

Dynamics of Global FDI Inflows in Developing Countries

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Abstract

The present study examines the trends and patterns of global FDI inflows in 32 selected developing economies from 1990-2015. The overall picture reveals the consistent rise in global FDI inflows throughout the study period. Though the developed nations dominated the global picture in the beginning, it is the developing nations whose share in the global FDI inflows has consistently increased since 1990s owing to FDI liberalization policies, bilateral investment treaties (BITs), double investment treaties and special trade and investment zones gaining momentum. The regional distribution shows that Asia has been capturing around two-third of share in the FDI inflows of developing economies followed by Latin America and Caribbean region whereas Africa is at the bottom. The FDI growth trend has undergone considerable change in three different sub-periods and it is the second sub-period which has registered highest growth rate of FDI inflows compared to first and third sub-period in all six regions except Latin America and Caribbean.

Keywords: *FDI inflows, Developing countries, Regional trend, Growth rate*

JEL Classification: *F43, R11*

Introduction

Theoretically, it is well postulated in economic literature that FDI tends to have significant positive effect on the economic growth of the nations. The picture at global front although showed dominance of developed nations in global FDI inflows in the beginning, it is in the mid 1990s that shifted the focus towards developing nations' increasingly coming to forth. This led to rise in absolute FDI inflows in developing countries as well as FDI as a share of GDP also stabilized around 2% during this period. This large

inflow of FDI in developing nations has been supported through FDI liberalization measures, majority of FDI regulatory regimes in favour of FDI, expansion of bilateral investment treaties, double taxation treaties, new investment incentives and developing special trade and investment zones. This foundation has been laid to create conducive environment for FDI due to two broad notions (i) The importance of FDI in economic growth had been well established by this time and (ii) There had been growing recognition among developing nations to strengthen their basic infrastructure to attract more and more FDI (WIR, 1998).

The boost to FDI in developing nations is well evident from the number of regulatory changes implemented in favour of FDI. It is noteworthy to mention here that out of 2722 national regulatory changes of FDI, 2323 (85.34%) are in favour of FDI during 1990-2015. Thus, there has been consistent rise in FDI inflows in developing countries from US\$34.65 billion in 1990 to US\$752.33 billion in 2015. The relative position of developing countries in global FDI inflows has also significantly improved as their share has more than doubled from 17% in 1990 to 42% in 2015. It is important to mention here that the surge in FDI inflows in developing nations is to a large extent attributed to rise in FDI in India, China, Taiwan, Hong Kong (China) and Singapore. These countries have always been dominant to attract major chunk of FDI in total FDI inflows of developing countries (Singh, L. and Jain, V. 2009 and WIR, 2016).

Now a days, virtually all countries are actively seeking to attract FDI mainly due to its growth-enhancing effects in host countries. FDI has potential positive impact on economic growth of host countries through many of its transmission channels i.e. technical know-how, imports of high-tech products, knowledge spill over and effective competitive strategies adopted by MNCs. However, the potential benefits of technology and knowledge spill over embodied in FDI can be fully engineered – (i) if the host nations have adopted open trade policies (more export-oriented), (ii) These countries have sufficiently developed their absorptive capabilities through investment in education, skill-level, technical training and (iii) There are competitive local firms to compete in global market via investment in R&D and these are able to capture larger share in domestic market. Developing countries have been doing substantial efforts in this direction

and large FDI inflows are coming into their economies. There are also numerous studies reflecting upon FDI-economic growth nexus and bringing forth the positive impact of FDI on economic growth via standard empirical analysis (Bevan & Estrin, 2000; Feldstein, 2000; Soubbotina & Sheram, 2000; Cho, 2003; Janicki & Wunnavava, 2004; Özkan-Günay, 2011). Borenszein, E. De. Gregario, J and Lee, J.W. (1998) empirically analyze FDI-economic growth nexus in 69 developing countries for 1970-89 using cross-section regression. Findings indicate that FDI has positive but insignificant impact on growth but this potential benefits of FDI on economic growth are enhanced if the countries have adequately developed their absorptive capacities in the form of human capital, skill formation and technical training. Thus, the interaction of FDI with human capital yields much higher impact on economic growth i.e. 1.64 to 1.88 in different specifications. Using panel data of 50 developed as well as developing countries during 1980-1990, the study found that an increase in the FDI flows is positively related to economic growth of host countries but such type of effect is very strong only for those countries which have higher level of institutional capability (Olofsdotter, 1998). The study done by Makki (2004) on economic growth of 66 developing countries for the period 1971-2000 found that the impact of FDI and trade on economic growth is positive but not statistically significant whereas the impact of human capital and domestic investment is positive and statistically significant. Additionally, the interaction between FDI and trade is positive and significant. Other macroeconomic variables like lowering of inflation rate, tax burden and government consumption represent sound macro-economic policies, make investment more profitable and leave

