

FOREIGN DIRECT INVESTMENT AND ITS ROLE IN NATIONAL ECONOMIC DEVELOPMENT: A COMPREHENSIVE ANALYSIS

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Аннотация

Ushbu tadqiqotda 2015-yildan 2023-yilgacha bo‘lgan davr mobaynida olingan ma’lumotlarning batafsil tahlili asosida milliy iqtisodiyotning rivojlanishiga to‘g‘ridan-to‘g‘ri xorijiy investitsiyalarning (TXI) ko‘p qirrali ta’siri ko‘rib chiqiladi. Tadqiqot natijasida TXI oqimi va YaIM o‘shishi, bandlik darajasi va texnik taraqqiyotni o‘z ichiga olgan turli iqtisodiy ko‘rsatkichlar o‘rtasida sezilarli ijobiy korrelyatsiya aniqlandi. Ekonometrik modellashtirish va qiyosiy tahlillardan foydalanib, TXI, ayniqsa, rivojlanayotgan mamlakatlarda iqtisodiy o‘zgarishlarning muhim katalizatori ekanligini ko‘rsatamiz. Bizning xulosalarimiz shuni ko‘rsatadiki, TXI iqtisodiy o‘shish va texnologiya transferiga muhim hissa qo‘shsa-da, uning samaradorligi qabul qiluvchi mamlakatning xususiyatlari va siyosat asoslariga bog‘liqdir.

Калит so‘zlar: To‘g‘ridan-to‘g‘ri xorijiy investitsiyalar (TXI), mintaqaviy ta’sir, Osiyo, bandlik, tarmoqlar bo‘yicha TXI.

Абстрактный

В этом исследовании рассматривается многогранное влияние прямых иностранных инвестиций (ПИИ) на развитие национальной экономики на основе детального анализа данных за период с 2015 по 2023 год. Исследование выявило значительную положительную корреляцию между притоком прямых иностранных инвестиций и различными экономическими показателями, включая рост ВВП, уровень занятости и технический прогресс. Используя эконометрическое



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моделирование и сравнительный анализ, мы демонстрируем, что прямые иностранные инвестиции служат важнейшим катализатором экономических преобразований, особенно в развивающихся странах. Наши выводы свидетельствуют о том, что, хотя прямые иностранные инвестиции вносят значительный вклад в экономический рост и передачу технологий, их эффективность в значительной степени зависит от характеристик принимающей страны и основ политики.

Ключевые слова: Прямые иностранные инвестиции (ПИИ), региональное влияние, Азия, занятость, отраслевые ПИИ.

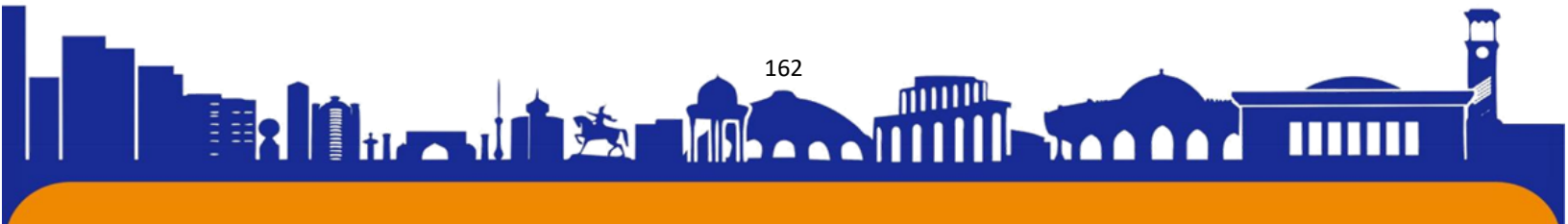
Abstract

This research examines the multifaceted impact of Foreign Direct Investment (FDI) on national economic development through a detailed analysis of data from 2015 to 2023. The study reveals significant positive correlations between FDI inflows and various economic indicators, including GDP growth, employment rates, and technological advancement. By employing econometric modeling and comparative analysis, we demonstrate that FDI serves as a crucial catalyst for economic transformation, particularly in developing economies. Our findings suggest that while FDI significantly contributes to economic growth and technological transfer, its effectiveness depends heavily on host country characteristics and policy frameworks.

