

Global Trends in Foreign Direct Investment: Findings from Bibliometric Analysis for Policy Recommendations

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ABSTRACT

Introduction: Foreign direct investment (FDI) is a crucial aspect of Global Value Chains (GVCs) and is recognized as a key driver of global economic growth. However, there has been a notable decline in investment activity, with a 10% drop in FDI compared to 2022. Current geopolitical tensions may contribute to the decline in FDI, but a closer examination reveals that the reduction is widespread across all sectors and countries.

Objectives: This study delves into the current trends surrounding FDI and identifies the key factors that countries prioritize in their efforts to attract such investments. It aims to investigate which nations and institutions are directing more attention to FDI, as well as the sectors that organizations should focus on to enhance their capacity to secure additional investment.

Methods: The bibliometric analysis data was sourced from the Scopus database. A comprehensive review of 241 papers was conducted for this study through PRISMA method.

Results: The findings reveal that North America, China, Canada, and India emerged as the most interconnected hubs, establishing a significant research center for foreign investment. The United States and Canada were noted as the most productive countries, underscoring their global prominence in this field. The theme of globalization is gaining traction, emphasizing the necessity for sustainability in investment practices. However, geopolitical tensions have been identified as a major factor contributing to the decline in FDI.

Conclusions: Policymakers are encouraged to adopt strategies to incorporate emerging themes such as sustainability and technological advancement to regain lost market share. Collaborating with leading researchers from countries like Canada and Australia can aid in identifying and implementing best practices to foster a more conducive investment environment. Focus on manufacturing sectors and trade liberalization policies can consistently attract more FDI. Thus ensuring the economic stability of the country..

Keywords: Foreign Direct Investment (F21), Global Value Chains (F23), Sustainability (Q56), Globalization (F62), trade liberalization (F13).

INTRODUCTION

Foreign Direct Investment (FDI) is a crucial aspect of any economy, contributing to its development by attracting more investments (Mehic et al., 2013). FDI occurs when an institution invests in a foreign country, where the investing nation is termed the home country and the nation receiving the investment is known as the host country.

Established FDI theories suggest that investments tend to flow from developed countries to developing nations (Faeth, 2009). To encourage more FDI, developing countries are striving to create a better industrial environment (Mataloni, 2011). This influx of investments can lead to primary employment opportunities, infrastructure development, and technological advancements, all of which contribute to the nation's growth (Asiamah et al., 2019; Rehman et al., 2020). Developing nations that offer superior infrastructure and sound governance policies tend to be more attractive to investors. Additionally, these countries often provide cheaper labor and favorable manufacturing conditions (Soumaré, 2015).

However, there has been a notable decline in investment activity, with a 10% drop in FDI compared to 2022 (Unctad, 2024). Despite improvements in the ease of doing business and the establishment of a one-window system for registrations and other formalities, FDI flows have still decreased. Even major FDI recipient countries have seen a reduction in their share of investments in 2024. Notably, the sustainable sector is also experiencing a downturn in investment. Additionally, a noteworthy aspect of this decline is its impact on the sustainable sector, which has also witnessed a downturn in investment. The sustainable sector, which includes industries focused on renewable energy, sustainable agriculture, and eco-friendly technologies, has gained momentum in recent years as investors increasingly sought to align their portfolios with environmental, social, and governance (ESG) criteria. The downturn in this sector could indicate a retreat from some of the progressive approaches companies and investors had begun to embrace, potentially stalling advancements in sustainability initiatives globally.

Current geopolitical tensions may contribute to the decline in FDI, but a closer examination reveals that the reduction is widespread across all sectors and countries. This suggests that geopolitical issues cannot solely account for the decreased FDI receipts. Therefore, there is a pressing need to shift focus toward emerging FDI trends and identify the factors influencing countries' ability to attract investments. The study aims to explore which countries and institutions are prioritizing FDI, as well as the areas that organizations should emphasize to secure more investments.

LITERATURE REVIEW

FDI plays a crucial role in the development of a nation's economy. Understanding the determinants that influence FDI is essential for policymakers aiming to attract greater investment. Economic stability serves as a key factor in enticing foreign investors (Subramanian et al., 2010), as it ensures the long-term viability of businesses and reduces the associated risks. Market size is another significant attraction for FDI; an expanding market share can lead to higher profit margins for businesses (Gao, 2005). Market-seeking behavior is a primary motive for foreign investment, as it opens access to a larger customer base (Aykut et al., 2003). Additionally, liberalized trade policies facilitate easier market entry, while free trade agreements often enhance investment by providing various benefits (Behera & Mishra, 2022). Trade openness can also stimulate the import-export activities of organizations, further contributing to economic growth (Murthy & Bhasin, 2015).