more resources for investment respectively and positively affect economic growth. Ram and Zang (2002) examines the FDI-economic growth relationship by covering the period of 1990s, as this decade represents large inflow of FDI covering 85 countries and also for LDC's, using three different variants of FDI. It shows that FDI/Y has highest positive impact on economic growth in full sample whereas GFDI has highest impact on economic growth of LDCs. However, the interaction effect of FDI and human capital is not found to be positive and significant contrary to results of previous studies. Balasubramanyam, Salisu and Sapeford (2006) discussed the impact of FDI on economic growth through four different channels, covering 46 developing countries for time period 1970-85. The OLS findings show that the impact of FDI on economic growth is higher in countries promoting export promotion strategies than the ones pursuing import-substitution policies. Further, human capital also has positive impact, the interaction of FDI with human capital is also positive and significant and lastly, the positive impact of FDI on growth can be materialized if local firms are competitive via spending in R&D (proxied by manufacturing value added) but its effect is positive though insignificant. Berthelemy and Demurger (2000) used both theoretical and empirical approach to study the relationship between FDI and economic growth in China over the period from 1985 to 1996 and brought to the fore that with transfer of foreign technology, economic growth is positively influenced. Zhang (2001) used the Co-integration and Granger Causality on 11 developing countries in Latin America and East Asia covering the period from 1957 to 1977 and revealed that the FDI has a country-specific impact on host country's economic growth if it adopts economic reforms such as liberalization of trade regime; development of

human capital and encouragement of export-oriented industries. Mottaleb and Kalirajan (2010) made use of panel data from 68 lower-middle income and low-income developing countries and found that lower middle income Asian countries enjoy benefits of FDI more than low income Africa and Latin American countries. With the above background, the study attempts to analyse the dynamics of FDI inflows in developing countries.

Data Sources and Methodology

The data for foreign direct investment inflows has been collected from United Nations Conference on Trade and Development (FDI statistics) for 32 developing countries for the time-period 1990-2015. These countries have been further subdivided into six regions according to World Bank classification of developing countries i.e. Latin America and Caribbean (11 countries), Sub-Sahara Africa (6 countries), Europe and Central Asia (2 countries), East Asia and Pacific (6 countries), South-Asia (4 countries) and Middle-East and North Africa (3 countries). Global trend of FDI inflows is examined and the relative position of developed, developing and transition economies in global FDI is also presented through their respective shares. Further, the regional trend of FDI inflows has also been examined by estimating the share of each three regions in total FDI inflows of developing nations. The relationship between FDI and economic growth is estimated through Karl Pearson's correlation coefficient and scatter diagrams. For all six regions, trend growth rate of FDI inflows has been calculated for the period 1990-2015 and also for three sub-periods i.e. 1990-2000, 2001-2007 and 2008-2015 respectively through log-lin model.

Results and Discussion

Trends in Global FDI inflows: Developed, Developing and Transition Economies

The figure 1 shows that there is consistent rise in global FDI inflows from 1991 onwards leading towards its first peak in 2000. There is surge in global FDI inflows in 1997 owing to sharp rise in cross border mergers and acquisitions M&As. These M&As were mainly secured by USA, UK, France and Germany, along with strong economic growth in USA and improved performance in large European countries led to increase in FDI in developed countries i.e. from US\$236.34 billion in 1996 to US\$286.29 billion in 1997. Though developed nations initially dominated the global picture in the beginning, it is in mid 1990s that developing nations' share in global FDI inflows rose sharply i.e. \$34.65 billion (17%) in 1990 to \$185.39 billion (39%) in 1997 respectively. Favourable environment for FDI was strengthened i.e. regulatory changes in favour of FDI, developing special trade and investment zones and many countries (36) introduced new investment

incentives. However, FDI inflows in developing countries remained unaffected by Asian crisis as evident by their increase from \$147 billion in 1996 to \$185 billion in 1997 (Ozkurt, Ilhan 2007 and WIR, 1998). There is sharp fall in global FDI inflows from 2000 till 2003, due to -(i) The slowdown of economic activity in major industrial economies and (ii) A sharp decrease in their stock market, both these combined to decrease cross border (M&As) that mainly drives FDI in developed nations. Whereas developing countries recorded relatively very small decline, as large proportion of FDI in developing nations was Greenfield investment (WIR, 2001). Global FDI inflows started to recover in 2004 and continued rising till 2007 (second peak level) in all three groupings (Colen, L. et.al 2008). Global FDI inflows declined in 2008, these inflows declined in developed countries from \$1283.81 billion in 2007 to \$788.91 billion in 2008, whereas developing and transition economies have shown increase in their FDI from 2007-2008, pointing towards importance of these economies as hosts of FDI especially