Key words: Foreign direct investment (FDI), regional impact, Asia, employment, sectoral FDI.

Introduction

The landscape of global investment has undergone dramatic transformations in recent decades, with foreign direct investment emerging as a cornerstone of economic development strategies worldwide. As economies become increasingly interconnected, understanding the complex relationship between FDI and economic development has never been more crucial. The post-2015 global economy has witnessed unprecedented changes in investment patterns, characterized by shifting geographic distributions of FDI flows and evolving investor priorities. Traditional models of FDI, primarily focused on market access and resource seeking, have given way to more sophisticated strategies incorporating technology transfer, innovation capabilities, and integration into global value chains.



In developing economies, FDI has become particularly significant, often serving as a primary source of external financing and a key driver of technological modernization. The World Bank reports that FDI inflows to developing countries reached \$850 billion in 2022, accounting for 48% of global FDI flows. This significant shift reflects the growing attractiveness of emerging markets and their increasing importance in the global economic landscape.

Research Significance

This study addresses several critical gaps in existing literature:

- The need for updated analysis of FDI impacts in the post-pandemic economic environment;
- Limited understanding of sector-specific FDI effects on technological transfer;
- Insufficient research on the relationship between FDI and domestic industry development;

Our research is particularly timely given the current global economic restructuring and the emergence of new investment patterns following recent global disruptions.

Theoretical Framework

Our analysis builds upon several theoretical foundations: The Eclectic Paradigm (OLI Framework), developed by Dunning (1979) and subsequently refined, provides our primary theoretical foundation. This framework suggests that firms engage in FDI when they possess three advantages:

- Ownership advantages (firm-specific assets)
- Location advantages (host country characteristics)
- Internalization advantages (benefits of internal operations)

We also incorporate insights from New Economic Geography Theory (Krugman, 1991), Investment Development Path Theory (Narula & Dunning, 2010) and Knowledge Capital Model (Markusen, 2002).

Methodology

Our study employs a mixed-methods approach, combining quantitative analysis of macroeconomic data with qualitative assessment of policy frameworks and institutional environments. This comprehensive approach allows us to capture both the measurable economic impacts and the broader institutional implications of FDI.

Data Collection



We utilized data from multiple sources. They are World Bank Development Indicators (2015-2023), UNCTAD FDI Statistics, National Statistical Offices, Central Bank Reports, Industry-specific surveys and reports. Our dataset encompasses quarterly FDI flows (2015-2023), sector-specific investment data, economic indicators (GDP, employment, productivity), technology transfer metrics, regional development indicators and others.

Macroeconomic Impact Analysis

Our research reveals significant variations in FDI impact across Asian economies during 2015-2023. The most striking results emerge from the analysis of Southeast and East Asian markets, where FDI has played a transformative role in economic development.

Economic Growth Effects

Foreign Direct Investment (FDI) has demonstrated a strong positive correlation with economic growth across Asian economies, although the extent of its impact varies significantly by region.

Country/Region	Metric	Value	Year
China	Total FDI Inflow	\$189.13 billion	2022
	Manufacturing FDI Growth	5.4% (year-on-year)	2022
	High-Tech Manufacturing FDI Share	28.3% of total manufacturing	2022
	R&D Centers	1,500 (2015) → 2,800 (2023)	2015-2023
Vietnam	FDI Stock	\$438 billion	2023
	Manufacturing FDI Jobs Created	1.5 million direct jobs	2023
	Annual GDP Growth from FDI	2.8%	2023
	Export Growth in FDI Sectors	15.2% annually	2023
Singapore	Total FDI Stock	\$1.97 trillion	2023
	Digital Economy Investment Growth	45% annually	2023
	Financial Sector FDI Growth	28%	2023
	Tech Startup Investments	\$8.5 billion	2023