The manufacturing sector has emerged as a significant recipient of FDI due to its ability to lower production costs (Tham et al., 2018). Many investment decisions are driven by the cost-effectiveness associated with manufacturing (Mataloni, 2011). Additionally, the availability of unique raw materials serves as another incentive for the establishment of manufacturing units (Dunning, 1977). This collaboration benefits both the home and host nations, leading to advantages such as technology transfer, job creation, and increased productivity. Consequently, these activities contribute to overall economic development. Other sectors, including information technology, telecommunications, and finance, have also witnessed an increase in FDI (Cole et al., 2007). Investment in technology is crucial for a nation's development, and many countries are now looking towards developed nations for research and development opportunities and patents (Eden & Dai, 2010).

FDI plays a crucial role in Global Value Chains (GVCs). By facilitating the establishment of operations in the most appropriate countries, FDI ensures a seamless flow within GVCs (Behera & Mishra, 2022; Cantwell & Narula, 2001). Subsidiaries can be set up to meet the specific needs of the organization. These GVCs enhance networking and promote the smooth movement of materials and products across nations.

This study delves into the current trends surrounding FDI and identifies the key factors that countries prioritize in their efforts to attract such investments. It aims to investigate which nations and institutions are directing more attention to FDI, as well as the sectors that organizations should focus on to enhance their capacity to secure additional investment. This research will offer valuable insights into effective policies and practices that create a more conducive investment environment by analyzing the motivations driving FDI flows and the competitive advantages that foreign investors seek. Furthermore, it will explore the industries currently viewed as most appealing for inbound FDI and propose strategic initiatives to promote economic growth through increased foreign investment.

METHODS

Bibliometric analysis

The bibliometric analysis data was sourced from the Scopus database. The primary focus of the study was on FDI and its movement across borders. The research illustrates the relationship between FDI and its flow from one country to another. We conducted the analysis using R Studio. To identify relevant articles, we employed keywords such as FDI, IFDI, OFDI, FDI inflows, and FDI outflows. Ultimately, a total of 241 papers were selected for the study.

Data extraction and quality check

The full paper was obtained as a CSV file from the Scopus database and analyzed using Biblioshiny, a package in R Studio (Aria and Cuccurullo, 2017). The article selection process is illustrated in Figure 1. The documents were searched using specific keywords, with a focus on English-language publications. Only articles, conference papers, book chapters, and reviews were included in the study. After downloading these documents in CSV format for analysis, the examination was conducted through Biblioshiny, which serves as a graphical user interface for R. A thorough analysis was performed to identify the most productive countries, collaboration patterns among nations,

Figure 3. Annual scientific production

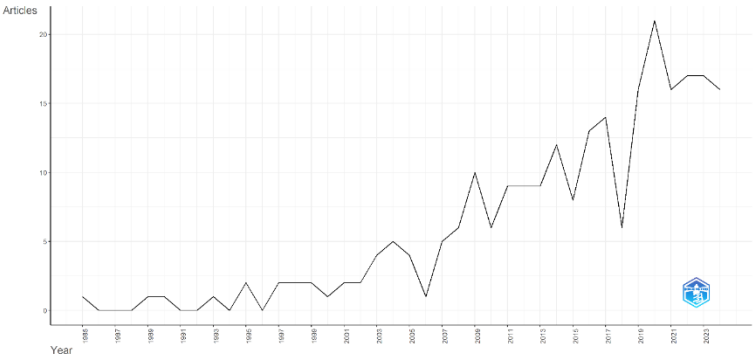


Figure 4. Three field plot on country, authors and keywords.

