IMPACT OF FOREIGN DIRECT INVESTMENT ON EMERGING ECONOMY

Smita Nutan1, Satyam Prasad2, B. Lakshmi3, SaiKishore V4

1MBA, Pharmaceutical Management, NIPER Hyderabad India

2MBA, Pharmaceutical Management, NIPER Hyderabad India

3Assistant Professor, NIPER, Hyderabad India

4Assistant Professor, NIPER, Hyderabad India

ABSTRACT

Foreign direct investment (FDI) plays a crucial role in the economic growth and development of emerging economies. It brings in capital, technology, and expertise, which can help to boost productivity, create jobs, and enhance competitiveness. In recent years, there has been a significant increase in FDI inflows to emerging economies, reflecting the growing attractiveness of these markets to multinational corporations (MNCs). The impact of FDI on emerging economies is complex and multifaceted. There is a broad consensus among economists that FDI can have a positive impact on economic growth, but the precise magnitude of the effect varies depending on a number of factors, including the absorptive capacity of the host country, the type of FDI, and the macroeconomic environment. FDI can contribute to economic growth in several ways. It can provide access to new capital, which can be used to invest in new industries, infrastructure, and technology. FDI can also transfer knowledge and expertise from MNCs to local firms, which can help to improve productivity and innovation. Additionally, FDI can create jobs and increase tax revenues, which can further stimulate economic growth. However, FDI can also have some negative consequences for emerging economies. For example, it can lead to the displacement of local firms, if they are unable to compete with the more efficient MNCs. Additionally, FDI can lead to environmental degradation and social inequality, if it is not properly regulated. Overall, the impact of FDI on emerging economies is mixed. It can have both positive and negative effects, and the precise magnitude of the effect depends on a number of factors. Nevertheless, FDI remains an important source of capital, technology, and expertise for emerging economies, and it can play a significant role in their economic development.

INTRODUCTION:

Foreign direct investment (FDI) is a long-term investment made by a company or individual in one country in a business or asset in another. This means that the investor has a significant degree of management control over the foreign business or asset. There are several different types of FDI, including: Acquisitions: This involves buying all or part of an existing foreign company, Mergers: This occurs when two or more foreign companies combine to form a new company, Greenfield investments: This involves building a new business from the ground up in a foreign country, Joint ventures: This is when two or more companies from different countries agree to share ownership and control of a new business. Reinvesting profits: This occurs when a foreign company takes its profits from a foreign operation and reinvests them in that operation. (Ahmad et al., 2019)

This review article focuses on impact of foreign direct investment on different parameters like:

Economic growth, Employment, Productivity, Technology transfer, Export growth, Foreign exchange reserves, Infrastructure development, Manufacturing, Services, Agriculture, Natural resources, Spillover effects, Domestic investment, Entrepreneurship, Innovation, Human capital development, Distribution of benefits, Income inequality, Poverty reduction, Regional development, Sustainability, Environmental impact, Social impact, Economic resilience and Others. Studies have shown that FDI can have a positive impact on economic growth in emerging economies. This is because FDI can lead to increased investment, productivity, and technology transfer. FDI can also create jobs in emerging economies. However, the impact on employment can vary depending on the sector and the country in question.

FDI can help to improve productivity in emerging economies by introducing new technologies and management practices.

It can lead to the transfer of new technologies to emerging economies. This can help to boost innovation and economic growth.

Which infers that it can have a positive or negative impact on the environment in emerging economies. On the one hand, FDI can lead to the transfer of new technologies that can help to reduce pollution and improve environmental quality. On the other hand, FDI can also lead to increased resource consumption and environmental degradation. (Ostry et al., 2014)

FDI can also help to increase export growth in emerging economies. This is because foreign-owned firms are often more export-oriented than domestic firms. FDI can also help to boost foreign exchange reserves in emerging economies. This can make it easier for these countries to withstand economic shocks. FDI can also lead to increased investment in infrastructure in emerging economies. This can improve connectivity and reduce the cost of doing business.

