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Article

Exploring Foreign Direct Investment (FDI) Flow and Economic Growth: A Systematic Approach

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Abstract: This research aims to deepen the understanding of Foreign Direct Investment (FDI) and its relationship with economic growth by systematically reviewing existing literature. The study also seeks to elucidate the factors influencing FDI and how FDI flows impact economic growth, alongside examining the opportunities and challenges posed by FDI adoption. This study conducted a review of 100 publications published between 2001 and 2022 using data sourced from the Scopus database, as well as other comprehensive databases such as ScienceDirect, Emerald Insight, JStor, PLOS ONE, Springer, and Taylor & Francis. The review incorporated empirical research, case studies, and reports from institutions like the World Bank and OECD. Additionally, related books and theoretical frameworks were referenced to support the analysis. The literature indicates that FDI can influence economic growth in various ways. Broadly, FDI is recognized as a significant driver of development and an essential part of an open and efficient international economic system. However, the distribution of FDI benefits is not uniform or automatic across countries, sectors, or local communities. The findings highlight that social and macroeconomic factors play crucial roles in shaping business decisions regarding FDI, contingent on the unique characteristics of the host country. This research provides a conceptual framework based on existing literature for understanding the impact of FDI on economic growth. It encourages empirical studies to validate and test the applicability and effectiveness of this framework in real-world contexts. Originality/value by synthesizing diverse perspectives from the literature, this paper identifies key factors influencing FDI flows and their impact on economic growth. It offers practical insights that could assist investors in comprehending FDI dynamics and their implications for economic development.

Keywords: FDI, Economic growth, Macroeconomic, Socioeconomic

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1. Introduction

Foreign Direct Investment (FDI) is a pivotal component of the global economic system, playing a crucial role in the economic development of host countries. According to Lagendijk and Hendrikx (2009), FDI refers to the transfer of ownership and productive assets to foreign entities, enabling companies to leverage their unique capabilities by tapping into location-specific advantages. This integration supports international trade and stimulates overall economic growth (Nupehewa et al., 2022). Despite its recognized benefits, the distribution of FDI's impact varies significantly across different nations and sectors, posing challenges for policymakers and researchers (OECD, 2002).

The relationship between FDI and economic growth has been extensively studied, leading to several fundamental issues and debates. First, the uneven distribution of FDI benefits is a prominent topic. Research indicates that FDI's positive effects are not uniformly experienced, with countries that possess strong, transparent institutions benefiting more significantly than those with weaker governance structures (Paul and

Feliciano-Cestero, 2021). This disparity raises concerns about equitable growth and the role of institutional quality in mediating FDI's impact.

Second, macroeconomic stability is essential for attracting FDI and optimizing its benefits. Sayek (2009) posits that FDI can serve as a hedge against inflation in certain scenarios, but excessive economic volatility may deter investors. This highlights the importance of maintaining a stable macroeconomic environment to maximize the growth benefits of FDI.

Third, the role of human capital is also subject to debate. While some studies show that FDI fosters skill development and human capital enhancement, others, such as Henok and Kaulihowa (2022), suggest that the benefits of FDI on human capital are limited without a pre-existing foundation of educational infrastructure. The spillover effects of FDI, therefore, depend on the quality and availability of human capital in the host country.

Another area of concern is the crowding-out effect of FDI on domestic investment. Kamaly (2014) observes that while FDI may complement and stimulate domestic investment in some instances, it could potentially suppress local investment under certain conditions, leading to a neutral or even negative effect on long-term growth.

Finally, the temporal nature of FDI's impact is a topic of discussion. Dinh et al. (2019) emphasizes that while FDI can foster long-term growth by improving productivity and technological transfer, it may have adverse short-term effects as economies adjust to new competitive pressures and structural changes.

Despite these debates, there is a lack of comprehensive reviews that consolidate these findings and provide a holistic understanding of FDI's impact on economic growth. This study aims to bridge that gap by systematically reviewing empirical and theoretical literature, with a focus on highlighting opportunities, challenges, and key variables that influence FDI's role in fostering economic growth.

2. Materials and Methods

This systematic review was conducted to identify the key determinants of Foreign Direct Investment (FDI) and their relationship to economic growth. To ensure the review adhered to best practices, the methodology followed the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) 2009 framework, which provides a structured approach to literature reviews and meta-analyses.

Search Strategy: A comprehensive search was performed across major academic databases, including Scopus, ScienceDirect, JStor, Emerald Insight, Springer, and PLOS ONE. To further expand the search, grey literature was reviewed from sources such as the World Bank, OECD publications, and other open-access thesis repositories. The search terms used were strategically selected to capture relevant studies, including “FDI,” “economic growth,” “macroeconomic indicators,” and “socioeconomic factors.”

Inclusion Criteria: The study must analyze the impact of FDI on economic growth.

The research should involve macroeconomic or socioeconomic indicators related to FDI. Articles must be published in English and fall within the publication window from 2001 to 2022.

Both empirical and theoretical research studies were included.

Exclusion Criteria: Studies that did not focus on FDI or its impact on economic growth.

Articles not published in English. Studies that did not meet the methodological quality standards set for this review.

Screening and Selection Process: The initial search yielded 100 articles. After removing duplicates, 110 unique articles were screened. Titles and abstracts were reviewed against the inclusion criteria, resulting in the exclusion of 70 articles. Full-text screening was conducted for 40 articles to ensure their relevance and methodological quality. Fifteen articles were excluded at this stage due to insufficient data or

methodological shortcomings. Ultimately, 25 studies were selected for qualitative synthesis.