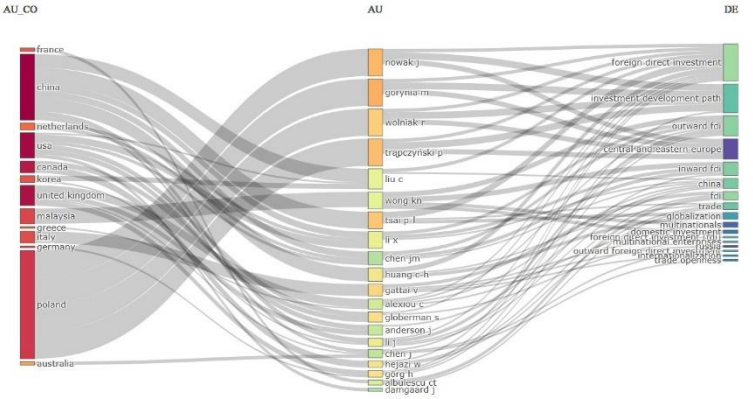


Figure 5. Average citation per year

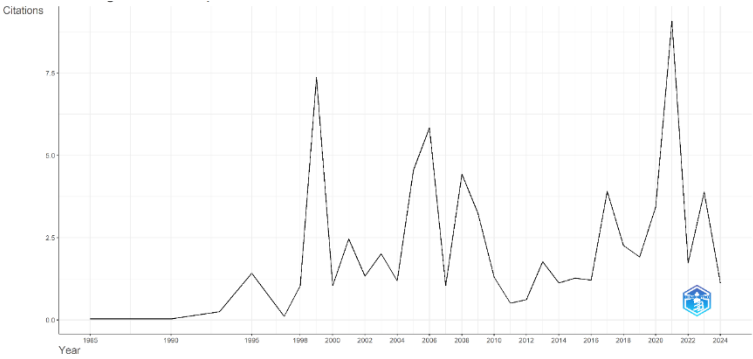


Figure 6. Most cited country

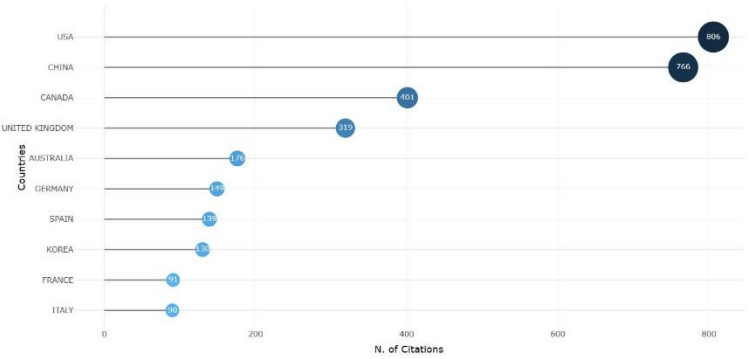
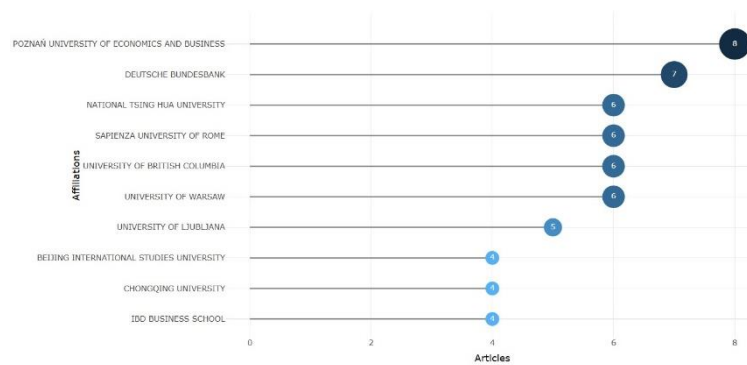


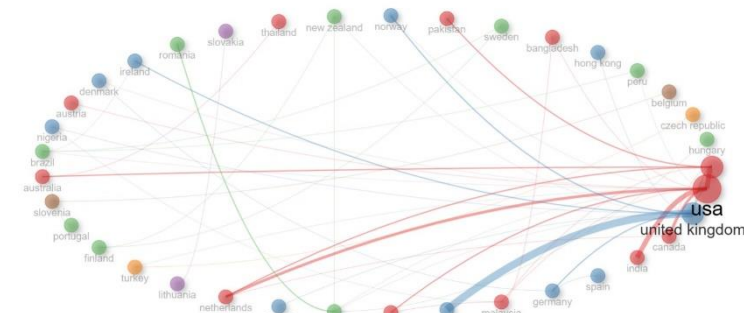
Figure 7. Most Relevant Affiliations



Collaboration among countries

Figure 8 illustrates the collaborative network among various countries. The thicker lines indicate stronger collaborative connections. The United States, China, Canada, and India emerged as the most interconnected hubs, establishing a significant research center for FDI. These countries serve as crucial bridges to facilitate connections with other nations. In contrast, Brazil and France function as regional collaborators, actively promoting their respective regions.

