

Foreign Direct Investments: A Survey and Review of Literature

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Abstract

In today's globalized environment, businesses, as well as economies in general, are called upon to meet the ongoing economic, social, political, environmental, and technological challenges so that they can be fully competitive. Market globalization and internationalization of economic relations, which have existed in recent years, have led to a rapid increase in trade flows, money, and capital flows. The purpose of this paper is to capture the phenomenon of FDI, its motivations, and its potential effects in host or source countries. Multinational enterprises play the most important role in the development of Foreign Direct Investments. In this paper, definitions of Foreign Direct Investments will be provided, as they are recorded in the bibliography review. Their components, such as the types and the forms, as well as the objectives and motivations of FDI, will be analyzed. The literature review for this study concludes with factors that push government entities to turn to Foreign Direct Investments, as well as the impact on host and source countries.

Keywords

FDI, Economy, Development, Globalization

1. Introduction

It is true that globalization is a process of developing national industries on an international scale (Kyrkilis, 2010), while the internationalization of the economy concerns the development of business strategies in the international market. In this sector, multinational enterprises play the most important role in the development of foreign direct investment (FDI). Multinational and large-scale enterprises operating around the world are driven to take into account the risks that may occur from time to time such as political, economic or financial risks (Charpin et

al., 2020; Yasuda & Kotabe 2020: pp. 162-164; Efthimiou, 2024b). FDI and multinational enterprises (ME) can be seen as two sides of the same coin (Buckley & Casson, 1985). A firm without FDI cannot be described as an ME (Pitelis & Sudgen, 2002). That is, none of the other forms of international business activity are sufficient to qualify an enterprise as multinational. The term ME is an enterprise that creates added value in more than one country (Dunning, 1993a). In other words, a multinational business is one that operates in more than one country (OECD, 2008a). MEs are inextricably linked to FDI. Recent research points to some potential risks that can be reversed through financial transactions. Although the empirical relationship of some of these sources of risk remains to be proven, the potential risks appear to be a hypothesis that discourages the potential impact of foreign direct investment. Policy recommendations for developing countries should focus on improving the investment climate for all types of capital, both domestic and foreign (Lipsey, 2001).

The attraction and flow of capital through FDI is a positive move for the economy, although in some cases, they may have an influence on the local economy of origin. Foreign direct investment is not only capital inflows or outflows but much more a long-term investment relationship and source of stability between the investor and the receiving entity (Ciobanu, Sova, & Popa, 2020). FDI can bring many advantages to a country. However, there is no one-size-fits-all way to invest abroad. It is important for a business interested in investing in another country to consider all relevant factors for a successful investment. Multinational enterprises, through FDI impose new ways of acting and managing with optimal ways of working in new businesses with the transferred technologies and know-how, increasing innovation, efficiency and productivity (Efthimiou, 2024b). Therefore, the results and innovations are diffused to all the links of the chain of companies involved in the production of products and services, which are designed to be responsive to new market demands (Ciobanu, Sova, & Popa, 2020). As Carkovic and Levine (2002) have already captured, FDI has a positive effect on the course of a country's economy. FDI contributes to economic development in various forms and is an optimal option in terms of technological progress and improvement of human potential in the host country (Borensztein et al., 1998). FDI contributes to the creation of a relationship between the country of origin and the host country with contagion phenomena taking place (Antonietti et al., 2020). The aim of this article is to capture the phenomenon of FDI, its motivations, and its potential effects in host or source countries. The first part of the article lists definitions of Foreign Direct Investments, as recorded through the literature review. Then, all the components of FDI are analyzed, such as the types and forms, but also the goals and motivations, while the factors that push the government entities to turn to Foreign Direct Investments are also studied, as well as the impact on the host countries and origin and at the end the conclusions and suggestions for future research are formulated.

2. The Definition and Connotation of Foreign Direct Investments

2.1. Definitions of Foreign Direct Investments

By Foreign Direct Investment, we mean a particular type of foreign capital, as opposed to domestic investment. Fu (2000) argues that they do not include loan capital provided by international organizations, foreign governments or private commercial banks. They also do not include portfolio investments such as stocks and bonds bought by foreigners. What makes investment “direct”, unlike other forms of foreign capital, is the concept of managerial control of an enterprise in which the foreign capital participates. Geographer Roger Hayter (1997) argues that FDI includes activities that are controlled and organized by enterprises (or groups of enterprises) that are based outside the state in which they have their original establishment and where their principal managers are based (Huang, 2002). Some international economic organizations have formulated a multitude of definitions for FDI. Thus, the International Monetary Fund (IMF, 1977) defines the FDI as follows: *“Investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor, the investor’s purpose being to have an effective voice in the management of the enterprise”*. While, OECD (OECD, 1996) defines the FDI as focusing on their main objective, which is to acquire a lasting interest from a resident (“direct investor”), in an economy different from that in which the investor operates (“direct investment business”). The benefit presupposes the existence of a long-term relationship, which is two-way but also largely related to the management of the business. Direct investment includes both the initial transaction between the two entities as well as all subsequent capital transactions between them and at the same time between the associated enterprises, both joint stock and non-stock corporations (Huang, 2002). Also, according to IMF and OECD definitions, foreign direct investment reflects the objective of obtaining a “permanent interest” from a domestic entity of one economy (direct investor) to a company resident in another economy (direct investment enterprise) (OECD, 1996, 2020). “Permanent interest” implies the existence of a long-term relationship between the direct investor and the company as a direct investment and a significant degree of influence in the management of the latter (OECD, 1996, 2020).

Jones (1998) categorizes FDI in a different way with three major categories as follows:

- Market Seeking Investments, which aim to secure access to the market of the destination country.
- Resource Seeking Investments, which have the ultimate goal of ensuring the reliable supply of natural resources.
- Platform Seeking Investments, which aim to provide a “platform” for production activities and/or sales in a regional market (Huang, 2002).

Hayter (1997) also points out that FDI include issues of direct control, as resources are transferred within firms rather than externally between independent firms. In the case of FDI, parent companies are in control of both the day-to-day

operation of their investment, as well as the nature and scope of their long-term investment (Huang, 2002). The concept of Foreign Direct Investment refers to the fact of the establishment of subsidiary companies in foreign countries by the reference country, which is either wholly or partially owned by the parent company (Kyrkilis, 2010). When Foreign Direct Investments are implemented, primarily, productive inputs are transferred outside the country's borders. Production inputs refer to material ones, such as equity capital, capital equipment, raw materials, but also to intangible ones, such as know-how, the organization of the production process, quality control, etc. The aforementioned inputs are necessary for the successful implementation of the production process, as well as the commercialization of the good. This form of investment does not take the form of a commercial transaction or an agreement between two independent enterprises (as is the case with franchising), but productive resources are transferred within the company itself and between two countries, i.e. in the country where the parent has its facilities and, in the country, where the subsidiary has its facilities (Kyrkilis, 2010).