Data Extraction: For each selected study, key data were extracted, including publication year, research methodology, sample size, main findings, and the specific macroeconomic and socioeconomic variables analyzed.

PRISMA Flow Diagram: The systematic search and selection process are detailed in the PRISMA flow diagram (Figure 1). This diagram provides transparency in illustrating the number of records identified, screened, excluded, and ultimately included in the final synthesis.

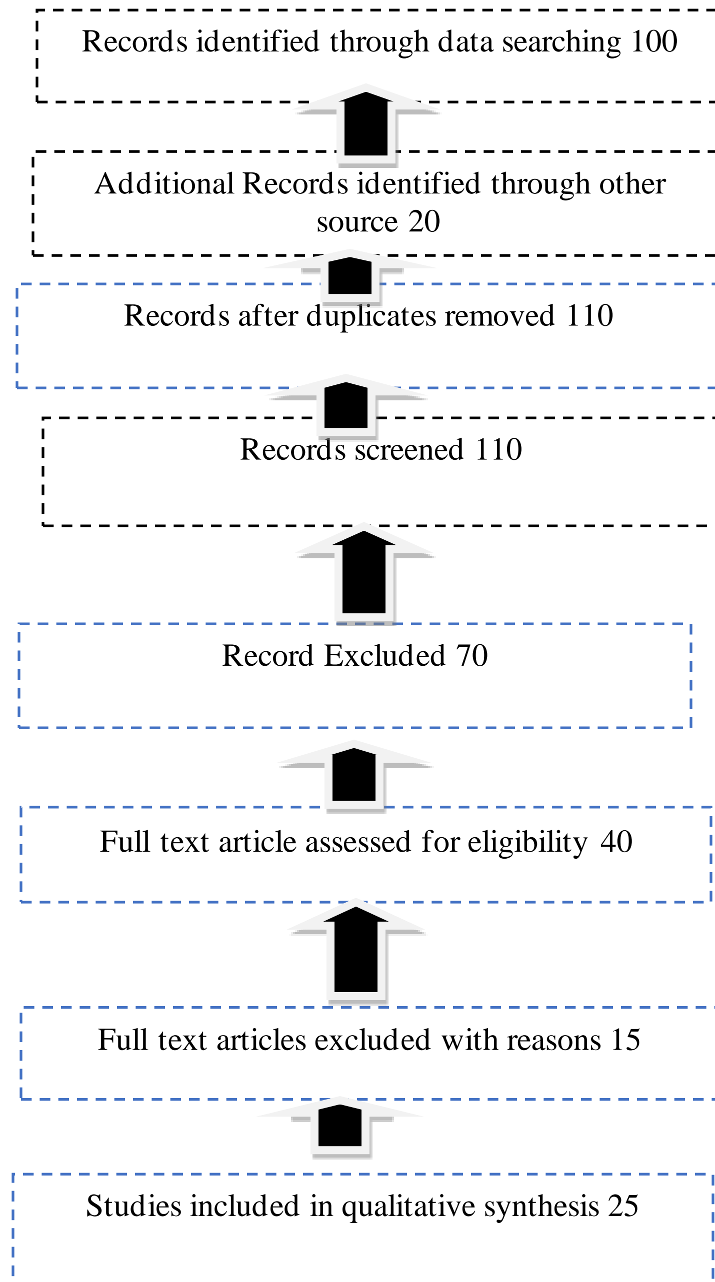

Figure 1. PRISMA 2009 Flow Diagram for Systematic Review Process

By employing a systematic approach based on the PRISMA guidelines, this review ensures a comprehensive evaluation of existing literature to identify the determinants of FDI and their impact on economic growth.

Literature Review Strategy

A review protocol was developed following the Preferred reporting items for systematic review, a review process was devised, and a search for science reports on SCIENCEDIRECT, SAGE, Scopus, TAILOR & FRANCIS, and EBSCO host interface) was done from their inception until 2021. Open Grey, The World BANK REPORT, OECD REPORT, UNCTAD, library online catalogue, Open Access Thesis and Dissertation, Google, World Bank eLibrary, and OECD iLibrary were used to conduct a 'grey' literature search. Finally, the reference lists of the examined papers were checked to identify studies that had been missed during the original search.

Combinations of search phrases included 'FDI' (FDI*), 'economic growth' (human capital, market size, exchange rate, inflation, macroeconomic), and 'seriocomic' (socio*). If the database allowed it, macroeconomic subject headings were use. This analysis also included exchange rate and socioeconomic characteristics, which were not included in Figure 1,

Eligibility criteria

Research studies were selected for review if they 1. Used an outcome that measured economic growth 2. Examined exposure to a classical or emerging foreign direct investment factor, 3. examined exposure occurring Macroeconomic indicators and 4. Market size were published in the English language. This review primarily focused on economic growth that can be modified through activities such as Infrastructure and inflation. The review process excluded works that were deemed inadequately adjustable by interventions like foreign direct investment (FDI) on economic growth. Examples of such studies include those that reported on the impact of FDI on economic growth and looked at inflation, infrastructure, and the human capital market. All included studies were appraised for economic growth. Uniformly and automatically among countries, sectors, and local populations (OECD, 2002). Developing countries, rising economies, and transition economies increasingly perceive FDI as a source of economic development and modernization, income growth, and job creation. Data generated from first Author FDI in a systematic way by the other author.

Strengths of the evidence

About thirty percent of research indicates that foreign direct investment (FDI) boosts capital development, advances technology, and encourages global trade. Some identifies firm main motives towards FDI to be profit maximizations and others include seeking natural resource, strategic asset seeking. More than eighty percent 80% said FDI inflows play a significant role in the growth process: Initially, as a key determinant of growth while other group said described that FDI stimulates economic growth in the long term, despite the fact that it may have an adverse impact in the short run for the countries of interest. Key macroeconomic factors, on the other hand, may have an essential influence in explaining economic growth in these countries.

