TRENDS AND DETERMINANTS OF FDI FLOWS IN DEVELOPED AND DEVELOPING NATIONS 1990-94 TO 2011

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Abstract
Traditionally, foreign direct investment has been mostly the exclusive preserve of the developed countries. However, the past few decades saw the emergence of foreign direct investment from the ranks of developing countries. Foreign direct investment brings to host countries capital, productive facilities, technology transfers, gross domestic product as well as new jobs and management expertise. Foreign direct investment inflows of developing countries trends lead to impact of some common determinants like market seeking, resource seeking and efficiency seeking factors. This paper explores growth and principal sources of investment, trends, patterns, and implications of the new phenomenon. Major findings of this study is that while there has been a perceptible rise in developing country foreign direct investment abroad, the field is still dominated by a few developed countries, although their dominance is on the decline. Due to the global economic and financial crisis has had a strongly negative impact on transnational corporations, international investment faced a significant decline in foreign direct investment during 2005 and 2009. The Statistical data from 1990-94 to 2011 shows that developing countries with high and growing inward foreign direct investment because of Market characteristics, Costs, Natural resources, Infrastructure, Policy framework, Business support and promotion. Thus, the prospects for the rest of the developing countries are both gloomy and buoyant.

Key Words: Efficiency Seeking, Asian Countries, Exports, Foreign Direct Investment, GDP, and Market Seeking, [JEL classification: E22, F21, F23, O16]

INTRODUCTION
Obviously flows from the more industrialized to the less-industrialized countries or from capital-rich countries to capital-scarce poor nations. One of the primary motivations for developing countries to attract foreign direct investment (FDI) is to obtain advanced technology from developed countries and then base on this to establish domestic innovation capability. It usually involves participation in management, joint-venture, transfer of technology and expertise. Foreign Direct Investment plays an important role in the growth and development of the world economy, particularly in developed and developing nations. It helps in the economic development of a country where the investment is being made. This is especially applicable for the economically developing countries and done basically in the way of provision of capital inputs. In recent decades, however, a new phenomenon appeared in the world stage a reverse flow of FDI from developing to the developed as well as other developing countries. As a result of logical continuation of the process of globalization that has been going reverse rend since the second half of the 19th century.

As is well recognized in the literature, there are several important channels through which inward FDI can benefit innovation activity of domestic firms in the host country. It also assists in the promotion of the competition within the local input market of a country. Foreign Direct Investment helps to overtake the problem of low capital, low growth rate, untapped natural and human resources, high rate of inflation, unemployment, balance of payment and other structural and administrative rigidities. But only a few of the developing countries have been successful in attracting significant FDI flows. This paper reviews the recent substantiation on the level of FDI to developed and developing nations, in particular selected developing countries over the periods of 1994-95 to 2011.

STATEMENT OF THE PROBLEM
The FDI is an economic phenomenon of increasing significance in modern economic development. As such, it requires a thorough study in order to shed light on its dynamics and nature. Another reason for studying FDI is to obtain a better understanding of the almost common efforts by government to attract investment and competition involved in these efforts. The selected developing country’s growth performance needs to improve significantly if the region is to effectively address poverty reduction and raise the standard of living of the region’s peoples to an acceptable level. The objective of this study is to discuss FDI inflows and determinants thereof in developed and developing countries against the backdrop of the economic problem. The discussion focuses on the performance of the regions as a whole relative to global flows, and to the individual selected developing countries. In this study, evidence is presented showing the inequitable share of the FDI flows that selected developing countries and especially selected region attracts. The challenges are to find the best policies, political stability, poor infrastructure and poverty that will enhance the region’s attractiveness to investors.
REVIEW OF PREVIOUS STUDIES

With increased globalization over the last decades the phenomena of FDI has increased and become very important for global business. According to the Hecksher-Ohlin model as countries differ in their factor endowments, it leads to the factor price differentials among the countries. Therefore, a relatively capital abundant country would either export the capital intensive good to the host country or move capital to foreign locations where there is a high return on capital and low return on labor until the equalization of factor price. Kindleberger (1969) and Hymer (1976) introduced the concept of MNE, which are large firms with market power. The emphasis of both the authors was on the concept of monopolistic advantage to explain the phenomena of FDI. Foreign firms want to enjoy ownership advantages such as product differentiation arising from market imperfection, the expertise of the management, the existence of internal and external economies of scale to and government policy interference to reduce the disadvantages of entering foreign markets. The disadvantages of entering foreign markets are higher risk, information asymmetry, cultural difference, the legal system. Caves, (1971) emphasizes on differentiation of products as monopolistic advantage. According to him, in an imperfect market, MNE’s engaged in product differentiation and were induced in horizontal FDI. This is because FDI was preferred over export or licensing when Buckley and Casson (1976) made important contribution to the theory of FDI when they introduced the concept of internalization. According to them, the market of intermediate goods is highly imperfect with information asymmetry, and contract enforcement and bargaining costs. The decision of a firm to internalize depends upon industry-specific factors such as type of product, the structure of market, the economies of scale, factors specific to a region such as differences due to distance and culture, factors specific to nations such as political and financial factors and factors specific to firm such as management skills. According to them, MNE’s that were high on research and development activities were high on the factor of internalization. Root and Ahmed (1978) examined 44 economic, social and policy variables to test FDI inflows in 41 developing countries. They found per capita GDP, export-import ratio, transport and communication ratio, the extent of urbanization as determinants of FDI.

Froot and Stein (1991) presents an imperfect capital markets story for why a currency appreciation may actually increase foreign investment by a firm. Imperfect capital markets mean that the internal cost of capital is lower than borrowing from external sources. Thus, an appreciation of the currency leads to increased firm wealth and provides the firm with greater low-cost funds to invest relative to the counterpart firms in the foreign country that experience the devaluation of their currency. Klein and Rosengren (1994), however, confirm that exchange rate depreciation increases US FDI using various samples of US FDI disaggregated by country source and type of FDI.

