should trade unions appreciate foreign direct investment. It is often argued that FDI hurts workers in the home country because jobs are moved abroad. Contrary to that view, businessmen often argue that FDI benefits home workers because there will be an expansion in the firm. They showed that both views may be correct, and whether home workers gain or lose on FDI depends on which kinds of activities the firm moves to the host country. The study employed a two country partial equilibrium model using constant
returns to scale CES production function, Cobb-Douglas production function and The Leontief production function. The study finds that higher the degree of substitution between activities in the host country and the home country, the more likely it is that the trade union and the firm disagree whether the firm should become multinational.

Soysa Indra de and Oneal John R Z. (1999) assessed the effects of foreign and domestic capital on economic growth. They also considered the role of human capital in the process of economic development. The study used the data on foreign direct investment, only recently available from the United Nations (1992-1996, 1995, 1996b, 1997) using Granger-causality tests of pooled time-series data. They find no evidence that foreign direct investment harms the economic prospects of developing countries. It shows that flow of foreign capital from 1980 to 1991 spurred growth in gross domestic product per capita, while the level of foreign stock, or "foreign penetration," had no discernible effect. Indeed, new foreign investment was more productive dollar for dollar than was capital from domestic sources. Moreover, foreign direct investment stimulates investment from domestic sources. It concludes that, developing countries have no reason to eschew foreign capital, as dependency theorists urge.

Subrahmanian K. K. (1973) attempted to bring out some salient features of economic relations between India and the developed countries arising from foreign aid and investment and to evaluate the bearings of the Indian experience on the more general theme of the role of foreign capital in the economic development of ‘free’ nations of the Third world. The study outlines the principal characteristics associated with foreign aid and investment provided by the developed countries since India attained independence from alien rule and traces their significance for the developed countries in completing the ring of dependence on them with a view to strengthening their economic foothold and domination in the internal economic affairs in India in newer and subtler but effectively imperialistic fashion.
Svedberg, Peter (1978) analysed the Portfolio-Direct Composition of Private Foreign Investment in 1914 Revisited. The study demonstrated that, when applying the presentation definition of portfolio investment, as is done by Dunning, but which differs from the one in use in earlier times, direct investment made up a larger part of total private foreign investment in 1914 in Third World and thus globally than is usually understood and explicitly claimed by main authors. The study considered the reasons why the share of portfolio investment in the nineteenth century has been overestimated. A tentative estimate was presented of the ratio of direct investment in 1914 in the present underdeveloped countries.

Tomlinson B.R (1978) examined the private foreign investment in India in the first half of the twentieth century, spanning the gap between the ‘imperial’ and the ‘neo-colonial’ epochs’. He analysed the subjects ‘portfolio’ investment, ‘direct’ investment and ‘multinational’ companies. He finds that it is impossible to reach any reliable conclusions about the absolute amount of private foreign capital at work in India during the period although a number of estimates are made at the time.

Tseng, Wanda and Zebregs, Harm (2002), examined China's experience with FDI and identifies some lessons for other countries. Most of the factors explaining China's success have also been important in attracting FDI to other countries: market size, labour costs, quality of infrastructure, and government policies. The study concludes that China's success, however, did not come without some pitfalls: an increasingly complex tax incentive system and growing regional income disparities. Accession to the WTO should broaden China's "opening up" policies and continue FDI's contributions to China's economy in the future.

UNCTAD (2009) assessed the impact of the current financial and economic crisis on global FDI Flows. The study provided a quantitative analysis/picture of FDI flows in 2008, in the light of the evolution of the overall economic environment, including the instability in the financial sector and the global economic slowdown. It also shows the
uneven magnitude of the setback in international investment among regions and industries. It analyzed the channels of transmission of the present crisis to FDI, and assesses its impact by type of FDI and explored various scenarios for the medium term, ranging from quick recovery to persistent stagnation of FDI flows. The study concludes that the effectiveness of government policy responses at both the national and international levels in addressing the financial crisis and its economic aftermath will play a crucial role for creating favourable conditions for a new pickup in FDI.

Wojnicka Elzbieta (2001) examined the different ways in which privatisation has taken place, the penetration of foreign capital into the Polish economy and the role which foreign direct investment has played in the transformation process. Her study shows the effectiveness of the enterprises privatised with the participation of foreign capital in comparison with other types of enterprises in Poland during the period 1990-2000. Foreign direct investment, the transfer of capital to gain revenue from economic activity, is the form of foreign capital inflow that gives the best restructuring effects - FDI helps to change the ownership structure to reflect those in mature market economies. FDI occurs at various stages of the privatisation of state property. FDI also makes it possible to strengthen privatisation and enhance its quality, especially from the point of view of corporate governance. The study found that majority of FDI in Poland takes the form of joint ventures with Polish capital. The growing role of foreign capital in Poland is accompanied by the limitation of the role of the public sector in the national economy. There is a lack of large-scale foreign green-field investment which should appear after completion of the privatisation of state enterprises. It concluded that FDI is sometimes perceived as a threat due to the huge trade deficit for which foreign investors are responsible, or because of transfer pricing activity. However, privatisation and modernisation of the Polish economy in the 1990s was possible to a great extent thanks to foreign capital.

Zhang, Le-yin (1994) discussed the Location-specific advantages and Manufacturing Direct Foreign Investment in South China. He examined the experience of
Guangdong province in the People’s Republic of China. The central features of this experience are administrative decentralization and widespread local initiative. Guangdong was the most open area for DFI in China. Guangdong province was given more independence in determining macroeconomic policies, and in setting wage and prices. Guangdong’s experience will have relevance to countries where there is a substantial public sector, whether owned by the state or local governments.

2.2 EMPIRICAL VIEWS

Albuquerque Rui (2003) argued that FDI is a form of investment that is best suited to provide risk sharing in a world economy where financial contracts are plagued by imperfect enforcement mechanisms. The study assumed that international financing contracts lack the proper mechanisms to enforce repayment. It used numerical simulations methods to investigate the ability of the model to quantitatively match the empirical volatility of FDI versus other capital flows using time series data. It also used stationary distribution to break the sample into developed versus developing countries and analyze the behavior of these two groups of countries. The main dataset is the World Development Indicators from the World Bank. The sample covers only private flows to these countries and measure FDI and non-FDI flows as percentages of gross private capital flows with a maximum time span from 1975 to 1997. Regression Analysis was used in the study with share of FDI inflows to gross flows as dependent variable and Moody’s credit ratings as independent variable. The model generates stronger serial correlation for FDI than for other flows into developing countries.

Amirahmadi Hooshang and Wu Weiping (1994) purpose of the study is to document the trends in private capital flows to developing countries since 1982 by focusing on the flows and geographical distribution of foreign direct investment (FDI), and to provide a comprehensive explanation of the underlying factors during the period between 1973 and 1992. The study find that although FDI flows in general have been
sustained since 1982, the sharply decreasing private borrowing resulted in a decline in total private capital flows to developing countries.

Amiti Mary and Wakelin Katharine (2003) estimated the cross-price elasticity of exports with respect to investment costs for bilateral relations between 36 countries from 1986 to 1994 for both OECD and developing countries are included in the sample. OLS Regression analysis for each year was calculated separately. The study showed that the effect of reducing foreign direct investment costs on exports depends on country characteristics and trade costs. It analysed whether investment liberalization stimulates exports depends on the type of FDI that it generates. It shows that investment liberalization stimulates trade if FDI is vertical and substitutes for trade if FDI is horizontal. The study hypothesizes that when countries are similar in size and relative factor endowments, and trade costs are moderate to high, lower investment costs reduce exports and contrary. The results show that investment liberalization stimulates exports when countries differ in relative skill endowments provided trade costs are low. From a policy perspective the results concluded that the impact of investment liberalization on trade is not uniform across all countries.