Enhanced Literature Review on the Impact of FDI

This section expands on the existing literature, reviewing key studies to address gaps and provide a comprehensive overview of the impact of Foreign Direct Investment (FDI) on economic growth and related macroeconomic and socioeconomic factors. The review incorporates findings from seminal and contemporary research, organized into thematic sections.

1. Economic Impacts

FDI has long been recognized as a driver of productivity and GDP growth. Paul and Feliciano-Cestero (2021) provide a comprehensive overview, showing that FDI contributes positively to economic sectors over the long term. Dinh, Vo, The Vo, and Nguyen (2019) note that while FDI can promote growth in the long run, short-term impacts vary depending on a country’s macroeconomic environment.

2. Macroeconomic Stability

The influence of macroeconomic stability, such as inflation and exchange rate volatility, is well-documented. Sayek (2009) highlights that multinational enterprises (MNEs) often use FDI as a hedge against inflation, while Agudze and Ibhagui (2021) find that the relationship between inflation and FDI is nonlinear, with significant thresholds observed between developed and developing countries.

3. Socioeconomic Impacts

FDI's impact extends beyond economic growth, contributing to human capital development and poverty reduction. Henok and Kaulihowa (2022) emphasize that while FDI improves primary education levels, its influence on secondary education remains limited. Similarly, Goldin (2014) underlines the role of human capital as a pivotal factor in enhancing the benefits of FDI.

4. Political and Institutional Factors

The quality of governance and political stability play crucial roles in attracting FDI. Khan, Ahmed, and Li (2019) demonstrate that strong institutional frameworks are associated with higher FDI inflows in emerging markets. Conversely, Bussmann (2010) argues that political instability and conflict deter FDI, reinforcing the importance of a stable environment for investment.

5. Comparative Analysis between Regions

The review reveals the need for region-specific analysis. Nguea (2020) discusses the role of infrastructure in attracting FDI in Africa, highlighting that infrastructure development is crucial for FDI inflows. Syarifuddin (2022) adds that exchange rate volatility affects FDI inflows differently across ASEAN countries, demonstrating the heterogeneity of FDI determinants.

6. Gaps and Future Directions

Despite extensive research, further investigation is needed in certain areas: The impact of FDI on poverty reduction across different regions. Long-term sustainability of FDI-driven growth in low-income countries. The interaction between trade openness and FDI, and their combined effects on economic growth, as highlighted by Su (2019).

7. Summary of Key Findings

A summary of the key findings from reviewed studies highlights consensus and areas of debate, helping identify future research directions (Table 1).

Table 1. Summary of Key Findings from Reviewed Literature

Author(s)	Year	Key Focus	Main Findings
Henok & Kaulihowa	2022	Human capital and FDI	Positive impact on primary education; limited at secondary level
Sayek	2009	FDI and inflation	MNEs use FDI as an inflation hedge; regional variations noted
Paul & Feliciano-Cestero	2021	Sectoral impacts of FDI	Long-term positive sectoral effects
Khan et al.	2019	Institutional quality	Strong institutions correlate with increased FDI
Bussmann	2010	Political stability	Armed conflict reduces FDI inflows

3. Results

The outcome of the literature search revealed a total of 100 scientific papers initially included for review. Through a refinement process focusing on economics-related themes, particularly FDI, economic growth, macroeconomic, and socioeconomic indicators, the number of relevant studies was reduced to 91. Following the application of further eligibility criteria, 55 articles were identified as central to this systematic review.

The findings illustrate that the determinants of FDI inflow and outflow vary significantly based on the economic context and regional characteristics of the countries in question. This section discusses key macroeconomic and socioeconomic factors affecting FDI and cross-references arguments for and against these variables to provide a balanced perspective.

1. Human Capital Research underscores the importance of human capital as a determinant for attracting FDI. Goldin (2014) defines human capital as the stock of skills possessed by the labor force, emphasizing its role in productivity enhancement. Kheng et al. (2017) highlight a positive correlation between human capital and FDI, yet empirical evidence remains limited. Contrastingly, Henok and Kaulihowa (2022) argue that while FDI may enhance primary education, its benefits at the secondary level are less pronounced, suggesting that a minimum threshold of human capital is needed to maximize FDI spillovers.
2. Market Size Market size has long been identified as a significant determinant of FDI. Goh and Wong (2011) find that larger foreign market sizes correlate positively with FDI inflows. Forte and Sarmento (2014) contend that while market-seeking FDI can benefit domestic firms through positive externalities, it may also negatively impact industry concentration in small economies. These mixed findings illustrate that the benefits of market size vary between developed and developing nations, with the latter often facing higher entry barriers and competition.
3. Infrastructure The role of infrastructure in facilitating FDI is supported by studies such as Abu Bakar et al. (2012) and Nguea (2020), which demonstrate that improved infrastructure attracts FDI, particularly in emerging economies. Nketiah-Amponsah and Sarpong (2019) reinforce that FDI's positive impact on growth is maximized when paired with sufficient infrastructure. This indicates that while developed countries may already possess robust infrastructure, developing nations need targeted investments to harness the full benefits of FDI.
4. Inflation Inflation is often viewed as a deterrent to FDI, with Sayek (2009) indicating that MNEs use FDI as a hedge against inflationary pressures. Agudze and Ibhagui (2021) contribute a nuanced view, demonstrating a nonlinear relationship where inflation negatively impacts FDI at different thresholds in developed and developing countries. These findings suggest that while developed economies may experience reduced FDI only at higher inflation levels, emerging markets face challenges at much lower thresholds.
5. Domestic Investment (DI) The relationship between FDI and domestic investment is debated. Kamaly (2014) argues that while FDI can complement domestic investment (crowding in), it can also crowd out DI under certain conditions. Ijirshar et al. (2019) show that FDI inflows in Africa often stimulate domestic investment, but the short-term effects may be negative, reducing GDP before positive impacts emerge. This raises questions about the broader applicability of these findings in other developing regions.
6. Trade Openness Trade openness is another determinant that has received mixed assessments. According to Okere et al. (2022), FDI and international trade are crucial for economic growth in emerging nations. However, Rakshit (2022) argues that trade openness can negatively impact GDP in the long term, suggesting a complex interaction between FDI, trade, and growth. Su (2019) provides an intriguing analysis that when combined, FDI and trade openness may initially hinder growth but separately show positive effects. This points to the need for tailored policy interventions based on regional economic structures.
7. Exchange Rate The impact of exchange rate on FDI is context-dependent. Daniel (2011) and Suliman et al. (2015) find that real exchange rate volatility may attract or deter FDI depending on the nature of investment (e.g., horizontal vs. vertical

