Guest editorial: The double-edged sword of inward FDI for the growth and sustainability of emerging, developing, and under-developed economies

1. Introduction

According to UNCTAD estimates (UNCTAD, 2007, 2011, 2020), after accounting for fluctuations based on economic conditions, the stock value of (outward) foreign direct investment (FDI) transactions grew from U$1.8tn a year in 1990 to U$6.2tn in 2000. The figure in 2006 continued growing to U$12.5tn, doubling that in the year 2000, and worldwide FDI activities have continued to expand since, increasing to U$20.4tn in 2010 and again to U$34.6tn in 2019, with a subsequent decline due to COVID.

Despite the plausible theoretical ground upon which one might anticipate positive contributions (e.g. economic growth, innovations, institutional development, the progress of artificial intelligence, etc.) of inward FDI (hereafter, FDI) to emerging, developing and underdeveloped (EDU) countries, the role of FDI remains a highly controversial issue (Reiter and Steensma, 2010). While some studies have shown that FDI has a positive impact (e.g. Adams, 2009; Salim and Bloch, 2009; Vu, 2008; Woo, 2009), others have failed to find such relationship (e.g. Barry *et al.*, 2010; Strobl, 2005; Djankov and Hoekman, 2000; Jin and Zeng, 2017). Meanwhile, researchers in a third group say that there are specific conditions under which FDI yields positive outcomes.

As evidenced by the existing research, we do not yet know enough about the double-edged sword of FDI, which may have both bright and dark sides. According to a UN (United Nations) report (2017), the 1990s was characterized by an acceleration of the globalization process. However, in terms of economic growth, just a few developing countries far outperformed other economies. Contrary to that trend, at the beginning of the new millennium, a larger number of emerging economies experienced firm economic growth, thus allowing for a reduction of the income gap with respect to developed economies. Moreover, the pace of growth in per capita GDP differed for different groups of EDU countries until the 1990s, but all of them were experiencing faster growth in some sort of "catching up" process with advanced economies from the onset of the millennium. Along with the current of the times, some relevant issues attracted substantial scholarly attention, which include the potential causality between FDI and development, the potential role of FDI in increasing productivity (as well as the role of FDI in promoting growth and sustainability), the process of technology transfer and knowledge spillover through FDI and the specific problems that EDU countries face in attempting to use FDI as a springboard to leapfrog into better economies (Kim and Park, 2017; Park and Ghauri, 2011). However, such works also highlight the importance of the empirical context, and the need to bring theory to bear to ensure that findings are generalizable.

2. Papers chosen for the special issue

The aim of the first paper, written by Haini, Wei Loon and Raimi, is to investigate whether diversified economies can enhance the growth effects from FDI. "Diversified economies" is a

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term that refers to countries experiencing changes toward a more varied structure of economy. Based on empirical experiments that used a data set of 15 Economic Community of West African States (ECOWAS) from 1995 to 2020 uncovers three particularly interesting phenomena:

(1) First, FDI does not have a positive and significant relationship with growth for ECOWAS countries, and a possible reason for which is because their institutional voids and the insufficient stock of human capital may prevent these economies from fully using benefits from the inflow of foreign technologies.

(2) Second, countries that fail to achieve economic diversification specifically suffer from considerable dependency on primary product exports, which can potentially result in crowding-out effects and deteriorating terms of trade balance. This result means that diversification is highly associated with growth, thus shedding light on the importance of industrial policy.

(3) Third, the marginal effects of FDI are found to positively and significantly promote growth when the ECOWAS economies minimized their diversification and pursued high levels of export concentration, which highlights the need for a careful design of export production structure to maximize the link between FDI inflows and economic growth.

The second paper, authored by Oberhauser, attempts to investigate the influences of Chinese firms' FDI on the Belt and Road countries (BRCs). By using postcolonial theory and neocolonialism, it particularly identifies the dark side of inward FDI in the countries. As it can be very difficult to acquire adequate data on the Belt and Road Initiative (BRI) and its projects, this study used a mixed-method approach. His findings suggest that the combination of both "Chinese firms" big-ticket investments into key industries, such as energy and infrastructure and "the BRCs" inability of paying back loans may end in a situation where China ultimately gains control of these assets.