Furthermore, based on UNCTAD (1999), a Foreign Direct Investment is characterized as an investment with a long-term horizon, where a company with a strong position invests in another company, which is the subsidiary, and therefore controlled by the parent. This investment can refer to investments in equipment, land to be used, investment funds, funds intended to be reinvested, and transactions between the two companies. Therefore, according to this definition, a Foreign Direct Investment exerts a strong influence on the management of the subsidiary in the host country. In addition, Foreign Direct Investments, in addition to companies, can also be related to natural persons. The above definition, it seems, is more consistent with the definition given by OECD and the International Monetary Fund. Regarding the way in which Foreign Direct Investment is measured and recorded, it must be said that the way is different between the countries—members of the OECD. Basically, the direction given by the IMF is followed, and more specifically, the most basic feature of FDI is that the parent company controls more than 10% of the entity in which it invests. If it does not hold more than 10%, then it is a portfolio investment. Nevertheless, there are also cases in which this characteristic is different, if defined otherwise by national legislation. According to Griffin and Pustay (2005), FDI is defined as the attempt to assimilate elements from foreign assets, with the ultimate goal of improving control mechanisms. At the same time, FDI is defined as the control of the ownership of the votes of the management of a company, its securities, or its interests in general, if it is a business of corporate form other than anonymous types, in the order of magnitude of 10% or even a greater percentage of ownership. In general, and regardless of the ownership percentage to which it is addressed, the FDI presupposes some form of control exercise.

2.2. Distinguishing Forms of Foreign Direct Investments

The manner in which Foreign Direct Investment is carried out takes a variety of

forms. The most commonly applied are the following.

2.2.1. Wholly Owned Subsidiary

When it comes to the creation of a wholly owned subsidiary, a new company is established in the host country. The sole, therefore, owner and manager are the new company itself. In this type of subsidiary, the entity can be a completely new business or it can be an existing business, and essentially, the parent owns the majority of the equity capital of the subsidiary and, thus, also be a manager (Kokkinou & Psycharis, 2004).

2.2.2. International Joint Venture

The most frequently encountered form of developing FDI, which is associated with low operating costs, a better competitive position and training regarding new skills, is the Joint Venture. Therefore, a joint venture is understood to be the agreement that exists between enterprises, as long as each is able to offer and provide a quantity of productive factors, with the aim of creating a single basis on which the contributors have a percentage of ownership, which however, it is different in each case (Papadakis, 2002).

When it comes to the case of a joint venture, then we are referring to a cooperation scheme, an international business with a local, two or more international entities, a business that aims to serve interests related to the respective government and a multinational or an entity which has been acquired by others (two and/or more) for a given period (Taoka & Beeman, 1991).

The conditions which are necessary, but also necessary, for the realization of an international joint venture are the following:

- the existence of additional (apart from the main) advantages-privileges,
- the parallel exploitation of emerging opportunities by the companies that are going to be involved in the international joint venture,
- the absence of obstacles of a specific nature, and in particular, legal, financial, and political obstacles, with the ultimate goal of total integration.

2.2.3. Partial Acquisition

There is a respectable number of firms that prefer to enter a foreign market through the partial acquisition strategy. The specific form of FDI combines features from two other forms of investment, more specifically from joint ventures (since the ownership is the same) and from acquisitions (since the company is fully taken over) (Jakbosen & Meyer, 2007).

When a company implements this strategy, it acquires some of the shares of the local company, which creates a kind of collaboration, so that technological achievements and technological knowledge are transferred. Also, agreements are concluded between them so that one can distribute the other's products. Therefore, when one entity partially acquires another, this does not mean that the acquirer owns all the equity capital of the acquired entity, but a part of it. A consequence of this is that the investor does not fully control the design of the strategy followed by the entity, and therefore, his power is limited and he cannot impose

changes at the organizational level (Jakbosen & Meyer, 2007).

On the other hand, when the investment is equal to 100% of the total share capital, then we do not refer to a partial acquisition, but to the establishment of a branch. In the event that the acquisition ranges between 50% and 100% of the capital of the one being acquired, then it is referred to as a subsidiary company. Finally, when the acquisition percentage is between 10% and 50% of the company being acquired, then these two entities cooperate, and thus the local entity is called cooperating (Jakbosen & Meyer, 2007).

2.2.4. Strategic Alliances

The concept and method of strategic alliance refers to the existence of a type of contract between two or more economic entities with the aim of cooperating in a business activity, with the aim of gaining advantages from the counterparty's strengths and thus becoming competitive. It is a fact that strategic alliances are a key form of entrepreneurship in many industries in order for companies to face global competition more effectively (Isoraite, 2009).

In more specific contexts, when we talk about strategic alliances, then it is essentially a response to the new reality of globalization and the growing uncertainty, but also the parallel lack of certainty in the business environment. At the same time, it is worth mentioning that strategic alliances are made, mainly, to facilitate the exchange of knowledge and know-how between companies and, at the same time, to reduce the risk as well as the costs related to innovative methods, but also the cost of acquisition of resources.

Of course, there are several cases in which a strategic alliance can be identified with a joint venture, even though an alliance also includes the competitive environment, and above all, it has a short duration (Isoraite, 2009).