FDI). Syarifuddin (2022) and Chakrabarti and Scholnick (2002) show that the relationship between exchange rate and FDI can vary significantly across regions, highlighting the importance of localized studies to draw meaningful conclusions.

8. Socioeconomic Variables FDI's role in addressing socioeconomic challenges such as poverty is well-documented. Klein et al. (2001) emphasize that FDI facilitates the transfer of best practices, boosting broad-based growth and poverty reduction. However, this depends on the alignment of FDI with government-led policies focused on social safety nets.
9. Law and Order and Political Environment Law and order play a significant role in shaping FDI decisions. McCloud et al. (2018) and Khan et al. (2019) point out that institutional stability attracts more FDI to emerging markets, whereas weak governance can deter it. Political stability and avoidance of conflict are also pivotal, as highlighted by Bussmann (2010) and Kishi et al. (2017), who argue that conflicts reduce FDI and economic integration. This is particularly relevant for developing nations with fragile political environments.
10. Employment Creation FDI's influence on employment varies across contexts. While it can lead to job creation and greater economic integration (Ho et al., 2013), disparities exist in how domestic and foreign firms employ labor. Ando and Wang (2020) show that in some countries, domestic firms employ more workers per asset compared to FDI firms, indicating that the impact on employment is nuanced and depends on industry characteristics and technology.

Challenges and Recommendations The findings indicate that while FDI is a crucial growth driver, its effects are multifaceted and context-specific. Future research should focus on regional and economic status-specific analyses to address the variations in determinants and impacts of FDI between developed and developing nations. A balanced view considering both positive and negative arguments will provide a clearer understanding and guide more effective policy-making. this research also included socioeconomic variables and exchange rates, which were left out of Figure 1. The majority of these components had already been identified separately by previous studies. The study integrates the Key significant aspects that generate the new research framework on FDI flow through the FDI model, as shown in Figure 2.

This work does not pretend to have included all areas of the literature. Figures 1 and 2 describe each of the elements that influence FDI inflows and outflows, but this framework focuses on the fundamental key factors that are important for business choices and recognizes that it varies per country. The paper's initial portion covers a number of FDI flow ideas. The comments from earlier studies are included after this, and this study suggests a research strategy based on the earlier literature. However, the challenges and opportunities associated with FDI flow are also highlighted, as are recommendations for future research.

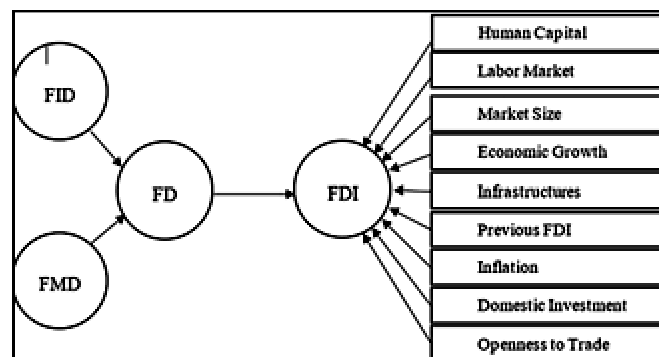

Figure 1. Factors Driving FDI Flow
Source: adopted from Liu et al. (2020)

