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**FOREIGN DIRECT INVESTMENTS IN
DEVELOPING COUNTRIES**

Theses of doctoral (PhD) dissertation

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1. History and objectives of research

Mainstream economics has always attributed a prominent role to capital in various growth and development theories. For a country, foreign direct investment is a major determinant of the country's economic growth and with the globalization it was strengthened. From the 1960s and 1970s, multinational and transnational companies appeared in the world economy, which have now become key players in the global economy, and the direct investments are most closely linked to them. Governments around the world, including developed and developing countries, have attracted these global big companies and their foreign direct investments (FDI).

Since the 1990s, foreign direct investment has been the main source for developing countries. FDI had the same popularity as export-oriented economic growth in the 1970s. To improve the ability to attract investments, many countries have liberalized economic policy and trade policy (*Blomström, Kokko, 2003*). Many countries have averted a number of barriers which are "restricted" foreign direct investment inflows and aggressively reduced their tax burden and increased subsidies (*Herzer, et. Al. 2007*).

This is due to the fact that in recent decades, foreign direct investment flows have increased significantly, surpassing the growth and the growth of international trade of the global economy (*Herzer, et.al. 2007*). These capital flows and the trends of the processes they went through a major transformation.

The importance of FDI has also been recognized by international organizations what has been tried to make it the part of national and international strategies. The UN Conference on Financing for Development in Monterrey, Mexico, in March 2002 not only resulted in the pledge to developing countries to increase official development

assistance. At the same time, it was acknowledged that private financing, notably foreign direct investment, can provide an important source of finance for development. According to the United Nations:

„private international capital flows, particularly foreign direct investment, . . . are vital complements to national and international development efforts. Foreign direct investment contributes toward financing sustained economic growth over the long term. It is especially important for its potential to transfer knowledge and technology, create jobs, boost overall productivity, enhance competitiveness and entrepreneurship, and ultimately eradicate poverty through economic growth and development” (UN, 2002a, p. 5).

However, in recent years, numerous empirical studies were born, which did not give a clear answer on the impact of FDI recovery, or even deny it. According to critics, FDI does not generate economic growth in developing countries, in fact it hinders growth in the host country and increases income inequalities, one of the reasons is that the investing TNCs exploit the host country and its workers.

These facts prompted the candidate to make research with a new method about the determinants and complex effects of FDI in developing countries. The author attempts to find the reasons for the different results of empirical research on FDI. If we could uncover the cause of differences it would be possible to determine the conditions that must be met for developing countries and TNCs to enhance the positive effects of FDI and to improve their impact and to mitigate its negative effects.

2. Hypotheses

Examining FDI, it is important to explore the motivations behind FDI and the impact of FDI on host countries. It is important that at the beginning of the research, the author clearly sets the issues that are looking for answers. The candidate would have to receive relevant information about what kind of regularities detected in foreign direct investment, focusing on developing countries. Below are those hypotheses, which the thesis would have to examine.

H1: From the macroeconomic indicators of developing countries, basic characteristics can be identified which are decisive for the volume of foreign direct investment.

he author performed a quantitative analysis to examine this. It sought to eliminate the heterogeneity of developing countries by grouping them into homogeneous groups based on certain basic characteristics. (At the beginning of the study, the question was about whether developing countries can be classified into homogeneous groups at all.) The author then examined, by means of variance analysis, whether the size of the inflow FDI differs significantly between the clusters he created.

H2: The size of foreign direct investment inflows is a determining factor for economic growth in developing countries.

The author also did a quantitative analysis to examine this. The developing countries were classified into clusters based on the size of the inflow of FDI, then the use of variance analysis investigated whether, under the clusters of GDP per capita is significantly different or not.

H3: The inflow of FDI determined in relation to conditions which are in effect on the enforcement of the potential positive and negative effects of FDI in the host countries.

To investigate this, the author has explored the impact of different types of FDIs in developing countries on the economy of developing countries, and investigated the circumstances under which FDIs exhibited positive and negative effects. She chose a qualitative analysis technique that showed relationships between the effects of inflow FDI in two different countries.

3. Content, methodology and justification of the research

The candidate uses several methods for the research work required for writing the dissertation. At the beginning of the research, the author uncovered a number of literature, mainly from abroad, and then examined their methodology. The authors concluded that the literature has been found in mainly statistical - econometric studies, which examined ensemble in developing countries or countries snatching 1-2 draw quasi-research case study basis. The results of these studies are very contradictory. One problem may be that those studies where developing countries are examined overall, without taking into account the heterogeneity. Therefore, in order to eliminate this, the author performed a cluster analysis, which created homogeneous groups of countries along a certain characteristic (macroeconomic indicators). The homogeneous groups of countries were formed in the dissertation by two methods (hierarchical and non-hierarchical cluster procedure). The author then examined how the characteristics of each group of countries relate to the development of FDI. With the help of variance analysis, she examined the extent to which the inflow of

foreign direct investment is determined by the characteristics of each cluster.

The author also examined whether economic growth is clearly or significantly influenced by the volume of foreign direct investment. For this purpose, according to FDI inflows divided the countries into three categories, and examined whether there is a significant difference in GDP per capita between low, medium and high FDI countries.

