International Journal of Humanities and Social Science Invention
ISSN (Online): 2319 – 7722, ISSN (Print): 2319 – 7714
www.ijhssi.org Volume 2 Issue 5 ǁ May. 2013ǁ PP.41-47

Can Sustainable Development Be Achieved By The Employment of Foreign Direct Investment? ……… Yes.

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ABSTRACT: "*Investment" to day is viewed as an efficient input to achieve inclusive growth and sustainable development and most of the developing countries are integrating investment policies into their development strategies. As one of the objectives of this "new generation of investment policy", foreign direct investment (FDI) has been used as the most important element to achieve sustainable development, by providing stronger stimulus to economic growth than other types of capital inflows. The present paper relies exclusively on secondary data and analyses the relationship between FDI and achieving the sustainable development and deals with the impact of FDI on GDP, gross fixed capital formation, employment generation, and exports of goods and services. This paper identifies that FDI has been converging towards manufacturing and services sectors, with a comparative neglect of primary and its related sectors. Being structured into three sections, an overview of the historical events that propelled and increased the significance of FDI in the world economy is presented in Section –I and the properties of FDI, regional distribution of FDI, impact of FDI on international production, sectoral inflows of FDI are analyzed in Section-II. Section – III briefly presents the impact of FDI on achieving the sustainable development, contribution to economic development and employment generation based on the experiences of 9 selected developing countries. Based on the critical analysis of the experiences of the developing countries, this paper concludes that FDI can be used as a key input for achieving sustainable development.*

Keywords: *Capital Inflows, New Generation Investment, FDI, Sustainable Development, GDP, Employment Generation,*

I. INTRODUCTION

The economic experts and investment environment analysts, in recent years, have been arguing that the economies around the globe are entering into a "New Generation Investment Environment" for achieving sustainable development. Particularly many developing economies are putting their efforts to mobilize investment to ensure that it contributes to sustainable development as a priority. Being superimposed by this policy agenda, they are very much interested to maintain a generally favorable investment climate to complement and strengthen their domestic investment mobilization.

The emerging "New Generation Investment" policies place "inclusive growth and sustainable development" at the heart of efforts to attract and benefit from investment (UNCTAD, 2012). The economies which are pursuing a new generation investment policy have been venturing at two competitive investment policy challenges --- challenge at the national and international levels. At the national level, they are facing the challenge of integrating investment policy into their development strategy. They are incorporating the objectives of sustainable development in investment policy to ensure its relevance and effectiveness. At the international level, they are striving to strengthen the development dimension of international investment agreements and also to balance the rights and obligations of the Governments and investors.

SECTION - I

An overview of the economic historical events from 1970's onwards provides the evolution of increased significance and importance of "Foreign Direct Investment" (FDI) relative to the other types of capital flows in most of the developing economies. The analysis of these historical events makes us to infer that the following are the reasons for attaching much importance to the use of foreign direct investment as the best source for capital formation in their economies:

1. the oil crisis of the early 1970's
2. the deepened debt crisis in the early 1980's and
3. free and open market policies of the developing economies particularly adopted during 1990's onwards.

We know well that the oil crisis of the early 1970's brought cost-push inflation and very high unemployment rates in the industrialized countries. The cost-push inflation has generated higher amounts of revenue for the oil-producing countries and they could able to transfer financial capital to the developed and developing countries (Hauser, 1986a). The debt crisis during the early 1980's, particularly in Latin American Countries, has forced the transnational companies to resort to foreign capital and during 1990's the collapse of USSR and some Eastern bloc countries resulted into mutual integrations and regional agreements, which have accelerated the inflow of FDI, (Kennedy and Sandler, 1997; Trevino,1999). Above all these influencing factors, the free and open market policies adopted by developing economies to international interactions was the main "push factor" which has resulted into resorting to higher amounts of foreign capital to facilitate the mechanism of "outward-oriented development" and capital transfers.