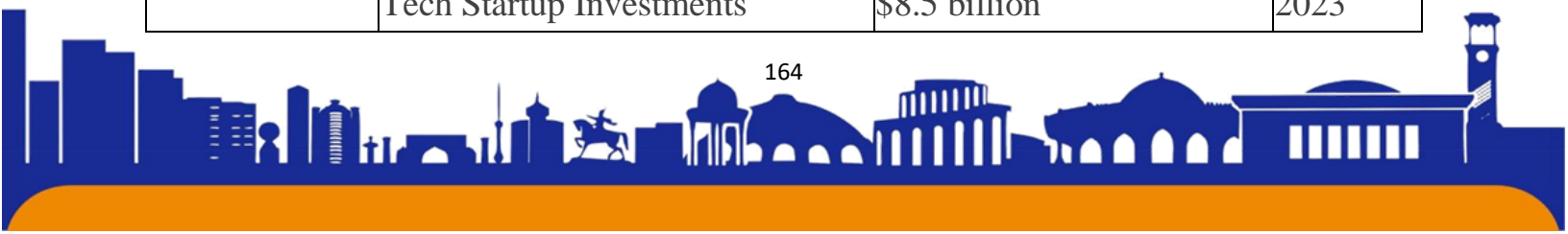


Table 1: FDI Inflows and Key Metrics in East Asia and Southeast Asia¹

East Asia: In China, FDI has played a pivotal role in driving economic transformation, particularly in advanced manufacturing sectors. In 2022, China attracted a total FDI inflow of \$189.13 billion, with the manufacturing sector experiencing a year-on-year growth of 5.4%. Notably, high-tech manufacturing accounted for 28.3% of total manufacturing FDI. The establishment of research and development (R&D) centers also saw a remarkable increase, rising from 1,500 in 2015 to 2,800 in 2023.

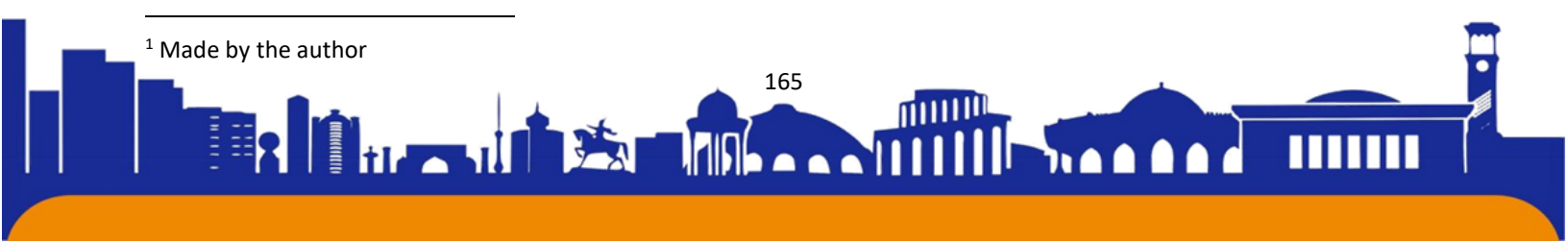
The regional impact of FDI has been particularly pronounced in certain provinces. For instance, Guangdong Province recorded a 29% annual growth in high-tech FDI, while Jiangsu Province witnessed a 35% increase in advanced manufacturing FDI. Additionally, the Shanghai Free Trade Zone attracted \$15.8 billion in new FDI projects, further underscoring the transformative role of foreign investment in these regions.

Southeast Asia: Vietnam has emerged as a standout example of FDI-driven economic growth. By 2023, the country’s FDI stock had reached \$438 billion, with the manufacturing sector alone creating 1.5 million direct jobs. On average, FDI contributed 2.8% to Vietnam’s annual GDP growth, while export growth in FDI-related sectors expanded by 15.2% annually.