Amiti Mary and Wakelin Katharine (2003) focused on the trade relationship from quite a different perspective, taking into account of the fact that reducing investment costs can stimulate different types of FDI in different circumstances, which in turn affects the impact on trade. They estimated the cross-price elasticity of exports with respect to investment costs for bilateral relations between 36 countries from 1986 to 1994 using OLS Regression model. The dependent variable is the nominal value of exports from one country to another country and the Standard explanatory variables are country size, real gross domestic product, per capita income, trade cost and distance. They linked their empirical analysis to a theoretical framework developed by Markusen (1997, 2002), which allows horizontal and vertical FDI to arise endogenously. Whether FDI is horizontal or vertical is relevant for this study as it affects the relationship predicted between international trade and investment costs. In general, investment liberalization is
expected to stimulate FDI. However, whether it also stimulates trade depends on whether the increase in FDI is of the horizontal or vertical type. They showed that investment liberalization stimulates trade if FDI is vertical and substitutes for trade if FDI is horizontal. The type of FDI stimulated by investment liberalization depends on the differences between country size, relative skill endowments and trade costs. The result shows that when countries differ in relative factor endowments and trade costs are low, investment liberalization stimulates exports, whereas when countries are similar in terms of relative factor endowments and size, and trade costs are moderate to high, investment liberalization reduces exports. This study shows that these heterogeneous relations—ships are not ad hoc—they depend on country characteristics and trade costs in a systematic way. This finding is also interesting from a policy perspective as the results show that the impact of investment liberalization on trade is not uniform across all countries.

Balcao Reis Ana (2001) showed that foreign investment may decrease national welfare due to the transfer of capital returns to foreigners. A policy implication for developing economies that has been drawn from this theory is that foreign investment increases growth through the access to better technologies. The study discusses the welfare effect of foreign direct investment, when foreign investors have lower costs of introducing new goods in the economy because they already know the technology and hence domestic investment becomes unprofitable. It shows that foreign investment may decrease national welfare due to the transfer of profits to foreigners, even when the increase in the rate of growth has a positive effect on welfare. Foreign investment increases welfare only if the increase in productivity is great enough to compensate for the loss of profits. The strength of the creative destruction effect increases with the degree of substitutability between the new ‘foreign’ product and the already produced ‘domestic’ products. The study results are relevant for foreign investment that crowds-out domestic investment. The study model concludes that the rates of growth of GDP and consumption increase when the innovation cost decreases. Taking into account all the relevant effects,
the study reveals that welfare does not change monotonously with FDI and the conditions that imply a positive or a negative welfare effect of foreign investment.

Bang Vu Tam and Noy Ilan (2007) identified the sector-specific impact of FDI on growth in the developed countries. An endogenous growth framework was used to estimate the impact of FDI on growth using sectoral data for the OECD member countries. They employed country–panel fixed effects regression based approach. Cobb-Douglas production function Data on shares in total value added, investment (gross fixed capital formation), and employment for 32 sectors and stocks of inward FDI for 22 sectors of each country in the OECD group for the period 1980-2003 were analysed using Cobb-Douglas production function. The study results show that FDI might have positive or negative effect on economic growth operating directly and through its interaction with labor. It concluded that in some sectors, no evidence found that FDI enhances economic growth.

Blomstrom Magnus and Persson Hakan (1983) considered the question whether differences in technical efficiency of Mexican plants in part derive from spillover efficiency associated with foreign direct investment. The empirical data for this study comes from the Mexican 1970 Census of Manufactures consists of 215 industries, divided between domestically-owned private and foreign-owned plants. It hypotheses that if there is a positive relation between the productivity level in the domestically-owned plants in an industry and the share of foreign plants in the same industry (ceteris paribus), the foreign investment does raise the productivity in domestically-owned plants through spillover efficiency. The dependent variable productivity measure for the domestically-owned plants and seven independent variables were used for OLS regression analysis. The empirical evidence from this study shows that we are not able to reject the hypothesis that the labour productivity in domestically-owned private plants in an industry in Mexico is associated with the presence of foreign subsidiaries in that industry. It concludes that the existence of
spillover efficiency benefits from the foreign owned plants to the domestically-owned ones.

Botric Valerija and Skuflic Lorena (2006) in their study analysed geographical and sector distribution of FDI in the Southeast European countries (SEEC) and compares its amount with that in Central East European countries during the period of 1996–2002. It used the GLS regression analysis on a pooled sample and tried to determine whether the traditional and less traditional determinants prove significant for our sample of countries. They investigated the main determinants of the FDI inflows to SEEC includes Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Serbia and Montenegro, and Macedonia. According to economic theory, FDI towards developing countries flows for labour-intensive and low-technology production, while towards developed states, it flows for high-technology production. The study researches the relationship between FDI, GDP, GDP per capita, number of inhabitants, trade openness, inflation, external debt, and information and communication technology sectors. The analysis shows that market-seeking determinants of the FDI give mixed signals in different specifications. The study concluded that the increasing trade with other economies, and the development itself, will contribute to the stronger integration of the SEEC with other economies in the region and at the same time positively influence FDI.

Busse Matthias and Luis Groizard Jose (2006) explored the linkage between income growth rates and foreign direct investment (FDI) inflows. The study argued that countries need to a sound business environment in the form of good government regulations to able to benefit from FDI. The dependent variables include log of per capita GDP and the independent variable includes a set of explanatory variables, including regulations, FDI inflows and other control variables using OLS regression analysis. It tested the hypothesis and find evidence that excessive regulations restrict growth through FDI only in the most regulated economics. The study result is further evidence of the fact that important host country characteristics can lead to a positive impact on foreign investment inflows on growth rates. The results also support the view that regulations are
another fundamental determinant of the beneficial effects of FDI reaped in host countries. It concludes that regulations affect the interaction of FDI and growth rates in a very similar way.

Carkovic Maria and Levine Ross (2005) in their study does foreign direct investment accelerate economic growth assessed the relationship between FDI inflows and economic growth. The study data regarding 72 countries from 1960 to 1995, based on a cross section of countries. It used Simple ordinary least Squares (OLS) regression and dynamic panel procedure. The dependent variable includes growth and the independent variables include FDI and CONDITIONING SET. The study finds that FDI does not exert a positive impact on growth. It suggests that a reconsideration of the rapid expansion of tax incentives, infrastructure subsides, import duty exemptions, and other measures that countries have adopted to attract FDI.

Carlose Santiago (1987) provides some empirical evidence on the nature of foreign investment and its impact on export structure and employment generation. The data reflect the Puerto Rican experience with FDI. The study has succeeded in empirically identifying the determinants of inter-industry variations in US based FDI in Puerto Rico. The results do suggest, however, that economic conditions in host and source regions strongly influence variations in FDI.

Chen Tain-Jy, Chen Homin, Ku Ying-Hua (2004) analysed the pattern of local linkages in foreign direct investment (FDI), treating such local linkages as an investment in local relationships. The study examines the nature and determinants of the local linkages pursued by overseas investors. Taiwanese manufacturing firms investing abroad was the sample for their case study. A total of 276 valid questionnaires were obtained from the survey. The more diverse resources that a host country has to offer, the more local linkages an overseas investor will pursue. The study found that Taiwanese investors in the US are more active in the pursuit of local linkages than their counterparts in Southeast Asia and China. They argued that this is because, as compared with the other
two locations, the US offers more strategic and knowledge resources that cannot be obtained from the market. It also found that large firms are more active than small firms in pursuing local linkages because of their larger capacity to absorb the risks involved in network integration and their ability to apply relational capital on a larger volume of exchanges. It concluded that the local linkage intensity of a foreign subsidiary differs by FDI location, entry mode, firm size and the nature of the production network in which an investor is embedded. In order to facilitate such local linkages, a host country has to offer not only distinctive resources to foreign investors, but also a 'friendly' networking environment.

Click Reid W. (2005) examined the risk of US direct foreign investments over the period 1982-98 in 59 host countries. The study builds an empirical model to explain the time-series and cross-country patterns of return on capital and then uses the return on assets (ROA) as a measure of the return on capital, and investigates its determinants using regression and chi-square test. It offers a full quantitative analysis of both financial and political risks confronting US FDI. The ROA by year and by country is calculated by dividing the net income of affiliates by the total assets of affiliates. The ROA panel contains 939 observations. The study found four major empirical findings regarding the financial and political risks confronting US DFI. The first is that the ROA in a majority of countries does not simply track the worldwide ROA. The second one is that there are business cycle and foreign exchange risks proxy for the relative level of political risk. The third major finding is that unexplained country risk is qualitatively and quantitatively related to unobserved political risk. A fourth and final one is that unexplained country risk is compensated with a higher ROA. All of these findings are quantitative, a feature that provides not only the strength of the analysis but also suggests its main weakness.