FDI is especially important in emerging economies' manufacturing sectors. This is due to the fact that manufacturing can both create jobs and generate exports. By investigating the effects of cross-border mergers and acquisitions on innovation activities in target firms, this paper contributes to the ongoing debate on the welfare effects of foreign direct investment. The empirical study is based on survey and ownership data from a large sample of German small and medium-sized businesses.(Stiebale & Reize, et al.,2020)

FDI is also important for the services sector in emerging economies. This is because services can provide high-value jobs and contribute to economic growth.

FDI can also have a positive impact on the agricultural sector in emerging economies. This is because FDI can lead to increased investment in technology and improved productivity.

FDI is also important for the natural resources sector in emerging economies. This is because FDI can help to develop these resources and generate revenue for the government.

FDI can also have positive spillover effects on domestic investment. This is because FDI can create a more favorable investment climate and encourage domestic firms to invest more. .(Aust et al., 2020)

FDI can also promote entrepreneurship in emerging economies. This is because foreign-owned firms can provide role models and mentors for local entrepreneurs.

FDI can also lead to increased innovation in emerging economies. This is because foreign-owned firms often have access to the latest technologies and research.

It is widely believed that the technology and know-how transferred as a result of foreign direct investment (FDI) impacts the productivity and knowledge base of domestic firms and goes beyond the projects that the foreign investors undertake. This study looks into whether spillovers exist and how they affect domestic companies in India's manufacturing sector in terms of their ability to innovate..(Khachoo & Sharma et al., 2016)

FDI can also help to develop human capital in emerging economies. This is because foreign-owned firms often provide training and development opportunities for their employees.

FDI can have a mixed impact on income inequality in emerging economies. On the one hand, FDI can create jobs and increase incomes. On the other hand, FDI can also lead to increased competition and wage stagnation.

FDI can help to reduce poverty in emerging economies by creating jobs and increasing incomes. However, the impact of FDI on poverty reduction can vary depending on the sector and the country in question.

FDI can also have a positive or negative impact on society in emerging economies. On the one hand, FDI can create jobs and improve living standards. On the other hand, FDI can also lead to increased social inequality and the exploitation of workers. **Sayek, S.*et al.,* (2004**)

LITERARTURE REVIEW:

- Due to regulatory policy framework, FDI inflows into India were originally slow. However, from 2005 onward, investment flows sharply increased as a result of the new, more expansive policy. The goal of the study is to determine how foreign direct investment (FDI) stimulates economic growth in India. (Impact of Foreign Direct Investment on Indian Economy Mahanta Devajit, et al.,2020)

- Democracy is not a one-size-fits-all idea, and depending on whether FDI is coming from an autocratic or democratic nation, the impact of the host nation's political governance on the FDI would vary. We also propose that human capital mediates the relationship between the impact of civil liberties and the investment motives of multinational enterprises (MNEs). Using a sample of 35,000 investments made in emerging and developing nations between 2003 and 2013, we evaluate our theories. (Filippaios et al., 2019)

❖ **<u>Impact of FDI on Economic Growth</u>**

1) The study examines the literature on FDI, emphasizing patterns and inspiring theories. It outlines factors and talks about how FDI affects commerce and growth. Studies on theoretical FDI expand our knowledge of economics and lead to new fields of study. It finds reasons that support foreign investment over exporting or outsourcing to domestic companies using the Eclectic Paradigm.(Kurtishi-Kastrati et al., 2013)

2) This study examines the role that foreign direct investment (FDI) and the expansion of the financial sector play in fostering economic growth in the Asia-Oceania area. The development of the financial sector boosts FDI's effect on economic growth, with the greatest notable effect shown in the least developed economies, according to a panel data analysis of 44 countries from 1996 to 2005.(Chee et al., 2010)

3) Using dynamic GMM estimators, a 34-year panel data analysis of 14 Eastern African countries from 1980 to 2013 revealed that Foreign Direct Investment (FDI) had a marginally significant but beneficial effect on economic growth. A 5% rate of economic conditional convergence was also found in the study, and there was no discernible crowding out effect from foreign direct investment to local investment.(Zekarias, 2016)