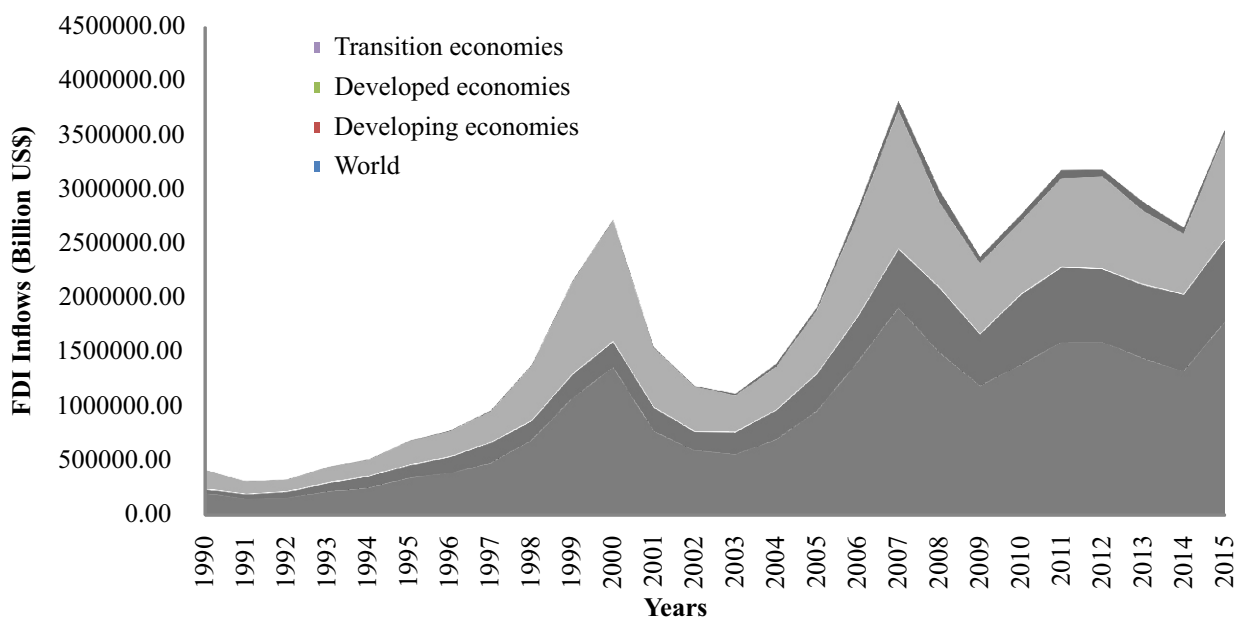


Figure. 1. Global FDI inflows

in 2008. However, it is in late 2008 and the early 2009 that developing and transition economies were seriously affected by economic downturn of major export markets and their inflows decreased in 2009(WIR, 2009). Global FDI inflows continued decreased in 2009-10, as financial crisis entered tumultuous phase in September 2008 due to collapse of Lehman Brothers and developed economies approached economic recession. Global FDI recovered in 2011-12. In 2013-14, FDI decreased in developed countries whereas it increased in developing and transition economies (combined share of latter is higher), thus reflecting the changing pattern of FDI inflows- 9 out of 20 largest recipient countries are developing countries. Global FDI inflows doubled in 2015 i.e. US\$1774 billion but lacked productive impact (WIR, 2013). In 2015, developed countries became major recipient of global FDI inflow (55%) whereas the dominance of other two got reversed (44%) in end. It is noteworthy that increase in FDI in developing countries in 2014-15 is entirely attributed to rise in Asia only whereas Latin America and Caribbean

and Africa registered fall (WIR,2016).

Regional Share of FDI inflows in Developing Countries: Africa, Latin America & Caribbean and Asia

Until the 1970s many developing countries in Latin America, Asia and Africa were reluctant towards foreign investment and pursued a policy of import substitution. But during the past three decades, due to structural adjustment programme most of the developing countries opened up their economies (Nunnenkamp, 2004). The changing scenario of FDI inflows in developing countries has been shown with through Figure 2.

Africa

In Africa, FDI inflows increased consistently from \$2.85 billion in 1990 to \$11.03 billion in 1997, owing to improvements in FDI regulatory framework, strengthening macroeconomic conditions and investment promotion activities (WIR, 1998). In 1998, FDI declined mainly due to decline in South Africa (WIR, 1999). FDI inflows rose to around \$11.89 billion in 1999, mainly in Angola (petroleum industries) and Egypt (due

