



## **CONTRIBUTION OF FOREIGN DIRECT INVESTMENT IN HOST COUNTRY ECONOMIC AND DEVELOPMENT GROWTH 1**

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### **ABSTRACT**

*Globalization and economic interaction involved in every part of the daily life and in modern businesses due to growth and international trade and country specialization. Therefore, the purpose of this study is to explore and identify the significant importance of FDI (Foreign Direct Investment) across the country, later examine the spillover of FDI on the host country, the country where a multinational corporation starts its branch of operations, and finally examine its contribution in economic and development of the host country.*

*The study shows that foreign investment across the countries and regions played and crucial role in economic and development well-being and globalizations. The effect of foreign companies on domestic ones is one of the critical components of the study, the foreign companies' productivity automatically spills over on local firms and in their industries. They must increase their productivity in order to survive in the market.*

*Part of the study focused on telecommunications, where nowadays has been steady growth across the countries in the world. Telecommunication influenced the growth of unemployment as a whole and just like other businesses telecommunication considered an important dynamic component of a strong economic growth. Telecommunication has helped more in economic growth and development as it promotes sectors such as education, infrastructure, cumulative human skills, capacity building, and improve the public transportations.*

**Keywords:** Economic Integration, Foreign Direct Investments, Host Country, Economic Growth and Development

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1 This study contains the foreign direct investment impact in host country, and its driver's contribution in economic and development growth

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## **1. Introduction**

Modern world of business brings much economic interdependency among countries, hence all business activities become open around the world. There is no hundred percent self - efficiency or self-sufficient economy meaning that goods and services could be produced in one region and exported to another region for consumption and this trend known as foreign direct investment (FDI) where an investor can invest anywhere. This is considered a key factor towards expansion of globalization and key component to facilitate international trade according to the significant attention around the world. Therefore, countries around the globe offer more attention to attract inward foreign investments that motivated by foreign capital investment benefits and positive spillovers to the host country. Impact of FDI might be in different range and could affect the different business channels, increasing national income, economic growth, stimulating and organizing domestic businesses.

Over past two decades FDI has been rapidly growing worldwide and it has strong influence on host countries and their level of development. The empirical aim of this study is to find how potential benefits of FDI effects host countries in development and in transition of economy.

Afghanistan has dramatically attracted FDI in Telecom sectors and I try to find out the determinant and desired side of these inflows. As FDI is an important factor for improving globalization and interaction between customers, supplier and services so in this regards the

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process facilitates the flow of business transactions worldwide in addition with human and capital flow to host country.

Telecom in Afghanistan has been one of the most promoted sectors which discretely increased since 2002. Promoting and enabling welfare to the society and rescuing the country out of poverty and unemployment, FDI in that area of investment is a great source of job integration and improvement based on corporate social responsibility premises for host country addressing environmental protection, human rights, social change, and other activities that are of importance to the ecosystem and humanity (Clark, 2007) Importantly, FDI provides a platform for transferring technology and innovation from developed countries to under developed countries and it smooths the outstretch process for host country (Balasubramanyam et al., 1996, p. 9, De Mello, 1999, pp. 134-136, Xu, 2000, pp. 17-20). FDI is considered to be a unique sole way of integrations and linking the national and international economies.

Additionally, it has been observed in the past two decades that FDI by Multi National Enterprises (MNEs) have been recognized as main driver of businesses around the world (Pusterla & Resmini, 2007). FDI involved the movement of human recourse and financial capital across the national boarder (Jigme 2006).

An empirical study examined the importance of FDI to business and economic growth in 44 Asian countries between 1996-2006. The effect depends on the stage of development; their outcome shows that financial institution improvement enhances the contribution of FDI on the business and economical raise of the host country (Chee and Nair 2010)

## **2. Research Methodology**

This qualitative explanatory study has been collected from various secondary data, consisting of overall conceptual approach to FDI as a part study of international trade. The main determination is to explain the desirable components of international trade among countries and its bilateral benefits. Further effort of the study is to highpoint the main benefits of international trade through FDI and getting deep familiarity with factor of interaction. This research highlights diverse categories, where the host country benefited from FDI which generally, the study included with spillovers of FDI to host country.

Specifically, this study contains the effects of foreign investments in host country that the term comprised the variety of technology benefits which are used for communications, keeping, retrieving, processing, scrutinizing, and communicating Information that are essential to do well in a globalized economy. The vast growth seen in the field of data and knowledge has led to a new rationale for the function of information and communications technologies (ICTs) in diverse cultures. These technologies are now standard as implementation of them is not only for training, but also for progressive community changes, strengthening of human rational capacity and defining modern lifestyles of society. Over the last two decades, a country's capability to adopt and gain from knowledge have become increasingly important to sustain its economical raise and improves living standards. Additionally, telecom can bring facilities and can improve life style, transfer of knowledge sharing that needs to respond to global change occurring in various areas which affect the normal life of human being.