Milner and Pentecost (1996) did an empirical study on US FDI in the UK manufacturing industry. They took export-sales ratio as comparative advantage, which according to them can be proxied as an alternative to skill intensity or labor-intensity in the country. For market size they took as proxy the industrial production of the UK. For measuring industry competitiveness, they took export-import ratio. They did a cross-sectional regression of 48 industrial groupings. They found market size, competitive advantage and competitiveness as significant explanatory variables. Blonigen (1997) provides another way in which changes in the exchange rate level may affect inward FDI for a host country. If FDI by a firm is motivated by acquisition of assets that are transferable within a firm across many markets without a currency transaction (e.g., firm specific assets, such as technology, managerial skills, etc.), then an exchange rate appreciation of the foreign currency will lower the price of the asset in that foreign currency, but will not necessarily lower the nominal returns. In other words, a depreciation of a country’s currency may very well allow a “fire sale” of such transferable assets to foreign firms operating in global markets versus domestic firms that may not have such access. Blonigen uses industry-level data on Japanese mergers and acquisition FDI into the US to test this hypothesis and finds strong support of increased inward US acquisition FDI by Japanese firms in response to real dollar depreciations relative to the yen. As predicted, Blonigen finds that these exchange rate effects on acquisition FDI are primarily for high-technology industries where firm-specific assets are likely of substantial importance.

Lipsey (2001) studies U.S. FDI into three regions as they experienced currency crises (Latin America in 1982, Mexico in 1994, and East Asia in 1997) and finds that FDI flows are much more stable during these crises than other flows of capital.

Campos and Kinoshita (2003) used panel data regression analysis to study 25 transition economies to study between the period 1990 and 1998. They found out for the set of countries that FDI is influenced by the size of market, the low cost of labor, and the availability of abundant natural resources. Apart from these variables, trade openness and lower restrictions to FDI inflows were also significant factors. Desai, Foley and Forbes (2004) compares the performance of U.S. foreign affiliates with local firms when faced with a currency crisis and find that U.S. foreign affiliates increase their investment, sales and assets significantly more than local firms during and subsequent to the crisis. They attribute the differences to MNEs abilities to finance investment internally
to a larger extent than local firms. While these papers are quite informative, there are clearly more questions to be answered in this literature.

Other studies have generally found consistent evidence that short-run movements in exchange rates affect inward FDI, including Grubert and Mutti (1991)\textsuperscript{[13]}Swenson (1994)\textsuperscript{[14]}, and Kogut and Chang (1996)\textsuperscript{[15]}. Thus, the evidence has largely been consistent with the Froot and Stein (1991) and Blonigen (1997) hypotheses. One serious issue in the literature is that knowledge exchange rate effects have been tested almost exclusively with US data, though some studies have focused on US outbound FDI, while others have used US inbound FDI. A number of studies have examined the determinants of FDI for different countries. Determinants are many and diverse. Scaperland and Balough (1983)\textsuperscript{[16]}, for example, argued that host country market size plays an important role in attracting FDI; especially when the host-country market allows the exploitation of economies of scale for import substituting investment. Other studies have identified the cost of labour as a significant factor in location consideration, most especially when investment is export oriented. Studies and surveys have also found that investors would also like to operate in countries where the government maintains liberal policies for the employment of expatriate staff.

The level of the country risk or a summary measure of the economic and political risk has also been found to have a strong impact on FDI flows. Sachs and Sievers (1998)\textsuperscript{[17]} argued that political stability is one of the most important determinants of foreign investment location in Africa. In terms of minimum economic risk, investors prefer locating affiliates in countries where market uncertainty is lower. A number of measures for country risk have been used. Besides the use of country risk indicators compiled by business institutions such as Business International and Institutional Investor, some studies have used measures of volatility in economic variables such as exchange rates, fiscal imbalance etc as measures of risk.

Linda and Vijaya (2001)\textsuperscript{[18]} cite lack of infrastructure, cumbersome government regulations and restrictions on equity holdings by foreigners as the major obstacles to FDI in the developing world for both small and large economies. Other factors determining FDI in particular to small countries include the effects of a successful large project in terms of making the country known to the world, raising interest among potential investors. Surveys of investors conducted by various business institutions together with those on perceptions conducted by investment promotion agencies have indicated that a supportive institutional environment, such as the existence of an effective and equitable legal system, and the presence of an efficient and well functioning banking and financial system are important for investment location decisions.

The level of openness of an economy has also been found to be important in attracting investment. This is evidenced by the success of the East Asian economies that experienced strong export-led growth over the past two decades (Lipsey, 1998\textsuperscript{[19]}; Barell and Pain, 1996)\textsuperscript{[20]}. Some studies also indicate that the removal of exchange controls has an important bearing on investor location decisions. Foreign direct investment also tends to flow to countries where there is already a substantial volume of FDI.

Ivar and Line (2002)\textsuperscript{[21]} argue that investors give priority to countries in their geographic vicinity and that they show a preference for countries with cultural or linguistic linkages to their home country (for example, Mauritius with the Hong Kong textile gurus).

Lucas (1993)\textsuperscript{[22]} contends that the exchange rate may have a “residual role” with respect to exchange rate risk for example in determining the value of repatriated profits or threatening restrictions on such remittances. Anupam and Krishna (2002)\textsuperscript{[23]} are in agreement with the fact that African countries, which have sought to contain inflation and stabilize exchange rates through the adoption of sound fiscal and monetary policies, have fostered growth, stimulated wider participation by the private sector in economic growth and secured significant FDI. In addition, the proactive approach to removing regulatory and structural impediments to private sector participation in economic activities is another factor advanced for having a positive impact on investor sentiments. In an econometric study by Athanasios (1998)\textsuperscript{[24]}, openness to international trade, freedom of capital transactions with foreigners and competition in the domestic market were found to have positive and statistically significant coefficients for the member states of the West African Economic and Monetary Union.