2.2.5. Management Contracts

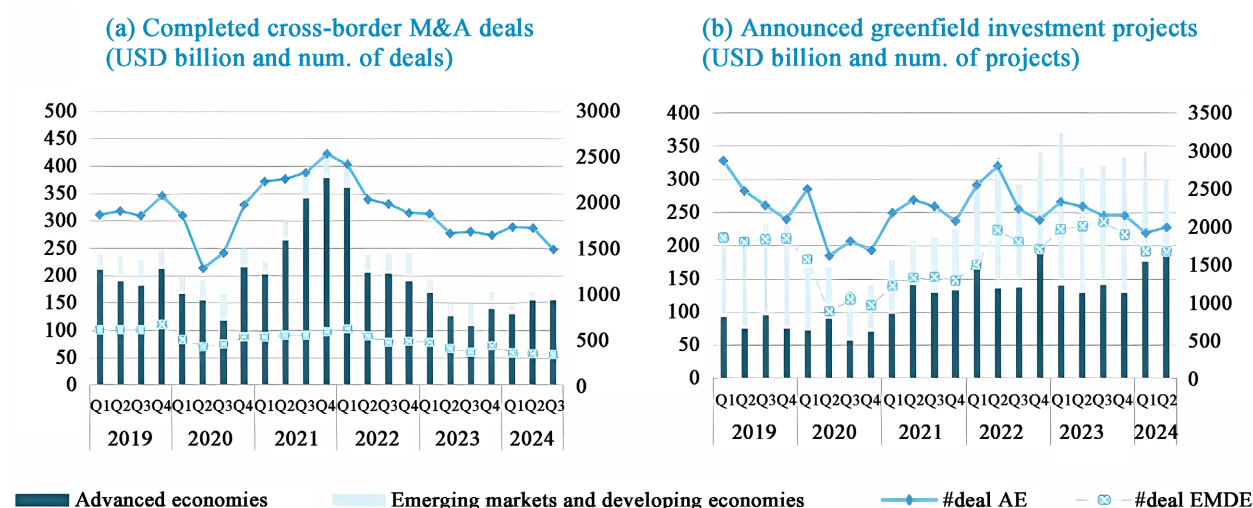
This strategy is essentially an agreement made between two companies. The first is the company-supplier and the other is the company-customer. This is to enable the client business to acquire additional management skills. More specifically, the management staff of the first company (i.e., the supplier company) are to be transferred to the customer company (Papadakis, 2002). This shift will enable these executives to train the business that has the customer role and which will have them at their disposal for a specific period of time. It is typical that the remuneration that the company that is a supplier will receive depends on the performance that the company that is the customer will achieve and based on the successes of the new management (Hatzidimitriou, 2003).

2.2.6. Greenfield and Cross-Border Mergers and Acquisitions (M&A)

Takefman (Takefman, 2022a), defines Greenfield FDI as follows: “*Greenfield refers to investments where a parent company establishes a subsidiary in a foreign country. Specifically, Greenfield FDI is when companies set up or expand their business operations abroad, creating brand new jobs and/or facilities from the ground up—as opposed to mergers and acquisitions, which occur when one*

company buys another".

Equity capital flows are closely tied to new investment activity, regardless of the mode of entry (i.e., through M&A or Greenfield investment) and divestments by direct investors. Global cross-border M&A activity struggled to pick up in the first half of 2024, despite a resilient global economic landscape.¹⁰ Completed deal values and the number of deals was up by only 1% compared to the second semester of 2023, although the effects were not felt the same everywhere. In fact, there was a slight rebound in AE as deal values and the number of deals increased by 16% and by 4%, respectively, while EMDE saw a decline of 48% and 12% (Figure 1) (OECD, 2024).

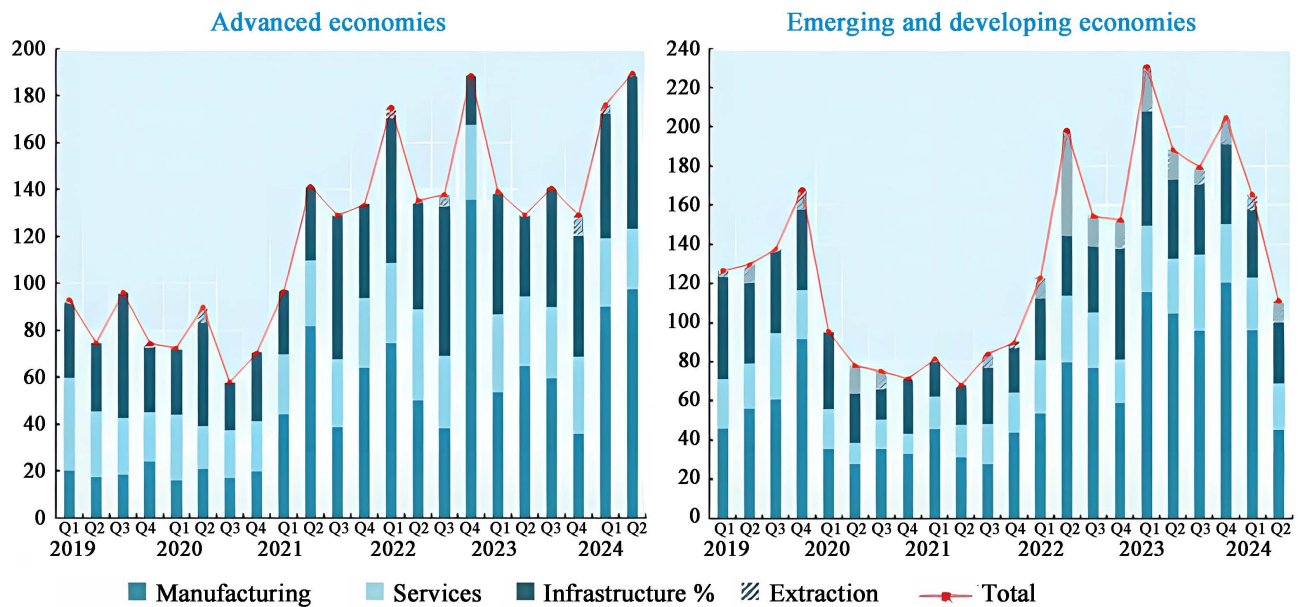


Source: OECD (2024).

Figure 1. Recent cross-border investment activity, Q1 2019-Q3 2024.

Also, as Foreign Direct Investment cross-border mergers and acquisitions (M&A) are defined: “Mergers and acquisitions (M&A) in FDI refer to investments involving the consolidation of companies or their major business assets through financial transactions between companies. This financial transaction can take place in a few different ways, a company can purchase or absorb another company, merge with it to create a new company, acquire some or all of its major assets, make a tender offer for its stock, or stage a hostile takeover. All of these are referred to as merger and acquisition activities” (Takefman, 2022b). Both forms of foreign direct investment are of pivotal importance for the economic development of countries.

Announced greenfield investment (GI) projects declined in the first semester of 2024 compared to H2 2023, with the number of announced projects and capital expenditure decreasing by 12% and 2%, respectively. This decrease mostly affected EMDE, with drops in capital expenditures and the number of announced projects of 28% and 16%, respectively. All sectors recorded declines (Figure 2) (OECD, 2024).



Source: OECD (2024).

Figure 2. Announced greenfield projects by sector, 2019-24 (USD billion).

2.3. Distinction of Foreign Direct Investments According to Direction

Foreign Direct Investments can also be separated based on where the funds available to multinational companies are to be directed. In particular, this category includes inward FDI and outward FDI.