The third paper is an empirical study by Liu, Bae and Lee that tries to examine the effects of inward FDI on innovative entrepreneurship. Using a database of 30 Chinese provinces between 2010 and 2018, they discover that central China is the main beneficiary of the inward FDI, and that it has a significant positive effect on innovative entrepreneurship. By contrast, no such impacts are shown in the eastern and western regions. Eastern China has experienced considerable institutional evolution since the implementation of Chinese economic reform; based on this context, the authors argue that the strong protection of intellectual property rights enforced by the Chinese government has triggered decreases in the positive spillover effects of inward FDI and slowed down changes to innovative entrepreneurship in the region. Meanwhile, regarding the inflow of foreign investments, the western region is still a vacuum state, so the positive influences of inward FDI are logically minimal.

The fourth paper by Wang and Xiao deals with the contributions of FDI to global value chain and supply chain management. When considering the importance of the topic, the authors argue that the scant scholarly attention paid to it is surprising, and they attempt to build a story on the framework of the technology-organization-environment and the resource-based view. Under this premise, they theorize and develop a comprehensive model to illustrate how FDI undertaken by multinational corporations (MNCs) can upgrade the global value chain and supply chain performance in an emerging market context. According to their findings, catalysts that positively accelerate the development of firms' supply chain management capabilities are the level of the advancements of digital technologies in a host

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market and the diversity of suppliers, and that environmental uncertainty also interestingly contributes to the enhancement of the same capabilities. Local firms' supply chain management capability also plays a pivotal role in enhancing the contributions of FDI to the global value chain upgrading and improving supply chain performance. It is presumed that, to make a positive and influential contribution, MNCs must have a good understanding of the potential repercussion of their value chain activities.

The fifth paper by Hong, Shin and Zou assumes that cross-border mergers and acquisitions (CMAs) are a new conduit for emerging economy firms (EEFs) to elevate their technological capabilities. Building on dependence theory, they design a research framework to examine the impacts of CMAs conducted by EEFs on their technology augmentation *vis-à-vis* matched domestic M&As (DMAs) deals. Based on 266 CMAs and 266 matched DMAs cases between 2003 and 2011, their empirical findings exhibit that EEFs achieve better technology augmentation through CMAs than DMAs, which indicates that FDI is a vehicle to strengthen EEFs' technology and innovation capabilities. They also find that the positive effect of the EEFs' FDI is enlarged in cases where CMAs are pursued in advanced economies. The positive effect is even more amplified if the targets possess high stock of human capital and superior innovation capability.

The sixth paper authored by Moore, Brandl, Doh and Meyer analyzes the long- and short-term impacts of inward FDI in developing economies. In their study, an overarching FDI motivation is natural resources-seeking investments. By using 570 land acquisitions across 90 countries between 2000 and 2015 and adopting a generalized least squares (GLS) regression technique, the authors show that natural resource-seeking FDI reduces agricultural employment opportunities in the short term. However, with time, labor markets adjust to the initial disruptions, and the negative effect subsequently turns positive in the long term. The authors further argue that through MNCs' natural resources-seeking investments, alternative job opportunities can also arise in economically stronger countries. Overall, their findings show that these outcomes lead to foreign investments significantly influencing rural populations in host countries.

The paper by Dang and her colleagues intends to investigate the influence of cultural distance between foreign and local firms on innovation performance in the context of inward FDI. In examining this phenomenon, they used both organization learning theory and the loose coupling perspective as the root of their research framework. In particular, they pay attention to the fact that general scholarly agreement has yet to be reached in the research domain as to whether inward FDI accompanies knowledge spillovers in host emerging markets. They point out that the reason behind the failure to reach such an agreement primarily stems from cognitive misjudgments whereby the cultural environments behind transnational knowledge transfers have not been adequately reflected in empirical examinations, which became the main motivation of their study. By using panel data of Chinese manufacturing firms from 2005 to 2011 and the negative binomial regression models, the findings of their paper reveal that, unlike the common supposition that cultural distance may play a barrier role in bringing about knowledge spillovers in local regions and industries, cultural distance has a positive impact on the innovation output of local firms. They also discover that the positive effects are strengthened when the competition between foreign and local firms is cutthroat. In this vein, the authors suggest that local firms should try to build a coupling relationship with foreign firms by moving closer to them, which will escalate the spillover effect of foreign investment and optimize the absorption effect of local firms.