All the above important events in the world economy have pushed forward the transfers of capital and attaching much importance to FDI, relative to the other types of capital flows, which has significantly increased after 1970's as shown in Table. 1

Table. 1. Total Resource Flows to Developing countries and the Ratio of FDI

Sources of Resource Inflows		Net Resource Flows (in US$ billions)			
		1970	1980	1990	1995
1.	Portfolio	0.0	0.0	3.2	32.9
2.	FDI	2.2	5.1	24.5	95.5
3.	Equity Flows	2.1	13.2	29.2	32.6
4.	Long-term Debt	6.6	67.7	43.7	77.0
Total flow of Resources		10.9	86.1	100.6	238.0
Ratio of FDI to Total Resources (%)		20.2	5.9	24.4	40.1

Source: Global Investment and Finance, 1970-2004.

The data in table.1 explains the increasing role of FDI in foreign finance for developing countries. In the face of complex problems, Governments of many developing countries have followed a clear, robust and workable policy and formulated policies suitable to their situations with respect to FDI. The data shows that the role of FDI became outstanding in comparison with other resource transfers. Resource and capital transfers took the forms of bilateral transactions, public financial aid, loans and portfolio investments in addition to the FDI being influenced by the capital transfers not only from the rich economies to poor economies but also the capital had flown out of countries where it was scarce. (Hauser,1986b; Chang and Gabriel, 2004). Fueled by the free and open market policies around the globe, FDI, as a proportion of total resource flows has become an important key component and its ratio has increased from 5.9 per cent in 1980 to 40.1 per cent during the last decade of 20th century. The statistics show that by 2000, the proportion of FDI in the total resource inflows to developing countries was estimated at 98.2 per cent. (Global Investment and Finance).

"Investment" is usually understood as a financial contribution to the capital of an enterprise or any economic activity or purchase of shares in the enterprise. Foreign investment is that investment in an enterprise by a non-resident and it is of two kinds: foreign direct and indirect investment and foreign portfolio investment (asset holdings in the form of securities). Of late, the economist and policy makers are talking and strongly supporting foreign direct investment the most, among different forms of capital inflows, explaining the several benefits of FDI and its importance in the economies, compared to other forms of capital flows (as discussed in Section –I). Earlier, Hymer (1960) has differentiated the above two types of investments and highlighted certain facts and evidences for the factors that determine the motivation of FDI particularly for developing countries. During 1980's, research was carried out to analyze the factors that determine the "push factors" of FDI from the supply side and during 1990's a vast literature was generated to examining the "pull factors" of FDI from the demand side of FDI. Recently UNCTAD has also introduced two important indices which explain the importance and use of FDI. FDI "Attraction Index" (FDI AI) and FDI "Concentration Index" (FDI CI) are these two indices. The FDI attraction index measures the success of economies in attracting the FDI, combining total FDI inflows and inflows relative to GDP. The contribution index was introduced by UNCTAD in World Investment Report-2012, for ranking the economies on the basis of the significance of FDI and foreign affiliates in the economy in terms of value added, employment, wages, tax receipts, exports, research and development expenditures and capital formation. The share of employment in foreign affiliates in total formal employment in each country was also considered for ranking the countries. All these variables were estimated treating most important indicators of the impact of FDI in an economy. Estimations were also made by comparing the FDI contribution index with the weight of FDI stock in a country's GDP to measure the economic development impact "per unit of FDI" on the economy. As these evolutionary developments and pro-FDI arguments got support even from the harsh critics of rash and comprehensive capital account liberalization, who have dismissed the option of complete isolation from international capital markets (Stieglitz, 2000, Soto, 2000). The economists, in recent years, are striving to understand and explain about the driving forces and the economic effects of FDI. They have identified the following three main types of FDI:

1. Resource-seeking FDI
2. Market-seeking FDI, and
3. Efficiency-seeking FDI

Of course, though little is known about the relative importance of these types of FDI, due to the operation of the globalization process, the determinant factors vary depending upon the overall policy framework for FDI, importance also depends upon economic determinants and business location measures in a particular economy.