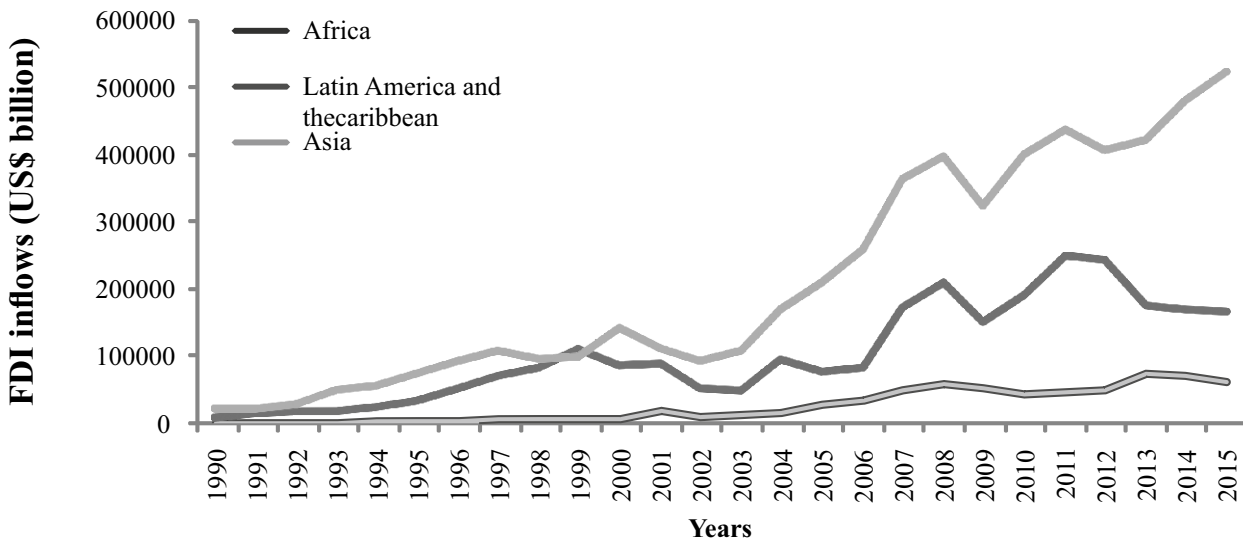


Figure. 2. Regional FDI Inflows of Developing Countries

to regulation and privatization), as a result of government efforts to create business friendly environment after the turbulence of 1970s and 1980s. The rise in FDI is however not even across regions as FDI in North Africa increased whereas it fell in Sub-Sahara Africa (WIR, 2000). It again declined in 2000 due to decreasing FDI inflows to Anglo (FDI fell after consistent rise in past few years in petroleum), South Africa (fall in M&As) and Morocco (showing volatility in its FDI inflows), WIR, 2001. Thereafter, there has been significant rise in FDI inflows in Africa for eight consecutive years as large number of TNCs investing due to high global commodity prices and opening various expansion projects in oil exploration and mining activities, the inflows however concentrated in few resource rich countries i.e. Angola, Sudan, Madagascar, Guinea and Democratic Republic of Congo (WIR, 2009). In 2015, FDI rose to \$56.63 billion in Africa- North Africa showed rise in FDI due to boost in Egypt (inflows in financial industry) and Morocco (FDI expanded in manufacturing), Sub-Saharan Africa registered decline due to fall in FDI in Nigeria owing to low commodity prices and fluctuating local currency (WIR, 2016).

Latin America and Caribbean

FDI inflows in Latin America and Caribbean L&C increased consistently from 1990 onwards till 1999 reaching its first peak level at US \$91.09, owing to sustained economic growth and trade liberalization, privatization and deregulation and regionalization (WIR, 1998). FDI then declined for our consecutive years from 2000 till 2003, mainly due to deepening economic crisis in Argentina and uncertainty about the failure of currency convertibility system. This decline had been largest in Argentina, Brazil and Chile and was mainly concentrated in

services where TNCs had earlier expanded their operations following deregulation in telecom, utilities and banking etc (WIR, 2001, 2002 and 2003). FDI inflows then surged in 2004 and continued to accelerate. The economic recovery in L & C increased domestic demand which further boosted market seeking FDI, exchange rate remained favourable which increased FDI in export activities, sharp rise in demand in China helped increase large FDI inflows in minerals in Argentina, Brazil, Chile and Peru. However, it is in 2009 that FDI declined and this fall masks varying effects in different sub regions - South America showed rise whereas Central America and Caribbean registered decline. At the end, FDI declined due to slowdown in FDI in metal mining industries in some countries (WIR, 2016).

Asia and Pacific

In Asia, FDI inflows increased from \$22.97 billion in 1990 to \$108.29 billion in 1997, indicating that FDI remained stable source of capital inflows for developing countries even in the wake of 1997-98 Asian crisis. The large FDI inflow of around \$45 billion in China alone contributed to 9% rise in FDI of Asia and Pacific region in 1997 (WIR, 1998). FDI after declining in 1998, again rose to \$115.40 billion in 1999 and touched its peak level \$142.03 billion in 2000 owing to Hong Kong, China FDI boom. East Asian countries i.e. Hong Kong, (China), Republic of Korea and Taiwan province of China were leading ones as their share in total inflows of Asia increased from 16 percent in 1990s to over 55 percent in 2000 (WIR, 2001). Then, FDI registered decline for two years 2001 and 2002 and subsequently increased throughout till 2008 though lower than previous two years. It was in 2009 that Asia region started feeling the shock of financial crisis and its inflows declined from

\$378.49 billion in 2008 to \$316.31 billion in 2009 (WIR, 2010). FDI declined in 2012 first time after the crisis, owing to slow growth in global economy, financial constraints in Europe and decline in cross border M&As and Greenfield investments (WIR, 2013). FDI increased till 2015 and Asia occupies the largest share (69 percent) in the developing countries' inflows, but concentrated in few high income countries i.e. Hong Kong (China) (\$175 billion), China (\$136 billion), Singapore (\$65 billion) and India (\$44 billion) respectively (WIR, 2016).