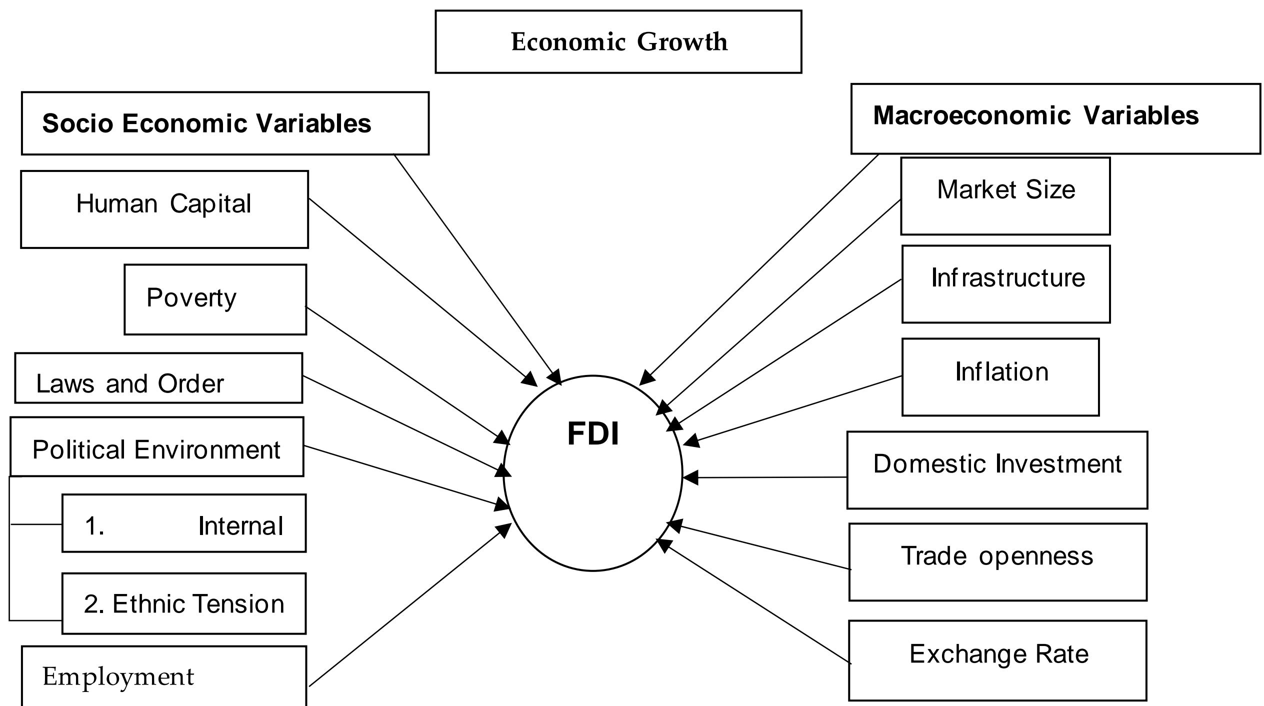

Figure 2. Research Framework of FDI

4. Discussion

Why FDI Flows are Crucial for Economic Growth?

According to Aurangzeb and Stengos (2014), FDI inflows play a significant role in the growth process: Initially, as a key determinant of growth; later, by assisting in the improvement of factor productivity in the exports sector; and eventually, through spillover effects as a result of encouraging links between Multinational Corporations (MNCs) and their host economy partners. Dinh et al. (2019) demonstrates that FDI stimulates economic growth in the long term, despite the fact that it may have an adverse impact in the short run for the countries of interest. Key macroeconomic factors, on the other hand, may have an essential influence in explaining economic growth in these countries.

According to the literature, the influence of foreign direct investment (FDI) on economic growth is contested because, according to the core Solow development model, FDI enables host countries to achieve investment levels that exceed domestic savings and boost capital creation (Tasinda et al., 2022). The good effects of foreign direct investment (FDI) on production growth, according to this viewpoint, will be ephemeral. Due to falling marginal returns on physical capital, foreign direct investment (FDI) may have no long-term influence on the recipient country's economy. Endogenous growth models that emphasize the need of boosting productivity through technological advancements and efficiency may benefit from FDI (Tasinda et al., 2022). To some extent, the liberalization of trade and currency rates has accelerated globalization. As a result, the volume of worldwide FDI has increased.

In recent decades, there has been a notable increase in foreign direct investment (FDI). Last year, foreign direct investment flows worldwide increased by 64% to reach $1.6 trillion, returning to pre-pandemic levels (World Investment Report, 2022). Easy financing and infrastructure stimulation drove particularly robust cross-border transactions and international project funding. Greenfield industrial investment is still struggling to revive, especially in developing nations.

Empirical Review of Factors Influencing FDI Decisions

This study must examine the drivers of FDI decisions as well as the FDI process flow itself, as this produces changes in economic growth. It is critical to establish the factors that may influence FDI investment decisions in order to describe this idea. There is a

substantial corpus of literature on various perspectives on issues influencing the FDI process. The majority of them are concerned with macroeconomic indicators. This study, however, will focus on both social and macroeconomic data, as mentioned below:

Macroeconomic indicators

Human Capital

Goldin (2014) defined human capital as the labor force's stock of skills. When the return on investment surpasses the cost, these abilities will flow (both direct and indirect). Returns on these abilities are private in the sense that more of them boost an individual's productive capability. According to Kheng et al. (2017), theoretical research has indicated a direct association between human capital and foreign direct investment (FDI). However, only a few empirical researches have attempted to study this association at the same time. Despite a remarkable increase in total foreign direct investment (FDI) flows to developing nations in recent years, the vast majority of inflows have gone to a small number of countries. It has been suggested that developing nations could make themselves more appealing to foreign direct investment (FDI) by putting policies in place that enhance the capabilities of their human resources and local talents. Since human capital is one of the most important factors and has increased in value over time, it is a statistically significant component of FDI inflows (Noorbakhsh et al., 2001). According to Abbas et al. (2022), there is no conflict between corporations pursuing human capital and firms seeking cheap labor. Whatever proxy is employed to represent human capital, it turns out that the variable "employee pay," which is the wage bill, is the most important factor for attracting FDI, meaning that multinational corporations hunt for both inexpensive and skilled labor in the host country.

Furthermore, according to Henok and Kaulihowa (2022), there is evidence that FDI improves human capital when the primary school enrollment rate is considered. However, the opposite is true for secondary school. Although FDI has a good effect on primary education, ideal spillovers to human capital development have yet to be reached. A suggestion that a specific level of human capital may be necessary to maximize the benefits of FDI or the sorts of FDI currently in place does not support the FDI-led-human capital hypothesis.

