

# Foreign Direct Investment (FDI) in the Context of Trade and Economic Development

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## Abstract

*Foreign Direct Investment (FDI) is a driving force of globalization and an important engine of economic growth. Historically, developed countries pioneered by transnational (TNC) or multinational corporations (MNC) benefited immensely by FDI and developing countries via public policy measures increasingly began to seek and attract FDI due to its many advantages for economic development. FDI not only brings capital to an economy, but also transfers knowledge, technology, managerial skills, and best practices. It also generates employment and advances trade. Foreign direct investment has played a critical and growing role in the global economy, assisted by accompanying absorptive capacities. To a host country, FDI promises a source of new resources and new technologies that could spur national economic growth and development in various sectors. Evidence of FDI influence on economic growth figures prominently both in theoretical and empirical studies, focusing on a large number of developing nations; among them cited in the paper are strong growth in regional FDI inflows in South, East & S-E Asia, e.g., China, India, Malaysia, and Sri Lanka. To a home country TNC or MNC, FDI offers the promise of new markets, a mode-of-entry beyond exporting and less expensive export-led production facilities. This current paper draws on reports, findings and reviews, and relies on the existing FDI statistical systems, reported by the UNCTAD World Investment Report 2009, World Investment Prospects Survey 2009, IMF, EIU, among others cited, to examine the various issues related to FDI definitions, trends, perspectives, policies and significant operations during the past two decades, the decline during the global economic crisis (2007-2009), and prospects for 2010-2011.*

**Key terms:** FDI, International Production, Economic Growth, absorptive capacity, competitiveness, productivity, TNC/MNC, BRIC, BRICKS(Brazil, Russia, India, China, Korea, South Africa) TRIAD's JUG(Japan, USA, Germany), CHINDIA (China and India) and Sri Lanka BOI & FDI.

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