Relationship between FDI inflows and GDP (per capita)

Table 1 shows the correlation between FDI and economic growth (GDP per capita) is positive and statistically significant i.e. 0.39**, 0.43**, 0.41** and 0.36** for all four points of time i.e. 1991, 2001, 2011 and 2015 respectively.

The regression analysis in figure 3, 4, 5 and 6 shows that FDI inflows have a positive impact on economic growth of 32 selected developing economies.

As expected there is a close association between FDI inflows and economic growth of developing economies, as an increase in FDI investment inflows results into augmenting the level of economic growth of these economies.

Table 1. Correlation between FDI and Economic Growth (GDP per capita)

Year	Karl Pearson's Correlation Coefficient
1991	0.39**
2001	0.43**
2011	0.41**
2015	0.36**

*Note:- **shows 5% significant level*

Regional Trend Growth Rate of FDI inflows

The trend growth rates of FDI inflows in the sub regions are discussed as follows:

Latin America and Caribbean (L&C)

FDI inflows in Latin America and Caribbean (L&C) rose sharply from 1990 to 1999 due to trade liberalisation, deregulation and regionalization, thus reflecting increasing significance of MERCOSUR countries (i.e. Argentina, Brazil, Paraguay and Bolivia). Thereafter, it fell till 2003. The sharp surge in 2004 in FDI is due to strong economic growth, rising cross border M&As, favourable effect on export-oriented FDI due to recovery in USA and high demand in China. However, the FDI inflows were resilient to the financial crisis-Central American countries due to dependency on USA for their exports and remittances were adversely affected whereas South American countries observed rise in FDI due to high demand of oil and gas, iron ore, copper and gold. FDI then started increasing since 2010 and registers small decline in 2014 and 2015, with varying effects in Central American (rise due to strong flows to Mexico), South American countries (fall due to worsening terms of trade) and Caribbean countries (FDI fell due to major decline in Trinidad and Tobago) in 2015. The trend growth rate of FDI inflows in Latin America and Caribbean countries, are shown in Table 2. It shows that in the overall study period, Panama remained at top (11.42%) while Brazil (-15.44%).

During I sub-period, the highest positive growth rate has been observed by Panama (22.48%) while Brazil recorded the highest negative growth rate (-72.59%). Again in II sub period Panama observed an increase in growth rate of FDI inflows i.e. (36.64%) but

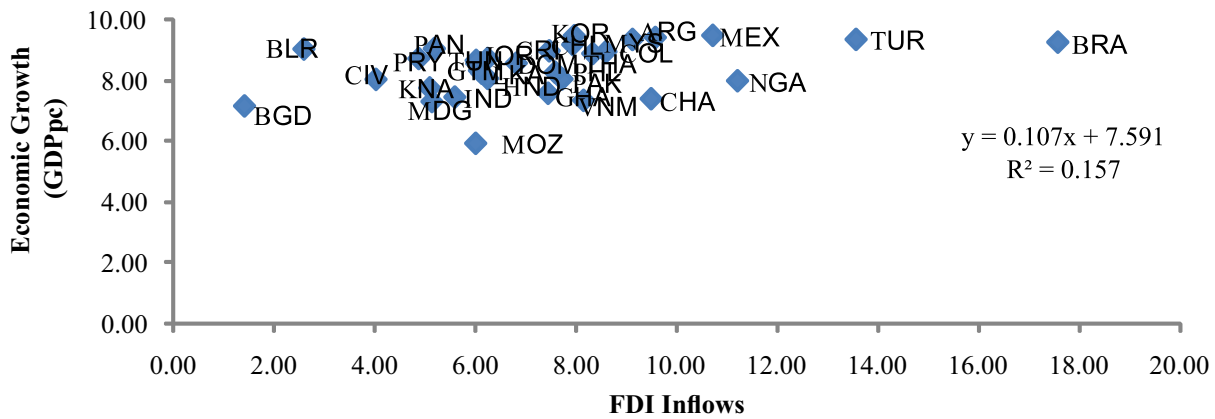


Figure. 3. Relationship between FDI inflows and economic growth (1991)