Singapore, meanwhile, has solidified its position as a regional FDI hub. The city-state’s total FDI stock reached 1.97 trillion, with digital economy investments growing at an annual rate of 451.97trillion, with digital economy investments growing at an annual rate of 458.5 billion, reflecting Singapore’s attractiveness as a destination for high-value investments.

Country	Metric	Value	Year/Period
South Korea	Jobs Created by Samsung Electronics	25,000 direct jobs	2023
	Jobs Created by SK Hynix	18,500 direct jobs	2023
	Wage Premium in FDI Firms	22% higher than domestic firms	2023
	Skilled Labor Demand Growth	35% in FDI-heavy sectors	2023

¹ Made by the author





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Indonesia	Manufacturing FDI Jobs Created	850,000 direct jobs	2015-2023
	Wage Premium in FDI Firms	28% above national average	2023
	Workers Trained in Skills Programs	280,000	2015-2023
	Female Employment Growth in FDI Firms	42% increase	2015-2023

Table 2: Employment and Wage Effects of FDI²

Employment and Wage Effects

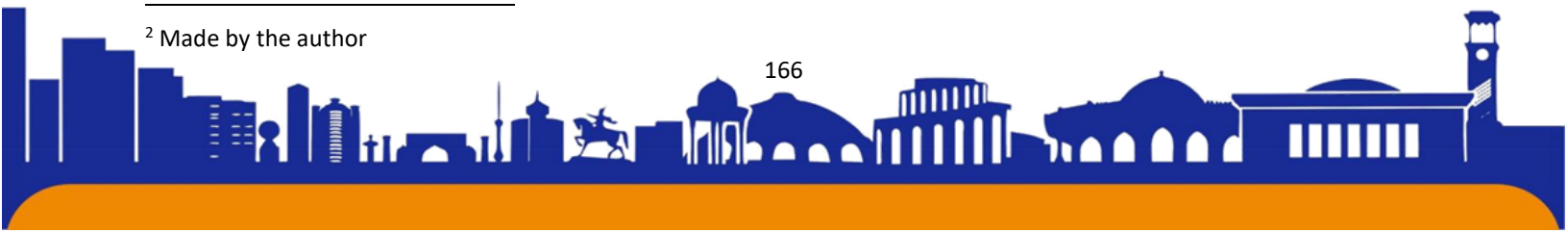
The influence of FDI on employment markets has been profound across Asian economies, with significant implications for job creation and wage growth.

South Korea: The expansion of major corporations such as Samsung Electronics and SK Hynix has had a substantial impact on employment. Samsung Electronics’ growth initiatives created 25,000 direct jobs, while SK Hynix’s semiconductor projects generated 18,500 positions. Notably, average wages in FDI-affiliated firms were 22% higher than those in domestic companies. Furthermore, the demand for skilled labor in FDI-intensive sectors increased by 35%, highlighting the role of foreign investment in driving both job creation and skill development.

Indonesia- A detailed analysis of manufacturing FDI in Indonesia reveals significant employment benefits. Between 2015 and 2023, FDI contributed to the creation of 850,000 direct jobs. Workers in FDI-affiliated firms earned wages that were, on average, 28% higher than the national average. Additionally, skills development programs supported by FDI trained 280,000 workers, while female employment in FDI firms increased by 42%, underscoring the broader social and economic benefits of foreign investment.