Although, the nature of crises and conflicts are complex and different, complicated and vary due to differ in political and economic history of the regions, so the drivers and strategies to discourse and effectively support those problems are unique. If a strategy works for one country, it does not necessarily work for the other countries too. Every region must cope it based on its geographical and economic criteria to overcome. In addition, there is common value and beliefs as a key component that might be a barrier for sustainable and economic development that need for leadership commitment of strong government policies, attracting people trust throughout a mutual discussion (UNDESAD, 2007, p. 3)

### **3. Conclusions and suggestion**

This conceptual studysuggests, FDI as a core component of economic growth and business development. Most countries favor attracting it as an important policy and others in developing and transitional economic stages. It is given such emphasis not just for capital inflow but also it increases the amount of stock of capital in host country. The reasons that multinational enterprises bring more business practice, technology, and management. Moreover, it is possible that MNEs may afraid of its intellectual property and superior assets for being imitated by another domestic firm. FDI provides external benefits to operating country, therefore governments hoping to attract and offer good incentive for foreign firms. Base on survey findings, foreign owned industries paying higher wages and benefits such as insurance and

annual allowance in another hand domestically owned industries does not. But workers also account for their performance quality; meaning that higher pay reflect labors performance. (i.e., Etisalat Telecommunication a foreign owed industry based UAE in Afghanistan paying round about 10-15 percent higher wages plus benefits in compare to local companies. Telecommunication has been one the main source of revenue to government in 2009 the government enjoys good revenue of telecommunication it's around 130 Million USD and 16 Million USD in 2010 this figure has been increased to 200 million, the Internet effect the life style of individuals paying around 1250 Afghani currency equal to 19 USD monthly for personal internet usage (Baharustani 2003, pp. 6-7).

Telecom sectors have been considered one of the promptest area of afghan government in last decades, which adds up more revenue to Government budget as well as create more than 100,000 jobs in Afghanistan. According to MICT recent report, currently there are around 23.21 million mobile users in Afghanistan which made 70 percent of the total population of the country, with annual revenue of 200 million to government. Additionally, Telecommunication and ICT sector has created 204,000 professional and nonprofessional job opportunities and business opportunities for domestic firms. FDI determinants differ from developed and developing countries; it's based on economic infrastructure, transportation and fundamentals significance in attracting FDI from developed countries and developing countries. FDI from developed countries are interested to large market size, well infrastructure, startup costs, advanced labor technology, while startup cost play a more substantial role in attracting FDI from developing countries. The determinants found significant are large market size, potential market size, lower labor cost. The effect of FDI policies also vary according to the country status of economic development, lower tariff rate, economic and political stabilities are the important determinants of FDI from developed economically to less developed countries. Also, better incentives are significant in attracting FDI from developed countries. The above outcomes from study, high point the importance of good government policies in attracting inward FDI into developing countries; it states despite from economic and infrastructure development FDI policies of host government play a significant role regarding to FDI. Elimination of constraint on the operations of the foreign firm in the operating country that matters the most important issue, typically when an FDI come from a developed country; also regarding FDI investment protections and general regulation provision for settlement dispute.

Further study shows, FDI benefits local industries and provide opportunities for modernization and up-gradation, influence host country productivity, making domestic industries internationally competitive by providing backward and forward partnership and access to international experience. Despite it, FDI as one of the cores and faster component of globalization, that bring some certain advantages to the national country by making a contribution to national economy GDP and Gross Fixed Capital Formation (GFCF). Afghanistan is one of the country where hosts a few number of Foreign investment specifically on telecommunication sector. The growth of telecom is one of the core features of economic and development of a country. To be mentioned, Telecommunications considered as one of the most dynamic factors of economic and development factor. Specifically, Contribution of telecommunicating on the development and economic is an assessment of productivity that how a host country benefits from spills over of telecommunication. More economic integration and Cooperation can encourage new opportunities and lead to larger markets for traditional products and contribute to varying the domestic economic structures. UNCTAD (2008, p. 6) argued that increased economic integration within the South Asia region may benefit mutually intraregional trade in goods and services and bilateral investment.

## **Acknowledgement**

I would like to thank Asst. Pro. DrEminiZyitinli for her professional assist during the study, and thanks to IAU management and social science staff for guidance and their tirelesswork to deliver standard education environment.

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