**OBJECTIVES**

Present study focuses the following areas.

1) To analyses the origin and growth of foreign direct investment in developed and developing countries from 94-95 to 2011.

2) To identify the suitable reasons for inflow of foreign direct investment in selected developing countries.

**METHODOLOGY**

The methodology followed in this present study has been mainly a literature study. The present study is based on secondary data. A wide range of secondary data has been collected from world economic outlook, books, relevant journals,
From 1990-94 to 2011.

**Types of Foreign Direct Investment**

FDI has three types: “Inward Foreign Direct Investment” and “Outward Foreign Direct Investment”, resulting in a net DI inflow (positive or negative) and "Stock of Foreign Direct Investment", which is the cumulative number for a given period. Direct investment excludes investment through purchase of shares. In addition to that the United Nations Conference on Trade and Development has specified several kinds of foreign direct investment: (1) Natural-resource-seeking investment, (2) Market-seeking investment, (3) Efficiency-seeking investment, and (4) Strategic-asset-seeking investment. Natural-resource-seeking investment involves FDI in the extractive sector. Market-seeking FDI is any type of investment that seeks to serve the host market. Efficiency-seeking foreign direct investment occurs when companies move some of their business to another country to keep costs down. Strategic-asset-seeking foreign direct investment occurs when companies invest abroad to pick up new techniques and experience. Local impact is likely to be different for each kind. Market-seeking foreign direct investment might lead to higher employment, but less trade whereas efficiency-seeking foreign direct investment might lead to both more employment and more trade. In general, economists seem to agree that manufacturing industries are more wealth creating than commodities or services industries. Therefore, it is argued that foreign direct investment related to manufacturing will have a bigger impact on economic growth than extractive-sector FDI. Research done on economic growth in China seems to underscore this point. Unfortunately, extractive-sector foreign direct investment is one of the largest and fastest growing forms of FDI to sub-Saharan Africa.

**Foreign Direct Investment and Economic Growth**

There are several reasons why extractive-sector FDI might be less growth enhancing than other types of Foreign Direct Investment. Firstly, extractive sector FDI tends to hire much less domestic labour. Secondly, even though extractive-sector FDI usually leads to higher exports, the improved terms of trade are often used to finance more consumption and not investment. Thirdly, you might remember from our previous blog that Foreign Direct Investment impacts economic growth in the long run by improving the level of technology. The extractive sector, however, is very capital intensive and often operates as an enclave in the economy, both of which diminish the ability to transfer technology. Lastly, in our previous blog we indicated that one of the preconditions economic growths from FDI is strong local competition. Sadly, extractive sector industries are often monopolies due to their large economies of scale. Most of the studies mentioned in our previous blog on economic growth did not differentiate between types of Foreign Direct Investment. The studies that do seem to support the argument that extractive-sector Foreign Direct Investment is less growth enhancing. Enisan Akinlo, found that the extractive-sector Foreign Direct Investment to Nigeria had a positive but insignificant impact on growth only after a considerable time lag.

**Growth Rate of Foreign Direct Investment**

In the 1970s FDI made up only 12 per cent of all financial flows to developing countries. Between 1981 and 1982 there was a sharp fall in private lending as international banks lost confidence in borrowing countries financial stability following the debt crisis of 1982. The growing integration of markets and financial institutions increased economic liberalization and motivates rapid innovation in technologies the large number of developing countries to change their foreign investment policy, during 1990. Most significantly, developing countries has been the declining progress of foreign direct investment during the year 1990-94 to 2001. The share of developing countries grows to a peak of 39.9 and 35.6 per cent in 2005 and 2009 respectively. There are multiple factors determining host country attractiveness in the eyes of large foreign direct Institutional investors, notably pension funds and sovereign wealth funds. Research conducted by the World Pensions Council (WPC) suggests that perceived legal/political stability over time and medium-term economic growth dynamics constitute the two main determinants.

**Recent Trends and Prospect of FDI**

Global FDI flows exceeded the pre-crisis average in 2011, reaching $1.5 trillion despite turmoil in the global economy. However, they still remained some 23 per cent below their 2007 peak. UNCTAD predicts slower foreign direct investment growth in 2012, with flows leveling off at about $1.6 trillion. Leading indicators the value of cross-border mergers and acquisitions (M&As) and Greenfield investments retreated in the first five months of 2012 but fundamentals, high earnings and cash holdings support moderate growth. Longer-term projections show a moderate but steady rise, with global foreign direct investment reaching $1.8 trillion in 2013 and $1.9 trillion in 2014, barring any macroeconomic shocks.

Foreign Direct Investment inflows increased across all major economic groupings in 2011. Flows to developed countries increased by 21 per cent, to $748 billion. In developing countries foreign direct investment has increased by 11 per cent,
reaching a record $684 billion. FDI in the transition economies has increased by 25 per cent to $92 billion. Developing and transition economies respectively accounted for 45 per cent and 6 per cent of global foreign direct investment. Africa and the least developed countries saw a third year of declining foreign direct investment inflows. The 2011 decline in flows to the continent was due largely to divestments from North Africa. In contrast, inflows to sub-Saharan Africa recovered to $37 billion, close to their historic peak. Sovereign wealth funds show significant potential for investment in development. Foreign direct investment by SWFs is still relatively small. Their cumulative foreign direct investment reached an estimated $125 billion in 2011, with about a quarter in developing countries. SWFs can work in partnership with host-country governments, development finance institutions or other private sector investors to invest in infrastructure, agriculture and industrial development, including the build-up of green growth industries. The international production of transnational corporations advanced, but they are still holding back from investing their record cash holdings. In 2011, foreign affiliates of transnational corporations employed an estimated 69 million workers, who generated $28 trillion in sales and $7 trillion in value added, some 9 per cent up from 2010. Transnational corporations are holding record levels of cash, which so far have not translated into sustained growth in investment.