The author also performed a qualitative analysis after the statistical examination, in which she tried to highlight, through case studies, relationships that did not appear in the statistical study. Two countries was examined with significantly different characteristics. he author's aim was to draw conclusions concerning the conditions for the positive and negative effects of FDI in exploring the similarities and differences.

4. The new or novel scientific results of the research work, the thesis of the research

Based on the presented research, the following scientific theses can be considered.

T1: The first thesis is that the income situation of developing countries is decisive for the inflow of FDI, and moreover, other factors can be determining for example trade openness

Most of the FDI inflow studies show only the economic stimulus effect of FDI, while the study of the income situation of developing countries is equally important in FDI research. To support this thesis, the candidate grouped developing countries into homogeneous groups by income and trade openness by cluster analysis, and then examined whether there was a significant difference between the individual

clusters of inflow FDI by analysis of variance. The results have led it to conclude that the inflow of foreign direct investments show significant differences between countries with different income situation and trade openness, but only really significant difference observed in developing countries with the best income situation.

T2: The second thesis of the dissertation is that the debt and unemployment rate of the host country is not a determining factor for the inflow of foreign direct investment.

This conclusion was also found by cluster analysis and variance analysis. At the beginning of the study the author did not assume the opposite, merely verified that the available macroeconomic indicators significantly determine the size of the inflow of FDI. During the cluster analysis, she tried to form groups of countries that meet the conditions of dispersion homogeneity by taking into account 10 macroeconomic indicators, and carried out the analyzes along these two factors. In the non-hierarchical procedure, the dispersion homogeneity conditions were only met along the public debt and unemployment rates, the author examined the magnitude of inflow FDI along these factors.

T3: The third thesis of the dissertation is that foreign direct investment inflows are positive and its negative impact depends primarily on the capabilities of developing countries.

This conclusion was drawn primarily from the case study. These attributes are less quantifiable and, therefore, less apparent in the statistical survey. Through a deeper exploration of the case studies and literature, the candidate concluded that the inflow of FDI could have both positive and negative effects on host countries. According to the author, the impact is mostly up to the developing country. The host States shall actively and consciously intervene in order to strengthen the positive effects, and eliminate the negative effects, respectively.

T4: The fourth thesis is that the FDI-induced economic-development model is not the right tool for developing countries to catch up.

This is partly related to the first thesis, in which the author described that only a large amount of FDI flows to developing countries with the best income situation. As FDI is concentrated in developing countries, it is realized in few (5-10) countries, so this is not a solution for other (nearly 85-90) countries. FDI has led to economic growth in some of the more advanced countries, but the success of these few countries is mainly due to the fact that their local economies have already reached a higher level of development and thus the FDI's economic stimulus effect. Consequently, there is no way to base FDI-induced economic growth in developing countries, and this model cannot be transposed to most underdeveloped countries.

5. Conclusions, recommendations

The main aim of the dissertation was to examine foreign direct investment in developing countries. To this end, the author investigated the determinants and effects of FDI in developing countries through quantitative and qualitative analysis techniques. One of the most important conclusions of the dissertation was that FDI inflow is decisive for countries' income and among the developing countries FDI inflow is significant only for the countries where the GDP is high. There is no significant difference between the other groups, nor is the inflow of FDI too significant.

Unfortunately, FDI inflows in developing countries show a very concentrated picture, and most FDI is distributed among only a few developing countries. The rest of the countries does not have much foreign direct investment. Consequently, according to the results of

the dissertation, foreign direct investment cannot solve itself the backwardness of developing countries.

Another important conclusion is that the determinants and effects of FDI are determined by two factors: on the one hand, the type of FDI arriving in the host country, the capabilities of the host country. FDI is mainly colonial and production output type in the developing countries. The countries where this type of FDI flows, can easily fall victim to exploitation, so overall, the impact of FDI is negative (even though the impact of foreign direct investment on GDP).

According to the author, all determinants are bidirectionally causally related to FDI inflows. The economic and political stability is also an important determinant of FDI and can be influenced by FDI. According to the author, appropriate state intervention can be used to enhance the effects of FDI on economic growth and to mitigate its negative effects. The role of the government is important to create and follow a conscious development strategy, in which the support of local companies, reduce income inequalities and the development of human capital must be a priority.

The empirical studies almost invariably emphasize that the quality of education, human capital is decisive in terms of foreign direct investment and foreign corporations in the host country, but contribute directly or indirectly to this. Another important factor is that governments and international organizations access to the results of empirical studies are taken into account when designing development strategies. There is no way to base FDI-induced economic growth in developing countries, and for most underdeveloped countries this model cannot be transposed. It is also important to have a stable government policies in developing countries, and have developed strategies for FDI, which represents a single voice for all the investing company.

It is important to emphasize that these strategies should define the role of FDI in such a way that they are not the determinants of economic development. When influencing FDI, good government policy must ensure that local companies stay alive, and they feel it is not an opportunity but a chance for a foreign company to settle. The impact of FDI (welfare) may not be quantifiable. What is profitable for multinational companies may not contribute to the growth of social welfare.

What is perhaps even more important that, as international trade foreign direct investment requires international rules. The international regulation should protect the poor and vulnerable countries, which will consider all factors in individual cases where a multinational company is abusing a dominant position situations.

Although the effect of foreign direct investment has long been an area of study, it should be borne in mind that many effects occur in the host country years or even decades later. Decision-makers must carefully manage their experience, and carefully deal with expectations regarding the FDI.

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