SECTION – II

Though it was considered that FDI was a phenomenon associated with highly developed countries, in recent years, developing countries are also attracting larger amount of FDI inflows as a result of economic globalization. Particularly after the financial crises in Asia and Latin America, developing and newly industrializing countries have felt that FDI was the best source for supplementing their natural savings by foreign direct investment and also for achieving economic development in their economies. They have opened up their economies being attracted by the following properties of FDI:

1. FDI was less prone to crisis because direct investors have a longer-term perspective when engaging in a host country.
2. FDI has risk-sharing property
3. FDI provides a stronger stimulus to economic growth in host countries than other types of capital inflows.
4. FDI was more than just capital. It offers access to internationally available technologies and management knowhow, and
5. FDI generates employment opportunities and improves the skill-levels of the human resources. (UNCTAD, 1999).

Being propelled by these properties of FDI, there was a boom in world-wide inflows of FDI, which was identified as the major element of economic globalization. Annual FDI flows increased from US$ 55 billion in 1980 to US$ 865 billion in 1999, to US$ 162 billion in 2006 and further to US$ 1524 billion as on March, 2012. An overview of the FDI inflows reveals that FDI has increased and improved absolutely and relatively in the world economies. It was estimated that the overall FDI flows accounted for about 3 per cent of world-wide exports in 1980-65 and the exports ratio has exceeded 15 per cent (Peter Nunnenkamp, www.cuts.org) in 1999. This positive effect of FDI was considered by the experts as the increased international capital mobility. An overview of the FDI flows around the globe from2005 onwards is presented in Table. 2.

Table. 2. FDI Inflows by Host Regions and Projections (in US $ billion)

Host Region	Averages			Projections	
	2005-2007	2009-2011	2012	2013	2014
Developed countries	972 (66.0)	658 (49.0)	548.9 (41.9)	810-940	840-1020
Developing countries	442 (30.0)	607 (45.1)	680.4 (51.9)	720-855	755-930
Transition Economies	59 (4.0)	79 (5.9)	81.4 (6.2)	100-130	110-150
Total Global Inflow	1473 (100.0)	1344 (100.0)	1310.7 (100.0)	1630-1925	1705-2110

Note: figures in the brackets denote percentages to total global inflow
Source: UNCTAD: Global Investment Trends Monitor, No.11, January, 2013, p.6 and World Investment Report-2012.

The data presented in Table. 2 reveal that the average flow of FDI into developed countries has declined from 66.0 per cent to 49.0 per cent, with a consequent increase in the inflow of FDI into developing countries from 30.0 per cent to 45.1 per cent during the period 2005-2011. The FDI inflows into developed countries have absolutely increased from US $ 606 billion in 2009 to US $ 807.8 billion in 2011, the proportion has declined from 50.6 per cent to 41.9 per cent during the 2009-2012.

On the contrary, the average FDI inflows to developing countries and transition economies have increased from US $ 442 billion and 59 billion during 2005-07 to US $ 607 billion and 79 billion during 2009-11. The data show that the proportion of FDI inflow accounted for 30.0 per cent during the period 2005-07 and it has increased to 519 per cent of the total global inflow during the year 2012. The FDI inflow to transition economies also increased from 4.0 per cent to 6.2 per cent during this period.

One of the significant trends to be observed is that the Global FDI inflows declined by 18.3 per cent in 2012 to an estimated US $ 1.3 trillion compared to US $ 1.6 trillion in 2011. The Global Investment Trends Monitor (2013) observed that the majority of EU countries saw significant drops in FDI flows with the total fall amounting to some US $ 150 billion and for US FDI flows also fell by US $ 80 billion.

It is also interesting to note that FDI inflows to developing countries for the first time ever, exceeded those to developed countries by some US $ 131.5 billion. The monitor has also observed that the developed country investors have bucked the trend. Their share in cross-border M&A purchases rose to a record of 37 per cent. It seems that there is still significant investor uncertainty that has been continuing and hampering the FDI recovery.

However, the projections show that the global FDI inflows may touch the figure between US $ 1.7 to 2.1 trillion by 2014 and the share of developed and developing countries may reach48.8 per cent and 44.2 percent respectively even though there may be any macroeconomic shocks.

