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Rapid Communication

Foreign Direct Investment and Its Impact on Economic Growth and Business Expansion

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Abstract

Foreign Direct Investment represents a major channel through which capital, technology, and managerial expertise flow across national borders. This study examines the role of foreign direct investment in promoting economic growth, industrial development, and global business expansion. It explores the determinants of FDI, including market size, institutional quality, infrastructure, and political stability. The paper also analyzes the benefits and challenges associated with foreign direct investment for host countries and multinational enterprises. Emphasis is placed on the contribution of FDI to employment generation, technology transfer, and productivity enhancement. By integrating international business theory with empirical insights, this study highlights how foreign direct investment supports economic integration and competitiveness. The findings suggest that favorable investment climates and sound policy frameworks are essential for maximizing the developmental benefits of FDI in an increasingly globalized economy.

Keywords: Foreign Direct Investment, Multinational Enterprises, Economic Growth, Capital Flows, Host Country Development, Investment Climate, Global Business, Technology Transfer.

INTRODUCTION

Foreign Direct Investment refers to investment made by a firm or individual in one country into business interests located in another country with the intention of establishing lasting control. It is a key component of international business and global economic integration (Udemba et al., 2024). The growth of foreign direct investment has accelerated due to globalization and liberalization of national economies. Countries increasingly compete to attract foreign investors to stimulate development.

Multinational enterprises are the primary drivers of foreign direct investment. Through FDI, these firms establish subsidiaries, joint ventures, and production facilities in host countries. Foreign direct investment contributes to economic growth by increasing capital formation and enhancing productive capacity. Host countries benefit from inflows of financial resources and modern technologies (Kanval et al., 2024).

Technology transfer is one of the most significant advantages of foreign direct investment. Multinational firms introduce advanced production techniques and managerial practices that improve efficiency.

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FDI also supports employment generation in host economies. New investments create job opportunities and contribute to skill development of the local workforce.

Market-seeking foreign direct investment enables firms to access new consumer bases and expand international operations. This form of investment is common in emerging and developing economies. Efficiency-seeking FDI focuses on cost advantages such as low labor costs and resource availability. It allows firms to optimize global supply chains and improve competitiveness (Osei & Kim, 2023).

Institutional factors such as political stability, legal frameworks, and regulatory transparency influence foreign direct investment decisions. Favorable investment environments attract sustained FDI inflows. Government policies, including tax incentives and investment protection agreements, play a crucial role in shaping FDI trends (Froot, 2008). Pro-investment policies enhance investor confidence.

Foreign direct investment can also present challenges such as market dominance by multinational firms and profit repatriation. Effective regulation is required to balance national interests. Global competition for FDI has intensified, compelling countries to improve infrastructure and governance standards. Competitive host countries gain long-term developmental benefits.

In the context of globalization, foreign direct investment strengthens economic interdependence among nations. It facilitates integration into global value chains. Foreign direct investment is a powerful mechanism for economic transformation. Countries that strategically manage FDI inflows can accelerate development and global competitiveness (Cole et al., 2017).

CONCLUSION

Foreign direct investment plays a critical role in shaping global business activities and economic development. This study emphasizes that FDI contributes to capital accumulation, technology transfer, and employment generation. While challenges related to regulation and economic dependency exist, effective policy frameworks can enhance the positive impact of FDI. Host countries that create stable and transparent investment environments are better positioned to attract sustainable foreign investment. Ultimately, foreign direct investment serves as a catalyst for economic integration and long-term business growth in the global economy.

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