Investments whose funds are invested by foreign investors in domestic productive factors and resources are characterized as incoming. Based on an OECD study (OECD, 2008b), the specific subcategory of Foreign Direct Investments is essentially the funds that come from direct foreign investors and are intended to be used by the entities operating in the reference country.

On the other hand, outflows are found in cases in which funds originating from the residents of the reference country are invested in resources that are foreign to it. Based again on the study by OECD (2008b), outward Foreign Direct Investments are defined as those whose capital originates from the reference country and is intended for investment abroad, since first they will be reduced by the amount of the corresponding funds of foreign investors and at the same time we add the invested funds of foreign companies in entities, which are subsidiaries of companies based in the reference country, but the parent company itself is a foreign company. In simple words, investments start from the reference country and are directed to companies located abroad, which are called outbound foreign direct investments.

2.4. Objectives of Foreign Direct Investments

Based on the purpose for which Foreign Direct Investments are made, we can divide them into the following categories:

- vertical Foreign Direct Investments (vertical FDI),

- horizontal Foreign Direct Investments (horizontal FDI) and
- combination of vertical and horizontal (conglomerate FDI) (Caves, 1971).

The first form is the vertical FDI, which analyzes and describes the methodology and strategy followed in order to distribute the supply chain in different countries. Based on the principles of the classical theory of international trade, the reason why Foreign Direct Investments appeared and began to consolidate as a form of investment was the differences that existed between the volume and the quality of the factors of production (labor, nature, capital) and at the same time between the prices of the goods offered by the companies. The factors mentioned above are what gave the trigger and motivation to the entities to locate their productive activity in places where inputs are cheaper compared to others. This whole process aimed to save through vertical FDI productive resources and factors (since input costs are now lower) and therefore reach the point where profits are maximum for each process of the production line (Artige & Nicolini, 2006). Vertical Foreign Direct Investments are in turn divided into two types. Firstly, in backward vertical FDI and forward vertical FDI backward vertical Foreign Direct Investments concern, exclusively, the process of establishing a new entity in a third country, and which is going to specialize only in the production process of raw materials or even intermediate goods, so that it is able to directly supply the parent company, which is however established in another country. In this way, since the cost of production (inputs and labor) is reduced, economic entities have incentives and advantages to be able to supply directly and directly with their own products which are not final (Ghazalian & Cardwell, 2009).

On the other hand, forward vertical FDI is carried out by entities that aim to be closer to the consumer and thus acquire new points of distribution and disposal (Moosa, 2009). So, vertical forward FDI exists in wholesale and retail trade activities. The next type is the opposite of vertical, and is horizontal Foreign Direct Investment. This category refers to similar goods. More specifically, it describes the production process of similar goods in different countries (essentially, we refer to the reproduction of a specific good) (Ghazalian & Cardwell, 2009). Therefore, the specific form of foreign investment aims to expand the company horizontally, so that it can produce either the same, or almost the same goods, either in the host country, or in the very country from which they originate. As a result, the product is differentiated and gains a competitive advantage in the specific type of Foreign Direct Investment. In a general context, this form of foreign investment is carried out in order to enable the full exploitation of certain monopolistic or oligopolistic advantages, such as for example, patents, and, above all, when the activity in the country from which the investment originates is contrary to legislation prohibiting monopolistic market forms (Moosa, 2002, 2009). According to the new theories of FDI, the potential of the role that horizontal FDI can play is emphasized. They act as alternatives to trade in terms of access to international markets (Krugman, 1983; Markusen, 2002; Navaretti & Venables, 2004). According to Brainard (1993, 1997), in order for a firm to decide to serve a third market by transferring, creating or

acquiring production capacity in the country that represents that market (or in one of the countries that make up a wider market), it has weighed the obstacles it faces in its commercial activity, such as transport costs, operating costs, customs duties, etc. According to Ghazalian and Cardwell (2009), the realization of an FDI is a function of a negative slope in terms of the barriers faced by establishing productivity in a foreign country (relative to commercial activity there), such as restrictions on land ownership and exploitation possibilities, fixed costs, etc.

Finally, there is another type of FDI, in the light of the purpose of the investment action, and it concerns the combination of characteristics of a vertical and a horizontal investment. For example, a country, while expanding horizontally into third countries, at the same time, can participate in vertical joint ventures, so that it can produce the primary materials itself or the intermediate goods required for the production of its final products.

2.5. Foreign Direct Investments and Their Incentives

According to Dunning (1998), whose object was the study and research of issues related to Foreign Direct Investments, there are three types of investments of this type, which based on the motivation for which they are carried out are the following:

- finding areas and places that have an abundance of productive factors (resource seeking),
- finding markets which are under development in order to start new activities (market seeking),
- finding methods and practices that are more effective (efficiency seeking),
- search for strategic resources or capabilities (strategic asset seeking).

Dunning in 1993 added another form of Foreign Direct Investment, which is referred to in the literature as Foreign Direct Investment to find strategic factors and resources (Dunning, 1993a, 1993b). Therefore, Foreign Direct Investments can be distinguished into a total of four categories, which are analyzed in the subsections below. In the globalized business environment, economic entities resort to the solution of foreign direct investment in order to find new areas that have more productive resources and factors. In particular, through such a strategy, these companies aim to be able to obtain more benefits from the exploitation of productive resources and reduce their operating costs while simultaneously strengthening the quality provided (Dunning, 1993b; Demirhan & Masca, 2008; Oke, Ezike, & Ojogbo, 2012). The productive resources sought by the economic entity, in this case, are related to the raw materials, but also the auxiliary materials and the labor force (which can be either skilled or even unskilled).

It is worth mentioning that wealth-producing resources can be distinguished into the following categories:

- Natural Resources
- Human Capital
- Capabilities and Strategies (Technological, Administrative and Managerial)

In the cases in which a company invests in a country third to it, it has the

ultimate goal to operate in the new market, to be more efficient, but at the same time to provide more efficient services to its customers. Additionally, reasons for entering new markets could include seeking to reduce transportation costs, either of the products themselves or of raw materials, gaining a competitive advantage so that the entity can ensure its survival by avoiding any taxes and/or duties, but also being able to deal with possible obstacles that may arise. A very important role is played by the degree to which the market is developed, which is also the direct objective of the economic entity (Demirhan & Masca, 2008). According to what was mentioned, it would be possible to basically distinguish four motivations, which give the impetus to economic entities to go towards Foreign Direct Investments. These incentives are the following:

- The market that constitutes the objective of the business to start its new activity (i.e., to expand) is also a market in which its customers and/or suppliers exist.
- Many categories of goods and/or services require a high degree of adaptation to the standards that prevail in the regions regarding the consumption behavior of individuals.
- When Foreign Direct Investments are made to serve the target market of the parent company, then the possibility that this strategy is more economical is quite high. It is a fact that, when the target market is far from the country of origin of the investment, then Foreign Direct Investments are considered the best practice, compared to others.
- It is commonplace that sometimes a large portion of businesses go to Foreign Direct Investments with the aim of being in the same market as their competitors.