The UNCTAD's new "FDI Contribution Index" shows that there would be relatively higher contributions by foreign affiliates to hose economies in developing countries, especially Africa in terms of value added, employment and wage generation, tax revenues, export generation and capital formation. A comparison of "FDI Attraction Index" with the "FDI Potential Index" shows that a no. of developing countries and transition economies have managed to attract more FDI than expected amounts. (World Investment Report – 2012)

The UNCTAD estimations revealed that inflows of FDI had a positive effect on production in terms of "FDI Contribution Index" which explains the significant of FDI in the economies as shown in Table. 3

The data presented in Table. 3 amply show that crisis had a significant effect on FDI inflows and outflows. FDI inflow was US $ 1198 billion in 2009, which has decreased by US $ 275 billion compared to the pre-crisis period (US $ 1473 billion). Thereafter, both inflows and outflows have increased from 2009 onwards. The data reveals that the income on inward and outward FDI , though decreased in 2009, compared to the pre-crisis average, has increased during 2009-2011, with a significant increased in rate of return on inward and outward FDI. The data explains that M&A purchases like corporate restructuring, stabilization and rationalization of companies' operations were the main factors for growing FDI flows. As the contribution index explains, sales, value added, total assets and exports of foreign affiliates have also increased significantly during 1990-2011. Particularly the employment generation by Foreign

Table. 3. Selected Indicators of FDI and International Production
(Value at Current Prices in US $ billion)

Items	1990	Pre-crisis Average (2005-2007)	2009	2010	2011
1.FDI Inflows	**207**	**1473**	**1198**	**1309**	**1524**
2.FDI Outflows	**241**	**1501**	**1175**	**1451**	**1694**
3.FDI Inward Stock	**2081**	**14588**	**18041**	**19907**	**20438**
4.FDI Outward Stock	**2093**	**15812**	**19326**	**20865**	**21168**
5.Income on Inward FDI	**75**	**1020**	**960**	**1178**	**1359**
Rate of Return on Inward FDI	**4.2**	**7.3**	**5.6**	**6.3**	**7.1**
6.Income on Outward FDI	**122**	**1100**	**1049**	**1278**	**1470**
Rate of Return on Outward FDI	**6.1**	**7.2**	**5.6**	**6.4**	**7.3**
7. Cross-border M&As	**99**	**703**	**250**	**344**	**526**
8. Sales of Foreign Affiliates	**5102**	**20656**	**23866**	**25622**	**27877**
9.Value added (Product of Foreign Affiliates)	**1018**	**4949**	**6392**	**6560**	**7185**
10.Total Assets of Foreign Affiliates	**4599**	**43263**	**74910**	**75609**	**82131**
11.Exports of Foreign Affiliates	**1498**	**5003**	**5060**	**6267**	**7358**
12.Employment by Foreign Affiliates (in '000)	**21548**	**31593**	**59877**	**63903**	**89065**
Memo:					
a) GDP	**22206**	**50411**	**57920**	**63075**	**69660**
b) Gross Fixed Capital Formation	**5109**	**11208**	**12735**	**13940**	**15770**
c) Royalties and License Fee Receipts	**29**	**156**	**200**	**218**	**242**
d) Exports of Goods and Services	**4382**	**15008**	**15196**	**18821**	**22095**

Source: UNCTAD: World Investment Report – 2012, p.8

Affiliates has also increased favorably compared to the pre-crisis level. The data reveals that gross fixed capital formation, revenue receipts and exports of goods and services have significantly increased due to FDI flows around the globe.