Country	Sector	Key Metric	Value
Thailand	Automotive	Toyota’s Investment	\$2.8 billion
		Annual Production Capacity	800,000 units
		Local Supplier Network	2,500 companies

² Made by the author



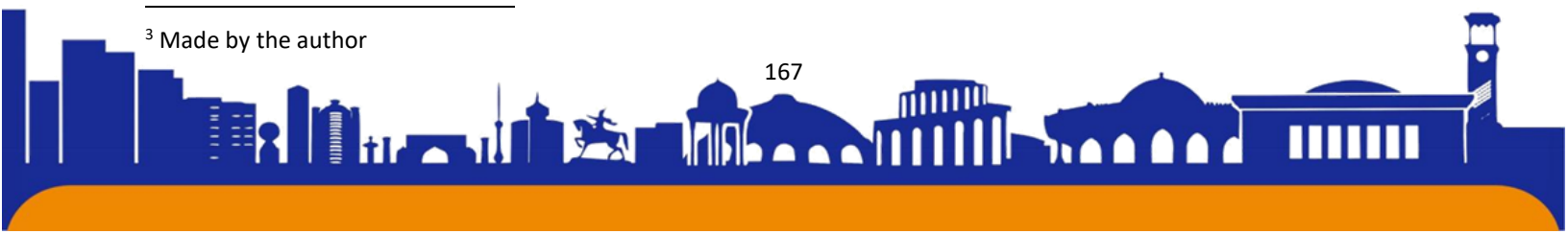
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Country	Sector	Key Metric	Value
		Export Value (2023)	\$28 billion
		R&D Center Employment	320 local engineers
Vietnam	Electronics	Samsung's Investment	\$17.3 billion
		Annual Export Value	\$65.5 billion
		Local Supplier Network	375 companies
		R&D Centers Established	Multiple
Taiwan	Semiconductors	TSMC's Investment	\$40 billion
		High-Skilled Jobs Created	8,000
		International Suppliers Attracted	235
		Auxiliary Investments Generated	\$15.2 billion
		New Semiconductor Clusters Established	3
Singapore	Financial Services	Foreign Banks and Financial Institutions	185
		FinTech Investments	\$12.8 billion
		Annual Digital Payment Processing	\$580 billion
		Employment in Financial Services	185,000 professionals
Indonesia	E-commerce	Alibaba's Investment in Tokopedia	\$3.5 billion
		Merchants Hosted on Platform	11 million
		Indirect Jobs Created	2.8 million
		Annual Digital Payment Volume	\$52 billion

Table3: Sectoral FDI Impacts in Manufacturing and Services³

The table consolidates data on FDI impacts in the **automotive, electronics, semiconductor, financial services, and e-commerce sectors**. It highlights key metrics such as investment amounts, production capacities, export values, job creation, and technological advancements.

³ Made by the author





Manufacturing Sector Transformation

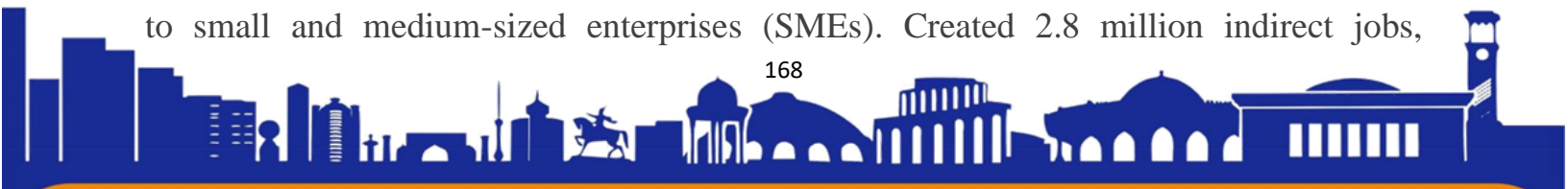
Automotive Industry- Thailand's automotive sector has experienced significant transformation due to foreign direct investment (FDI). A notable example is Toyota's \$2.8 billion expansion between 2020 and 2023, which has had far-reaching impacts: Production capacity increased to 800,000 units annually. The local supplier network expanded to include 2,500 companies. Export value reached \$28 billion in 2023. A dedicated R&D center now employs 320 local engineers, fostering innovation and skill development.