RESULTS AND DISCUSSION OVERALL TRENDS AND PATTERNS OF FDI
During the period under consideration (1990-94 – 2011), developed- country inflows as a percentage of the world inflow dropped in 2001,2002, 2003 and again peaked in 2004 onwards until 2008. Note that the later year was the start of the current recession in some Western Economies, while 2000 follows closely the 1997-98 Asian financial crises. FDI inflows into the developed countries as a percentage of world inflows also declined from 81.2% to 47.3% except during the year 2006 and 2007. Compared to the developing country inflows, FDI inflows into the developed countries show sharper fluctuations.

FOREIGN DIRECT INVESTMENT INFLOWS BY DEVELOPED AND DEVELOPING COUNTRIES FOR THE PERIOD 1990-94 TO 2011

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<tbody>
<tr>
<td>World</td>
<td>1007.2</td>
<td>3012.7</td>
<td>1401.5</td>
<td>825.5</td>
<td>628.1</td>
<td>565.7</td>
<td>732.4</td>
<td>985.8</td>
<td>1463.4</td>
<td>1975.5</td>
<td>1790.7</td>
<td>1309.0</td>
<td>1524.4</td>
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</tr>
<tr>
<td>Developed Nations</td>
<td>691.7</td>
<td>2102.9</td>
<td>1137.9</td>
<td>601.1</td>
<td>440.7</td>
<td>361.9</td>
<td>410.0</td>
<td>624.5</td>
<td>981.9</td>
<td>1310.4</td>
<td>1019.6</td>
<td>606.2</td>
<td>618.6</td>
<td>747.9</td>
</tr>
<tr>
<td>Developing Nations</td>
<td>308.5</td>
<td>872.9</td>
<td>256.5</td>
<td>214.7</td>
<td>176.1</td>
<td>183.9</td>
<td>291.9</td>
<td>350.3</td>
<td>427.2</td>
<td>574.3</td>
<td>650.0</td>
<td>519.2</td>
<td>516.76</td>
<td>684.4</td>
</tr>
<tr>
<td>Transition Economies</td>
<td>7.1</td>
<td>368.3</td>
<td>7.0</td>
<td>9.5</td>
<td>11.3</td>
<td>19.9</td>
<td>30.4</td>
<td>31.1</td>
<td>54.3</td>
<td>90.8</td>
<td>121.0</td>
<td>72.4</td>
<td>73.8</td>
<td>92.2</td>
</tr>
</tbody>
</table>

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics)

Table-1 depicts that the global FDI trend and the share of developed, developing nations and transition economies. The share of FDI flows in developed and developing nations during the year 1990-94 is 68.7 and 30.6 per cent. In developing countries, FDI grows to a peak of 39.9 per cent in the year 2005 and declines to 33.5 per cent in 2006. In developed countries, FDI grows to a steady growth of 56.0 per cent and 63.4 per cent in 2005 and 2006. As a result of Asian Crisis, it has a small decline of 29.0 per cent to developing nations and grows to a peak of 69.8 per cent to developed nations during the year 1995-99. After 2001 the foreign direct investment flow slops into increasing trends to the developing nations and decreasing to developed nations. Despite the continuing effects of the global financial and economic crisis of 2008–2009 and the ongoing sovereign debt crises, surpassing the 2005–2007, pre crisis level for the first time, FDI flow slopes into declining trends until 2009. FDI flow in 2009 grows to 36.3 per cent than the previous year 29.1 per cent. In absolutely terms developing countries camered FDI worth a mere $ 519.2 million in 2009 compared to whooping $606 million by developed countries. More than a quarter of total FDI inflows in 2006 went to the developing countries, which means that almost three-fourth of the world’s FDI inflows still went to the developed countries. This increase occurred against a background of higher profits of Transnational Corporations (TNCs) and relatively high economic growth in developing countries during the year.
FOREIGN DIRECT INVESTMENT INFLOWS BY DEVELOPED COUNTRIES FOR THE PERIOD 1990-94 TO 2011

Table-2 FDI inflows by developed regions (US $ Millions 000's)

<table>
<thead>
<tr>
<th>Regions</th>
<th>90-94</th>
<th>95-99</th>
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<th>02</th>
<th>03</th>
<th>04</th>
<th>05</th>
<th>06</th>
<th>07</th>
<th>08</th>
<th>09</th>
<th>10</th>
<th>11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developed Nations</td>
<td>691.7</td>
<td>2102.9</td>
<td>1137.9</td>
<td>601.1</td>
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<td>361.9</td>
<td>410.0</td>
<td>624.5</td>
<td>988.7</td>
<td>1310.4</td>
<td>1019.6</td>
<td>606.2</td>
<td>618.6</td>
<td>747.9</td>
</tr>
<tr>
<td>1) Europe</td>
<td>433.9</td>
<td>1242.6</td>
<td>724.9</td>
<td>395.1</td>
<td>316.8</td>
<td>279.9</td>
<td>218.2</td>
<td>509.1</td>
<td>639.8</td>
<td>899.2</td>
<td>569.0</td>
<td>398.9</td>
<td>356.6</td>
<td>425.3</td>
</tr>
<tr>
<td>2) North America</td>
<td>214.3</td>
<td>782.4</td>
<td>380.8</td>
<td>187.1</td>
<td>96.6</td>
<td>60.6</td>
<td>135.4</td>
<td>130.5</td>
<td>297.4</td>
<td>330.6</td>
<td>363.5</td>
<td>221.3</td>
<td>267.9</td>
<td>358.8</td>
</tr>
<tr>
<td>3) Other Developed Nations</td>
<td>43.4</td>
<td>78.0</td>
<td>32.3</td>
<td>18.8</td>
<td>27.3</td>
<td>21.4</td>
<td>56.6</td>
<td>-15.0</td>
<td>44.6</td>
<td>80.6</td>
<td>87.1</td>
<td>42.3</td>
<td>40.7</td>
<td>54.7</td>
</tr>
</tbody>
</table>