Cohen Daniel (1993) analysed low investment and large LDC debt in the 1980’s have witnessed a spectacular decrease in the severely indebted developing countries. Over the last decade, investment in the large debtor countries fell at an average rate of
3 percent per year. To assess the role of debt in the 1980’s the study investigates whether the stock of the debt accumulated at the onset of debt crisis in 1982 had a significant influence on investment. To test whether the service of the debt crowded out investment, the study presents two tests, firstly as a benchmark level of investment that is predicted by an equation based on pre – 1981 data. Secondly, a direct estimate of a financial – autarky benchmark, and to see whether the difference between the level, that prevailed in the 1980’s and that financial – autarky benchmark is significantly correlated to the service of the debt. Regression analysis was used and found that the two methods yield similar results. The study shows that how the correlation of investment and saving with the trade balance provides the key to their dependency on the shadow cost of capital. Also shows that an efficient rescheduling of the debt would crowd in investment above the level that would prevail at financial autarky, while an inefficient rescheduling crowd out investment below the financial autarky benchmark. The study shows several important results. First, the level of the debt does not appear to have much power to explain the slowdown of investment. It is the actual flows of net transfers that matter. He also analysed the correlation between the surprise fall of investment and find it is consistent with the analysis of the crowding out of investment away from a financial autarky benchmark. A Key result is that the correlation between investment and foreign capital does not appear to be different in the 1980’s (for the rescheduling countries) from what it was in the1960’s. He noted that the low coefficient for the crowding out of investment in the rescheduling countries is identical to earlier studies and shows that 1 percent of GDP paid abroad reduced domestic investment by 0.3 percent of GDP.

Crenshaw Edward (1991) purpose of this article is to propose models of growth in foreign investment and capital penetration and to relate the results of these models to the assertions of the dependent-development perspective. Sample incorporates only sixty-nine developing countries and panel regression analysis was used. Two models are constructed to determine the growth of foreign investment and capital penetration. Although these models differ in their dependent and lagged dependent variables, the
other predictor variables are common to both. This study suggests that the growth of foreign investment and capital penetration is similar, in that much of the variance in both can be explained using common models. Foreign investors are apparently attracted to nations exhibiting a growing economy, rapid population increase, a high level of government consumption, and a high degree of human capital formation. On the other hand, it is possible that a shift in the pattern of foreign investment has favoured nations of lower economic development and smaller market size, findings that would contradict the hypotheses. This result suggests that certain formulations of the dependent-development approach are in need of refinement or revision, with special emphasis on the relationships between foreign investment in extractive industries, political intervention, and the growth of both gross domestic investment and gross production.

Davidson, William H (1980) reviewed the role of host country characteristics as determinants of foreign direct investment location patterns. He analysed the effects of corporate experience on location decisions. The study used data developed by the Harvard Multinational Enterprise Project’s. The data bank is based on a survey of the foreign operations of 180 large U.S multinational corporations from their inception through 1975. A sample of 20 major host countries, for each SIC 3 – digit industry in each of the 180 parents, the country investment sequence was arrayed using Multivariate tests and Rank correlation coefficient. The study finds that prior experience in a host country has increased the firm’s priority for projects in that country relative to other investment option. It concludes that as firms gain experience, the location of foreign investment activity will increasingly represent an efficient response to global opportunities and conditions.

Davies Ronald. B, et.al (2008) applied the panel fixed effects with vector decomposition estimator to three FDI data sets to estimate the impact of time-invariant variables on FDI while including fixed effects. The primary goal of this study is to apply this panel fixed effects with vector decomposition (XTFEVD) method to three commonly used FDI data sets and to ascertain the degree to which the cultures of the parent and host
countries affect investment patterns. They used three of the most commonly used FDI data sets, all of which run from 1980 to 2000: BEA data which covers bilateral US inbound and US outbound FDI stocks and affiliate sales; OECD data which covers bilateral inbound FDI stocks where either the parent or host country belongs to. World Bank (WB) data which covers total inbound and total outbound FDI flows for a wide variety of countries. Using 31 independent variables OLS regression analysis was performed. The study found that the omission of fixed effects leads to non-robust predictions regarding the effect of some important time-invariant variables, such as those proxying for trade costs and culture, across the three most commonly used FDI data sets. When including fixed effects, the study found that much more consistency in the estimates of time-invariant variables across data sets. The results suggest that the mixed results across the existing empirical research may be driven by a variation in the extent to which unobserved fixed effects biases results across different data sets and thus might be only an artifact of the lack of control for these biases. It concluded that more FDI comes from and goes to societies built around masculine values.

De Mooij Ruud A. and Ederveen Sjef (2003) compared the outcomes of 25 empirical studies by computing the tax rate elasticity under a uniform definition. They correlated these elasticities to the characteristics of the underlying studies by performing a meta-analysis. Overall, the study obtained 371 semi-elasticities that, together, form our meta sample. Regression analyses were used with the sample of 351 observations that excludes the extreme values and all 371 semi-elasticities includes the 20 extreme observations. It turns out that the extreme values have a big impact on some of the regression results, especially with respect to the exemption system. To analyze the robustness of the results, they experimented with different combinations of study characteristics. In all regressions they found that the semi-elasticity for the number of foreign locations is smaller than that of total foreign capital. Indeed, the coefficient in their regressions is significantly negative in the majority of cases. Their meta-regressions suggest that both average tax rates (based on either micro data or macro data) and
effective tax rates (marginal or average) exert a larger effect on foreign direct investment than country statutory rates do. The study found that using data on the number of foreign locations yield systematically lower elasticities, in absolute terms, than those using data on foreign capital. And also, found that using data on mergers and acquisitions (as compared to aggregate FDI data) report smaller elasticities, while those using data on new plants and plant expansions yield higher elasticities. The study concluded that no systematic differences in the responsiveness of investors from tax credit countries and tax exemption countries.

Desai M A et.al (2005) evaluates evidence of the relationship between outbound FDI and levels of domestic capital formation. The common intuition that outbound FDI reduces domestic investment is a special case of a broader set of possible effects of FDI on domestic economic activity. They constructed regressions to resemble those of Feldstein: while Feldstein's analysis was restricted to a relatively small number of countries in the 1970s and 1980s, their regressions cover a broader sample of countries for the 1980s and 1990s. The study observations represent decade long average values for each of 20 (in the case of the 1980s) or 26 (for the 1990s) OECD countries. The study presented cross-country evidence to describe the determinants of aggregate investment patterns for entire countries. The dependent variable is national gross capital formation to GDP and it is regressed on measure of savings, outward FDI flows and inward FDI flows. And to obtain estimates of the effects of foreign investment on domestic investment by multinational firms, the study uses time-series data on the domestic and foreign capital expenditures of U.S. multinationals, while controlling for domestic savings and the capital expenditures of the U.S affiliates of multinational based outside the United States. The dependent variable is the ratio of aggregate annual domestic capital expenditures of American multinational firms to U.S. GDP. The two analyses also differ in their scope, as the cross-sectional evidence considers economy-wide investment while the time-series evidence considers only the activities of U.S. multinational firms. It's difficult to find suitable instruments for
aggregate cross-sectional or time-series estimation of the effects of FDI on domestic investment, the ability to restrict attention to the activities of multinational firms makes the U.S. Time-series evidence likely to be more reliable than the OECD cross section. The study evidence from the time series of U.S. data implies that FDI encourages greater domestic investment.

Doukas John A. and Lang L. H. P. (2003) in their study presented that geographic diversification increases shareholder value and improve long-term performance when firms engage in core-related foreign direct (Greenfield) investments. The study examines whether the synergy gains arising from the internalization of markets are more pronounced when firms engage in geographic diversification around the core or the non-core business. It relies on the market’s assessment of unrelated and related foreign direct investment activities and the long-term performance of the firm to draw inferences about the value of diversification. The sample used in this study consists of 156 foreign direct investment announcements made by US firms from 1980 to 1992. The study analysis is based on foreign direct investment transactions identified as related and unrelated to the core business of the expanding firm using the four-digit SIC industry classification. Moreover, they break the sample into single-segment and multi-segment firms. The evidence shows that, regardless of the industrial structure of the firm, unrelated foreign direct investments are associated with negative announcement effects and long-term performance decreases in subsequent years, whereas related investments are associated with positive short-term and long-term performance. Although our findings indicate that both specialized and diversified firms benefit from core-business-related rather than non-core-business-related foreign direct investments, the gains are large for diversified firms. Geographic diversification outside the core business of the firm bears strongly against the prediction of the internalization hypothesis. The analysis also shows that, regardless of the industrial structure of the firm (that is, number of segments), foreign direct investments outside the core business of the firm are associated with a loss in shareholder value, whereas
core-related (focused) foreign direct investments are found to be value increasing. Unrelated international diversification, however, is less harmful for diversified (multi-segment) than specialized (single-segment) firms. It concluded that the larger gains to diversified firms suggest that operational and internal capital market efficiency gains are considerably greater in multi-segment than single-segment firms when both expand their core business overseas.

