TRENDS IN THE FLOW OF FOREIGN DIRECT INVESTMENT AND THE IMPLICATIONS FOR LESSER DEVELOPED COUNTRIES

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ABSTRACT

The recent decade witnessed a negative impact on the global flow of foreign direct investment (FDI), resulting from the global pandemic and financial/economic disturbances. Despite evidence of a recent, increased flow of FDI, lesser developed countries (LDCs) continue to receive a very small share of the total. This study examines why multinational enterprise (MNEs) favor new investments in industrialized countries or those in transition on the threshold of development. The study examines the mismatch between what MNEs seek in host countries and what LDCs have to offer. Policy initiatives in poor countries, designed to close this gap, are also analyzed.

***Keywords**: Foreign Direct Investment (FDI), Lesser Developed Countries (LDCs), Multinational Enterprises (MNEs).*

1. *INTRODUCTION*

For the purpose of this study, lesser developed countries (LDCs) are defined as low income countries, confronting severe structural and financial impediments to sustainable economic development. They suffer from long term economic growth limitations, characterized by capital shortages, vulnerability to socio-economic environmental shocks, inferior production technology, and inferior internal management skills and know how. They are located mostly in Africa with some in Latin America, the Middle East, and in Asia/Oceania (Chen, 2021).

Other common characteristics of these weak economies include (a) low levels and slow growth of GDP per capita, (b) excessive market concentration, (c) deficiencies in the quality of human resources, based on literacy, school enrollment rates, the quality of schooling and health (d) economy vulnerability based on indicators of instability and limitations in the areas of manufacturing, services, and exportation. (Pal, 2022). Also see (Casey, 2011).

2. THE POSITIVE SPILLOVER EFFCTS OF FDI

LDCs are also countries who can benefit significantly from FDI inflows from the industrialized world, particularly in the area of manufacturing activities. FDI provides external capital funding, but also needed technology transfers and information about up-to-date managerial knowhow and skills. (Loungani and Razin, 2001).

Other positive spillovers may arise from the introduction of new production processes, related gains in labor productivity, the establishment of international production networks, and expanded access to global markets. (Alfaro et al, 2003).

Positive spillovers can be either horizontal or vertical. Horizontally, local firms may gain know-how or insight at the same level of production as the MNE or vertically, supply chain linkages between MNEs and local producers may provide the same benefits. This could occur either upstream or downstream. (Ahmed, 2020). Also see Balasubramanyam et al,1999, and Hanson, 2011).