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics)

It could be understood from table-2 that share of FDI inflows by developed nations like Europe, North America and Other developed nations. During the year 1990-94, the share of Europe and its group of nations are 62.7 per cent and small decline to 59.1 in 1995-99. It grows to a peak of 77.3 per cent in 2004 and it declines to 53.2% in 2005 due to crisis. North America and Other developed nations share of FDI inflows has virtually changed every year. Other developed nation’s share of FDI inflows has negative trends (-2.4) per cent in 2006. FDI flows to developed nations in 2006 rose by 57%, well over the levels of the previous two years, and reached US$988.7 billion. The United States recovered its position as the largest single host country for Foreign Direct Investment in the world, overtaking the United Kingdom, the top FDI recipient in 2005. The European Union (EU) as a whole continued to be the largest host region, accounting for 25.7% of total foreign direct investment inflows in 2006.

FOREIGN DIRECT INVESTMENT AND DEVELOPING WORLD FOR THE PERIOD 1990-94 TO 2011

Foreign Direct Investment can be a significant driver of development in poor nations. It provides an inflow of foreign capital and funds, in addition to an increase in the transfer of skills, technology and job opportunities. Many of the East Asian tigers such as China, South Korea, Malaysia, Mexico, Argentina and Singapore benefited from investment abroad. The Commitment to Development Index ranks the "development-friendliness" of rich country investment policies.

Table-3 FDI Inflows by host regions (Developing Nations) (US $ Millions 000's)

<table>
<thead>
<tr>
<th>Region /Economy</th>
<th>90-94</th>
<th>95-99</th>
<th>00</th>
<th>01</th>
<th>02</th>
<th>03</th>
<th>04</th>
<th>05</th>
<th>06</th>
<th>07</th>
<th>08</th>
<th>09</th>
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<th>11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing Countries</td>
<td>308.5</td>
<td>872.9</td>
<td>256.5</td>
<td>214.7</td>
<td>176.1</td>
<td>183.9</td>
<td>291.9</td>
<td>330.2</td>
<td>427.2</td>
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<td>650.0</td>
<td>519.2</td>
<td>616.7</td>
<td>684.4</td>
</tr>
<tr>
<td>1) Africa</td>
<td>21.8</td>
<td>44.2</td>
<td>9.8</td>
<td>19.9</td>
<td>16.1</td>
<td>20.4</td>
<td>21.7</td>
<td>38.2</td>
<td>36.8</td>
<td>51.5</td>
<td>57.8</td>
<td>52.6</td>
<td>43.1</td>
<td>42.7</td>
</tr>
<tr>
<td>2) Latin America</td>
<td>80.9</td>
<td>339.2</td>
<td>97.7</td>
<td>80.5</td>
<td>58.6</td>
<td>45.9</td>
<td>95.2</td>
<td>75.9</td>
<td>98.2</td>
<td>172.3</td>
<td>209.5</td>
<td>149.4</td>
<td>187.4</td>
<td>216.9</td>
</tr>
<tr>
<td>3) Asia &amp; Oceania</td>
<td>205.8</td>
<td>489.5</td>
<td>148.9</td>
<td>114.3</td>
<td>101.8</td>
<td>117.8</td>
<td>174.9</td>
<td>216.0</td>
<td>292.2</td>
<td>250.6</td>
<td>382.7</td>
<td>317.2</td>
<td>386.1</td>
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</tr>
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</table>

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics)

It could be inferred from table that developing countries inflow of FDI were increasing trends during same period, with FDI inflows increasing from $308.5 million in 1990-94 to $684.4 million in 2011. FDI inflows in 2006 exceeded 4.2 per cent their previous record level of 2005. High prices and buoyant global demand for commodities were once again a key factor, particularly in the oil industry, which attracted investment not only from developed countries but also from some developing nations. Africa, Cross-border M&As in the extraction and related service industries of Africa tripled in the first half of 2006, as compared to the same period in 2005. However, the FDI inflows in Africa began increasing slowly since 2000 with $9.8 billion and reached $57.8 billion in 2008. The regional foreign direct investment picture is not uniformly bright across...
sectors, countries and sub regions. Most of the inflows are concentrated in the West, North and Central African sub regions. Inflows will continue to be small in low-income economies lacking natural resources.

**Latin America** and the **Caribbean** had decreasing trends from $80.9 billion in 1990-94 to $45.9 in 2003 and increasing trends from $95.2 billion in 2004 to $216.9 billion in 2011. By the year 2008 and 2011 the figure for Latin America was by far the highest FDI at close to $209.5 billion and 216.9 billion respectively. It had declined in the year 2000 and 2003 and lowest FDI were in 2004 with $45.9 billion. Mexico and Brazil, in that order, remained the largest recipient nations with inflows remaining virtually at the same level in Mexico and increasing by 6% in Brazil, in spite of a fall in cross-border M&As. FDI inflows to Chile increased by 48% due to a continued rise in reinvested earnings resulting from windfall benefits from mining. The possibility of additional regulatory changes and of their extension to more countries may have raised uncertainty among investors in the primary sector, resulting in the decrease in foreign direct investment flows to the region.