SECTORAL INFLOWS:

Any economy consists primarily three sectors—primary, manufacturing and services – and the FDI flows rose in all the three sectors of the world economy. According to the FDI projects data, which contains cross-border M&As and green field investments, the no. of projects in each sector supported by FDI have significantly increased as shown in Table.4

Table. 4. Sectoral Distribution of FDI Projects

Year	Value of Projects (in US $ billion)							
	Primary		Manufacturing		Services		Total	
Average of 2005-07	130	(8.0)	670	(41.1)	820	(50.6)	1620	(100.0)
2008	230	(9.9)	960	(41.4)	1130	(48.7)	2320	(100.0)
2009	170	(13.0)	510	(38.9)	630	(48.1)	1310	(100.0)
2010	140	(11.2)	620	(49.6)	490	(39.2)	1250	(100.0)
2011	200	(14.0)	660	(46.1)	570	(39.9)	1430	(100.0)

Note: figures in the brackets denote percentages

Source: UNCTAD: World Investment Report -2012, p.7.

The data in Table. 4 indicate that FDI has been converging towards services and manufacturing sectors of the world economy constituting around 40.0 to 50.0 per cent of the total value of the projects funded under FDI. There was a decline in the value of projects under services sector, which has declined from US $ 1130 billion in 2008 to US $ 570 billion in 2011. However, the share of value of projects in primary sector has increased from 8.0 per cent during 2005-07 to 14.0 per cent (US $ 200 billion) of the total value of projects in 2011.

The World Investment Report- 2012 revealed that the top five industries contributing to the rise of FDI projects were extractive industries like mining, quarrying and petroleum, chemicals, utilities like electricity, gas and water, transportation and communications and other services largely driven by oil and gas field services.

SECTION – III

The overall view of the foregoing discussion makes us to infer that the shift of FDI to developing economies is significant in 2011 and 2012, with China and India recording fastest growth in FDI inflows. China, India and Singapore have attracted 69.0 per cent of the FDI projects (2985 projects out of 4330 projects) during 2011 in Asia-Pacific region. India was the strongest performing country with a 21.0 per cent growth in FDI projects in 2011 (The FDI Report-2012). Hence, it can be concluded that from the global perspective, FDI is largely market-seeking because the economic regions with the best economic growth prospects are attracting a larger share of global FDI. Experts have also observed that this market-seeking trend was amplified by resource-seeking FDI in Africa and Latin American countries. It was also observed that there was a six-fold increase from 2003 to 2011 in renewable energy projects, as it was driven by increasing levels of global renewable energy of estimated US $ 91 billion (The FDI Report-2012).

II. IMPACT ON SUSTAINBLE DEVELOPMENT

It has be to agreed that any international investment must bring development benefits to the receiving country in terms of agricultural development, technology transfer and particularly employment creation. The evidences across the countries around the globe reveal that FDI has been playing an important role in promoting economic growth, raising technological knowhow and creating employment in developing countries (Borenzstein De Gregorio and Lee, 1998; Haaland et.al.2003; ILO 2004; Khawar, 2003; Manafneghad, 2005).

A look at the growing part of the FDI shows that during post-crisis period the investors have show a much stronger preference for expanding existing operations, which comprise capital expanding and deepening activities. Since these investments are employment generating in nature, it was estimated that capital investment associated with FDI projects grew to US $860 billion and resulted into generation of employment with an estimated direct job creation to the tune of 2.27 million in 2011(FDI Report-2012). In Asia-Pacific region, China with 1270 projects, has generated just over 340,000 new jobs in 2011 as a result of inward FDI. It was estimated that in Europe region the capital investment through FDI has generated employment opportunities in real estate, hotel and tourism sectors. A decline in FDI in transport equipment sector led to a major decline in job creation to the tune of 37 .0 per cent in Europe. The foreign affiliates (as shown in Table.3) are playing a significant role in generating employment as it was estimated that they could generate 21,548 thousand jobs in 1990 and the volume of employment has been increasing significantly and reached a high record of 89065 thousands of job opportunities in 2011. This remarkable growth in employment generation was made possible by the contribution of FDI towards gross fixed capital formation and increasing exports of goods and services.