In the event that a company's motivation for direct foreign investment is the search for better and stronger profitability, it is usually multinational. The reason this happens is that entities of such scope have the necessary resources at their immediate disposal to establish themselves in the new market. So, it is easy to understand that securing resources is vital for new activities to be both effective and efficient in enhancing the existing products and/or services they already have in their portfolio (Oke et al., 2012). Most of the time, reference to FDI strategy is made to define those strategies, which are followed by the entities in order to prevent any possible loss of an asset to a competitor, but also to acquire assets, which are likely to be complementary to existing goods or even competitive (Dunning, 1993b). At this point, it is worth mentioning that this Foreign Direct Investment strategy is very often implemented and encountered by entities that aim to both maintain and expand and strengthen their competitiveness at a global level. A basic condition for a company to turn to FDI is to consider the assumptions of Dunning's Selection Theory (Dunning, 1977, 1980), in which there is a series of advantages that must appear, the advantages: ownership (O), location (L) and internalization (I) (Table 1). At the same time, a necessary element for attracting FDI is to have imperfect markets based on Dunning (1977, 1980). Type O (property) advantages have to do with assets of a company, which it owns in its internal market, give it a competitive advantage and which it can exploit to create

Table 1. Relationships of international presence categories with competitiveness advantages.

	Location Advantages (Type L)	Advantages of ownership (Type O)	Advantages of Internalization (Type I)
International Trade	NO	YES	YES
Licensing	YES	YES	NO
FDI	YES	YES	YES

Source: Kyrkilis (2010).

FDI in third countries. Such advantages include know-how and patents, brand reputation, strategic marketing and management elements, etc. (Kyrkilis, 2010). According to Kyrkilis (2010), the appearance of such advantages is due to the following:

- How a market is structured. In particular, whether there are large companies operating within an oligopolistic system of competition, which have the potential to achieve significant product differentiation and to undertake costly advertising campaigns. These are companies whose size allows them to invest in well-staffed research and development (R&D) centers so that they can make frequent and targeted improvements to their products and plan effective promotional campaigns.
- In the course of already existing companies, which after several periods of operation have developed the appropriate skills, as well as sufficient resources, in order to better cope with bad periods, in relation to newly emerging companies in each sector.
- In the international interconnection of markets, which enables multinational companies to better know multiple markets and thus prevent the entry of new firms into each market, through various barriers to entry, such as product differentiation and expansion mechanisms.

Ultimately, internationalization is based on the existence of three categories of conditions, the following:

- The ownership advantage: This refers to the existence of a competitive advantage which is based on the ownership of specific property in the country of origin and which extends to efforts to penetrate into a foreign country.
- The advantage of internality: When a company chooses to transfer its know-how to its own subsidiaries in third countries, exploiting this advantage internally, instead of exploiting it by selling it to a third company, then we speak of internality.
- The advantage of the place of establishment: These are advantages that refer to inherent characteristics of the destination country of the investment, such as accessibility to other markets, the existence of an abundant and cheap labor force, etc. (Kottaridi, 2014). This model defines the company as having complete information in relation to the overall conditions that prevail in the markets in which it has an interest and chooses to operate in countries where the best combination of the aforementioned comparative advantages exists.

In **Table 1** it is observed that Foreign Direct Investment has more advantages compared to the other two forms of international presence, international trade and licensing, as it can possess all three competitive advantages discussed based on the selective model. FDI can take advantage of the advantages of each destination country, while at the same time taking advantage of and their domestic comparative advantages, especially domestically. In licensing, on the contrary, while the company can take advantage of both the characteristics of the market, it is interested in and its own characteristics, it cannot internalize the latter, since the transfer of rights to third-party companies is inherent, which acts as a means of penetrating the new market. Accordingly, when we talk about international trade, the inherent characteristics of the enterprise can be exploited domestically, but any subsidiary or even the enterprise itself, due to the exclusively commercial activity, and not the productive one, cannot make use of the advantages offered by the location of the new markets (Kyrkilis, 2010).

2.6. Determinants of Foreign Direct Investments

Mundell (1957) was one of the first authors to recognize these factors and examine the possibility of cross-country production and cost factors. His own research concluded that the greater the differences between rich and poor countries, the greater the incentive for outflows. The factors affecting FDI are listed: 1) Human capital: According to De Mello (1997), the potential of firms in the productive sector is enhanced by the expansion of investment and economic growth is expanded through FDI. A key factor in attracting FDI is the level of training of human resources, as their quality education and the existence of know-how favors a firm's decision to enter an economy from the studies of Barrell & Pain (1996). A country is more likely to choose investment when labor costs are low. The supply and quality of human resources as well as the cost of labor in the host country are often decisive. For labor-intensive FDI, its total cost is of particular importance. On the contrary, for capital-intensive investments and especially technology and knowledge, the education and training of human resources and their attitude towards work are of particular importance. 2) Transparency of procedures: Preventing discrimination and safeguarding the principles of transparency contribute to the creation of an internal competitive environment. While the loss of the aforementioned principles may indicate the host country as "unsuitable" for attracting new investment (Letsou & Pantelidis, 2020). 3) Government intervention: It affects the business activity in terms of efficiency, effectiveness and efficiency. State policies ensure macroeconomic stability, full markets and lead to the creation of new industries for private enterprise. A country's privatization policy can bring about FDI inflows. Clearly, this alone is not enough. Privatizations, beyond the value of the object for sale, can give satisfactory results if they take place in a stable and investor-friendly environment (Letsou & Pantelidis, 2020). 4) Market size: The size of a host country's market is an important determinant when it comes to investments aimed at producing and making available on the internal market

