Commentary
Volume 13:01, 2025

Journal of Global Economics

ISSN: 2375-4389

Open Access

FDI: Development, Environment and Policy Driver

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Introduction

Foreign Direct Investment (FDI) is a critical component of global economic integration, playing a pivotal role in shaping economic landscapes, fostering innovation, and influencing sustainable development in diverse economies. Understanding its varied impacts and the factors that govern its attraction remains a central focus for policymakers and researchers alike. Extensive literature explores these dimensions, offering nuanced insights into how FDI drives progress and poses challenges across different contexts.

One study emphasizes the intricate link between foreign direct investment and sustainable development in developing countries. It highlights a positive influence on economic and social spheres, yet observes a negative impact on environmental sustainability. This suggests an urgent need for policy adjustments aimed at attracting and harnessing green FDI[1].

Research also delves into how foreign direct investment significantly impacts technological innovation and subsequent economic growth within emerging economies. This work positions FDI as a key driver for both innovation and overall economic prosperity in these regions[2].

Another analysis points to the crucial role of institutional factors, such as political stability, the quality of regulatory frameworks, and the prevalence of corruption, in drawing foreign direct investment globally. It reveals that strong institutional environments are indispensable for encouraging substantial FDI inflows[3].

The effect of foreign direct investment on climate change mitigation efforts in developing countries has also been examined. This research indicates that FDI has varied impacts, potentially contributing to environmental degradation while simultaneously offering pathways for the adoption of cleaner technologies[4].

A study explores whether a nation's economic complexity influences its capacity to attract foreign direct investment. The findings suggest that higher economic complexity often signals a more sophisticated and appealing environment for FDI, particularly in developing nations[5].

The collective effects of foreign direct investment, trade openness, and financial development on economic growth, specifically within ASEAN countries, have been evaluated. This research confirms their combined importance in fostering regional economic expansion[6].

Furthermore, the impact of institutional quality on attracting foreign direct investment in developing economies has been investigated. The findings underscore that robust institutional frameworks are crucial determinants for securing stable and beneficial FDI inflows[7].

The interplay between foreign direct investment, renewable energy consumption, and environmental quality in BRICS economies forms another area of inquiry. This analysis shows how FDI can significantly influence a country's transition to green energy and its overall pollution levels[8].

The dual role of human capital and foreign direct investment as fundamental drivers of economic growth is highlighted through panel data analysis. This research demonstrates their synergistic relationship in promoting national development[9].

Finally, a study focuses on the impact of the digital economy and foreign direct investment on green total factor productivity in China. It proposes that digitalization and FDI can work together to enhance environmental efficiency and drive sustainable growth[10].

These diverse research perspectives collectively contribute to a comprehensive understanding of FDI, its economic and environmental ramifications, and the key determinants of its flow, offering essential guidance for policy formulation and strategic development in an interconnected global economy.

Description

Foreign Direct Investment (FDI) consistently emerges as a powerful catalyst for economic growth and technological advancement across various economies. For instance, research explicitly states that FDI drives technological innovation, leading to subsequent economic growth in emerging economies [2]. This highlights its role as a significant propeller for both innovation and overall economic prosperity in these regions. Similarly, in the context of ASEAN countries, a study demonstrates that FDI, when combined with trade openness and financial development, plays a crucial role in fostering regional economic expansion [6]. The synergistic relationship between human capital and foreign direct investment is also recognized as a key driver for economic growth, promoting national development through panel data analysis [9]. These findings collectively underscore FDI's fundamental contribution to economic vibrancy and development, particularly in nations striving for sustained growth.

The relationship between foreign direct investment and environmental outcomes is complex and nuanced. While FDI often brings economic benefits, its impact on environmental sustainability can be negative, as observed in developing countries where it positively influences economic and social development but negatively affects the environment [1]. This suggests a critical need for policy adjustments to attract 'green FDI' which aligns with environmental goals. Another study further explores the dual nature of FDI's effect on climate change mitigation in developing countries. It shows that FDI can both contribute to environmental degradation and introduce avenues for cleaner technologies, presenting a mixed picture of its ecological footprint [4]. Furthermore, in BRICS economies, the interplay between

FDI, renewable energy consumption, and environmental quality is significant, indicating FDI's potential to influence a country's green energy transition and pollution levels [8]. This emphasizes the importance of strategic oversight to guide FDI towards environmentally friendly practices.