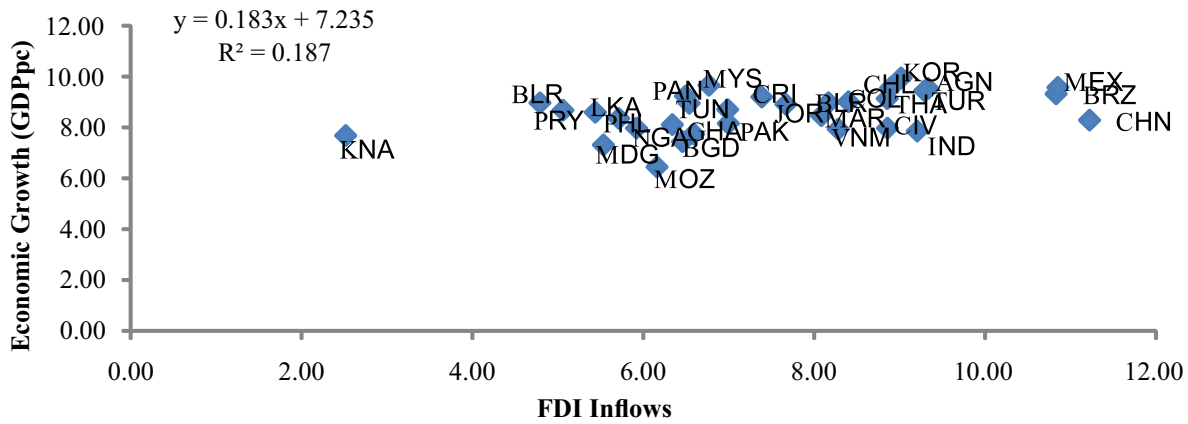


Figure. 4. Relationship between FDI inflows and economic growth (2001)

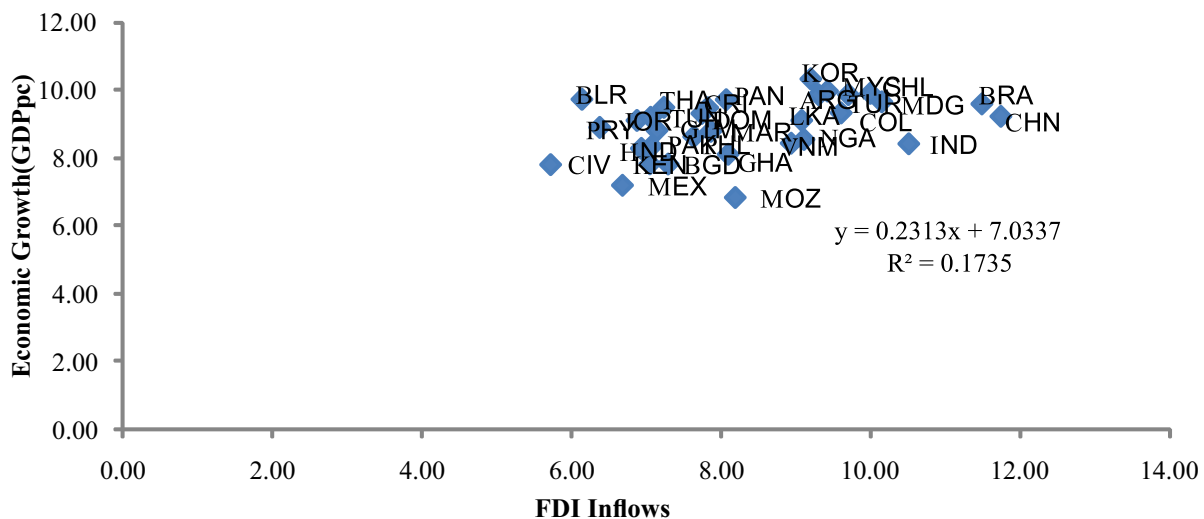


Figure. 5. Relationship between FDI inflows and economic growth (2011)

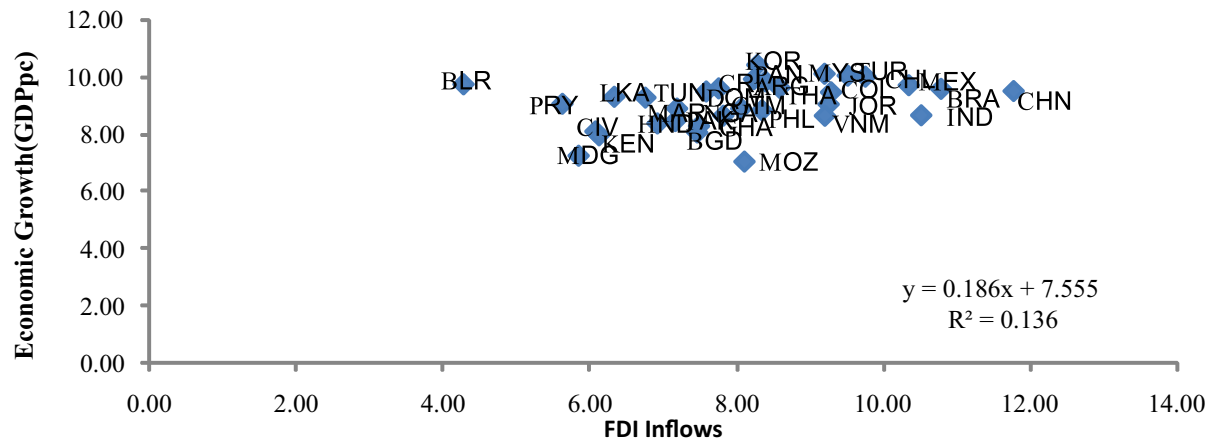


Figure. 6. Relationship between FDI inflows and economic growth (2015)