goods and services (e.g., banks, insurance, trade, industry). Almost as a rule FDI in the service sector is mainly aimed at supplying the domestic market and is therefore affected by its size (Kotios, 2001). Per capita income as well as population are ways of measuring the size of a market (Letsou & Pantelidis, 2020). 5) Tax policy and tax exemptions: Governments of countries through the implementation of tax policy and tax incentives tend to attract FDI. More specifically, the tax policies followed are related to economic integration and businesses use different tax regimes in conjunction with the removal of trade barriers due to economic integration. Ludema and Wooton's (2000) analysis states that creating economic integration either by increasing labor mobility or by limiting trade costs will have a negative effect on tax competition because we are moving towards higher taxes. 6) The state of internal financial markets such as banking and capital markets, coupled with the exchange rate regime and exchange rate stability are taken seriously by foreign investors. The more developed the banking system and the stock market, the easier it becomes to finance businesses. Moreover, freedom in the outward movement of capital, repatriation of profits and exchange rate stability reduce financial and exchange rate risks and improve the overall economic environment of a host country (Kotios, 2001; Galanos & Poufinas, 2018). 7) The existence of developed infrastructures and networks as well as organized business reception areas. Transport and communication infrastructures, energy networks, the existence of industrial areas, the quality of the environment and environmental infrastructures, etc. positively affect investment attraction. 8) Exchange rate: Exchange rates are an important determinant of FDI. Changes in exchange rates may affect investors holding FDI because these investments are long-term and reduce investment flexibility when the exchange rate changes. Such changes may affect the overall investment as well as the costs associated with their implementation. 9) The existence of mutual investment protection agreements and double taxation avoidance agreements between the country of origin of the FDI and the host country positively affects the undertaking of the investment. 10) FDI pre-existing is a means of obtaining information from previous foreign investments, so as to limit the risk of the investment (Kotios, 2001, 2002). In the first half of 2024, OECD FDI equity inflows started to increase again, after three consecutive weak semesters, but this masks a composition effect (Figure 3) (OECD, 2024).

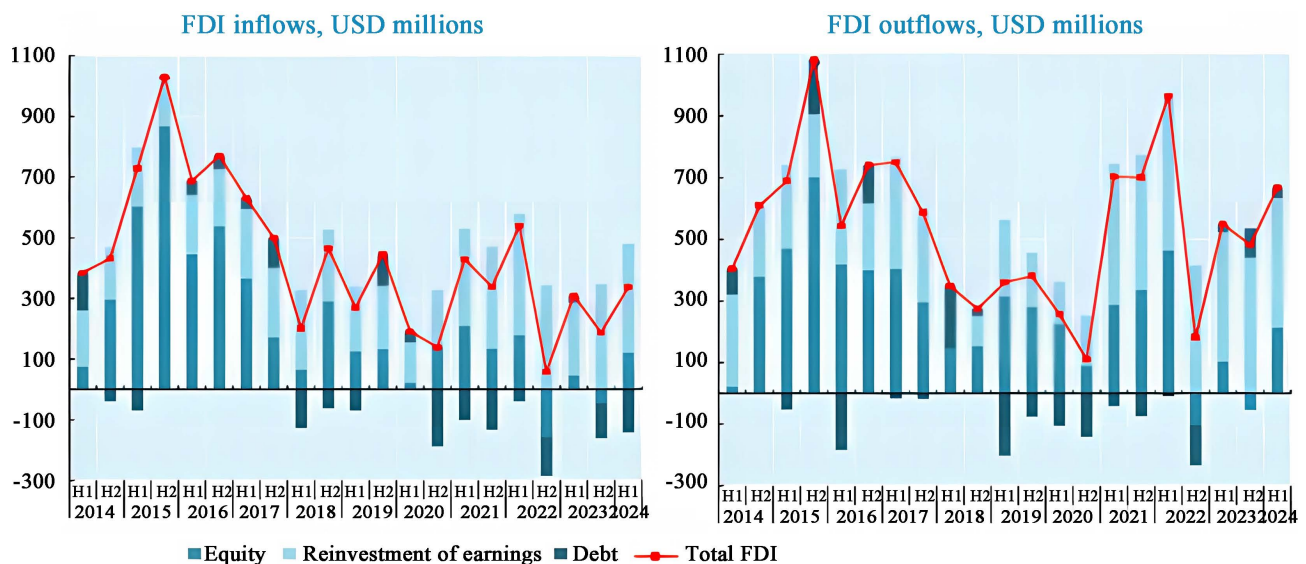
3. Foreign Direct Investments and their Consequences and Results in the Host Country and in the Country of Origin

An important topic of study concerns the consequences that Foreign Direct Investments bring to the economies from which they originate and to those to which they are addressed. These consequences are discussed in this subsection

3.1. Consequences in the Host Country

A series of important features that FDI may greatly affect the economy of the host

country are the wages of workers, general productivity, the volume of exports, the development of the sectors in which the companies carrying out FDI are active, but also the rates of growth and development of developed and developing countries respectively (Blomstrom & Kokko, 1998). Although they are not the only aspects of the impact of FDI in an economy, they are the most important in terms of the economic aspect, which is why they are further analyzed below (UNCTAD, 1999, 2003, 2006).



Source OECD (2024).

Figure 3. OECD area FDI flows by instrument, Q1 2014-Q2 2024.

3.1.1. Salary Level

According to numerous research studies, foreign companies usually offer higher wages in the host countries when investing than local, domestic companies. This refers to both developing and developed countries, and includes all industries. This phenomenon, of being able to pay higher wages, has several reasons for its existence. First of all, third-country firms tend to enter sectors of a foreign economy that inherently involve high-quality human resources, and thus wages. So, if the general picture of the labor market is analyzed, the component of the influence of foreign companies on it is not negative. Any form of non-negative influence of newly entering entities on the country's wage structure can be attributed either to wages of the workers of the foreign firms themselves, so it is a positive effect on average wages, or it actually drives domestic firms to wage increases, so it is a horizontal positive influence on the wages of the country reception. After all, the entry of new firms reduces unemployment, increases labor demand, thus increasing labor market competition to the benefit of workers (Cheng & Kwan, 2000).

3.1.2. Productivity Level

The experience to date from similar research shows that productivity increases in

foreign companies in a country compared to local ones. This fact has multiple possible explanations (Barrios et al., 2002). It may be due to the existence of a technological and in general cognitive advantage of the parent company of the foreign company, which it also exploits, or there may be some advantage in the toolbox of the foreign company regarding administrative functions, such as general management, marketing, etc. Of course, another possible explanation is that, upon entering the local market, the foreign parent company made sure to acquire as many productive units as possible in the industry it operates in, thus leaving the less productive units in the hands of domestic owners. An important question that arises, analogous to the previous subsection, is whether this high productivity of foreign companies spreads to the local economy, increasing the productivity of domestic companies. The mechanism through which this could happen is technology spillover, i.e. the transfer of technological advantages and other related knowledge assets of the foreign company to the domestic ones. This can be achieved by various methods, the simplest being the “mere” leakage of information, intentionally or accidentally, from the foreign firm into the immediate competitive environment. Another method, which concerns very sophisticated processes, is reverse engineering, i.e. the attempt to discover the production methodology of a product by observing and analyzing it (Blomstrom & Kokko, 1998). Finally, the synergies developed by a foreign company with local suppliers can secure part of their knowledge assets to these suppliers, who by taking advantage of this new knowledge can overall strengthen their production processes, but also supply domestic companies with improved products and even some of the know-how they acquired. In these ways, a domestic firm can use the toolbox of a foreign firm and stand alongside it in competitive matters (Barrios et al., 2002).