The ability of a nation to attract foreign direct investment is heavily dependent on its intrinsic institutional and economic characteristics. Robust institutional frameworks are repeatedly identified as critical determinants. For example, the quality of regulatory frameworks, political stability, and the level of corruption are critical factors globally, with strong institutions proving essential for encouraging FDI inflows [3]. This perspective is reinforced by another investigation focusing on developing economies, which concludes that high institutional quality significantly influences the attraction of stable and beneficial foreign direct investment [7]. Beyond institutional strength, a country's economic sophistication also matters. Research indicates that higher economic complexity often signals a more advanced and appealing environment for FDI, particularly within developing nations, suggesting that a diverse and complex economy can be a magnet for foreign investment [5].

Newer research explores the evolving dynamics of FDI in the context of the digital era and specific regional strategies. The impact of the digital economy, alongside foreign direct investment, on green total factor productivity in China has been studied, suggesting that digitalization and FDI can collaboratively enhance environmental efficiency and promote sustainable growth [10]. This highlights how modern economic shifts are creating new pathways for FDI to contribute to sustainability. Region-specific analyses, such as those focusing on ASEAN countries, affirm the collective importance of FDI, trade openness, and financial development in fostering economic expansion within that specific regional bloc [6]. These studies reveal the diverse mechanisms through which FDI contributes to development, from fostering innovation and economic growth to influencing environmental quality, all while being shaped by institutional quality, economic complexity, and technological integration. The varied findings across these investigations provide a comprehensive view of FDI's role and its dynamic interaction with global and local factors.

Conclusion

Foreign Direct Investment (FDI) plays a multifaceted role in the development trajectories of countries, particularly in emerging and developing economies. Research indicates a consistent positive influence of FDI on economic growth and innovation. For instance, FDI drives technological innovation and economic prosperity in emerging economies, fostering overall development. This positive impact extends to regional contexts, where FDI, alongside trade openness and financial development, collectively promotes economic expansion in regions like ASEAN. Beyond direct economic benefits, the interplay between FDI and sustainable development is complex. Studies reveal that while FDI can positively affect economic and social development, its impact on environmental sustainability is often negative, necessitating policy adjustments to attract green FDI. Furthermore, the relationship between FDI and climate change mitigation shows varied effects; it can contribute to environmental degradation while also introducing cleaner technologies. In BRICS economies, FDI's influence on renewable energy consumption and environmental quality highlights its potential to shape green energy transitions and pollution levels. The digital economy, in conjunction with FDI, can enhance environmental efficiency and sustainable growth, particularly evident in countries like China. The ability of countries to attract FDI is significantly influenced by intrinsic factors. Strong institutional frameworks, encompassing political stability, regulatory quality, and low corruption levels, are crucial determinants for encouraging FDI inflows globally. Similarly, a country's economic complexity, which reflects a sophisticated and attractive environment, positively affects its capacity to draw FDI in developing nations. Human capital also emerges as a key driver, demonstrating a synergistic relationship with FDI in promoting national development. Collectively, these studies underscore that while FDI is a powerful catalyst for economic advancement and technological progress, its environmental implications must be carefully managed through targeted policies. The attractiveness of a nation to FDI inflows is deeply tied to its institutional robustness, economic structure, and human resource development, emphasizing a holistic approach to leveraging the benefits of global investment.

Acknowledgement

None.

Conflict of Interest

None.

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How to cite this article: Mehta, Rajesh." FDI: Development, Environment and Policy Driver." *J Glob Econ* 13 (2025):502.

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Received: 01-Jan-2025,ManuscriptNo.economics-25-172306; **Editor assigned:** 03-Jan-2025, PreQC No. P-172306; **Reviewed:** 17-Jan-2025, QC No. Q-172306; **Revised:** 22-Jan-2025, Manuscript No. R-172306; **Published:** 29-Jan-2025, DOI: 10.37421/2375-4389.2025.13.502