Market Size

The empirical results show that FDI and its main variables foreign market size have a positive long-term relationship (Goh and Wong, 2011). The key findings suggest that the government may increase outward FDI by implementing lax capital outflow regulations in addition to the market-seeking incentive and the execution of outward-oriented policies. Using panel data estimates and after adjusting for other characteristics associated with sector concentration (entry barriers, market size, and growth), Forte and Sarmento (2014) found a significant negative impact of FDI on industry concentration. This result is in line with the empirical studies conducted in other developed nations. It also refutes the popular view that foreign direct investment (FDI) leads to greater concentration in small economies and supports the idea that FDI eventually helps indigenous firms through positive externalities. In recent decades, foreign direct investment (FDI) has gained significant importance in the globalization of business. The amount, breadth, and methods of foreign direct investment (FDI) have undergone substantial modifications in response to changes in capital markets, technical improvements, and the increasing liberalization of the national regulatory framework governing corporate investment (Ho et al., 2013). When productive FDI is invested in long-term assets, it usually results in long-term capital flows.

Infrastructure

One of the elements of an attractive investment climate for international investors and a major force behind long-term economic growth is improved access to enhanced infrastructure services. The results show that attracting foreign direct investment (FDI) is significantly impacted by enhancing the business climate through improved

infrastructure (Nguea, 2020). According to Abu Bakar et al. (2012), the results show that infrastructure has a significant and positive influence on foreign direct investment inflows. This is especially true for emerging economies. This result may be used to direct FDI policy decisions, allowing the government to concentrate more on building both physical and soft infrastructure. Unquestionably, having infrastructure in a nation may draw foreign direct investment and support economic growth. Nketiah-Amponsah and Sarpong (2019) contend that foreign direct investment (FDI) only fosters growth in conjunction with infrastructure. Infrastructure and FDI work together to accelerate economic growth. The results suggest that public investment in economic infrastructure reduces manufacturing costs for multinational firms, which encourages them to increase domestic investment in order to maintain economic growth. The results also suggest that the benefits of foreign direct investment (FDI) on economic growth are maximized when a certain level of economic infrastructure is present.

Inflation

Multinational businesses (MNEs) might move investments between home and host countries to mitigate the negative consequences of macroeconomic shifts. According to Sayek (2009), FDI is utilized as a hedging technique, minimizing the effects of inflation taxes even when formal hedging procedures do not exist. The investment-smoothing reaction of MNEs is determined by the motivation for investment, the sources of FDI finance, and the substitutability of means of production. Finally, the prospect of smoothing investment (FDI) minimizes the real negative consequences of inflation.

According to Agudze and Ibhagui (2021), contrary to earlier research, the relationship between inflation and FDI is nonlinear, with evidence of threshold effects in both industrialized and developing economies. This indicates that the inflation rate in developing nations is around five times higher than in industrialized economies. Inflation tends to reduce FDI in industrialized economies after it exceeds its threshold, whereas it has a negative influence on FDI in emerging economies even before it exceeds its threshold.

Domestic Investment (DI)

A study carried out the effect of FDI on DI with respect emerging economies. According to Kamaly (2014), the effect of FDI on DI varies by nation; however, in most countries, FDI has a positive and significant impact on DI. FDI may drown out DI in future periods. FDI has a long-term neutral effect on DI in the majority of the sample countries. Few nations experience the crowding in or crowding out effect of FDI on DI. This means that the rule is FDI neutrality on DI, while the exception is otherwise (whether crowding in or out).

According to the study, FDI and DI are crucial lubricants for African countries' long-term growth (Ijirshar et al., 2019). The study also discovered that FDI inflows crowd-in DI in Africa and that there is a significant difference in the growth effects of foreign direct investment and domestic investment, while the combined effects of FDI and domestic investment on growth in African countries are statistically significant. Estimates demonstrate that foreign direct investment has a negative influence on growth in the short run, whereas domestic investment has a positive influence on growth in the majority of African countries. This demonstrates that foreign direct investment in Africa has a detrimental impact on host-country GDP in the short run. Could this implication be applicable to other regions? There is the need for more researches to be carried by considering other regions of the world.

The impact of foreign direct investment on local economies has been one of the most contentious issues in post-communist nations. In the 1990s, privatization got underway in several nations in Central and Eastern Europe. Foreign direct investments have a significant impact on the region in this regard. One factor that's frequently thought to have a positive effect on the economic growth of the countries they enter is foreign direct investment. But one important aspect to consider when evaluating foreign direct

investment's impact on development is whether it attracts more foreign investment or drives away domestic investment. The results show that the extrusion of domestic investment has a greater effect in certain places than others.

Trade Openness

According to Okere et al. (2022), most scholars concur that foreign direct investment and international commerce are important macroeconomic factors that contribute to the economic growth of emerging nations. On the other hand, the movement of these macroeconomic indicators is heavily influenced by the global economic crisis, which may change the terminology of economic activity in relation to trade and FDI inflows. The global financial crisis, FDI, and overall trade interact in a way that is substantial enough to weaken the link between trade and growth and FDI and growth. FDI inflows benefit from exports and trade openness (Adebayo et al., 2021). Trade openness has a negative long-term impact on economic growth, claims Rakshit (2022). FDI inflows seem to have little impact on GDP in the short term, despite their long-term support for economic expansion. In order to foster economic growth over the long term, governments should enact more export-oriented policies, as trade openness has a detrimental impact on GDP. The ratio of exports to total trade volume has not grown at a rate that is satisfactory throughout time. Appropriate policies should also aim to optimize the long-term advantages of FDI inflows. Second, the combined impacts of trade openness and foreign direct investment on economic growth are significantly influenced by economic institutions. Further study is necessary to examine the link between FDI and trade openness, as the data indicate varied conclusions for different regions. Su (2019) shows that, initially, trade openness and inbound FDI together have a negative influence on economic growth, but that each has a beneficial effect when taken into account independently. This article explores this fascinating subject.