Enders Walter, Sachsida Adolfo and Sandler Todd (2006) in their study investigated the extent to which transnational terrorist attacks altered U.S. FDI. The purpose of this study is to quantify the extent to which terrorism has altered the level or composition of U.S. assets abroad through the creation of an atmosphere of intimidation and fear. The study estimated the determinants of the stock of U.S. FDI for 1989-1999 based on a panel of 69 countries, which consisted of 23 OECD countries and 46 non-OECD countries. It also analysed the quarterly values of U.S. FDI flows for a number of selected regions. The study applied time-series methods to ascertain the behavior of U.S. FDI flows immediately before and after the four terrorist hijackings on September 11, 2001. It shows that 9/11 generally had little lasting influence on U.S. FDI flows. It also examines the effect that terrorist attacks against U.S. interests had on the stock of U.S. FDI. The study found that such attacks had a significant, but small, impact on these stocks in OECD countries and there was no such effect for non-OECD countries.

Fortainer Fabienne (2007) analysed the differences in the growth consequences of FDI from various countries of origin, using a dataset on bilateral investment stocks of six major outward investor countries for the period 1989 – 2002. Panel data analysis confirms that the growth consequences of FDI differ by country of origin, and that these countries of origin effects also vary depending on the host country characteristics. GDP, the dependent variable and 12 other independent variables were used using regression analysis.
Fosfuri Andrea et.al (2001) analysed a model where a multinational firm can use a superior technology in a foreign subsidiary only after training a local worker. The study provides a specific mechanism through which technology might involuntarily move from a firm towards others located in the same country. They presented a model where technological spillovers from FDI might occur due to workers’ mobility. Their model helps to identify the conditions under which a MNE retains the trained worker, and those under which she leaves to a local firm. The results are consistent with the industrial organization literature on persistence of monopolies. The empirical findings of the study revealed that the so-called “joint profit” effect (or “efficiency” effect) plays an important role in determining which type of spillovers arises. The low level of “absorptive capability” by the local firm, which might be due to technological backwardness, reduces the potential for FDI generating spillovers. Finally, the MNE might anticipate that investing abroad would lead either technological spillovers or to higher wages and choose to export instead.

Glass A. J and Saggi Kamal (2002) developed a product cycle model with endogenous innovation, imitation and foreign direct investment (FDI). They used the model to determine how stronger intellectual property rights (IPR) protection in the south affects innovation, imitation and FDI; which they assume increases the cost of imitation due to stricter uniqueness requirements. The study finds that stronger IPR protection keeps multinationals safer from imitation, but no more so than Northern firms. Instead, the increased difficulty of imitation generates resource wasting and imitation disincentive effects that reduce both FDI and innovation. An interesting result is that FDI decreases with a strengthening of Southern IPR protection. The greater the resources absorbed in imitation crowd out FDI. Reduced FDI then transmits resource scarcity in the South back to the North and consequently contracts innovation.

Grosse Robert and Trevino Len J (1996) explored the factors that contribute to the explanation of FDI in the United States by country of origin of investment. The study attempted to explain the differential growth patterns by testing hypotheses related to
economic, political, geographic and cultural determinants of FDIUS since 1980. Multivariate regression model was used. The dependent variable includes the book value of foreign direct investment by country and the value of sales by US affiliates of foreign investors and 9 other independent variables. The study finds that the analysis supports the notion that FDI is used to preserve the markets that were previously established by exports as well as that exports and FDI complement each other for serving foreign markets.

Hallward-Driemeir Mary (2003) provided an empirical investigation of whether the benefits are being realized, whether a BIT can substitute for weak domestic property rights and whether ratifying it results in a significant increase in FDI. The study focuses on the importance of BITs for FDI outflows from OECD countries to developing country hosts. It used bilateral FDI outflows from 20 OECD countries to 31 developing countries during the years of 1980 to 2000 using regression analysis. It covers the vast majority of FDI to developing countries and to FDI covered by BITs. The study result finds little evidence that BITs have stimulated additional investment. The results also indicate BITs act as more of a complement than a substitute for domestic institutions means that those that are benefiting from them are arguably the least in need of a BIT to signal the quality of their property rights.

Hanson John R. II (1999) proposed high intercultural transactions costs as a reason for the enduring scarcity of modern capital and technology in poor countries and conducts a statistical test based on the premise that cultural diffusion reduces these costs. The study analysed whether the size and distribution of historical direct investment in the less developed world were predicated on cultural convergence between capital-sending and capital-receiving societies. To know whether the per capita stock of direct investment in British or French colonies is positively correlated with the presence of Christian or Islamic cultures. Two-stage least squares regression analysis was used. The dependent variable in the regressions to follow is the logarithm of the 1967 per capita stock of foreign direct investment gathered data from OECD on 113 poor countries. Independent
variables are Income, Protestant, Roman Catholic, and Islamic religions. This study complements previous case studies by demonstrating that, historically, Western cultural diffusion or its absence influenced the size, industrial composition, and geographical distribution of an important component of foreign capital in the developing world. The failure of Western culture to take hold in most of Asia, in particular, likely kept foreign investment there smaller than it otherwise would have been, a problem masked by the fact that many Asian countries were attractive for other reasons, especially their large size. The stock of direct investment in poor countries at the end of the colonial era is shown, as predicted, to be directly correlated with the diffusion of Western culture in the European empires and elsewhere.

Hejazi .W and Safarian .A. E. (2001) explained that trade and foreign direct investment (FDI) are complementary. Gravity model is used to estimate the link between outward and inward U.S. FDI stocks and U.S. exports and imports on a bilateral basis to 51 countries over the period 1982 to 1994. The hypothesis of the study is that FDI should stimulate trade because of the resulting increase in information flows. The results indicate that outward FDI to a particular country causes exports and imports to increase with that country. FDI in the U.S. is also found to stimulate exports and imports. U.S. outward FDI is found to have a larger predicted impact on U.S. exports than does inward FDI. On the other hand, inward FDI is found to have a larger predicted impact on U.S. imports than does U.S. outward FDI. These results are directly linked to patterns of intrafirm trade within the multinational enterprise (MNE), a result consistent with the transactions cost theory of MNEs. The empirical analysis finds that both outward and inward FDI cause increases in U.S. exports, but the former effect is larger. In addition, a sectoral analysis indicates that U.S. outward FDI in manufacturing has a large predicted impact on both exports and imports, whereas U.S. outward FDI in services has a large predicted, impact on U.S. exports but little or no predicted impact on imports. The findings of the study confirm other research which finds that trade and FDI are complementary. It is evident that any results that come from aggregate regressions of
trade and FDI must be significantly qualified. The study concluded that the impact of FDI on trade depends very much on the sectoral distribution as well as the role of intrafirm trade both across industries and across countries.

Hejazi Walid and Pauly P (2003) developed the hypotheses linking the impact of FDI to the underlying motivation for investment which are tested using available Canadian industry-level data. They argued that increased inward FDI enhances domestic GFCF, whereas increased outward is tantamount to the export of domestic production, and thus the reduction of domestic GFCF. To understand the link between FDI and GFCF, one must address the underlying motivation for investment: market access; factor endowment differences; and access to natural resources. Regression analysis was used to estimate the results. The dependent variable is GFCF and the independent variable includes Depreciation, Capital stock, R&D expenditures, Corporate taxes paid, Price index for intermediate inputs, Price index for hours worked, T-bill rate, Outward FDI and Inward FDI. Canada's FDI experience has been a statistically significant reduction in GFCF relative to GDP. Our regression results indicate that GFCF is positively related to the capital stock, R&D expenditures, a price index for intermediate inputs, and the T-bill rate. On the other hand, GFCF is negatively related to depreciation, corporate taxes paid and a price index for hours worked. We focus, however, on the impact of FDI. The impact of FDI varies according to investment partner. Inward FDI is positively related to GFCF and Outward FDI reduces Canadian GFCF. The study found evidence consistent with our hypotheses on FDI motivated by market access and factor price differences, and on the role of intra-firm trade. The implication of study results is that rapid growth in outward FDI, relative to inward growth, should not be considered as a negative development, and may reflect success.