3.1.3. Level of New Branch Exports and Inputs

FDI greatly affect local economies and one of the most important contributing factors of FDI. In these is the introduction of entire new industries into destination countries. It is generally believed that foreign firms influence local economies by shifting overall production more towards more marketable products, as having international experience, foreign firms know what these are. In this way, host markets not only substitute high-value imports with local production, but also become net exporters. In fact, empirical studies show that the greater the export activity of foreign firms, the more likely it is that domestic firms will also exhibit export activity (Blomstrom & Kokko, 1998; Chakrabarti, 2003).

3.1.4. Level of Development of the Country

The main obstacle to its development, which a developing country faces, according to Romer (1993), is the lack of knowledge and know-how. For this reason, the establishment of measures to attract multinationals through the facilitation of FDI is considered a particularly important policy. From countries where there are abundant property advantages, with the ultimate aim of gradually diffusing this knowledge wealth into the local economy and domestic enterprises. In general,

empirical research has not proven the net positive influence of FDI. In the development of a country, although there are the indications mentioned above, nevertheless some of the researchers of the subject consider the rapid development through FDI. It can lead to rapid obsolescence of the advantages of the destination country, leading to phenomena of technological and ultimately economic instability (UNCTAD, 1999).

3.1.5. The Increase of Investments and the Formation of Invested Capital in the Host Country

During the investment, there are multiplier benefits for the entire economy of the host country. The more local inputs are used in the investment, the stronger the multiplier effects. The increase of the invested capital expands and increases the productive capacity of the country's reception.

3.1.6. The Positive Development Effect with the Increase in GDP

Which arises after the start of economic activity. The production of goods and/or services results in direct effects on growth of the economy. At the same time, it is achieved by increasing the host state's revenue through taxation capital, profits, and indirect taxes and fees.

3.1.7. The Expansion and Intensification of Internal Competition through Emergence of New Competitors

These benefits are strong when the domestic market is relatively closed to import competition and when you are dominated by monopolies, oligopolies or other forms of limited competition (UNCTAD, 1999).

3.2. Consequences in the Country of Origin

The influence of FDI in their country of origin has not been researched as much as the corresponding influence in the host countries, with the main effects of FDI in the country of origin to do with exports, employment, domestic investment and the diffusion of technology and knowledge.

3.2.1. Export Level

Most studies have considered the whole set of data, concluding that home country exports act as a complement to FDI, precisely because of the aggregated data, as different firms may decide on different ways to internationalize. So, it was expected that even if there is no complementarity between FDI and exports of the country of origin, there was a high probability of finding positive FDI correlations. and exports. For these reasons, empirical studies carried out at the company level are considered more appropriate, thanks to which it was found that the relationship between FDI and exports is controversial Helpman (1984) and Pontes (2004).

3.2.2. Employment Level

In the opinion of many scholars, even if the FDI do not affect the exports of the country of origin, there could be an influence on the demand for workers and their wages, mainly due to the changes caused in the distribution of intra-firm

production (Cheng & Kwan, 2000). The above is confirmed to a large extent by the empirical studies regarding US multinationals, which show that as FDI increases, that originate in the United States and go to developing nations, the more labor-intensive American production appears (UNCTAD, 1991, 2000).

3.2.3. Level of Domestic Capital Investment

Another question that has arisen during the study of FDI is whether they are able to substitute or contribute to the increase of potential investment projects in the country of origin. It is common for Foreign Direct Investments to cause a wave of concern in the countries from which they originate, regarding the possibility of declining domestic investment. This is, however, not unfounded as entities, due to FDI, limit their available capital. In general, there is no clear research effect of FDI in the investments of the country of origin, since the realization of FDI is likely to bring about an upward trend in the cost of a company for subsequent investment moves inside the country, but at the same time there is a margin for FDI. These generate enough profits to increase available investment resources in the country of origin (UNCTAD, 1991, 2007).

3.2.4. Technology and Research Level

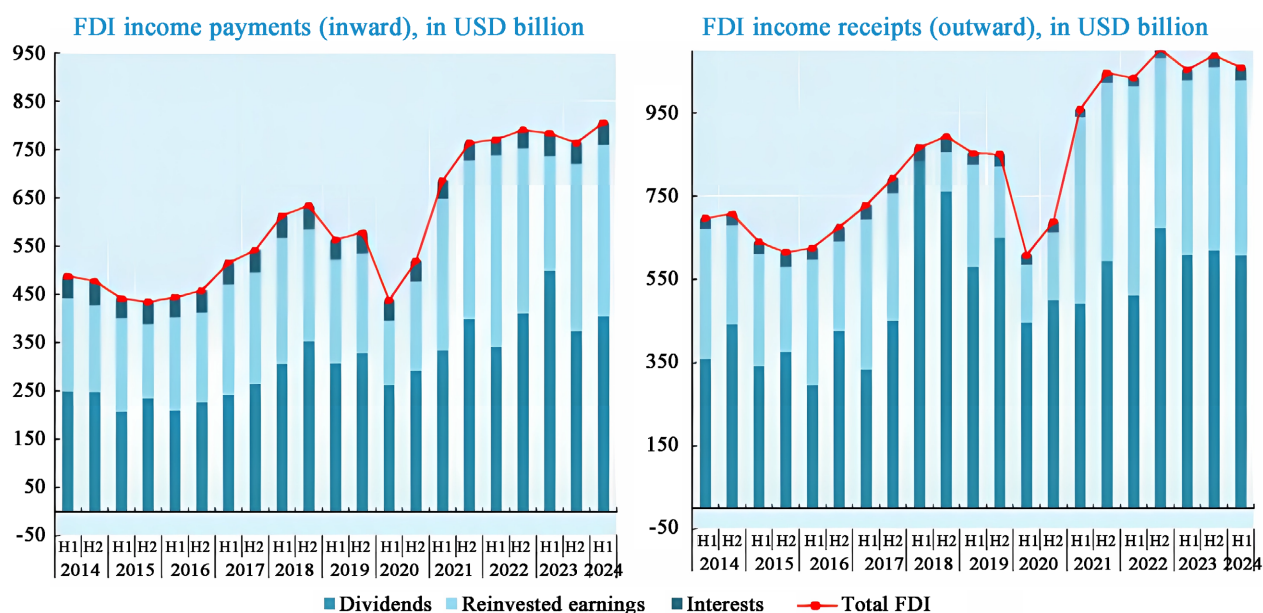
There is always the possibility that the country that will invest has access channels through FDI. The knowledge that exists in the destination country in this way presents a reverse channeling of knowledge and technological progress (Blomstrom & Kokko, 1998). Although there are not enough empirical studies on reverse technological spillovers, there is the case of knowledge transfer to the company making the investment, with the result that more auxiliary reports are observed internally with a reverse direction backwards, from the country of destination to the country of origin, with the recipient being the parent company.