**South, East and South-East Asia,** and **Oceania** maintained their upward trend in 2006, reaching a new high of $76 million, an increase of 6% over 2005. From the overall perspective between the developing countries, Asia and Oceania achieved the highest position of FDI on 90-94 with $205.8 billion across all three regions. Moreover, it had achieved the highest increasing FDI trend from 2004 onwards until 2011 with $ 274.9 billion to $424.8 billion. It had a significant decline in FDI particularly in 2000 and 2001 with $ 114.3 billion and $101.8 billion respectively. Investments in high-tech industries by Transnational Corporations (TNCs) are growing rapidly, particularly in China. Meanwhile, other nations, including India, are attracting increasing FDI for traditional manufacturing. At the sub regional level, a shift continues in favour of South and South-East Asia. China, Hong Kong (China) and Singapore retained their positions as the three largest recipients of foreign direct investment in the region. China and India are challenging the dominance of Asia’s newly industrializing economies as the main sources of foreign direct investment in the developing world.

**FDI INFLOWS INTO SELECTED DEVELOPING COUNTRIES FOR THE PERIOD 1990-94 TO 2011**

Table 4 shows that the share of FDI inflows into selected developing countries. It reveals that a substantial quantum of FDI flows into countries such as China, China Hong-Kong, Brazil, Argentina, Singapore, Malaysia and others. It is interesting to observe that China ranks first in the share of developing country for all the years and except in 2009. Significant quantum of foreign direct investment flows into nations such as China, China (Hong Kong), Singapore, India, Brazil, Malaysia, Mexico, Chile and followed by others. Lumping together the share of the developing countries flows, conceals the highly unequal shares among the developing countries in FDI inflows. Disaggregation the data shows that only a small group of countries located in a few contiguous regions account for a large share of total FDI inflows. These are East Asia, Southeast Asia and South Asia, in particular India. It is interesting to observe that china ranks first in the share of developing nations and followed by China (Hong Kong) Singapore, Brazil and others.

![Table 4 FDI Inflows into Selected Developing Nations (US $ Millions 000's) (Share of Developing Nations Total)](data:image/png;base64,iVBORw0KGgoAAAANSUhEUgAAAIkAAABdCAYAAAAf3u9XAAAACXBIWXMAAAsTAAALEwEAmpwYAAAgAElEQVR42u3d23MIAwKEggAOGH8AAAAASUVORK5CYII=)

**Table 4 FDI Inflows into Selected Developing Nations (US $ Millions 000's) (Share of Developing Nations Total)**

<table>
<thead>
<tr>
<th>Region /Economy</th>
<th>90-94</th>
<th>95-99</th>
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<td>Developing Nations</td>
<td>380.5</td>
<td>872.9</td>
<td>256.5</td>
<td>214.7</td>
<td>176.1</td>
<td>183.9</td>
<td>291.9</td>
<td>330.2</td>
<td>434.4</td>
<td>564.9</td>
<td>630.0</td>
<td>478.3</td>
<td>616.7</td>
<td>684.4</td>
</tr>
<tr>
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<td>52.9</td>
<td>10.5</td>
<td>2.2</td>
<td>2.2</td>
<td>1.7</td>
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<td>8.7</td>
<td>9.0</td>
<td>9.0</td>
<td>8.6</td>
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<tr>
<td>Brazil</td>
<td>7.6</td>
<td>91.6</td>
<td>32.8</td>
<td>22.1</td>
<td>16.6</td>
<td>10.1</td>
<td>18.1</td>
<td>15.1</td>
<td>18.8</td>
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<td>45.1</td>
<td>25.0</td>
<td>48.5</td>
<td>66.7</td>
</tr>
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<td>26.4</td>
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<td>16.6</td>
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<tr>
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<td>71.1</td>
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<td>Korea (Republic)</td>
<td>3.8</td>
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<td>India</td>
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<td>Indonesia</td>
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<td>4.2</td>
<td>2.1</td>
<td>2.1</td>
<td>19.0</td>
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<td>7.3</td>
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<td>9.1</td>
<td>1.2</td>
</tr>
<tr>
<td>Singapore</td>
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<td>38.9</td>
<td>16.5</td>
<td>13.1</td>
<td>6.4</td>
<td>11.9</td>
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<td>30.9</td>
<td>16.8</td>
<td>48.6</td>
<td>64.0</td>
</tr>
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</table>
It could be inferred from the above table, in general FDI inflows increased in all major economic groups developed, developing and transition economies. In particular, developing countries accounted for 45 per cent of global foreign direct investment inflows in 2011. The increase was driven by East and South- East Asia and Latin America. In the midst of uncertainties over the global economy, global foreign direct investment flows rose by 16 per cent in 2011 to $1,524 million, up from $1,309 million in 2010. While the increase in developing and transition economies was driven mainly by robust green field investments, the growth in developed countries was due largely to cross-border M&As.

**East and South-East Asia** still accounted for almost half of foreign direct investment in developing economies. Registering a 14 per cent increase, total foreign direct investment inflows to East and South-East Asia amounted to $336 million in 2011. China consistently occupies the first position in FDI inflows among developing countries from 1990-94 to 2011 with billion $80.1 and billion $123.9. It has second position with $40.7 billion in 2000 followed by China Hong Kong. The second largest recipient in the sub region, Hong Kong, China, saw its inflows increase to $83 billion a historic high as well. The country China Hong Kong came to the second position with from the year 1990-94 to 2011 with billion $22.9 to billion $83.2 followed by China. It has a small declined in the year 2002 and 2008 due to crisis.

