

Impact of Foreign Direct Investment (FDI) on Economic Growth in Developing Economies

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ABSTRACT

Foreign Direct Investment (FDI) plays a crucial role in shaping the economic trajectory of developing economies. This study examines the impact of FDI inflows on economic growth, focusing on how capital investment, technology transfer, employment generation, and productivity improvements contribute to long-term development. Developing nations often face constraints such as limited domestic savings, technological gaps, and insufficient infrastructure, making FDI an important external source of finance and expertise. The research explores both the positive and negative dimensions of FDI. On the positive side, FDI stimulates industrial expansion, enhances human capital through skill development, and promotes integration into global markets. It also fosters competition, innovation, and efficiency within domestic industries. However, the study also highlights potential challenges, including profit repatriation, crowding out of local firms, dependency on foreign capital, and uneven regional development. Using secondary data and existing empirical literature, this paper analyzes trends in FDI inflows across selected developing countries and evaluates their correlation with GDP growth, employment levels, and sectoral productivity. The study emphasizes that the growth impact of FDI depends significantly on host country factors such as institutional quality, policy stability, infrastructure, and human capital development. The findings suggest that while FDI can serve as a powerful catalyst for economic growth, its benefits are maximized only when supported by strong governance, effective regulatory frameworks, and domestic capacity building. The paper concludes by recommending policy measures that help developing economies attract quality FDI while ensuring sustainable and inclusive growth.

Keywords: Foreign Direct Investment (FDI), Economic Growth, Developing Economies, Technology Transfer, Sustainable Development