Jensen Nathan M (2004) examined the impact of IMF agreements on the investment decisions of multinational corporations. More important for this study, inflows of FDI can serve as a barometer of firms' confidence in foreign markets and provide cues to which countries and policies produce environments most conducive
for firms. He examines the link between IMF agreements, the conditions associated with IMF agreements, and inflows of FDI. The conventional wisdom is that IMF programs and IMF conditionality should have a positive effect on FDI inflows. The study empirically examines the relationship between IMF programs and FDI and it employs an ordinary least squares (OLS) regression with panel-corrected standard errors, for annual observations of FDI inflows from 1970 to 1998 for 68 countries. The dependent variable includes net FDI inflows and the independent variable includes GDP per capita, market size, GDP growth, trade, budget deficit, government consumption. The study focused on the macro-level evidence on the effects of IMF programs on multinational corporations’ investment decisions. IMF programs have a negative but not statistically significant impact on FDI inflows in this regression. The study found that the OLS results are biased and have understated the true impact of IMF programs on FDI inflows. The empirical result of the study showed that not only that IMF programs, even after controlling for the financial crisis, lead to lower FDI inflows but that the OLS regression and casual observation also understated the magnitude of this drop. IMF programs may prescribe economic reform packages that are conducive to multinational investors, leading to higher levels of economic stability and strong macroeconomic performance. It concludes that IMF programs are associated with lower levels of FDI inflows. A country that signs an agreement with the IMF, ceteris paribus, attracts roughly 25% less FDI inflows than a country not signing an agreement.

Kinoshita Yuko and Mody Ashoka (2001) examined that a firm’s investment decisions are positively correlated to its own previous investment in the country; these two channels are primarily substitutes. Of the survey questionnaire mailed to several hundred Japanese firms, a total of 173 returned usable responses. There is, however, sufficient heterogeneity among the respondents to permit a statistical analysis of their foreign investment behavior. To deal with scaled responses by firms, an ordered Logit model is used to estimate the relationships. Then the study presented a benchmark model which allows for the possibility of substitution or complementary between the two
sources of private information and controls for publicly available information through the use of country dummies. Likelihood of planned investments in a country is the dependent variable; Past and Rival are the independent variable used in the study. The study found that a simple comparison across the countries indicated a positive correlation between expected investment by the firm and its perception of the strength of rival’s interest the country. Moreover perceptions of FDI policy are strongly influential in conditioning future plans to invest in a country. The study found that privately held information was complementary to public available information. And also found that Industry agglomeration effects were found to be significant, though, as noted, they could not be eliminated conclusively. To test the robustness of the findings, several extensions were also examined. This study suggests that good Government policy and a generally favourable view of the country based on its fundamentals as well as perceptions of good policy and low labour costs lead to increased foreign investment.

Klein Michael .W and Rosengren Eric (1994) examined the determinants of four measures of inward FDI to US from seven industrial countries over the period 1979-1991. Some variables were identified to distinguish between the cost-of-labour and the relative wealth hypothesis and include these in regressions on a variety of types and measures of US FDI. The hypothesis is to study whether relative wage costs and relative wealth have had a significant effect on US inward FDI. The study employs several measures of inward FDI, using data compiled by the International Trade Administration (ITA) and by the Bureau of Economic Analysis (BEA) of the Department of Commerce. An explanation of the link between FDI and exchange rates based on the relative-labour-cost theory draws from the fact that relative labour costs across major industrial countries have been largely determined by currency movements during the floating exchange rate period. In contrast, the reason for the link between the real exchange rate and FDI according to the imperfect-capital-markets theory is that the wealth of firms relative to their foreign counterparts rises with a currency appreciation. In this case, however, depreciation affects FDI by putting
domestic investors at a disadvantage compared with foreign investors by reducing their relative wealth. Correlation and regression analysis were used to test the hypothesis. They find strong evidence with that relative wealth significantly affects US inward FDI. And they find no evidence that relative wages have a significant impact on determination of US FDI. The study also finds that relative wealth matters is also consistent with an explanation in which country-specific productivity shocks affect both the relative wealth of a country and the amount of FDI undertaken by its investors. Recent events, however, tend to support the imperfect-capital-markets explanation for the link between relative wealth and FDI as opposed to an explanation based upon country-specific productivity shocks.

Klein Michael W. and Rosengren Eric (1994) examined the determinants of four measures of inward foreign direct investment to the United States from seven industrial countries over the period 1979-1991. They identified the variables that enable them to distinguish between the cost-of-labour and the relative wealth hypothesis and include these in regressions on a variety of types and measures of U.S FDI. The source countries in their study include Canada, Germany, France, Japan, the Netherlands, Switzerland and the United Kingdom. The study employed several measures of inward FDI, using data complied by the International Trade Administration (ITA) and by the Bureau of Economic Analysis (BEA) of the Department of Commerce. Cross country correlation and regression analysis were used in the study. The study finds strong evidence that relative wealth significantly affects U.S. inward foreign direct investment. It also find no evidence that relative wages have a significant impact on the determination of U.S Foreign Direct Investment (FDI).

Kostevc Crt, Redek Tjasa, and Andrej Susjan (2007) analysed the relation between foreign direct investment and the quality of the institutional environment in transition economies. The study provides a comprehensive rationalization of the importance of foreign capital for economic growth in transition economies via the export-led model of
growth. The empirical analysis was carried out in two steps: the institutional environment for FDI was confirmed by a simple correlation analysis between FDI and components of the Heritage Foundation Index and a panel data analysis was performed using the data of 24 transition economies in the period 1995–2002. And the study grouped the transition economies into two categories: economies in which institutional quality was poor and of economies with better institutions. To isolate the impact of FDI on output performance, numerous independent variables were considered: gross fixed capital, labour, human capital, inflation and budget deficit, etc., and several dummies. And the dependent variable was GDP per capita. The importance of various institutional aspects was examined by a correlation analysis between FDI and components of the Heritage Foundation Index. It showed that FDI can assist in the process of economic growth of transition economies and also confirmed that the quality of the institutional environment of transition economies significantly influences the inflow of foreign capital. It confirmed that the quality of the overall institutional framework was among the factors that in the analyzed period had a significant impact on the level of FDI in transition economies.

Kumar Gulshan and Singh Avtar .S (2008) examined the growth trends and pattern of FDI inflows to south as well as East Asia. The present study was based on the secondary data for the period of 15 years i.e., from 1991-1992 to 2005-2006. The whole required data were culled from the various World Bank reports. The study applied run test on residuals as well as computed autocorrelation coefficients and Ljung-Box Q statistics of residuals to test the hypothesis of randomness as a measure to confirm the appropriateness of Double Exponential Smoothing (DES) to make forecasts. It reveals that developing countries are receiving meager share in total world FDI flows. Finally, it concludes that share of East Asia in total FDI inflows on the average is 16 times more than that of South Asia.

Lucas Robert. E.B (1993) in his study examined that a single model of derived demand for foreign capital by a multiple product monopolist this study explores the sensitivity of direct investment flows to production cost in seven Asian countries which
are major hosts to direct investments. One relatively consistent theme which does emerge is the attraction of a large domestic market in the host country, which is typically explained by the prevalence of protection-hopping FDI combined with scale economies. Various Governments administering to these seven have been concerned to restrain wage escalation and to limit the role of organised labour, partially in order to attract foreign direct investments. The output deterrent effect of higher wages is estimated here to outweigh any substitution toward greater capital intensity, resulting in a combined negative effect of greater pay upon foreign direct capital inflows. Moreover, although any deterrent effect of industrial disputes upon foreign investors is less clear cut, some partial evidence is advanced to support a negative impact. Foreign direct investment inflows are estimated to be less elastic with respect to the costs of capital (including taxes) than to wages, though as always this may reflect inherent difficulties in measuring capital costs. And FDI is more elastic to with respect to aggregate demand in export markets than with respect to domestic demand. The estimates also suggest that: DFI rises with greater costs within the investors’ home countries; no similar effect occurs with respect to costs in rival host countries; and concerns for political stability have overlain economic determinants.