**Association of Southeast Asian Nations (ASEAN)**, Singapore, Malaysia, Indonesia, Brunei and Darussalam saw a considerable rise in their foreign direct investment inflows. Major recipient economies in the Association of South-East Asian Nations (ASEAN) sub regions including Singapore, Malaysia and Indonesia also experienced a rise in inflows. Foreign direct investment inflows to developing Asia continued to grow, with South-East Asia and South Asia experienced faster foreign direct investment growth than East Asia. In Southeast Asia, the five ASEAN member-countries Singapore, Malaysia, Indonesia, Thailand and Vietnam accounted for more than 90% of the total FDI inflows and outflows in 2006, while the rest, which was less than 10 per cent was shared among the Philippines and four other ASEAN member-countries (Brunei, Laos, Cambodia and Myanmar). Among five countries earlier mentioned, Singapore occupies the first position, getting the lion’s share. Singapore came to the second and third position with billion $48.6 in 2010 and $35.8 in 2009. In 2010, Singapore has tremendous changes in FDI due to crisis.

**Low-income countries** namely Cambodia, the Lao People’s Democratic Republic and Myanmar were generally good as well, though Vietnam declined slightly. The country Vietnam came to the last position with selected developing countries. It has declined the growth rate of FDI in 90-94, 94-99, 2000 and 2001. It has a steady growth rate from 2002 onwards until 2011 except 2007 and 2010. Although natural disaster in Thailand disrupted production by foreign affiliates in the country, particularly in the automobile and electronic industries, and exposed a weakness of the current supply-chain management systems, foreign direct investment inflows to the country remained at a high level of nearly $10 million, only marginally lower than that of 2010. Inflows to the Republic of Korea and Taiwan Province of China declined to $4.7 million and -$2 million in 2011 respectively.

**West Asia** witnessed a 16 per cent decline in FDI flows in 2011 despite the strong rise of foreign direct investment in Turkey. The country Turkey has a steady growth rate in FDI among developing countries from 2002 onward until 2007 with billion $3.4 (.6%) and $15.9 (3.9%) and it had declined in 2008, 2009 and 2010.0.

**FDI in China** - Foreign direct investment in China, also known as RFDI (renminbi foreign direct investment), has increased considerably in the last decade, reaching $59.1 billion in the first six months of 2012, making China the largest recipient of foreign direct investment and topping the United States which had $57.4 billion of foreign direct investment. During the global financial crisis FDI fell by over one-third in 2009 but rebounded in 2010. Overall, as East Asian countries, particularly China, have continued to experience rising wages and production costs, the relative competitiveness of ASEAN in manufacturing has been enhanced. Foreign direct investment flows to China reached a historically high level of $124 million in 2011. Accordingly, some foreign affiliates in China’s coastal regions are relocating to South-East Asia, while others are moving their production facilities to inland China. The two large emerging economies, China and India, saw inflows rise by nearly 8 per cent and by 31 per cent, respectively.

**FDI in India** - Foreign investment was introduced in 1991 as Foreign Exchange Management Act (FEMA), driven by Minister Manmohan Singh. As Singh subsequently became a prime minister, this has been one of his top political problems, even in the current (2012) election. India disallowed overseas corporate bodies (OCB) to invest in India. Starting from a baseline of less than $1 billion in 1990, a recent UNCTAD survey projected India as the second most important foreign direct investment destination (after China) for transnational corporations during 2010–2012. As per the data, the sectors that attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. Mauritius, Singapore, US and UK were among the leading sources of foreign direct investments.
FDI INFLOWS OF RANK INTO SELECTED DEVELOPING COUNTRIES FOR THE PERIOD 1990-94 TO 2011

Table 5 largest developing country recipients of FDI during 1990-94 to 2011

<table>
<thead>
<tr>
<th>Rank</th>
<th>90-94</th>
<th>95-99</th>
<th>00</th>
<th>01</th>
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</tr>
</tbody>
</table>

Table 5 shows the largest selected developing countries recipients of FDI for the period 1990-94 to 2011. The best performers are the Eastern Asian Countries China consistently ranks the first position in FDI inflows from 1990-94 to 2011 except 2000 and followed by Hong Kong special Administrative Region of China. In the year 2000 China Hong Kong ranked no.1 position with 24.2%. This is the first time that this country achieved the first position it was in the year 2000. China Hong Kong dominate second largest position of FDI in the developing countries during the year 2004 onwards until 2011 with 7.7% in 95-99, 11.1% in 2001 and 7.4% in 2003 occupies third position and in the year 90-94 with 7.4%and 2002 with 5.5% in. The country India came to the third position in the year 2009 with 7.2% and fourth largest recipient of FDI inflow during the year 2006 and 2008 with 4.7% and 6.4% respectively. In the year 2010 and 2011, India occupies fifth position with 3.9% and 4.6% of the total inflow of FDI. Mexico and Brazil, in that order, remained the largest recipient nations with inflows remaining virtually at the same level in Mexico and increasing by 6% in Brazil, in spite of a fall in cross-border M&As. The country Mexico came to the second position with 8.8% in 90-94, 13.9% in 2000, 13.9% in 2001, 13.4% in 2002 and 9.0% in 2003. In the year 2004, 2005 with 8.2%, 6.8% and in 2000 with 7.1% and in 95-99, 2007and 2008 with 6.6%, 4.9%, 3.8% occupies third, fourth and fifth position respectively. The country Brazil came to the second position with 10.5% in 95-99, 12.8% in 2000, 9.4% in 2002, 7.2% in 2008, 7.2% in 2010 and 9.7% in 2011 occupies third position and in the year 2001, 2007 and 2009 occupies in forth position respectively. For these countries this was the first time to achieve the target. Association of South-East Asian Nations (ASEAN) sub regions including Indonesia, Malaysia and Singapore also experienced a rise in inflows. Singapore came to the third position during the year 90-94 with 8.4% and 6.7% in 2006, 6.3% in 2007 respectively. In 95-99 with 6.7%, 6.5% in 2003, 7.2% in 2004, 4.7% in 2005, 7.9% in 2010 and 9.4% in 2011 occupies consecutive third rank of FDI inflows among the developing countries. The country Argentina occupies sixth position during 4.9% in 90-94, 6.1% in 95-99 and 6.1%in 2001 respectively. Chile came to the seventh, eighth, ninth and tenth position during 95-99, 2008, 2010 and 2000, 2001, 2003 & 2011 and 2009.

