IMPACT OF FOREIGN DIRECT INVESTMENT IN EMERGING ECONOMIES

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Abstract:

The burden of bringing about a new wave of economic growth has rested squarely on the shoulders of the emerging countries, with the finances of the advanced economies in terrible circumstances and prospects of recovery appearing increasingly remote (Brazil, Russia, India, China). Multiple factors will affect how these nations respond to this enormous job, one of which is the trends in their inward and outward foreign direct investments (FDIs). The volume and composition of these flows determine how much FDI will affect the host nation. In the current economic context, host nations compete with one another to draw in thehighest quantities of FDI. The emerging economies provides a variety of advantages to international investors, including a young labour pool, a cheap labour force, natural resources, and sizable markets. FDI appears to have a favourable effect in these emerging economies by aiding in their development. Variations with respective to inward and outward Foreign Direct Investment opportunities are one of the many variables that will determine how these nations respond to this mammoth endeavour (FDIs). The study conducted in this paper is intended to shed at least a little amount of light on the challenging issue of clearly comprehending economic growth paradigms in the emerging economies and their potential cascade implications on the planet's long-term economic viability.

Keywords: FDI; GDP; economy growth; BRICS, emerging economies

Introduction:

Economically, the globe is going through perhaps one of the most difficult periods. It has recently experienced one of the worst recessions, and it is soon to experience another financial crisis. A lot of research has been done on how FDI affects the host nation. Some researches came to the conclusion that FDI contributes to the economic growth of the host nation, while others discovered a detrimental effect. Romer viewed foreign direct investment as a source of technical advancement and technology transfer as an input with special significance. The impact of FDI in this situation is unmistakably favourable. (Romer, 1993).

With regard to one variable, namely: Foreign Direct Investment, we will try to get some understanding of the events during the past ten years that have led to the current economic situation of the four countries indicated. Additionally, an attempt has been made to determine a correlation between FDI and the BRIC nations' GDP over the preceding ten years. Now that the

advanced economies are in such bad shape, it is time for the emerging nations to take the lead. Four nations appear to be strategically in a much better position than the rest to secure their status as the world's upcoming politically and economically heavyweights at this pivotal moment in economic history.

Brazil, Russia, India, and China (BRIC's) are the most probable nations to emerge as the next financial centres due to their explosive growth rates, which have regularly outpaced a wide range of other industrialised countries over the previous few years.

Literature Review:

One opportunity, for instance, includes the fact that emerging markets, where more than half of the worldwide population resides and whose economic growth are twice as high as those of Western nations, offer potential for business. These nations are known for their quick industrialization and rapid growth.Numerous scholars (Schneider and Frey, 2005; Carkovic and Levine, 2002; Garibaldi et al., 2002; Neuhaus, 2006) have demonstrated that FDI has a favourable influence on emerging economies. Since these economies lack significant reserves and the necessary capital and technology to spur economic growth, FDI are especially crucial for emerging markets. (Bevan and Estrin, 2000; Billington, 1999).

An emerging country is one where the economic growth accounts for at least 1% of the global Gross domestic product, according to several points of view from the literature. Jim O'Neill, an American economist, endorsed this characteristic of growing economies when he coined the moniker BRIC in 2001, which stands for Brazil, Russia, India, and China. Because of their size and plenty of people and land, Jim O'Neill claimed that this group of nations had the potential to evolve into industrialised nations. 2011 (O'Neill).According to Cavusgil, Ghauri, and Agarwal (2002), emerging market nations are those with significant growth in gross national product (GNP) per capita as well as ambitions for economic restructuring, which means reducing issues like infrastructure issues, poverty, and population explosion. Such economies and nations are anticipated to have a significant impact on global trade over the ensuing decades (Cavusgil, Ghauri& Agarwal, 2002).

These businesses have recognised the necessity for a strategy that would make them acceptable to the local public given the shifting political landscape in these rising economies, as Ehrhardt and Brigham (2014) point out. The patterns in foreign direct investment in developing markets are the primary focus of this study.Despite certain challenges and recent losses for emerging markets, including the Asian financial crisis, they continue to be a focus for businesses looking for expansion prospects on the global market. These economies' gdp exhibit long-term growth and an expansionary trend (Atsmon, Kertesz&Vittal, 2011).

Research Methodology:

The researcher used a secondary data collection technique to gather the data. The UNCTAD and UN statistics handbook were used to gather the FDI data. To conduct a data analysis, various literature resources have also been used. The data unambiguously shows how FDI has affected the emerging economies' rate of economic growth.