4) Emerging economies are those undergoing rapid economic growth and development. They have lower incomes and less developed infrastructure than developed countries, but they are growing much faster. Emerging economies are growing in importance in the global economy, and their economic growth is critical to global prosperity.(Wu & Pan, 2021)

❖ **<u>Impact of FDI on (Employment):-</u>**

This paper's main goal is to determine how employment creation in India is correlated with foreign direct investment inflows between 1991 and 2018. This study a pertinent descriptive analysis to investigate the impact of foreign direct investment (FDI) on job creation in India utilizing secondary data from various published sources.(Mishra* & Palit, 2020)

❖ **<u>Impact of FDI on income inequality:-</u>**

Income inequality is a growing concern in emerging economies, owing to rapid economic growth, globalization, technological change, and weak institutions. Inequality can cause social unrest, political unrest, and slower economic growth.(Ostry et al., 2014)

❖ **<u>Impact of FDI on entrepreneurship:-</u>**

In emerging economies, entrepreneurship is a key driver of economic growth and development. Entrepreneurs in emerging economies, on the other hand, face a number of challenges, including institutional gaps, as well as a lack of infrastructure and access to finance.(Zoltán J. Ács László Szerb Erkko Autio, 2021

❖ **<u>Impact of FDI on innovation:-</u>**

1)Foreign direct investment (FDI) can promote innovation in emerging economies through technology transfer, competition, and the creation of new jobs and industries.(Dempere et al., 2023)

FOREIGN DIRECT INVESTMENT'S IMPACT ON CROATIAN MANUFACTURING EXPORTS:

It is discovered that FDI has favourably and considerably affected exports using the panel data approach for 21 manufacturing industry sectors between 1996 and 2002, albeit the impact was very small.

This suggests that there is a chance to enhance Croatian export performance by drawing more foreign direct investment into the industrial sector.

(Vukšiae,et al., 2020)

FOREIGN DIRECT INVESTMENT AND MANUFACTURING SECTOR GROWTH

In nigeria the models used in the study, variables such as foreign direct investment, degree of trade openness, exchange rate, and the lag error term were found to be statistically significant in explaining variations in Nigeria's Manufacturing Output Growth (MANFQ) and Gross Domestic Product, which serve as proxies for economic growth (GDP). The economy should diversify the inflow of foreign private capital since doing so will boost overall output growth, according to the policy implication.(Francis, et al.,2023)

We estimated the short and long run production elasticity of FDI using the autoregressive distributed lag (ARDL) approach using a relatively new cointegration method called the "bounds test" due to the small sample size. Both the short- and long-term estimated FDI elasticity were found to be statistically significant. Over an extended period, a 1% rise in foreign direct investment yields a 0.115 percent rise in Malaysia's manufacturing value added production.(Krishnan,et al., 2008)

DETERMINANTS OF FOREIGN DIRECT INVESTMENT IN SERVICES :AN INTERNATIONAL COMPARATIVE ANALYSIS(Kolstad et al., 2004)In terms of global flows of foreign direct investment, the service sector dominates. Based on this study, FDI in the service sector is driven by market forces and is not influenced by the degree of trade liberalisation in the receiving nation. The analysis of total FDI in the service sector makes clear the importance of the home market and the negligible impact of trade, and the analyses of the four main service industries mostly confirm this.

INTERNATIONAL COMPARATIVE ANALYSIS OF OPENNESS TO FOREIGN DIRECT INVESTMENT IN SERVICES(Golub et al.,2009)The vague views regarding foreign direct investment in the services sector are clearly demonstrated by recent policy decisions and discussions. The Committee on Foreign Investment in the United States (CFIUS) is an interagency body that reviews foreign direct investment for national security issues. It has gained attention recently due to a number of high-profile instances, most notably one in which investors in Dubai purchased a US port. A recent agreement between the United States and the European Union on "open skies"

NBER WORKING SERIES FOREIGN DIRECT INVESTMENT IN SERVICES AND THE DOMESTIC MARKET FOR EXPERTISE(Markusen et al., 2000)The optimal tax on foreign direct investment (FDI), which we do not support practically, is negative. Imported services have differential productivity effects in final goods production, so when FDI is allowed, the pattern of trade in goods can reverse. Imported services are partial substitutions for domestic skilled labor. but they may also be general-equilibrium complements

