

The patterns of direct foreign investment in developing countries and its impact

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One of the most significant trends in the developing world is the growing importance of the foreign direct investments. Not only it is increasing in volume but it is also assuming new directions and raising new issues in the relationships between host governments and foreign investors.

Direct Foreign Investment plays an important role in the economic development of the developing countries. In the past, Direct Foreign Investment was obtained mainly from the Western Industrialized Countries such as the United States and Britain. Since late 1980 however intraregional direct investment has been growing rapidly. In developing countries, the supply of capital remains inadequate because savings are meager. This in turn acts as a constraint on economic development. When the state is incapable of meeting the capital requirements necessary for development, the private sector comes in as an alternative. However, in those countries where the capital markets are not quite developed, the capacity of the private sector to pump in capital for development is minimal. This inadequacy of the private sector in turn gives rise to a situation where it is forced to depend on foreign capital. When a country suffers a resource or saving gap it also confronts a foreign exchange gap that has be filled with an inflow of foreign capital. Although there are several ways in which foreign capital could be obtained direct foreign investment is the most desirable. During the past decade the importance of direct foreign investment in the developing world has shown a steady increase.

This paper examines the significance of Direct Foreign Investments, the patterns of Direct Foreign Investments and their inherent characteristics, and Benefits and Costs of Direct Foreign Investments.

Key words: Direct foreign Investments, Developing countries, Economic development, Benefits and costs , Financial economics.

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