Table 2. Trend Growth Rate of FDI inflows in Latin America and Caribbean

Country	Growth Rate of FDI inflows			
	1990-2015	1990-2000	2001-07	2008-15
Argentina	-6.84	15.28	8.48	-19.31
Brazil	-15.44	-72.59	-1.39	-0.32
Chile	7.88	17.84	14.18	2.79
Colombia	3.02	-1.21	22.01	4.98
Costa Rica	1.21	0.60	9.38	2.15
Dominican Republic	2.73	11.88	-8.98	-6.29
Guatemala	6.96	2.79	8.72	6.83
Honduras	5.02	1.61	13.71	2.93
Mexico	-1.24	-1.96	-4.69	2.16
Panama	11.42	22.48	36.64	9.83
Paraguay	-3.08	-3.96	23.03	5.91

Dominican Republic witnessed high negative growth rate (-8.98%). During III sub-period, all the countries witnessed decline in FDI inflows. Panama maintained its top position but with a decline in its growth rate (9.83%). Argentina that observed positive growth rate in first and second sub period saw a reversal in the trends and its growth rate became highly negative (-19.31%).

Sub Saharan Africa

The trend growth rate of Sub Saharan Africa in Table 3 shows that overall, Kenya (13.42%) has recorded the highest growth rate and Nigeria observed negative growth

(-9.26%) in FDI inflows.

During first sub-period, most of the countries register negative growth in their FDI inflows, whereas Cote d'Ivoire shows highest growth (16.34%) and in Nigeria it became highly negative growth (-26.06%). There has been high positive growth of FDI inflows in all sampled countries in second sub-period except Mozambique (-14.20%). Contrarily, negative growth of FDI inflows is observed in third sub-period in all countries except Mozambique which shows very high growth rate (25.25%), owing to increased FDI inflows in aluminium industry because of high demand in China.

Table 3. Growth Rate of FDI inflows in Sub Saharan Africa

Countries	1990-2015	1990-2000	2001-07	2008-15
Cote d'Ivoire	2.33	16.34	8.17	-0.77
Ghana	-1.08	-1.15	17.22	-4.70
Kenya	13.42	-4.97	48.47	-9.42
Madagascar	9.20	-6.68	21.68	-25.90
Mozambique	11.35	3.21	-14.20	25.25
Nigeria	-9.26	-26.06	12.88	-27.48

Middle East and North Africa

Table 4 shows the trend growth rate of FDI inflows in Middle East and North African countries.

During the overall as well as the three sub periods, all the countries recorded positive growth rate except Tunisia which recorded negative growth rate in third sub period only (-15.89%). Wherein second sub period recorded an increase in growth rate of FDI inflows in comparison to the first sub period; the third sub period observed a sharp decline in growth rates with the exception of Morocco where it remained almost insignificant.

South Asia

Asia is the largest recipient of FDI in global economy. However, the majority of FDI in Asia is concentrated in few high countries i.e. Hong Kong (China) US\$175 billion, China US\$ 136 billion, Singapore US\$65 billion and India US\$175 billion. These four economies constitute more than 75% of total FDI inflows of Asia. FDI inflows in other top Asian countries (Turkey, Indonesia, Thailand, Vietnam and Malaysia) receiving significant

proportion ranges between US\$11 billion to US\$17 billion, though these are lower FDI inflows but relatively much higher compared to other transition and developing economies. The trend growth rate of sub region of South Asian countries has been depicted in Table 5.

In the overall study period, all the countries except Pakistan recorded positive growth rate. It is worth noticeable that India and Bangladesh has recorded high growth rate of FDI inflows because of development of these countries as back office of firms operating in developed countries. In the first sub period besides Pakistan, all countries recorded positive growth rate and the second sub-period shows positive and high growth rate in all South Asian countries. In third sub-period, growth of FDI inflows has not only declined but also become negative (except in Bangladesh).

East Asia and Pacific

The growth rate of FDI inflows in East Asia and Pacific has been shown in Table 6.