THE IMPACT OF LIBERALISING BARRIERS TO FOREIGN DIRECT INVESTMENT IN SERVICES : THE CASE OF RUSSIAN ACESSION TO THE WORLD TRADE ORGANISATION(Jesper Jensen et al., 2004). The ad valorem value of impediments to foreign direct investment has been calculated using comprehensive survey data from Russian specialised research institutes. According to our estimates, Russia will benefit from WTO membership by roughly 7.2% of the value of its consumption in the medium term and by up to 24% in the long term.

DEMOCRACY,FOREIGN DIRECT INVESTMENT AND NATURAL RESOURCES(Asiedu & Lien et al., 2012)We estimate a linear dynamic panel data model using the systems GMM estimator, which was introduced by Blundell and Bond (1998). Our research makes use of panel data from 99 developing nations from 1984 to 2011. We take into account two indicators of natural resources and six metrics of institutional quality from two different sources.

FOREIGN DIRECT INVESTMENT AND NATURAL RESOURCES' ROLE IN ECONOMIC DEVELOPMENT(De Gregorio, et al.,2018)To draw in foreign direct investment and encourage economic expansion, there is some justification for unique policies that favour specific industries over others. This article also addresses the impact of natural resources on economic growth at a sectoral level. The idea that having natural resources hinders development and well-being is called into doubt.

THE SPILLOVER EFFECTS OF FOREIGN INVESTMENT ON THE FIRMS PRODUCTIVITY PERFORMANCES(Sari et al., 2016)that although they are less efficient than local companies, international businesses are more productive. Growing percentages of foreign ownership are associated with lower productivity but higher efficiency in businesses. Foreign direct investment has a beneficial horizontal spillover effect on the efficiency and productivity of the businesses. Both the forward and backward spillovers have a favourable effect on the productivity and efficiency of the company. On the other hand, there are detrimental forward spillover effects on businesses' efficiency and detrimental backward spillover effects on their production.

IS THERE ANY EVIDENCE OF TECHNOLOGICAL SPILLOVER EFFECTS FROM FOREIGN DIRECT INVESTMENT IN VIETNAM (Ngoc et al., 2008)Vietnamese policymakers have implemented a number of initiatives to draw FDI into the nation; as a result, FDI inflows totaled over USD 20 billion in 2007, up 69% from the previous year. The rationale for the policy's adoption is that foreign direct investment (FDI) inflows will boost employment and deliver much-needed technology advancements that will benefit domestic businesses.

FOREIGN DIRECT INVESTMENT'S EFFECT ON INNOVATION IN SOUTH ASIAN EMERGING MARKETSFOREIGN DIRECT INVESTMENT'S EFFECT ON INNOVATION IN SOUTH ASIAN EMERGING MARKETS(Sivalogathasan & Wu et al.,2014). The amount of foreign direct investment (FDI) that South Asian nations brought in exceeded $628 billion in 2008. There has been a rise in as a result of the steps taken, the lowering of FDI restrictions, and the significant advancements in communication and transportation technology by numerous South Asian states draw in FDI .

THE EFFECT OF ENTREPRENERSHIP ON FDI(Fahed et al.,2016)The definition of FDI has been expanded to include direct acquisition of a foreign company, building of a facility, and participation in a joint venture or strategic alliance with a local companycompany with accompanying technology input or intellectual property licencing in line with the rapid growth and change in global investment patterns .

FOREIGN DIRECT INVESTMENT AND INNOVATION IN ESTONIA(Masso et al., 2013)The CEE countries still have large productivity gaps when compared to Western European countries, even after 20 years of change (***Gunther et al., 2011***). Given that Estonia has one of the highest percentages of innovative enterprises among CEE nations, it is particularly interesting to examine the relationship between FDI and innovation (Meriku¨ll, 2008).