Research objectives

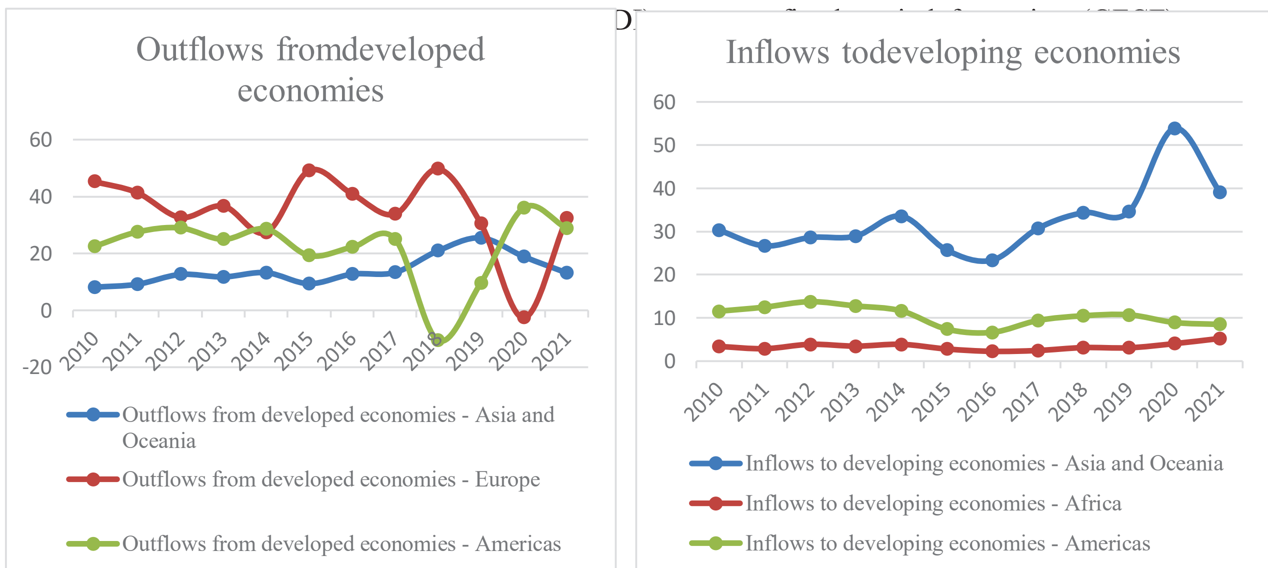
It is crucial to clearly identify the research's aims. Azman-Saini and Law (2010) assert that a research project's performance is always evaluated in light of its specific goals. The findings of the study will next be assessed to see if the objectives were accomplished.This is why it was crucial to establish specific goals that would be utilised to gauge the performance of the study. Examining the patterns of foreign direct investment in developing economies will be of interest to the investigator.

1. To study the impact of inflows and outflows of FDIs in emerging economies.
2. To understand the relative pace of economic development in emerging economies usually indicated by the FDI growth rate.

Data Collection and Data Interpretation:

Patterns and trends worldwide:

Global FDI inflows reached US$1.6 trillion in the year of 2021, an increase of 64.3% from the uncharacteristically low level in 2020. All regions saw rise in FDI during the 2021 recovery.



Source: UNCTAD HBS2022 Chart No. 1-Selected foreign direct investment flows - Percentage

Foreign Direct Investment's Sources and Destinations:

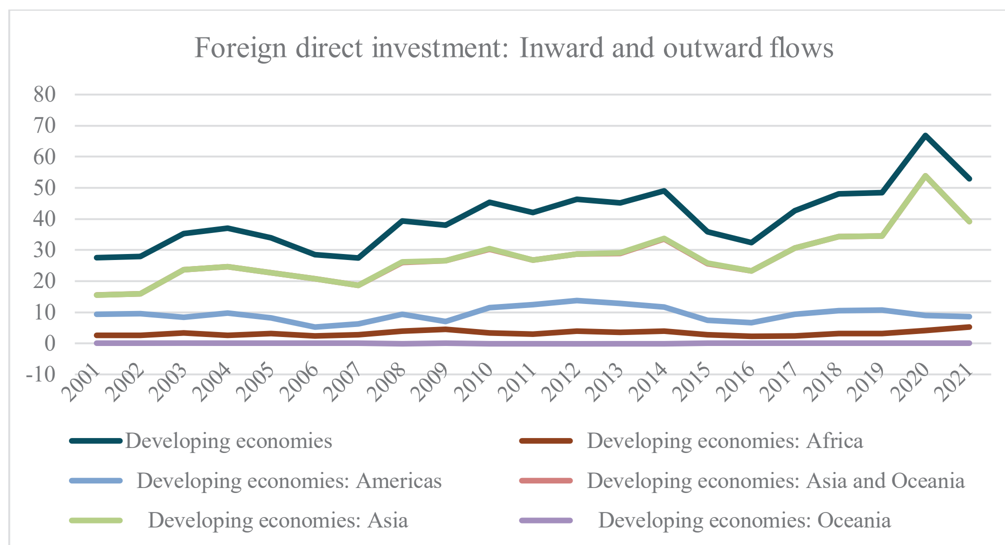
The proportion of global inflows attributed for by advanced economies reached pre-pandemic levels in 2021, accounting for roughly half of the total, up from barely one third in 2020. Just over 50% of global flows continued to come from developing economies. 5.2 percent of all FDI flows were sent to Africa, and 39.1 percent of all FDI inflows went to emerging Nations and Pacific region, the largest recipient region.As a percentage of global FDI outbound, developed

economies climbed from 52.3% in 2020 to 74.3% in 2021, while developing economies decreased from 47.7% to 25.7%.(Chart No. 1).
Selected foreign direct investment flows – Percentage