The final paper, by Choi and Kim explores the interactions between FDI, ODA and growth. They highlight the heterogeneous nature of this relationship, building on similar

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analysis by Driffield and Jones (2013). They illustrate that FDI inflows have a positive effect on growth for all developing countries, but that aid only benefits the poorest, in terms of stimulating GDP. In turn, they highlight the role of human capital in this relationship. The results highlight the need for ODA to be better targeted at the poorest countries, but also highlights the need for further research on the circumstances under which aid crowds out or crowds in FDI.

3. Suggestions for future research avenues

Taken together, then findings of this special issue suggest three main potential areas of research:

First, although the double-edged characteristics of FDI have long attracted considerable attention from development scholars, we might have overlooked a possibility wherein the influence of FDI on EDU economies can differ according to local governments' willingness for economic growth. For example, one may ask about if there is a government that does not wish to achieve economic growth, but in fact, many governments – particularly in EDU countries – are deeply involved in corruption and commonly show corrupt behaviors. However, government corruption erodes the trust of MNCs toward its policies in local markets while also impeding economic development and further exacerbating poverty, inequality and social division, which subsequently reduces the positive effects of FDI. In addition, the presence of a corrupt government substantially weakens democracy, so political stability may not continue in those EDU countries. We believe that no one may deny that political stability moderates the relationship between inflows of FDI and local development in that political vulnerability cannot accelerate national development, which points to the role of local government in enhancing economic growth through attracting foreign investment.

Second, many development scholars argue that interactions between FDI and human capital in local markets function as a vehicle to obtain economic growth (e.g. Anetor, 2020; Li and Liu, 2005). In other words, they often emphasize the sufficient stock of human capital in EDU countries as a prerequisite to bringing about the positive effects of FDI. However, such scholars seem to look at the phenomenon merely in terms of human capital *per se* without properly considering the stage of development in EDU economies. For instance, we posit that an experiment exploring technology intensive FDI in emerging economies (e.g. Taiwan) that have accumulated a high level of human capital may draw the anticipated picture (i.e. showing a significant catalyst effect of human capital on the relationship between FDI and economic growth), while the results from such FDI in sub-Saharan Africa may be differ. In a similar vein, labor intensive FDI in emerging economies may be less likely to generate an empirical outcome in the expected direction, but that type of FDI may indirectly promote growth via its interaction with human capital in underdeveloped countries. This implies that, to produce an exact analytic result, research of the interaction effect of FDI with human capital on economic growth should be undertaken in conjunction with considerations on industrial development stage in host economies. However, our explanations remain at the stage of conjecture without further examination.

Third, we typically presume that inward FDI may exert a negative effect on economic growth in the case where MNCs refuse to reinvest their profits in host economies and remit them to headquarters, which leads to capital evaporation from EDU countries. Moreover, such capital evaporation might be maximized in the long-term (i.e. capital gains through FDI may perhaps be minimal in EDU countries) if MNCs target a host country itself and earn most of the profits from the local market. This comment clearly indicates that scholars should divide inward FDI into two categories (i.e. FDI aiming at local domestic markets vs

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FDI intending to use local countries as export bases while targeting neighboring economies) to precisely investigate the relationship between FDI and host economic growth. To reiterate, with respect to the relationship in question, development studies have long yielded incongruent and mixed findings, one of the main reasons for which is failure to notice the heterogeneous characteristics of FDI. Of course, we acknowledge that all FDIs to some extent pursue both avenues of profit maximization. However, the ratio can differ in each FDI. As a future research avenue, scholars must accurately sort out this ratio so that we may end this long historical debate.

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