Exchange Rate

Daniel (2011) found that while investors can profit from changes in the foreign-currency value of local assets, a depreciation in real exchange rates may lead to a rise in inflows of foreign direct investment. If so, the nature of these inflows of foreign direct investment would affect exports; inflows driven by "horizontal" foreign direct investment are linked to negligible shifts in export growth following devaluation. According to Suliman et al. (2015), real exchange rate volatility encourages more volatility in foreign direct investment inflows into Sub-Saharan African countries, whereas real exchange rate depreciation draws more FDI to these countries. Many measurements and model assumptions yield consistent findings. Additionally, we contend that the real exchange rate has a significant impact on FDI inflows, as utilizing the pegged exchange rate as a lure for FDI inflows leads to greater price volatility.

Syarifuddin (2022) employs a spatial econometric method to account for the nature of spatial dependence across ASEAN countries. The findings reveal that the influence of the exchange rate is dependent on the source-region of FDI, implying that ASEAN's FDI is spatially heterogeneous. Researchers further show that FDI inflows into ASEAN are influenced not just by the country's own exchange rate, but also by that of adjacent nations.

Using panel data approaches on exchange rate changes and FDI flows from the US to 20 OECD countries, we find that the skewness of devaluations has a strong positive influence on FDI flows, although average devaluation and volatility do not. This evidence, according to Chakrabarti and Scholnick (2002), supports the theory that relatively substantial exchange rate swings induce mean-reverting long-run expectations. This conclusion is consistent with findings from surveys on exchange rate expectations. This indicates that the effect of exchange rate and FDI with respect to different region is diverse. However, there is the need for more studies to be carried out.

Socioeconomic Variables

Poverty

Klein et al. (2001) revealed that foreign direct investment is a critical component of successful economic growth and development in developing nations, partially because the very basis of economic development is the rapid and effective transfer of "best practices" across borders. Foreign direct investment is particularly well suited to facilitating this transfer and converting it into broad-based growth, not least by upgrading human capital. Because growth is the single most important determinant in poverty reduction, foreign direct investment is critical to attaining the World Bank's crucial goal. Government-led programs that strengthen social safety nets and openly transfer assets and income to the poor may direct more of the benefits of growth to the poor. However, these are supplements, not replacements, for rational growth-oriented policies.

Law and Order

Foreign direct investment (FDI) has intensified the difficulties governments face in meeting their fiscal obligations. The legal and political systems of a country either facilitate or hinder the implementation of government programs, and so impact whether the size of government responds to changes in FDI inflows and outflows. McCloud et al. (2018) discovered a strong (negative) connection between FDI inflows and government consumption over a long data frequency, and increases in law and order diminish this link. FDI outflows show no level effect on government consumption at any data frequency, although the empirical regularity of significant and robust inertia in government consumption exists in all countries.

Khan,et al. (2019) empirical findings demonstrated that institutional issues such as law and order are important in attracting large amounts of FDI to emerging markets. The article demonstrates that growing countries attract more FDI due to appealing law and order, thus it is recommended that the government take more steps to strengthen governance, which can entice more foreign investors and help achieve full employment, increase GDP, and nurture per capita income.

Political Environment

Kishi et al. (2017) revealed that Foreign direct investment (FDI) is expanding in developing nations, but little is known about how this may alter the political environment. One option considered here is that rising levels of FDI within developing countries will incentivize state conflict action. Using an instrumental technique, we show that more access to investment is connected with a higher number of conflict actions by the state in states with a low regard for civil liberties or with sick economies (i.e. states with a cash deficit). We contend that access to investment can lead regimes to engage in conflict against opposition and armed fighters in order to secure their internal environment and assure their existence.

Karlsson and Talp (2017) findings revealed that the African continent is characterized by a high level of ethnic diversity, and some governments have suffered with racial tensions. Tensions in a society are likely to occur as a result of discrimination and exclusion of one or more groups. Individuals who are denied equitable access to economic resources are more likely to engage in acts that promote tensions between groups. The negative association between ethnic tension and economic development is caused by diminished capital accumulation, which stifles long-term economic growth. The impact on capital accumulation is especially severe in low-income countries. Competition for scarce resources reduces the incentives for capital accumulation.

According to liberals, countries avoid war in order to avoid disrupting economically advantageous trading. The assertion that economic integration lowers the likelihood of conflict is mostly based on trade effects. To avoid deterring investors, a state is supposed to avoid political risk, particularly extreme versions such as armed disputes. Bussmann (2010) agrees with the basic concept of commercial peace that armed conflicts discourage foreign investment. When a catastrophic conflict breaks out, it reduces FDI inflows and, if assessed in a two-stage instrumental variable approach, FDI stock, the most comprehensive metric of economic integration through foreign investment. Accounting

for endogeneity appears to be especially significant when examining the relationship between the commencement of fatal disputes and the outflow of FDI.

Employment Creation

When a country becomes more productive, another beneficial effect of FDI is job creation. Increased productivity and competitiveness lead to job creation and make entry into the global economy more possible (Ho et al., 2013).