Martin Xavier and Salomon Robert (2003) examined the impact of knowledge tacitness on a firm's propensity to establish plants in foreign rather than domestic locations. They argued that the tacitness of technology has an inverted-U effect on the propensity to undertake foreign investment and as a firm learns about a technology, it will become more likely to make foreign investments. The study also examined two forms of learning: transfer-based learning and time-based learning. It developed and tested theory about the effects of a firm's knowledge on its propensity to invest abroad rather than domestically. It focuses on technology, but is generally applicable to other types of knowledge-based assets. The sample list included 346 plants, all built since 1970. Of the plants in the sample, 308 had single owner and 38 had joint ventures. Descriptive statistics, pair wise correlations and multivariate regression analysis
were used. The study found that experience with prior foreign transfers significantly promotes foreign direct investment. It found that as the tacitness of a firm’s technology increases, its propensity to produce in foreign locations increases up to a point, and then decreases. The study suggests that the most tacit technology raises the strongest obstacles to foreign direct investment. The study results also suggest that learning is a matter of taking time to become acquainted with the use of the technology, and of gaining experience through successive foreign plant investments.

Mathiyazhagan M. K (2005) examined the long-run relationship of Foreign Direct Investment (FDI) with Gross Output (GO), Export (EX) and Labour Productivity (LPR) in the Indian economy at the sectoral level by using the annual data from 1990-91 to 2000-01. The study uses the Panel Co-integration (PCONT) test and the results demonstrate that the flow of FDI into the sectors has helped to raise the variables in some sectors but a better role of FDI at the sectoral level is still expected. However, it can be observed from the result of the PCONT that a very minimal relation in these variables is established by the FDI inflows into the sectors due to the low flow of FDI into India.

Mathiyazhagan M. K et.al (2008) examined the benefits of FDI inflows into the major sectors in India. The study reviews the empirical studies on the relation between FDI and economic activities in the host economy, which can help identify the issues relating to the impact of FDI at the sectoral level. They assessed the long-run relationship of FDI with the gross output, export and labour productivity of the major sectors by using panel co-integration test based on the annual data from 1991-92 to 2004-05. The result shows that there is no significant co-integrating relationship among the variables in all the nine sectors. The study concluded that that the advent of FDI has not wielded a positive impact on the Indian economy at the sectoral level. Further, the results also demonstrate that the degree of relationship between FDI inflows into the major sectors and their output, labour productivity and export is low. Therefore, on the eve of India’s plan to further open its economy, it is perhaps advisable for it to open up the export
oriented sectors so that a higher growth of the economy can be achieved through the growth of these sectors.

Medvedev Denis (2006) investigated the effects of preferential trade agreements (PTAs) on the net foreign direct investment (FDI) inflows of member countries using comprehensive database of PTAs in a panel setting. He also investigated the empirical relationship between preferential trade liberalisation and net FDI inflows using a panel of 143 countries over the 1980 - 2003 periods. The study employed estimation methods that remain consistent in the presence of panel – level heteroscedasticity and autocorrelation. The study main contribution lies in determining the links between preferential liberalisation and FDI for the largest possible sample of countries and PTAs. The dependent variable, FDI inflows and nine independent variables were used in the study. The study find that PTA membership is associated with a positive change in net FDI inflows, and the FDI gains are increasing in the market size of the PTA partners and their proximity to the host country. The study also find that entering into PTAs with more and/or large partners has a positive effect on an average country’s net FDI inflows, while being located further away from these PTA partners tends to dampen the FDI stimulus effect.

Morisset Jacques (2003) assessed to what extent does investment promotion help explain cross-country variations in foreign direct investment (FDI) flows. Simple analytical model was used. The study used data from a new survey that was conducted in 58 investment promotion agencies between February and May 2002 using Ordinary Least Square technique. The study finds that promotion is positively associated with FDI inflows across countries have to be qualified because it is closely link to the environment in which the agency operates. The study results suggest that promotion can be even counter productive in a country that offers a poor investment climate. It reveals that policy advocacy is the most effective function for attracting a dollar of investment, followed by image-building, and investor servicing.
Morisset Jacques and Lumenga Neso Olivier (2002) analysed the administrative barriers to foreign investment in 32 developing countries, including 20 African and 7 Eastern and Central Europe countries between 1997 and 2001. The study provides a new database on the number of procedures, the delays and costs that investors have to face when they want to establish and operate a business. To compare current practices in a set of 32 developing countries by identifying 26 core administrative procedures that are generally required to set up and operate a business and grouped them into three principal categories. It attempts to explain cross-country variations in administrative costs faced by investors using simple correlations. The dependent variables include Total Administrative Cost per Procedure over GDP and the independent variable includes Corruption, Governance, Political Freedom, Trade/GDP, FDI/GDP, Openness Index, Average Wage, African countries and Anglo-Saxon Legal Origin. The empirical finding of the study is that they emphasize the difficulty to reduce administrative costs in corrupt and closed economies. The main conclusions of the study are the access to land and site development are the sources of longest delays in most countries, followed by operational requirements for import-export, especially in Africa. Although business registration appears not so costly relative to land. The results suggest that administrative procedures should be viewed in a broader context than usually adopted by policymakers and advisors.

Mutti John and Grubert Harry (2004) assessed the sensitivity of the operations of multinational corporations (MNCs) to host country taxation. The primary goal of this study was to assess the importance of policy variables, especially the role of taxation, on the direct investment abroad. This study relies on real GPO reported for three different benchmark census years of U.S. direct investment abroad: 1982, 1989, and 1994. The empirical analysis was based on two different measures of MNC activity by U.S. majority-owned foreign affiliates: panel data for aggregate real gross product in manufacturing that originates in a given host country and micro data for a single year regarding the likelihood of a firm locating in a given host country. A panel of
observations across 47 countries for Country average effective corporate income tax rates were calculated from data reported the U.S. Treasury on Form 5471 by U.S. controlled foreign corporations in manufacturing. The study also analysed 728 parent firms, who have the option of locating in 60 different countries using Probit analysis. The empirical estimates indicate that investment geared toward export markets, rather than the domestic market, is particularly sensitive to host country taxation, that this sensitivity appears to be greater in developing countries than developed countries, and that it is becoming greater over time. The study concludes that a lower tax rate is less important in attracting MNC activity geared to serve that market, especially when trade barriers protect it.

Mutti John and Grubert Harry (2004) assessed the sensitivity of the operations of multinational corporations (MNCs) to host countries. This study relies on real gross product originating (GPO) reported for three different benchmark census years of U.S direct investment abroad: 1982, 1989, and 1994. A panel of observations across 47 countries for these three years is the basis for the empirical analysis. The empirical analysis is based on two different measures of MNC activity by U.S. majority-owned foreign affiliates: panel data for aggregate real gross product in manufacturing that originates in a given host country and micro data for a single year regarding the likelihood of a firm locating in a given host country. The empirical estimates indicate that investment geared toward export markets, rather than the domestic market, is particularly sensitive to host country taxation, that this sensitivity appears to be greater in developing countries than developed countries, and that it is becoming greater over time.

Nigh Douglas and Schollhammers Hans (1987) examines the extent to which investor’s response to political conflict and co-operation is asymmetric, i.e. investors respond differently depending on whether the political conflict or cooperation is increasing or decreasing. The study also examines the relationship of FDI and relevant economic factors such as market size and market growth of the host country. The asymmetric response hypothesis is tested through regression analysis of pooled time – series (13 years) and cross – sectional (62 countries) data on Japanese investors.
With pooled cross-sectional time-series data, the sample size is much larger than just cross-sectional or just time-series data were employed. The result does indicate that the market size of the host country does affect Japanese foreign direct investments in developed countries. The study finds evidence of asymmetry for intra-nation conflict and co-operation but not for inter-nation conflict and co-operation.