No doubt, primary sector is the highest contributor for employment generation in agri-dominant developing countries. The field studies show that in Thailand and Uganda FDI has contributed to the employment generation in food processing sectors, commercial agriculture and floriculture sectors. (FAO, 2012). The studies covering three developing regions where the FDI in primary sector had been concentrating for the past six years, namely, Africa, Asia and Latin America have analyzed the economic, social and environmental impacts of FDI. The results show that FDI has contributed significantly to growth and development particularly in Brazil, Malaysia, Republic of Korea, Uganda and Thailand and very high returns to investment were realized by Nigeria and Zambia in terms of development and employment generation. FDI flows to Zambia and Africa, the top copper producer, could create 33,140 thousand jobs in mining and manufacturing sectors.

III. CONTRIBUTION TO ECONOMIC DEVELOPMENT

It is clearly evident from the data collected by FAO about the contribution of FDI stocks to Gross Domestic Product of developing countries, in particular, that FDI in agricultural sector has contributed significantly in Africa, Asia and Latin America and the Caribbean countries. An evaluation of 9 countries in these regions show that FDI has contributed significantly to the GDP of many developing countries during the period 1980 to 2010 as shown in Table. 5

Table. 5. Contribution of FDI Stocks to GDP of Developing Countries' Agriculture.

Country		Contribution (in %)			
		1980-1990	1990-2000	2000-2010	1980-2010
1.	Brazil	11.0	11.5	21.7	14.7
2.	Cambodia	4.3	18.9	43.4	22.2
3.	Ghana	6.6	13.2	30.2	16.7
4.	Mali	14.5	10.3	12.9	12.6
5.	Senegal	5.5	7.1	6.6	6.4
6.	UR Tanzania	5.6	11.8	31.9	16.4
7.	Thailand	5.3	14.2	34.2	17.9
8.	Uganda	0.3	4.7	21.8	8.9
9.	Zambia	72.6	96.6	82.3	83.8
Average of 9 countries		(14.0)	(20.9)	(31.7)	(22.2)

Source: FAO (2012) Trends and Impacts of FDI in Developing Country Agriculture: Evidence from Case Studies, Part- II, p.18.

A perusal of data presented in Table.5 makes us to infer that over the long term period from 1980 to 2010, the contribution of FDI to the GDP of selected 9 countries was 22.2 per cent on an average. Zambia, Cambodia, Thailand, Ghana and Tanzania were the major beneficiaries due to the contribution of FDI. The data also shows that the average percentage of contribution of FDI has been increasing continuously from 14.0 per cent (1980-1990) to 31.7 per cent (2000-2010). This increasing percentage of contribution was attributed to the role played by FDI to the agricultural capital stock available in these countries.

CONCLUSION:

It is evident that many countries around the globe have continued to liberalize and promote foreign investment in the three broad sectors of their economies to stimulate growth. This tendency of resorting to foreign investment, to the supplement the domestic resources, was observed by the economists as the "era of new generation of investment environment" into which the countries have entered. The efforts of the countries represent a "responsible investor behavior" which incorporates the principles of corporate social responsibility. These investment policies, of developing countries in particular, are striving to place inclusive growth and sustainable development at the heart of their efforts. This is a mechanism implemented to attract and benefit from investment and aims at operationalise sustainable development in concrete measures. The experiences of many developing countries show that FDI has become the main source of investments in their economies with capital-deepening sources of investment, which automatically produces a 'spiral effect' on generation of employment, improvements in growth rates and particularly enhancing the levels of productivity in all the three broad sectors of the economy. Particularly, in agriculture-dominant economies in which agriculture receives small amounts of investments relative to other sectors, it is the sector where most of the job creation has been set to take place. These facts highlight the crucial role that FDI is expected to play in rural areas where relatively higher labour intensive nature of agriculture-related activities are in existence. It is also evident that FDI in agro-related activities also impacts the purchasing power of certain classes of people, which in turn influences the demand for food products positively. The consequent improvement is nothing but an improvement in the state of food security in a given country.

Hence, in spite of the allegations that FDI acts as a detrimental factor for job creation and creates unemployment, the foregoing illustrations proves the fact that sustainable development can be achieved by enhancing the ratio of FDI in the total resources inflows particularly in developing countries.

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