



A Literature Review of the Impact of FDI Net Flows on Economics Growth

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Abstract

When the developing countries have a poor financial condition, FDI might make negative influences, while it achieves better when the country is in the rising period. Moreover, FDI makes not many influences on the real estate industry in China, but they are influential in the technological plant industry through the sample of Canada. FDI has enormous impacts on developing countries, but the forces change in a different phase of the country.

Keywords: Foreign direct investment; Economics growth

Introduction

The role of foreign direct investment (FDI) in countries' economic growth is a controversial topic. This question has occurred ever since the UN development decade of the 1960s. Globalization is a trend for now due to the advances in infrastructure such as telecommunications, including the rise of the Internet. Therefore, now the foreign direct investment (FDI) gets more attention, especially for Asian countries. From the UNCTAD's World Investment Report 2019, the FDI inflows to developing countries in Asia increased by 3.9% in 2018. Also, the report points out the growth mainly flows to Singapore, Indonesia, and other Southeast Asian countries. In theory, the FDI inflows boost the local economic growth due to the advantages of capital inflows, bringing technology [1]. However, it is still an open question for whether FDI inflows positively affect the countries' economic growth.

Literature Review

Many researchers have studied the effect of FDI in different countries or regions. The impact of foreign direct investment (FDI) on economic growth for a sample of 32 low developing countries (LDCs) [2]. They use OLS, random-effects, and fixed-effects models to analyse the effect of both FDI and domestic investment on GDP growth. In the OLS and random-effects

model, they find that FDI has a higher impact on the GDP than does domestic investment. FDI incentives native investment [3]. What is more, the effect of FDI on economic growth is increased through positively interacting with human capital in the macroeconomic policies and institutional stability. However, external factors, such as inflation or excessive intervention from the government, the influence of FDI in promoting growth is not significant [4]. The empirical literature on the connection between FDI and GDP growth using data from 45 countries from 1997 to 2004, and the two authors show that the inflow of FDI positively affects economic growth in the presence of a highly skilled workforce. Still, the precondition is that there are well-trained and skilled laborers [5]. They also point out that corruption brings a negative impact on economic growth, while trade liberalization promotes economic growth by dine of efficiency. The FDI positively affects GDP in these developing countries because FDI brings technological innovations, a better financial system, and more confidence of investors [6]. They highlight that the impact of FDI may only work on the proper financial openness policies. Conclude from their study that the impact of overseas investment and influence on growth and inequality appears to depend on whether the global economy is expanding or contracting [7]. Their research also suggests that foreign investment causes more negative influences in times of austerity.

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Some research on the impact of FDI focuses on specific regions. Using the threshold error correction method, says that in the short run, the evidence indicates that FDI promotes economic growth, and stimulates domestic capital accumulation [8]. Still, in the long run, the increasing capital formation has an asymmetric effect on economic growth. Meanwhile, the researcher points out that the domestic investment hinders FDI inflow. Attempt to use panel of data from the European Union and the Association of South-East Asian nations from 1970 to 2003 to identify the causal relationship between FDI and economic growth, and they believe that the host nation's economic growth boosts inward FDI in developing or developed countries [9]. The analysis indicates that there is a decisive long run co-integrating connection between FDI stock and economic growth [10]. However, only Finland shows that FDI has deduced economic growth in the EU sample, but there is no case of bilateral relations. In addition, only Indonesian studies have shown that there is a small amount of evidence of a two-way relationship between economic growth and FDI in the ASEAN sample, and no case of FDI can be used to derive economic growth. Therefore, they believe that different results produced by different stages of economic growth. FDI is dependent on economic growth, while economic growth does not depend on FDI, in the case of Pakistan [11]. Meanwhile, he mentions that weak human capital hinders economic growth and the FDI. Most FDI flows are concentrated in a small number of countries in East Asia and Latin America, and China is becoming the primary beneficiary [12]. However, many developing countries fail to benefit from the rapid growth that has occurred. Additionally, some traditional variables, namely, infrastructure, economic growth and trade openness, do promote FDI flows to small developing countries. Explores whether the dense concentration of FDI on China's coastal area has promoted or destroyed the economic growth of the inland area, and researcher says that FDI in coastal areas has, on average, hurt economic growth in inland provinces. But some of his findings show that FDI does have a positive spill over in some areas due to the industrial linkages with inland provinces. FDI could improve total factor productivity, and it brings the money, management innovations to prevent the poverty trap eventually, the samples in the growth of Central and Eastern European countries, the Baltic States and the CIS Common wealth of Independent States during the transition period [13]. This aspect of avoiding the poverty trap is worth thinking about whether to attract FDI can change the situation of capital dependence. How foreign direct investment contributes to improving living standards and reducing poverty. The author says that aggregate growth may benefit from FDI in countries, but the least certain of FDI would raise per capita income and thus reduce poverty. But, from the other aspects, say that FDI activities positively affect merchandise and manufacturing exports from the panel data from 1975 to 2003 in

four Middle East and North Africa countries [14]. However, it does not boost the share of the manufacturing exports increased in merchandise exports. Thus examine the relationship between ICT (information, communication and technology) and FDI using simple regression plots in Africa [15]. They say there is a definite connection between the ICT and FDI, but the real GDP per capita has an inverse relationship with FDI inflows. They also mention the encouraging FDI in Africa had not got the result as expected. Adopts the way of using graph and data analysis to show the effect of FDI in the relationship between intellectual property rights (IPR) and growth. Researcher says that stronger IPR mitigates the economic growth and the FDI inflows, and FDI promotes economic growth [16].

The effect of FDI on the survival of new native plants in Canada through the economic analysis within and between industries using statistical analysis by companies from 1973 to 1997 [17]. The implication from the author shows that the FDI may bring advanced technologies to the local plant industry through some economic linkages, and FDI improves productivity and expands employment. Attempt to evaluate the impact of the FDI inflows on the real estate price through growing the host country's economy, and the Guangdong Province is the example in the research to be examined. They say the impact of the FDI flows on property prices tend to be insignificant. Also, the FDI has no push to the price of the estate industry in Guangdong Province [18].

Conclusion

This literature review primarily explores the results of two primary directions in FDI research papers, which are the effect of FDI on developing countries or some specific countries, and the impact of FDI on some industries. Believe the FDI positively affects economic growth due to the advanced technology, managerial skill, and so on. Also, have a different idea, who think it is not sure for FDI to have a more important position than domestic investment, and FDI stimulates domestic investment. Suggests that FDI stimulates economic growth in the short run, but it has an asymmetric effect in the long run [19]. However, conclude the influences of FDI depend on the financial conditions of the developing countries and the industry of the investment. When the developing countries have a poor financial condition, FDI might make negative influences, while it achieves better when the country is in the rising period. Moreover, FDI makes not many influences on the real estate industry in China, but they are influential in the technological plant industry through the sample of Canada [20,21]. FDI has enormous impacts on developing countries, but the forces change in a different phase of the country.

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