FOREIGN DIRECT INVESTMENT 'S IMPACT ON CHINA 'S ECONOMIC GROWTH ,TECHNOLOGICAL INNOVATION AND POLLUTION(Zeng & Zhou, 2021)FDI can have a large pull effect on the home economy through the backward spillover channel, in addition to having a huge and favourable direct impact on China's technical innovation and economic growth. In addition, FDI directly and significantly contributes to the rise in local waste-water outflow.

FDI impact on sustainability This article examines the relationship between the Sustainable Development Goals (SDGs) and economic growth in emerging economies. It finds that there is a positive correlation between the two, but that this relationship is complex and mediated by a number of factors, such as the level of development of a country and the quality of its institutions.(***Goel, N., Singh, G.et al., 2021***)

FDI impact on Human capital

1. Human capital development is essential for economic growth in emerging economies. By investing in education, healthcare, and social protection, governments can help to create a skilled and productive workforce, reduce poverty and inequality, and improve social and political well-being. One study found that human capital development was a significant contributor to the rapid economic growth of Shenzhen, China. (***Zhang, X.et al., (1999)***

IMPACT OF FDI ON ECONOMIC RESILIANCE

This article examines the resilience of FDI to natural disasters through industrial linkages. The author finds that FDI is more resilient to natural disasters in sectors with strong industrial linkages. This is because FDI in these sectors is typically more diversified and has access to a wider range of resources**.** Overall, FDI can play an important role in enhancing economic resilience. By providing access to new markets, improving productivity, creating jobs, and boosting economic growth, FDI can help countries to withstand and recover from shocks. **(Jandhyala, S.*et al.,* (2022).**

IMPACT OF FDI ON DOMESTIC INVESTMENT

Domestic investment is essential for economic growth and development, especially in emerging economies. It is the investment made by residents of a country in physical and human capital, such as machinery and equipment, infrastructure, and education and training. Domestic investment can be financed through private savings, public borrowing, or foreign direct investment (FDI). Investing in education and training contributes to the development of a skilled workforce, which is necessary for economic growth. Corruption increases the cost of doing business and discourages investment. Governments can take steps to reduce corruption by strengthening institutions and promoting transparency. (**Olatunji, F. and Oyelami, A. .*et al.,(*2022).**

This article provides a thorough review of the literature on foreign and domestic private investment in developing and emerging economies. The authors argue that both foreign and domestic private investment are essential for economic growth and development in these countries.Domestic investment is essential for economic growth and development in emerging economies. There are a number of factors that influence domestic investment, including economic growth, political stability, infrastructure, financial sector development, and human capital. In recent years, domestic investment in emerging economies has been relatively weak. However, there are some signs that domestic investment is starting to pick up in some emerging economies. (***Alfaro, L., Areendam, C., Kalemli-Ozcan, S., & Sayek, S. (2004).***

IMPACT OF AGRICULTURE ON EMERGING ECONOMY

The agriculture sector in emerging economies has the potential to grow significantly in the coming years. However, in order to realize this potential, emerging economies need to address the challenges facing the sector, such as poverty, inequality, climate change, and land degradation. Governments and other stakeholders need to invest in agricultural research and development, improve infrastructure and market access, and support smallholder farmers. (**Malorgio, G., & Marangon, F.*et al.*, (2021).**

Emerging markets have become more integrated into the global economy, which has led to increased trade in agricultural products and services. Rapid urbanization in emerging economies has created a growing demand for food and agricultural products. Governments in emerging economies have increased their investment in agriculture, which has helped to improve infrastructure, research and development, and access to credit and inputs. Agriculture has helped to reduce poverty in emerging economies by providing employment and income opportunities for rural populations. Agriculture has helped to reduce poverty in emerging economies by providing rural populations with employment and income opportunities. Climate change poses a significant threat to agriculture in emerging economies by causing more extreme weather events such as droughts and floods. ***(Akinkunmi, A., & Ololade, O.et al., (2023)***