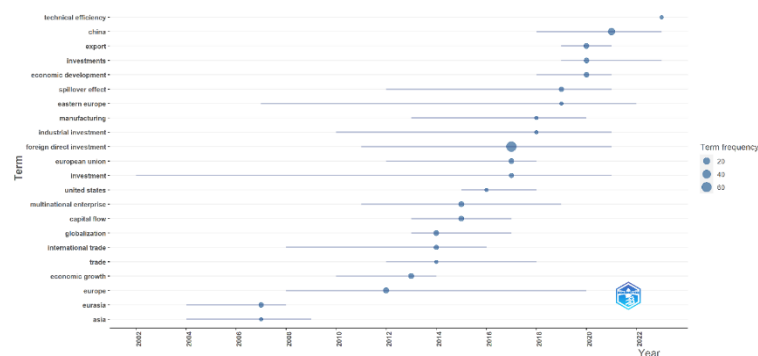
Figure 8. Collaboration network



Major topics emerging topics and trends

Figure 9 illustrates that investment has been one of the earliest topics of focus for long-term analysis. FDI plays a significant role in this emphasis on investment. Notably, the recent attention to technical efficiency indicates a shift towards prioritizing technological advancement. Furthermore, recent research highlighting China's importance in the global market is particularly noteworthy. FDI is also closely linked to economic growth and globalization. Studies on the spillover effect further confirm the impact of investments on economies. Additionally, Eastern Europe has emerged as a significant center for research in this area, with investment and FDI patterns in Europe being extensively examined.

Figure 9. Trend topics



FDI is primarily associated with economic growth, Europe, and multinational enterprises, highlighting its role in economic development and trade (see Figure 10). China emerges as another significant area of research, particularly regarding the spillover effects and investments. Environmental economics is gaining prominence as a theme, emphasizing the importance of sustainability in investment practices. Figures 11, 12, and 13 further illustrate the connections between China, economic growth, and Europe in relation to FDI. The manufacturing and industrial sectors are key focus areas for FDI, as the motivations for investment largely correspond with these domains. Additionally, trade openness and agreements play a crucial role in influencing the flow of FDI.

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DISCUSSION

In the realm of FDI research, China and the United States are at the forefront, consistently emerging as leaders in this field. Approximately 11 countries are regularly engaged in FDI research. Since 2020, the emphasis on FDI has intensified, as nations increasingly recognize its potential for driving economic growth and attracting investments (Bermejo Carbonell & Werner, 2018; Chang, 2010; Wang, 2009). Key themes include globalization, the role of multinationals, and trade openness (Dunning, 1977; Murthy & Bhasin, 2015; Tham et al., 2018), particularly in the context of outward FDI from countries like the US and China.

North America, which combines the research efforts of the USA and Canada, dominates FDI studies, boasting the highest citation rates. Asia follows closely, with a strong focus on contributions from China and Korea. Notably, Poznań University of Economics and Business and Deutsche Bundesbank are two prominent institutions dedicated to FDI research. The USA, China, Canada, and India collaborate extensively on FDI studies, while Brazil and France tend to focus on regional partnerships.

China stands out as a significant player in FDI, particularly regarding the spillover effects on economic development (Köymen Özer & Sayek Böke, 2017). European investment patterns are also a key subject of scholarly investigation. Meanwhile, Canada and Australia lead in terms of average citations per article, reflecting their commitment to high-quality research.

In 1999, the focus of FDI began to shift towards globalization. By 2005 and 2006, studies increasingly concentrated on emerging markets, sector-specific investments, and sustainability. More recently, in 2021-2022, the emphasis has turned to contemporary themes such as technological advancement and environmental economics. While sustained investments remain a primary theme of FDI, technological advancement has emerged as a significant focus. FDI is closely linked to globalization, economic growth, and multinational enterprises, highlighting its vital role in the development of nations. Additionally, the contemporary theme of environmental economics reflects a growing emphasis on sustainability. Attractive factors for FDI include manufacturing sectors, industrial investments, and trade openness. Trade policies and agreements serve as pathways for entering the global market, facilitating FDI inflows.

Conclusion

The study confirms that FDI serves as a cornerstone of economic growth by facilitating the transfer of capital and technology to host countries (Alam & Shah, 2013; Baharumshah & Almasaied, 2009). The analysis emphasizes the significance of globalization and the emerging challenges it presents. While geopolitical tensions are identified as a major factor contributing to the decline in FDI, policymakers can focus on adapting current strategies to incorporate emerging themes such as sustainability and technological advancement, to reclaim lost FDI share. These efforts are essential, as FDI is inherently linked to both economic growth and globalization, which are vital for the development of a nation.

Policies and strategies need to be realigned to enhance the attraction of FDI. Collaborating with leading researchers from countries like Canada and Australia can help identify and implement best practices for FDI. Furthermore, the growing emphasis on sustainability presents a significant opportunity for attracting FDI. While investments in manufacturing and industry remain essential for FDI, it is important not to overlook the roles of environmental economics and trade openness in this context.

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