FINDINGS AND SUGGESTIONS

FDI has overtaken other forms of development finance in importance. Virtually all countries seek to increase their share of global FDI inflows. There is evidence that FDI flows have tended to be unequal and concentrated in a few countries. It has been found that FDI flow to the developing countries have highly concentrated in China, Hong Kong special administrative region of China, Brazil, Mexico, Singapore and India. It can be suggested that the country China has a large population which is a large market for consumer goods, that’s why primary motive for FDI is market seeking. In China, foreign direct investment from Japan rose from $4 million (4 % of total inflows) in 2010 to $6 million (9 % of total inflows) in 2011. Owing to the worsening sovereign debt crisis and related liquidity problems at home, TNCs from Europe have slowed their pace of expansion in East and South-East Asia since late 2011. In South-East Europe, competitive production costs and access to European Union (EU) markets drove foreign direct investment in the CIS, large resource-based economies benefited from continued natural resource seeking FDI and the continued strong growth of local consumer markets. Gulf Cooperation Council (GCC) countries are still recovering from the suspension of...
cancellation of large-scale projects in previous years. A number of major emerging markets Argentina, Brazil, China, Indonesia and South Africa appear to get a higher contribution to their economies “per unit of FDI” than average, with high quartile rankings in exports, employment, wages and R&D (more than in value added or capital formation). Partly as a result of the significant appreciation of the Japanese yen in 2011, TNCs from Japan have strengthened their efforts in investing abroad, particularly in low-cost production locations in South-East Asia. In 2011, attracted by low labour costs and good growth prospects, Japanese companies pledged to invest about $1.8 million in Vietnam.

South American countries Mexico and Brazil have large markets and its own resources, so can be concluded that to some extent the prime motive of sale experience and resource seeking could be driving FDI. Developing countries to develop their share of global FDI inflows can be positive through investigate the determinants of investment pattern. Various theories on FDI and its determinants thereof have been advanced in attempting to explain this phenomenon. The theory aims that FDI in particular so that they can be applied to the other developing regions. This theory has been used to explain what drives the decision of many TNC’s to invest in foreign countries. A broad spectrum of theories explaining FDI points out the determinants of investments. Determinants can be analysed from the perspective of outflow and inflow of FDI. In general firms are investing their investment in abroad for seeking to expand markets, resources and seeking efficiency.

The other developing countries are generally poor and highly indebted. The challenges facing this region are mainly political stability, poor infrastructure and poverty. These challenges make it imperative that the region increases its efforts to attract FDI. The policies that IMF continues to encourage developing countries to adopt are also appropriate for the other developing countries. Such policies like pursue strong macroeconomic policies, improve economic efficiency by liberalizing trade and maintaining competitive exchange rates, improve infrastructure particularly transport, ports and communications, increase government spending for education and health, reduce investor’s risks by improving the quality and integrity of legal structure. So the government will need to follow policies and pursue strategies that can be directly reduce the negative FDI inhabitation factor and enhance FDI attractive factor. Such factors like reduce the bureaucratic procedure for licensing and approving investment project, respect for the rule of law and government should improve marketing efforts, the effort to strengthen the regional integration through intensification and deepening. The increasing importance of FDI for economic development and deepening integration of developing country require further study. It can increase better understanding of the determinants and patterns of FDI in an increasingly globalizing economic environment.

CONCLUSION

Over the last decades (five years) except 2005 and 2009, Foreign Direct Investment in developed and developing nations has been highly concentrated in china, China (Hong Kong), Singapore, India, Brazil and Argentina. Political solidity, cheaper labor cost, high quality of infrastructure facilities, low tax rate and large market size, are amongst the major determinants in the decision to invest in these nations. High FDI-Gross Domestic Product ratio also leads the investors to invest in those countries. For the vast majority of developing nations and other developed nations in European Unions, Foreign Direct Investment is low. The structural weaknesses of these economies, inefficiencies of their small markets, their skill shortages and weak technological capabilities are all characteristics that depress the prospective profitability of investment. Growing fiscal shortage, the slowdown of economic reforms, inflexible labor laws, and high rate of inflation has further slow down the progress. The developing and some developed nations must tackle Market characteristics (local and regional), Costs (including labor, transport and other inputs), Natural resources (availability and quality), Infrastructure, Policy framework, Business support and promotion all the above mentioned problems within a short whilst with strapping economic policies. Until the constraints on possible investment are addressed, the FDI flow will not grow in the developing nations.

REFERENCES

BOOKS

WORKING PAPERS


JOURNALS


Dr. S.S. Jeyaraj have received my M.com degree from Madurai Kamaraj University, Madurai in 1996. I have been awarded my Ph.D degree on the title of “Occupational stress among the teachers of the higher secondary schools in Madurai district, Tamil Nadu”, by Madurai Kamaraj University, Madurai in the year 2011. Also I earned my M.Phil degree from Madurai Kamaraj University, Madurai, in 2001, thesis on the title of “Job satisfaction of workers. A study with reference to Sri Meenakshi Spinning Mills Ltd, Madurai”. I have published research articles both in national and international journals and also attended various workshops and seminars. Currently, I have been working for International Junior College as a lecturer in business studies at Jakarta, Indonesia.