Overall, China and Korea recorded highest

Table 4. Growth Rate of FDI inflows in Middle East and North Africa

Country	1990-2015	1990-2000	2001-2007	2008-2015
Jordan	12.31	33.45	33.02	1.91
Morocco	9.31	8.39	8.94	8.04
Tunisia	3.77	5.93	20.67	-15.89

Table 5. Growth Rate of FDI inflows in South Asia

Country Name	1990-2015	1990-2000	2001-2007	2008-2015
Bangladesh	17.78	60.87	11.02	6.02
India	16.11	27.59	22.75	-7.46
Sri Lanka	1.07	3.42	19.49	-1.33
Pakistan	-1.45	-6.17	37.59	-23.17

positive growth rate (6.53% and 6.28%) as these have always been at top attracting highest FDI inflows in Asia while Malaysia observed highest negative growth (-0.22%). During the first sub period, except Malaysia (-3.55%), all the countries observed positive growth rate of FDI inflows. The inflows increased in second sub period except China and Korea and all the countries recorded positive growth rate. China lost its competitive edge in manufacturing FDI due to rising wages and production costs in coastal regions and excess capacity in several industries due to over investment and it is now directed towards services, constituting 61% of FDI in China. A change in economic scenario resulted into a decline of FDI inflows and in the third sub period, countries like Korea Republic (due to disinvestment by Tesco, United Kingdom),

Thailand and Vietnam showed negative growth rate.

Europe and Central Asia

The growth rate of FDI inflows in Europe and Central Asia has been depicted in Table 7.

Growth patterns of FDI inflows in Europe and Central Asia shows that both Belarus and Turkey recorded similar growth trends in the overall as well as its first sub period. But in the second sub period both the countries recorded positive and high growth of FDI inflows which later turned negative in the third sub period owing to increasing competitiveness of FDI attraction among its neighbouring countries.

Conclusion and Policy Implications

Global FDI inflows has shown continuous rising trend throughout from 1990 to 2015. The

Table 6. Growth Rate of FDI inflows in East Asia and Pacific

Countries	1990-2015	1990-2000	2001-2007	2008-2015
China	6.53	16.65	5.28	0.60
Korea, Rep.	6.28	21.26	7.30	-8.82
Malaysia	-0.22	-3.55	30.52	13.56
Philippines	-0.42	2.52	33.41	14.20
Thailand	2.59	6.10	10.72	-3.35
Vietnam	2.94	4.82	13.32	-5.49

Table 7. Growth Rate of FDI inflows in Europe and Central Asia

Countries	1990-2015	1990-2000	2001-2007	2008-2015
Belarus	14.14	14.51	19.33	-21.05
Turkey	-13.46	-57.56	34.03	-4.30

distribution of global FDI inflows shows that the dominance of developed economies has gone down and the share of developing economies has rapidly increased since 1990s. The fall in the share of developed economies in global FDI inflows has been largely offset by rise in the share of developing economies. Whereas, the share of transition economies in global FDI inflows has remained broadly similar. The distribution of FDI inflows of developing countries shows that Asia has secured lion's share throughout in total FDI inflows of developing economies from 1990 to 2015, owing to large inflows of FDI in India and China. The Latin America and Caribbean secures second large share whereas Africa has lowest share in total FDI inflows of developing economies. Though, FDI inflows in these three regions has increased in absolute terms, their relative position has remained same over the period of time. During 1990-2015, FDI growth trend in Latin America and Caribbean (L&C) region shows that- (i) Out of eleven countries, there has been high FDI growth recorded in four countries only i.e. Panama, Chile, Guatemala and Honduras. Whereas, the remaining ones either register very low or negative growth rate and (ii) FDI growth in three different sub-periods show that it is the second sub-period where majority of countries (eight) register highest growth rate. The changes in FDI growth trend from first to third sub-period show mixed picture as some of the countries show rise in their FDI growth from first to third sub-period, while the others registered fall in L&C region. The growth trend of FDI inflows in African regions highlights two main findings i.e. (i) Both African regions register highest growth of FDI inflows in second sub-period except Mozambique (-14.20% in IInd sub-period) and (ii) The FDI growth rate falls from first to third sub-period in both African regions except

Mozambique (FDI growth registers rise from 3.21% in Ist to 25.25% in IIIrd sub-period). The FDI growth trend in Asian region shows that (i) The growth of FDI inflows is highest in Belarus (14.14%) in Europe and Central Asia, China (6.53%) and South Korea (6.28%) leads in East Asia and Pacific and lastly, Bangladesh (17.78%) and India (16.11%) dominate in South Asia region (ii) The sub-period trend shows that it is the second sub-period which has registered highest growth rate of FDI inflows in all Asian regions except China and South Korea (iii) The growth rate of FDI inflows in all Asian regions has registered a decline in third sub-period compared to first sub-period except two countries i.e. Malaysia (-3.55% in Ist to 13.56% in IIIrd sub-period) and Philippines (2.52% in Ist to 14.20% in IIIrd sub-period) in East Asia and Pacific. The important policy implication that emerges is that FDI is a very important tool that can support developing economies' economic growth not only through capital but also through knowledge and technology transfer. The potential benefits embodied in FDI can be effectively engineered if host nations adopt effective policies. Thus, the host countries should sufficiently develop their absorptive capacity by spending more on qualitative education, skill formation and research and development expenditure to benefit from the advanced technologies embodied in FDI of developed countries. The supportive infrastructure in the host country, its financial markets and government (financial and monetary) policies should also be formulated in such a manner that technical know-how and knowledge spill over may smoothly flow from frontier economies to developing economies.

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