Trends by geography:

FDI to emerging nations decreased by 58% to $312 billion (Chart No. 1). Strong swings in financial movements between firms and through conduits, as well as business reorganisations, exacerbated the fall. The amount of net cross-border M&A sales, which are typically the most significant form of FDI in industrialised nations, fell by 11% to $379 billion. Direct investment announced and cross-border project finance arrangements saw values fall by 16% and 28%, significantly.

Foreign direct investment: Inward and outward flows:



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).Chart No. 2

FDI flows to emerging economies fell by 8% to $663 billion, a less drastic declineChart No. 2.

FDI inflows to China climbed by 6% to $149 billion, largely due to the nation's consistent economic growth, initiatives to make it easier for investors to do business there, and increasing investment reforms.The amount of FDI going to emerging Nations, which already receives more than half of all FDI worldwide, increased by 4% to $535 billion. Meanwhile, flows to the region were down 6% when large channel flows to Hong Kong, China, are omitted. FDI in South-East Asia, which is often a driver of global FDI growth, decreased by 25% to $136 billion, with decreases in funding in all the top beneficiaries, such as Singapore (-21%), Indonesia (-22%), and Vietnam (-2 per cent).

Global prospects:

It's anticipated that global FDI flows would peak in 2021 and then expand by 10–15% to make up some significant ground. In spite of this, FDI would continue to be more than 40% below its previous peak in 2016 and almost 25% below its level in 2019. According to current expectations, growth will continue in 2022 and, at the higher end of the range, could return FDI to its level of $1.5 trillion in 2019.Considering at geographical implications to global FDI investment, East and South-East Asia as well as developed countries are expected to lead the improvement in 2021. (Table. No. 1).Opportunities vary in different places. This is due to a lack of vaccine supply, a lack of budgetary room to encourage investment, considerable economic uncertainties, and the increased risk-aversion of overseas investors that is typical following major shocks.

Although it is anticipated that FDI will rise by 5% in Africa, it will still be 15% below its level in 2019. Whilst prices of commodities have completely recovered from a decline in 2020, the region's predicted growth is modest. The region's highly promising and investment requirements will speed up FDI inflows well over forthcoming years, notably if the financial market keeps getting better. In 2021, it's anticipated that FDI in Asia would expand by between 5 and 10% annually. In 2020, FDI was only consistently strong in Asia. It stands to benefit from expanding markets, strong regional and international FDI ties, and a generally welcoming investment environment notwithstanding the pandemic. The trade revival and increasing global demands will be advantageous for South-East Asian manufacturing nations that rely on exports. West Asia will see an increase in FDI as prices for oil rise. Despite the fact that the area has handled the health problem comparatively successfully, the recent second wave of COVID-19 in India demonstrates that there are still a lot of unknowns. This is having a significant impact on South Asia's aspirations. Considering that Asia makes up a substantial portion of the total, a greater comeback of the virus there could result in a considerable reduction in worldwide FDI in 2021.

	Actual			2021 Projection	
Group/region	2018	2019	2020	Range	Baseline
World	**-13**	**7**	**-24**[a]	**10 to 15**	**10**
Developed economies	**-21**	**6**	**-37**[a]	**15 to 20**	**15**
Europe	-32	5	-35[a]	15 to 20	17
North America	-18	18	-42	10 to 20	15
Developing economies	**-1**	**4**	**-8**	**5 to 10**	**7**
Africa	13	4	-16	0 to 10	5
Asia	-2	4	4	5 to 10	8
Latin America and the Caribbean	-4	7	-45	-5 to 5	0
Transition economies	**-28**	**58**	**-58**	**-10 to 0**	**-6**

Source: UNCTAD forecasting model. Table. No. 1

The predictions focus on the FDI trend without taking into account the impact of channels, yet another transaction, and opportunities for positive financial flows. The 2020 rate of growth in this table are therefore different from the actual rates shown elsewhere in this study. Rising prices will indeed be advantageous for transition economies relying on revenue from primary commodities like oil. FDI to this category seems to have been insufficient for a number of

decades as a result of international sanctions against the Russian Federation and the unimpressive projected growth within that area. It shrank by 58% in 2020, and no growth is anticipated in 2021. The widespread use of vaccinations, a rise in global demand for basic commodities, and a reduction in local and global geopolitical tensions are just a few of the variables that will determine whether the investment picture improves.