IMPACT OF EMERGING ECONOMY ON MANUFACTURING

Emerging economies are increasingly playing a vital role in the global manufacturing sector. With their growing populations, skilled labor forces, and access to natural resources, Emerging economies are becoming more appealing as foreign direct investment destinations(FDI) and global value chains (GVCs). Manufacturing is transforming emerging economies in a number of ways(Majcen et al., 2001). First, it is creating jobs and boosting economic growth. Manufacturing, according to the World Bank, accounts for an average of 15% of GDP in emerging economies, and it employs millions of people. Second, manufacturing is helping to diversify emerging economies away from their traditional reliance on agriculture and natural resources. Third, manufacturing is driving innovation and technological advancement in emerging economies. (Future Business Journal, 2021)

FDI has played a major role in the development of manufacturing in emerging economies. Foreign companies have invested in emerging economies to take advantage of their low labor costs and other competitive advantages. The growth of manufacturing in emerging economies has had a number of positive benefits. It has created jobs, boosted economic growth, and raised the standard of living for millions of people. (**Pacheco-López, P.*et al.*, (2014).**

METHODOLOGY

The literature search was limited to articles published from 2000 - 2023. The search for articles was done online by using the search words ‘’ FDI, Emerging economy, Overall impact, Economic growth” in the title and keywords in research databases at Wiley, Elsevier, Taylor & Francis, ERIC, Springer, SAGE, Frontiers.

Analysis

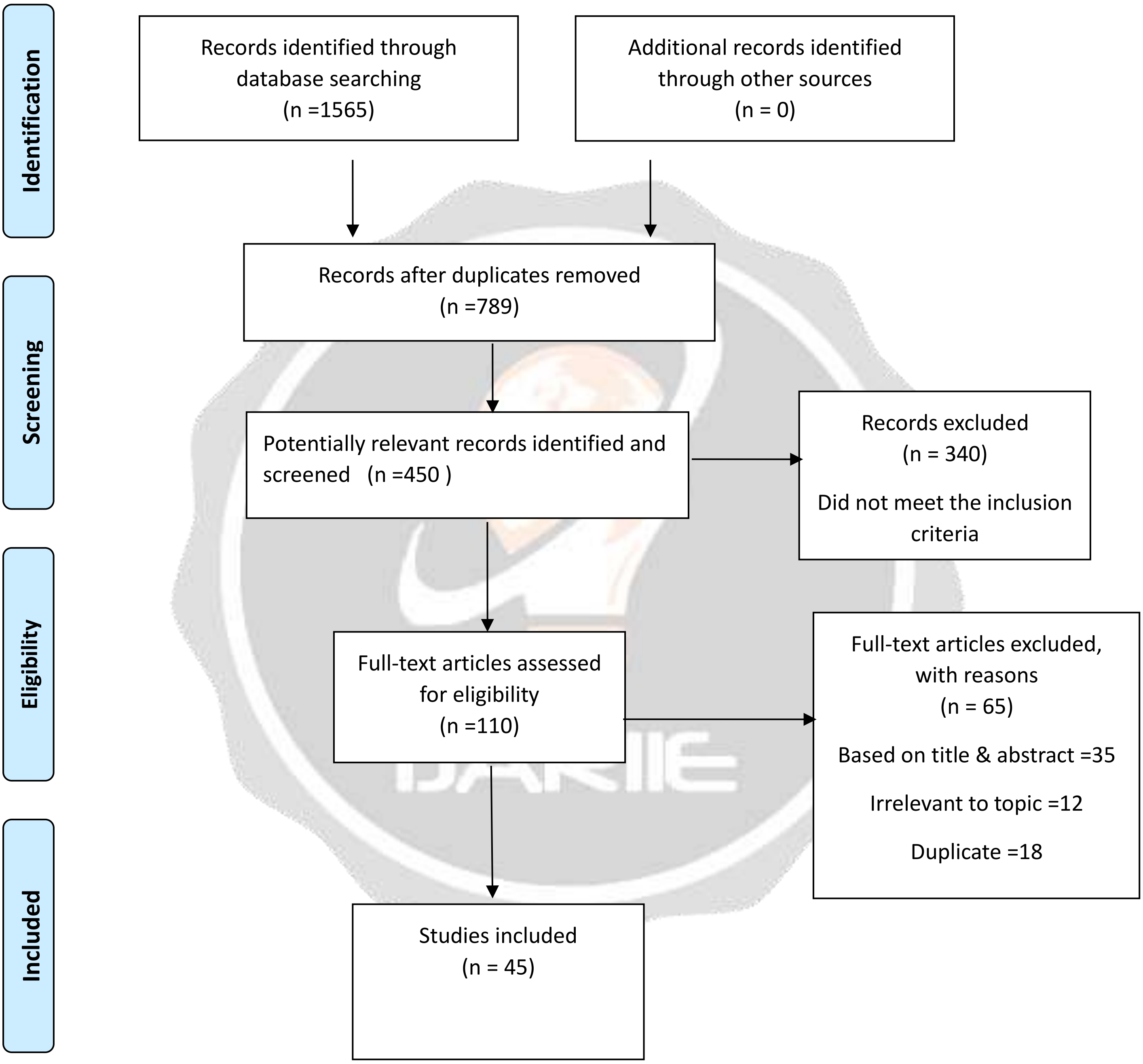
The method used is the Preferred Reporting Item for Systemic Reviews and Meta analytic (PRISMA) method. All articles that have passed the selection process were then reviewed and summarised based on the objectives, year of publication, number of citations and suggestions for further research.