Nonnemberg Marcelo Braga and Mendonça Mario Jorge Cardoso de shed light on the determinants of foreign direct investment (FDI) in developing countries. The study performed an econometric model based on panel data analysis for 38 developing countries (including transition economies) for the 1975-2000 period. The dependent variable, Log FDI and the independent variable selected to explain direct foreign investment in developing countries were product (GDP), the average rate of GDP growth over the previous 5 years (G5GDP), the level of schooling of the labor force (ESCOL), the degree of trade openness (OPENNESS), the rate of inflation (INFLATION), the risk rating (RISK), per capita energy consumption (ENERCON), the Dow Jones index (DOWJONES), and the average rate of growth of the largest OECD exporters of FDI to developing countries (GGDPOECD). Panel data regression analyses were generated with the following models (i) OLS (pooling), (ii) random effect panel, and (iii) fixed effect panel. The major conclusions is that FDI is correlated to level of schooling, economy’s degree of openness, risk and variables related to macroeconomic performance like inflation, risk and average rate of economic growth. The results also show that the FDI has been closely associated with stock market performance. There is evidence of the existence of causality in sense that GDP leading to FDI, but not vice versa.

Park H. Y (2000) investigates factors affecting the global choices of firms in the US: (1) US direct investment abroad (2) foreign direct investment in the US (3) the manufacturing Wage-productivity ratio and (4) Transaction cost. The study also compares global sourcing with domestic sourcing in procurement costs and examines the qualitative transaction costs of country groups by income. This study conducted a survey
of 1550 US firms of which 328 companies responded. The countries cited in survey responses into four income groups based on the country’s per capita annual income level: (1) Low - income countries (2) Middle - income countries (3) High – income counties (4) Newly industrialized economies. More than 50 countries were cited as foreign sources and only 35 countries data were usable in estimating the regression coefficients. The Spearman rank correlation coefficients between the rank of sourcing and FDI to the US and US direct investments abroad are statistically significant. Both the wage – productivity ratio and transaction costs are not statistically significant at the conventional significance level, but their regression coefficients show proper signs. The study result may support the hypothesis that global outsourcing is primarily intrafirm sourcing and has a direct relationship with the FDI.

Razafimahefa Ivohasina and Hamori Shigeyuki (2005) analysed the determinants of foreign direct investment for Sub-Saharan African countries and other some developing countries. They presented an empirical analysis of the FDI determinants in Sub-Saharan African (SSA) economies and selected economies of Asia and Latin America. Their results suggest that both productivity – related policy and exchange rate policy can be effective in sharpening FDI competitiveness, i.e., in attracting foreign investments.

Rolfe, R. J, et al (1993) determines whether the attractiveness of host government investment incentives varies from situation to situation and, if so to find out what influences the multinational enterprise’s preferences. This was accomplished by having managers of US firms with operations in the Caribbean region evaluate the attractiveness of host country incentives. This study focuses on one region and examines incentive preferences within that region. Twenty incentives found on both Fry’s and Guisinger’s lists were examined in the present study. Of the 891 instruments mailed, a total of 103 usable questionnaires were returned from firms in eighteen of the thirty – five countries in the region. Multivariate analysis of variance was employed to determine whether incentive preferences were a function of investment characteristics. This study
demonstrates that all incentives do not equally appeal to all investors. Also findings indicate that countries need to determine the type of industry desired, and then match the incentives offered with the needs of the targeted industries.

Root F. R and Ahmed. A. A (1978) finds out the policies of host developing countries have a significant influence on their capacity to attract direct foreign investment in manufacturing sector. This study also intended to measure the association of host – government policy variables with direct foreign investment. Forty – four economic, social, political and policy variables were tested for their significance in discriminating among three groups of developing countries designated “unattractive”, “moderate unattractive” and “highly unattractive” with respect to foreign investment in manufacturing. Among the six essential discriminators, the only policy variable to emerge is the corporate tax level. Multiple discriminate analyses of the data were used to handle the investment flows. Findings suggest that the governments of developing countries can adopt a variety of policies in these areas without significantly affecting their investment climates. The government policies are not likely to be decisive determinants of foreign investment climates when compared to other determinants which create uncertainty for investors.

Root F. R and Ahmed. A. A (1979) seeks to identify the empirical determinants of direct foreign investment flows in the manufacturing sectors of developing countries. Data on non extractive direct investment inflows were compiled for 70 developing countries that were then classified into three groups “unattractive,” “moderate unattractive,” and “highly unattractive” according to their average annual per capita inflow (1966 -1970). Thirty – eight social, economic and political variables were tested for their significance with respect to non extractive direct investment. Multiple discriminate analyses were better suited to handle the investment flows and six variables were selected as essential discriminators. Frequent changes in government deter non extractive direct foreign investment. The findings of the study were both encouraging and discouraging for developing countries that want more non extractive direct foreign
investment. On the one hand, they indicate that as the per capita income of a developing country rises and infrastructure facilities become more adequate, it can reasonably anticipate higher inflows of investment, particularly if the government is also stable. On the other hand, the findings indicate that the low absolute levels of growth, income and infrastructure facilities of many developing countries coupled with their political instability present major obstacles to any substantial increases in direct foreign investment.

Rothgeb J. M, JR (1986) examines the effects of international recessions upon the role of direct foreign investment in underdeveloped countries. Arguments for two schools of thought are examined: (1) the opportunity school, which regards recessions as presenting poor countries with a chance to reduce the role of foreign investment in their societies; and (2) the compensation school, which sees economic disturbances as leading multinational corporations to use underdeveloped states to offset the problems posed by the recession. This research employs a cross-national design. Data were gathered for 84 states classified by the World Bank (1976, 1980) as underdeveloped between the years 1970 and 1978. Standard multiple regression analysis was used to investigate the hypothesized relationships. Conclusion of the research is that International recessions: (1) do not affect the role played by foreign investments in Third world states; (2) were moments of opportunity were inaccurate; (3) As far as compensation is concerned, the results of the analysis support the hypothesis that multinational corporations use more developed Third World states to sustain their profits; (4) The evidence also implies that the tactic of tapping the less-expensive labour found in underdeveloped states as a means for enhancing the firm's profits is not pursued; (5) finally, foreign investors do not resort to a stepped-up repatriation of profits from Third World states.

Rothgeb John M, Jr (1986) examined the effects of an international recession upon the role of direct foreign investment in underdeveloped countries. The basic goal of the study is to outline briefly the underlying logic of the two schools of thought, to point to the reasons for disagreement, and to suggest the specific conditions under which each
may be plausible. Data was gathered for 84 states classified by the World Bank using multiple regression analysis. The study finds that the international recessions do affect the role played by the foreign investments in Third world states.

Sabirianova Klara, et.al (2005) in their study showed how much progress has been made in reducing the distance between the efficiency of domestic firms and the world technology frontier in two transition economies - the Czech Republic and Russia - and they assessed whether the presence of foreign firms in these countries contributes to the reduction of the productivity gap. The study estimated and compared the changes in the levels of productive efficiency of domestic and foreign-owned firms in each of these two countries over the 1992-2000 period using translog production function with panel data on medium-sized and large firms in the industrial sector. The study also tested if greater foreign presence has a positive effect on these firms and a less positive or negative effect on the domestic firms. The estimated average (time invariant) and dynamic (time-varying) effects of foreign presence on productive efficiency of domestic and foreign firms in a given industry assessed the sensitivity of the estimates to the estimation method, coefficients from pooled OLS, random effects (RE), fixed effects (FE), and the two-stage least squares random effect estimator (2SLR-RE). All four methods yield the same pattern of key results with respect to the average effect of foreign presence over the productive efficiency of domestic firms declines with greater presence of foreign-owned firms in both countries and the negative spillover is much larger in Russia than in the Czech Republic. It found in both countries that domestic firms in industries with a greater share of foreign firms are falling behind more than domestic firms in industries with a smaller foreign presence. However, in the Czech Republic this "negative spillover" effect is diminished over time, whereas in Russia it continues to cause domestic firms to fall further behind. They concluded that in both countries that foreign firms experience positive spillovers from other foreign firms operating in the same product market.
Schneider F and Frey B. S (1985) illustrated four models which are econometrically tested by multiple regression over 54 developing countries for 1976, 1979 and 1980 is compared with three competing models which are prototypes of the models. It is moreover demonstrated that the politico-economic model is better able to forecast the distribution of foreign direct investment flows. The higher the real per capita GNP and the lower the balance of payments deficit are, the more foreign direct investment is attracted. This study endeavours to present a model of the determinants of foreign direct investment based on an application of ‘public choice’ to international economic (and political) issues. Four models are developed with the purpose of comparing the quality of the estimates and (ex post) forecasts of a model (a) which concentrates exclusively on a political determinant (political instability), a model (b) which concentrates exclusively on economic determinants (growth of GNP, inflation, balance of payments, wage costs, skilled labour force). and in addition a model (c) which uses as the sole determinant an international risk indicator, an amalgamation of economic and political factors. These three models are compared with a politico-economic model (d) which simultaneously includes the economic determinants (as in model b) and political determinants (as in model a). It concluded that foreign direct investment in developing countries is simultaneously determined by economic and political factors. It is further concluded that an amalgamation of economic and political influences into a credit risk indicator is not advisable because it is not able to do justice to the complexity of politico economic interdependence.

