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The determinants of FDI in developed and emerging countries: A review of the literature

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Abstract
The current research paper reviews the determinants of FDI in developed and emerging countries. These determinants are macro and micro economic variables. The results showed that the determinants of macro and micro economic variables are significantly influenced the inward FDI in developed and emerging countries.

Keywords: FDI, Developed Countries, Emerging Countries

Introduction

The factors that determine inward foreign direct investment (FDI) are important to the banking sector, policy-makers, public and private sectors, and investors. The growth of inward FDI in the world has been significant in recent years. Between 1990 and 2000 worldwide inward FDI increased more than five times, and since 2000 they have declined. During the period of FDI expansion, growth was especially strong from 1997 onward. However, most of the FDI transactions were between the developed countries. The distribution of inward FDI is different and less-developing countries face difficulties in attracting FDI. Therefore, the current conceptual research paper reviews the studies that examined the determinant of inward FDI.

Literature Review

Abdouli and Hammami (2017) investigated the causal relations among FDI, environmental quality, and economic development for a group of 17 MENA countries. They used vector autoregressive (VAR) model for (the 1990-2012 period). The results showed a unidirectional causality running from inward FDI to economic development.

As for Bekhet and Al-Smadi (2015) [3] examined the (long-run and short-run) associations between inward FDI and its determinants (GDP, economic openness, money supply, consumer price index, and stock market index) in Jordan for (the 1978-2012 period). The paper employed ARDL approach and VECM. The results showed different equilibrium and causal relationships between inward FDI and its factors.

Asiamah *et al*. (2019) [2] examined the determinants of FDI (i.e., inflation, interest rate, telephone subscriptions, and electricity production) in Ghana over the period (1990 – 2015). The results showed that these determinants are important drivers of FDI.

Bilgili, Tuluce and Dogan (2012) [8] examined the determinants of inward FDI in Turkey. The outcomes showed that the factors of inward FDI (i.e., gross domestic product (GDP) growth, labor cost, and the electricity price growth) significantly influenced inward FDI.

Belloumi (2014) [7] examined the association among inward FDI, trade openness, and economic growth in Tunisia for (the 1970 – 2008 period). The study used autoregressive distributed lag (ARDL) approach and vector error correction model (VECM). The results showed the existence of a long-run relationship among variables.

Boateng, Hua, Nisar and Wu (2015) investigated the effect of macroeconomic variables on inward FDI in Norway. They used VECM and the outcomes showed that real GDP, trade openness, and exchange rate had positive effects on inward FDI. In addition, inflation rate, money supply, unemployment rate, and interest rate had negative effects.

Botric and Skuflic (2006) [9] examined the relationship among FDI, GDP, GDP per capita, number of inhabitants, trade openness, inflation, external debt, and information & communication technology sectors in southeast European countries (SEEC). The findings suggested that the study's variables are important determinant of FDI.

Economou (2019) [10] investigated the effect of market size, economic freedom, fixed capital formation, and unit labor cost on inward FDI. The study covered four European counties (i.e., Spain, Portugal, Italy, and Greece) over (the 1996 – 2017 period). The results indicated positive influence of fixed capital formation, market size, and economic freedom on inward FDI. In addition, a negative consequence of unit labor costs was found on inward FDI. Muhammad and Khan (2019) investigated the determinants of economic growth using generalized method of moments in 34 Asian countries.

The results revealed that FDI inflows and outflows, energy consumption, fixed capital formation, and carbon dioxide emissions affected economic development.

Elheddad (2018) [11] examined the determinants of inward FDI using yearly panel data of six oil dependent countries (United Arab Emirates, Saudi Arabia, Qatar, Oman, Kuwait, and Bahrain). The results revealed that inward FDI is significantly influenced by different determinants. Vo (2018) examined the determinants of inward FDI (i.e., GDP, inflation rate, trade, stock market return volatility, and exchange rate volatility) in Vietnam. The results showed that inward FDI was significantly influenced by its determinants.

Kinuthia and Murshed (2015) [12] examined the determinant of inward FDI in Kenya and Malaysia for (the 1960 – 2009 period) using VECM. The findings showed that Malaysia is more successful in attracting FDI compared to Kenya.

Tintin (2013) [29] investigated the determinants of FDI inflows in six Central and Eastern European countries (CEEC) by incorporating the traditional factors and institutional variables over the (1996–2009) period. The results verified that these determinants are important determinant of FDI inflows.

Tsitouras, Mitrakos, Tsimpida, Vlachos, and Bitzenis (2019) [30] examined the determinants of inward FDI (i.e., trade openness, education, infrastructure, technological abilities, and real GDP) in Greece for (the 1980 – 2016 period). The results indicated long-run relationships between variables.

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