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Foreign Direct Investment. A Review of the Determinants and Economic Effects

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Bibliographic information published by the German National Library:

The German National Library lists this publication in the National Bibliography; detailed bibliographic data are available on the Internet at <http://dnb.dnb.de> .

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Imprint:

Copyright © 2019 GRIN Verlag
ISBN: 9783346218612

This book at GRIN:

<https://www.grin.com/document/901015>

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Foreign Direct Investment – A Review of the Determinants and Economic Effects

Freie wissenschaftliche Arbeit zur Erlangung des Grades eines
Bachelor of Science an der Fakultät für Betriebswirtschaft
der Ludwig-Maximilians-Universität München

Submitted by: Antonia Raphaela Haberger

Munich, 20th December 2019

Abstract

Both the drivers and effects of foreign direct investment (FDI) are complex and multifaceted. This thesis provides a conceptual overview of a selection of the most frequently considered drivers and economic effects of FDI in literature. The overview aims to support host countries in providing targeted incentives to attract FDI by raising the awareness of controllable drivers. Drivers for selecting a specific host country are presented hierarchically according to their controllability by the host country. The governance infrastructure as a driver, for instance, is easier to control by the target country than market characteristics, cultural distance, or resource endowments. This thesis discusses the drivers according to their decreasing controllability, starting with political factors, followed by economic, social, and cultural, as well as geographical factors. The reasons why these factors may attract FDI are outlined in the respective subsections. Moreover, this overview presents the economic effects of FDI on the host country. These effects include increased competition or spillover effects from foreign to local companies. The composition of direct and indirect effects leads to the conclusion that all these effects impact economic growth, which represents both a driver and an effect of FDI simultaneously. Thus, this thesis refers to the dependencies between drivers and effects with their inter-related factor economic growth. Further, it is argued that the effects of FDI are significantly interdependent among each other. Therefore, the realization of specific effects, such as economic growth, strongly depends on conditions and specific characteristics, such as the particular threshold level of human capital in the host country.

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