Inclusion & Exclusion criteria

The be included in current study, studies have to meet some criteria

(a) Studies have included some kind of selection criteria . These criteria limited the number of studies (b) Accordingly excluded the studies in which it based on irrelevant information there is no proper Title, Abstract & Review.

PRISMA Flow Diagram



FINAL DATA SET

1565 research articles were found using all of the keywords that were searched in the research data. Once the title was studied the same article was found in two distinct databases. 789 articles remain after removing the duplicates. 450 articles were screened in all. Because they did not match the inclusion requirements, 340 articles were excluded. There are 110 articles that can be accessed for eligibility. 65 articles were eliminated in total based on title and abstract (35) Irrelevant to topic (12) Duplicate (18).

The final data set consists of 45 articles.

The oldest included study was published in the year 2000 and the most recent study was conducted on 2023. The Entire process is shown in figure

Discussion :

FDI can have a positive or negative impact on the environment in emerging economies. On the one hand, FDI can lead to the transfer of new technologies that can help to reduce pollution and improve environmental quality. On the other hand, FDI can also lead to increased resource consumption and environmental degradation. Studies have shown that FDI can have a positive impact on economic growth in emerging economies. This is because FDI can lead to increased investment, productivity, and technology transfer. FDI can also create jobs in emerging economies. However, the impact on employment can vary depending on the sector and the country in question which in turns help to improve productivity in emerging economies by introducing new technologies and management practices.

FDI can lead to the transfer of new technologies to emerging economies. This can help to boost innovation and economic growth.

FDI can also have positive spillover effects on domestic investment. This is because FDI can create a more favourable investment climate and encourage domestic firms to invest more.

Governments in numerous transition economies have been driven to implement investor-attracting policies due to the anticipated benefits of inward foreign direct investment (FDI). These nations must develop new skills, modernize their industrial structures, and improve their infrastructure in order for the capitalist market economy to thrive.

It has long been believed that foreign direct investment (FDI) plays a significant role in the spread of cutting-edge technology. The question of whether it can advance technologically for the host nation is narrowly focused. This study examines the connection between regional innovation capacity and FDI (RIC). One of the most important aspects of the Sustainable Development Goals is decent work and economic growth. In the case of emerging nations, efforts are made to attain economic growth through international investment support. The effect of foreign direct investment on developing economies was examined in this study.

Conclusion:

Based on aforementioned data the researchers have drawn certain conclusions Foreign direct investment (FDI) has a significant and multifaceted impact on emerging economies. It can be very important for raising living standards, productivity, and economic growth. But it's crucial to understand that, if improperly handled, FDI can also have unfavourable effects. The impact of foreign direct investment (FDI) on developing economies is multifaceted and contingent upon various factors, such as the nature of the FDI, the economic policies of the receiving country, and the regulatory framework. By putting in place sensible investment policies, encouraging accountability and transparency, and making sure that FDI supports sustainable development, emerging economies can optimize the advantages and reduce the risks of FDI.

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