The research has shown that two of the most important factors that foreign investors take into account when choosing a potential host nation are macroeconomic stability and the labor market of that economy. Scholars who offer extensive evidence in favor of the idea that foreign direct investment (FDI) has a positive influence on the host nation also point out the opposite effect. Therefore, for every nation hoping to attract foreign direct investments, researching the relationship between FDI inflows and unemployment becomes essential. The main outcome of the study is that, for six nations, there is no Granger causation link between the variables; for the other countries, a one-way causal relationship was found (Strat et al., 2015). According to Ando and Wang (2020), in most nations, domestic firms employ more people per asset than FDI enterprises. In the example study of the United Kingdom, the conclusion is consistent across individual industries. According to the analysis of switchers (ownership shifts from domestic to foreign or vice versa), ownership changes have no direct impact on employment per asset. This finding implies that disparities in employment patterns per asset appear to be due to technology differences rather than differing ownership structures.

Obstacles Inhibiting FDI Flow

Political issues, followed by economic and financial, social, and regulatory factors, are the main obstacles to foreign direct investment (FDI) in various industries, according to Mahbub, T., and Jongwanich, J. (2019). Major barriers to FDI in most industries include individual factors such as property acquisition, rent, or lease, political influence, corruption, an insufficient gas transmission system, and a protracted approval process for independent producers. When deciding which FDI projects to prioritize, ownership structure matters. The inference can assist managers in identifying important factors that deter foreign direct investment in the majority of sectors. Additionally, it can assist the government in formulating the best policies possible to foster FDI across a range of industries over the long run.

According to Forte and Palva (2021), the most significant hurdles are bureaucracy, labor market structure, and laws. Furthermore, the impression of barriers varies depending on the location and manner of organization of the subsidiary, implying the necessity for tailored policies to overcome the barriers considered to be larger in different locations.

According to Liu et al. (2021), the cultural system reform significantly increased the inflow of FDIs by deregulating institutions and reducing entry obstacles, and the attractiveness of FDI has gradually increased along with the depth of the reform. After running many robustness tests, our findings remained consistent, highlighting ideology as significant impediments to FDI inflows into less developed nations.

Implications for Future Research

The findings of this study underscore the multifaceted nature of Foreign Direct Investment (FDI) and its impact on economic growth, which varies across regions and economic statuses. Given the extensive body of empirical research on the FDI-economic growth link and its determinants, future research should address the following areas to enrich the existing literature:

1. Region-Specific Analyses: While many studies provide generalized conclusions about FDI's impact on economic growth, there is a clear need for more region-specific analyses. Future research should investigate how determinants such as market size, infrastructure, and human capital vary in their influence across developed, emerging, and low-income countries. This would allow for tailored

policy recommendations that consider local economic conditions and institutional frameworks.

2. Comparative Studies between Developed and Developing Economies: The results indicate that the determinants of FDI, such as trade openness, inflation thresholds, and domestic investment effects, differ between developed and developing countries. Future studies should focus on comparative analyses that explore these differences in greater depth, examining why certain factors are more influential in one context versus another.
3. The Role of Human Capital in FDI Spillovers: Although human capital is recognized as a crucial determinant of FDI, the level and type of education necessary to maximize FDI benefits remain debated. Further empirical research should explore how varying levels of education (primary, secondary, and tertiary) impact the quality and magnitude of FDI spillovers, particularly in developing nations where educational infrastructure may be lacking.
4. Longitudinal Studies on Macroeconomic Indicators: Inflation, exchange rate volatility, and domestic investment are key macroeconomic indicators discussed in this study. However, there is a need for longitudinal studies that track these indicators over time to better understand their long-term impact on FDI inflows and economic growth. This approach would provide a more dynamic view of how these variables interact and evolve.
5. Socioeconomic Impact of FDI on Poverty Reduction: While FDI has been associated with broad economic growth, its direct impact on poverty alleviation remains less explored. Future research should investigate the mechanisms through which FDI can contribute to reducing poverty, such as through job creation, skill development, and income distribution. This would provide valuable insights for policymakers aiming to align FDI policies with social development goals.
6. Policy-Oriented Studies on Law and Order: The role of law and order in attracting FDI has been emphasized, but more policy-oriented research is needed to evaluate how specific reforms in governance and judicial systems can boost investor confidence and promote sustained FDI inflows. This is especially relevant for developing countries with less stable political environments.

2. The Interaction between Trade Openness and FDI: The relationship between trade openness and FDI is complex, as highlighted in the results. Future studies should aim to disentangle this relationship by considering variables such as trade policies, export-import ratios, and regional trade agreements. Understanding these interactions would aid in designing more effective trade and investment policies.
3. Technological Advancements and Employment: The impact of FDI on employment creation is mixed, with technology often being a moderating factor. Research should explore how technological advancements brought in through FDI affect job markets, distinguishing between labor-intensive and technology-intensive industries. This could help predict whether FDI will lead to net job creation or displacement.
4. Addressing Methodological Gaps: Many existing studies utilize panel data and cross-sectional analyses, which may not fully capture the nuanced relationships between FDI determinants and economic outcomes. Future research should incorporate more robust methodologies, such as mixed-methods approaches and spatial econometric models, to provide deeper insights into these dynamics.

By addressing these areas, future research can build on the evidence provided in this study to offer more targeted, evidence-based insights. This would enhance the understanding of FDI's role in economic growth and aid in the formulation of region-specific policies that maximize the benefits of FDI while mitigating potential drawbacks.

5. Conclusion

The study's goal is to assess the impact of FDI on economic growth. The study employs the methods of a literature review. The findings demonstrated that both

macroeconomic and socioeconomic variables influence FDI business decisions in both positive and negative ways. The study revealed many elements that each firm and country should take into account. Foreign direct investment (FDI) can help maintain stable foreign exchange reserves, human capital skill, trade openness, market size growth, and other characteristics. The same characteristics that make FDI beneficial in fostering long-term market stability can also lead to economic growth.

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