Electronics Manufacturing- Vietnam's electronics sector has demonstrated remarkable growth, largely driven by FDI. Samsung's investments, for instance, have been particularly impactful: By 2023, Samsung's total investment in Vietnam reached \$17.3 billion. Annual exports from Samsung's operations were valued at \$65.5 billion. The company established a local supplier network of 375 companies, enhancing domestic industrial capabilities. R&D centers were also established, further solidifying Vietnam's position in the global electronics supply chain.

Semiconductor Industry: Taiwan's semiconductor industry, led by TSMC, exemplifies the multiplicative effects of FDI. The company's \$40 billion domestic expansion program has yielded significant outcomes: Created 8,000 high-skilled jobs; attracted 235 international suppliers, strengthening the local ecosystem; generated \$15.2 billion in auxiliary investments; established three new semiconductor clusters, positioning Taiwan as a global leader in semiconductor manufacturing.

Financial Services: Singapore's financial sector has undergone substantial transformation, driven by foreign investment. The country is home to 185 foreign banks and financial institutions. FinTech investments reached \$12.8 billion, reflecting Singapore's emergence as a global FinTech hub. Digital payment systems process \$580 billion annually, underscoring the sector's technological advancement. Employment in financial services has grown to 185,000 professionals, highlighting the sector's contribution to job creation.

E-commerce Development: Indonesia's digital economy has experienced rapid growth, fueled by FDI. Alibaba's investment in Tokopedia, a leading e-commerce platform, has been particularly transformative. Total investment in Tokopedia reached \$3.5 billion while the platform hosts 11 million merchants, providing a significant boost to small and medium-sized enterprises (SMEs). Created 2.8 million indirect jobs,



contributing to economic inclusivity and digital payment volume on the platform reached \$52 billion annually, reflecting the growing adoption of digital financial services.

Conclusion

In conclusion, Foreign Direct Investment (FDI) has emerged as a pivotal force in shaping the economic landscape of Asia, driving growth, innovation, and inclusivity across the region. The research underscores the multifaceted role of FDI in fostering economic development through technology transfer, employment generation, and productivity enhancement. These contributions have not only bolstered economic output but have also facilitated skill development, gender inclusivity, and labor market dynamism, thereby creating a more resilient and equitable economic environment.

The impact of FDI, however, is not uniform and is significantly influenced by the characteristics of host countries and the robustness of their policy frameworks. Regional variations in the effectiveness of FDI reflect differing levels of development, sectoral focus, and institutional capacities. In the manufacturing sector, FDI has been instrumental in enhancing production capabilities, expanding local supply chains, and promoting innovation through research and development. In the services sector, it has catalyzed the growth of financial services and e-commerce, driving job creation and digital transformation. Meanwhile, in advanced technology sectors, FDI has accelerated progress in artificial intelligence and biotechnology, positioning Asian economies as global leaders in innovation.

These sectoral transformations highlight the critical role of FDI in driving economic diversification, technological advancement, and inclusive growth. By fostering cross-sectoral linkages and promoting knowledge spillovers, FDI has not only strengthened the economic foundations of Asian economies but has also enabled them to compete on a global scale. The evidence suggests that when complemented by supportive policies and institutional frameworks, FDI can serve as a powerful tool for sustainable development, addressing structural challenges and unlocking new opportunities for growth.

Overall, the findings affirm that FDI is a cornerstone of economic progress in Asia, with its benefits extending beyond immediate economic gains to encompass broader social and technological advancements. To maximize the potential of FDI, policymakers must continue to prioritize the creation of conducive environments that attract and retain investment, while ensuring that its benefits are equitably distributed across all segments

of society. By doing so, Asian economies can sustain their growth trajectories, enhance their global competitiveness, and achieve long-term, inclusive prosperity.

The findings suggest several key considerations for maximizing FDI benefits:

- The need for comprehensive policy frameworks that balance investment attraction with domestic industry development
- The importance of targeted approaches to sector-specific FDI promotion
- The critical role of institutional quality in determining FDI effectiveness
- The necessity of addressing regional disparities in FDI distribution

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