Challenges Faced by Multinational Organizations in Emerging Economies:

According to Ok (2004), the markets in emerging market economies presents certain significant difficulties that could inhibit this growth. To create a system for handling these issues, it is critical to comprehend them. In contrast to wealthy nations, emerging markets have unique difficulties. Markets are unsteady as a result of these issues, and data is always changing, affecting how firms are run. It is crucial to have constant access to trustworthy data because developing markets make up to 80% of the global GDP. The following variables may have an effect on how the emerging economies go about conducting their daily business.

Financial Infrastructures: Inadequate institutional framework in emerging nations may have an influence on banks, securities and exchange commission, currencies, and information about the health of investments, all of which have an effect on consumer expenditure patterns and behaviours.

Political destabilisation: The majority of rising economies experience social instability, fragile political structures, and military turmoil, which can add to a high degree of complexity for producers, retailers, and consumers.

Infrastructure issues: Businesses frequently need to alter their tactics in order to achieve success because the infrastructure in emerging markets is frequently inferior to that in established nations.

Fragmented Supply Chains: Suppliers and contractors frequently lack synchrony because there is an inadequate level of visibility for all participants in the supply chain.

Territory / Geographic area Entry: When businesses decide to venture into new territories or geographical areas in developing markets, they frequently discover that there is no reliable informational repository they can access, forcing them to gather all of the information independently.

The Indian connection:

In perspective of FDI inflows and outflows, only one country, India, did not manage to recover in 2009. However, following the Covid Pandemic, as shown in the graphs above, India made the strongest recovery among the BRIC nations. The current European situation will put India to the test once more as a desirable foreign direct investment location. The largest obstacle to India's efforts to regain the levels of FDI it obtained in its earlier days in 2007 will be subpar

infrastructure, bureaucracy, and widespread corruption at all levels. In the coming years, India will likely focus on a number of general issues, including:

Foreign corporations' inability to invest: The developed nations' capacity to make investments overseas has been severely impacted by the economic crisis. Companies now ponder ten times before making a decision to invest due to the pressure to deliver in terms of earnings. Additionally, it has become exceedingly challenging for businesses to get the kind of capital needed for investments due to tightened credit standards.

Negative market perception: In the current economic climate, even businesses with the means to invest prefer to take the safe route.

India's environmental policies: For the past few years, a major "development vs. environment" debate has dominated Indian policymaking. However, despite all of this discussion, India still lacks a complete, workable strategy that would guarantee that the nation is moving in the correct path. Future investment prospects in the nation are severely hindered by delays in clearing projects.

Corruption: India is regarded as one of the most fraudulent countries around the world. Among the most heinous obligations to be met, according to foreign businesses investing in India, is the necessity to grease people's hands at every stage in order to complete work.

Bureaucracy: Because there are so many laws, regulations, and protocols in place, it takes a long time to complete tasks even when corruption is not taken into account. The excessive wait times caused by licencing procedures, bidding requirements, and other activities are very annoying and harm India's reputation as an inviting place for investors.Infrastructure: The terrible lack of facilities, including good roads, canal access, ports and terminals, trains, etc., drives up project prices overall and deters foreign investment in the nation.

Conclusion:

While there is undoubtedly a rising demand for investment options with a sustainability focus, developing nations have mostly been left out of the recent trend. More needs to be done to provide developing nations with sustainable financing. To attract more private sector participation in developing nations, this could include de-risking techniques, investment guarantees, and innovation in project creation. It is essential to invest in emerging nations if you want to promote sustainable development. The influence of sustainable products on development will remain modest until poor nations participate in and gain from the growth of the sustainable investment sector. Three major shifts in the sustainable financial market are necessary to get it from where it is now to where it has to be in the future in order to meet the challenges such as, firstly, increasing the market share of sustainable investments by making sustainability integration a strategy for the entire market as opposed to just a segment of it. Secondly, making the sustainable investment market a global phenomenon that benefits all nations, particularly developing economies. Currently, this market only exists in rich nations. And lastly, using more reliable and controlled standards and categories to boost the legitimacy of sustainability ratings and reporting.

All stakeholders, including fund and index regulators, institutional investors, stock exchanges, and authorities, must work cooperatively to make the transition from the current market to the market of the upcoming years. In the meantime, rules must keep up with market movements to give the market discipline, predictability, and confidence. Regulation is gradually influencing how the market for sustainable investments will look in the future.It is highly possible that the developing market economies won't be as alluring as they are now given the current patterns in foreign direct investment. They might experience flooding, which would make them undesirable to international investors.

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