4. Foreign Direct Investments and Emerging Economies

While the effects of FDI on host economies remain an important topic of scholarly research, the policy position has generally shifted from being more cautious in the 1970s, bringing to the fore a variety of conditions regarding this form of investment, which respectively influenced internationalization patterns and strategies in a much more favorable position, which is chronologically placed from the 1990s onwards. These policies emphasized the strengthening of investments, but also the creation of the best possible framework conditions for foreign investors, including the provision of infrastructure, fast track bureaucratic processes and various forms of subsidies and tax measures (Gammeltoft, 2007). It is interesting that today the countries of OECD have begun to develop policies to provide the same incentives to emerging and developing economies planning outward investment in OECD countries (Gammeltoft, 2007). According to economic theory, FDI inflows to a developing country increase its equity capital and increase the host country's productivity, output, employment and incomes (Blomstrom et al., 1996).

In addition to these direct effects, the literature suggests that further increasing efficiency in the host economy is due to increased competition and discipline produced by foreign firms, technological and managerial diffusion, and learning effects in local society (De Mello, 1997; Huang, 2004; Hirschman, 1958). The relevant financial flows are usually considered secondary to the transmission of ideas and technological, organizational and business knowledge. This transmission takes place through the acts of Foreign Direct Investment, i.e. production, employment, capital investment and R&D of multinational companies. It is carried out horizontally in the industries in which MNCs operate and vertically across industries to suppliers and customers, and from industries to consumers (Lipsey, 2001). Export-oriented FDI can also promote exports and economic growth by establishing assembly plants and providing access to international export markets (Aitken, Hanson, & Harrison, 1997; De Mello, 1997; Zhang, 2001). Most contemporary analyzes and national development strategies tend to emphasize the positive potential inherent in Foreign Direct Investment, and the successful combination of foreign technology transfers with export marketing has translated into a general case of strategies that seek to exploit foreign sources of technology (Wade, 1995; Lall, 1995).

FDI income consists of a foreign investor's share in the earnings of its affiliates and net interest from intercompany debt. Changes in earnings reflect changes in profitability of the investment. Earnings are further broken down into dividends and reinvested earnings. FDI income payments and receipts, as well as their components are estimated using data reported by OECD countries. In the first half of 2024, FDI income payments in the OECD area increased by 5% compared to H2 2023 (Figure 4) (OECD, 2024).



Source: OECD (2024).

Figure 4. OECD area FDI income by component, Q1 2014-Q2 2024.

5. Conclusion

Foreign Direct Investment (FDI) is one of the most important factors in a country's economic development. For this reason, almost all countries in the world seek to attract them, in the context of a particularly competitive investment environment. In recent years, there has been an increase in investment from emerging and developing economies. A closer look at the characteristics of FDI revealed changes in investment incentives, ownership patterns, sectoral composition and destinations. These changes are significant enough to warrant the creation of a new and qualitatively different wave of outward FDI (Gammeltoft, 2007). As for the modern developments of FDI, it is found that these have increased dramatically in the last 15 years, surpassing the international growth of trade and income even though they were affected by various crises such as COVID-19 (UNCTAD, 2023). Another characteristic of international FDI is that FDI comes mainly from developed countries. Since outward FDI is a component of globalization, one would expect it to improve home country efficiency. This is certainly the conclusion regarding outward FDI from developed countries. However, it can be argued that the links between outward FDI, globalization and real income growth in developing countries are not as simple or as significant as in the case of developed countries. In particular, the benefits of technological and knowledge transfers are weakened in the case of developing countries by limitations in their absorptive capacity. At the same time, it is worth mentioning that mergers and acquisitions are the main form that FDI takes, especially in the case of high-income countries, while most FDI is concentrated in industrial sectors that are skill and technology-intensive (UNCTAD, 2015). The literature was selected and reviewed by the aforementioned researchers and studies in order to investigate the concept of FDI in its entirety. Through the comparative analysis, it emerges that Foreign direct investment inflows increase the invested capital, productivity, production, employment and income in the host country. Foreign direct investments that are export-oriented can also promote exports and economic growth. This point of view is the comparative advantage of this form of investment. Through the literature review, it is found that the most common forms of FDI are greenfield and M&A, in case that through these forms' companies set up or expand their business operations abroad, creating brand new jobs and assets through financial transactions between companies. It is noted that developed countries are still investing in the rest of the world, with the result that outward FDI is higher than inward, while another case that is considered for the determinants of outward FDI is given as an example for this assessment of data time series for developed European countries and countries outside the European Union. Also worth mentioning regarding the counter-cyclical effect of FDI in an economic cycle is the interdependence of the macroeconomic indicators of this cycle, i.e., unemployment, inflation and GDP, but also how these indicators affect them and how they affect them as a whole (Efthimiou, 2024a). As was found out from the research, global FDI flows rebounded to USD 802 billion in the first half of 2024. Much of the increase came in the first quarter

of 2024 when they more than doubled, whereas global FDI flows dropped by 36% in Q2 2024. FDI inflows to the OECD area increased by 80%, but this is mainly the result of upswings from large disinvestments in the Netherlands. Excluding FDI flows received by Luxembourg and the Netherlands, which highly fluctuated in recent years, OECD FDI flows were down by 14%. FDI flows into non-OECD G20 economies dropped by 19%, as FDI flows in the People's Republic of China continued to decline in a context of geopolitical risk and economic policy uncertainty impacting foreign investors' confidence. There was a marginal rise in cross-border mergers and acquisitions in advanced economies, as they went up by 16%, amidst a resilient global economic context. Capital expenditures of announced greenfield investment projects experienced a significant decline in emerging markets and developing economies, hitting their lowest quarterly levels over the past two years in Q2 (OECD, 2024). The search and recording of FDI sizes by country or by industry categories, in combination with the effects of factors on FDI that have recently been formed in the investment environment, could be a trigger for future research.

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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