Seabra Ferando and Flash Lisandra (2005) investigated the nature of the casual relationship between FDI and profit remittances (which has been neglected by many empirical studies) in Brazil using the Granger causality test procedure developed by Toda and Yamamoto, which enables us to examine the long – run effects of foreign direct investment on profit repatriation. The sample range is 1979Q1 up to 2003Q4 which comprises 96 observations and the variables are expressed in their logarithmic
transformation. This study stress the fact that the significant effects that FDI inflows may cause to the deterioration of the balance of payments in the long-run (due to profit remittance) should be taken into account when policy makers decide to implement policies to attract foreign investors.

Sethi D, et.al (2003) examined a rationale for changing trends in the flow and determinants of Foreign Direct Investment (FDI) as a result of macro-economic and firm strategy considerations. This study analyses the US FDI into Western Europe and Asia over 20 years using multiple Ordinary Least Square (OLS) regression models. The statistical analysis of investments by US multinational enterprises (MNEs) reveals significant changes in the regional distribution of FDI, and a change in some of its tradition determinants. Results show that US MNEs are now making increasing investments into Asia to exploit low wage levels and to secure entry into new markets.

Shaver J. Myles, Mitchell Will, Yeung Bernard (1997) argued that foreign firms operating in a host country generate information spillovers that have potential value for later foreign direct investment. The study investigates how firms' own experience in a host country and the experience of other foreign entrants in the target industry affect the survival of foreign direct investments. Sample includes 354 entries, including 237 acquisitions/mergers and 117 new plants, by 311 firms. Of the 354 foreign direct investments in the sample, nearly one in four foreign investments in 1987 survived less than 5 years. The dependent variable, investment survival and 5 independent variables were used to examine the relationship between FDI survival and the presence of other foreign firms in a target industry using binomial logistic regression, descriptive statistics and product moment correlation. They expect foreign direct investments by firms with experience in a host country to be more likely to survive than investments made by first-time entrants. Secondly, foreign direct investments will be more likely to survive the greater the foreign presence in the target industry at the time of investment, subject to two contingencies. It segmented the data into three subsamples in order to investigate the empirical relationship between prior foreign firm experience and investment survival:
(1) firms already present in the target industry in the United States; (2) firms already present in the United States but not in the target industry; and (3) firms without a presence in the United States. The key contribution of their study was that previous foreign entrants' experience can positively affect foreign direct investment survival but only selected firms benefit from the experience of previous foreign entrants. Foreign direct investment by firms with existing operations in the United States in industries other than the target are significantly more likely to survive when the target industry has a higher level of foreign presence. There is no significant relationship between foreign presence and investment survival for two classes of firms: (1) those without existing operations in the United States; and (2) those with existing operations in the industry in which they invested. The results offer useful insights concerning how own-firm and other-firm experience influence the survival of foreign direct investment. The study found supportive evidence based on the survival to 1992 among 354 U.S. investments undertaken by foreign firms in manufacturing industries during 1987.

Shen Jianfa, et.al (2000) focused on the Pearl River Delta region to examine the spatial diffusion and the determinants of foreign investment. The diffusion of foreign investment from the provincial capital, Guangzhou and two special economic zones near Hong Kong to surrounding. Foreign investment plays a significant role in economic development in the Pearl River Delta area. The diffusion of foreign investment in the Pearl River Delta was the result of interplay between policies, economic fundamentals and foreign investors. Hoover concentration index (CI) was used and the results reveal a diffusion process of foreign investment over the area of the Pearl River Delta from 1980 to 1994. Four cross sectional regression analysis was used to identify key factors affecting the location of foreign investment. The amount of actually utilized foreign investment in each of 28 cities or counties in a particular year was taken as the dependent variable and 19 independent variables were selected for the analysis. The higher the per capita arable land the higher the level of foreign investment indicates that
there was a diffusion of foreign investment from urban areas to rural areas. The spatial concentration and diffusion of foreign investment will affect the convergence/divergence of the level of development between various regions and countries. The findings of the study indicate that the market mechanism may also function to reduce the regional disparity that has been the secondary objective in China's recent drive for rapid economic development and modernization.

Sury Niti (2008) identified the determinants of FDI in India, employing the ordinary least squares regression analysis on quarterly data for the period 1991 – 2003. For testing stationarity, the Dicky – Fuller test for unit root was also applied in the study. The study also examines the impact of GDP, taxes, trade openness, labour cost and political instability on FDI inflows. The study find that using alternative specifications, FDI inflows into India are found to be significantly determined by expected national income, tax rate, trade openness and labour cost for the period.

Tanzi Vito and Coelho Isaias (1991) in his study provided an overview of recent developments regarding obstacles to movements of capital across borders, with emphasis on the barriers to investment entry in the United States as compared with the situation in the rest of the world. The study addresses the issue in two parts dealing respectively with the traditional restrictions on foreign investment and more recent tendencies. It also analyses the flow of direct investment out of and into the U.S for the period 1970-1989 and the position of FDI in the U.S. by country origin as of 1989. This study has dealt with special form of protectionism, the one that tries to limit the inflow of equity capital into a country. It has also shown, however, that in recent years the arguments for restricting foreign investment in the United States have become a bit more strident and have attracted a more powerful political backing, reflecting in part the fact that this country has become a net importer of capital and, as a consequence, has a large debt to foreigners. This has happened at a time when restrictions on direct investment are generally being reduced in other countries.
Ulussever Talat (2006) in his study analysed the macroeconomic determinants of Foreign Direct Investment (FDI) in the Turkish economy. He constructed single regression model and used data from 1960 – 2004 to estimate the determinants of FDI inflows into Turkish economy. The dependent variable includes real foreign capital inflows and the independent variables include real gross domestic product, wage differential, openness, real stock of foreign capital, public infrastructure investment, growth rate of the economy and consumer price index. Ordinary least squares and generalised least squares methods were used. The study shows that the results of the alternative specifications both OLS and GLS estimates were consistent in terms of the significant variables. The findings of the study are consistent with the literature and shows that the statistically significant determinants of FDI inflows into Turkish economy are Openness, growth rate of the economy, foreign capital stock, infrastructure investment and economic instability. The study suggests that more economic, political and other necessary steps should be taken to attract additional foreign investments.

Walz Uwe (1997) constructed a model in which MNCs arising from foreign direct investment (FDI) play a crucial role with respect to international growth and specialization patterns. The study also analysed the impact of policies directed towards MNCs as well as the implications of other policy measures, and ask whether the presence of MNCs alters the effects of policies compared with a word without MNCs. He borrowed the Quality – ladder approach to endogenous technological change developed by Grossman and Helpman. The study shows that a reduction of friction associated with foreign direct investment and international labour migration fosters economic growth.

Yde Skaksen Mette and Rose Sorensen Jan (2001) analysed whether home workers gain or lose on FDI depends on which kind of activities the firm moves to the host country. They focused on whether it would be optimal for the firm to become multinational and whether the trade union in the home country would appreciate that the firm becomes multinational. In the study they setup a simple model with one firm which at the labor market in the home country faces a trade union. A two country partial
equilibrium model was used to handle a single monopolistic firm facing the inverse demand function using Cobb-Douglas production functions and Leontief production functions. The result shows that a firm and a local trade union may agree whether the firm should become multinational. The reason why it is possible that the local trade unions find it attractive that the firm becomes multinational is that the total wage cost of the home workers becomes less important for the firm. The trade union in the home country may exploit that to get a higher wage in the bargaining with the firm. It is likely that employment in the home country decreases, but the higher wage may compensate for the employment loss. If there is a big degree of substitutability (complementarity) between activities in the home country and activities in the host country, it is likely that the workers lose (gain) on FDI.