

Inward Foreign Direct Investment in Emerging Economies: A Review and Future Research Avenues

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Abstract

Purpose: Given the surge in foreign direct investment (FDI) in emerging economies (EEs) during the last four decades, inward FDI (IFDI) has spawned a rich, scholarly conversation on the topic. This paper aims to review the literature regarding EE IFDI determinants and the impact of IFDI on those economies. It also aims to provide some future research directions.

Design/methodology/approach: A systematic review with thematic analysis of 372 articles on the topic, published between 1991 and 2021, is undertaken. In addition to using the relevant keywords, the snowballing approach was used to manually track literature.

Findings: The review highlights EE IFDI determinants such as institutional quality, corruption and intellectual property rights, regional trade agreements and distances, formal and informal institutions and their interactions, national and subnational diversity, and policy expectations. Further, IFDI impacts EEs both at macro- and micro-levels. The review also indicates a substantial increase in research during the period 2000 to 2010 and a decline thereafter; it also indicates Africa and Latin America being under-researched, with a focus on Africa recently increasing.

Research limitations/implications: Rich research opportunities exist in examining the mechanisms (mediators) and conditions (moderators) that influence relationships between the antecedents of IFDI and their outcomes. Further opportunities exist in examining the role of the context and in undertaking a multi-level analysis.

Originality/value: The review provides an understanding of what influences MNE's FDI to EEs and how it impacts those economies. It also raises potential future research questions. It provides a holistic understanding of the chosen scope and domain.

Keywords: Inward foreign direct investment, emerging economies, literature review

Introduction

Since the 1980s, emerging economies (EEs) have become very attractive destinations for inward foreign direct investment (IFDI). Up from 16.9% in 1989, they accounted for 53% of global FDI flow by 2021 (UNCTAD 2022). As such, not only do EEs offer a prominent context for IFDI or growth of many multinational enterprises (MNEs), but IFDI also presents the largest source of external finance for EEs and is critical to these economies' national development strategies. Unsurprisingly, extensive scholarly works investigating the phenomenon of IFDI in EEs can be found (Lancan, 2021; Zhang, 2020). Hence, the research is ripe for reviews to take stock of the current knowledge and identify opportunities for future studies (eg Bai, Du, & Solarino, 2018; da Silva-Oliveira, de Miranda Kubo, Morley, & Cândido, 2021; Palmatier, Houston, & Hulland, 2018). The present study aims to continue tackling the issue.

Research on FDI has always been the backbone of the international business literature. In his pioneering works, Dunning introduced the eclectic paradigm, also known as the OLI framework, in order to theorise about FDI as MNEs' decision-making outcomes, based upon external and internal factors (Dunning, 1980, Dunning and Lundan, 2008). The Ownership (O) and Internalisation (I) advantages are described as push side factors, arising from firm-specific resources and capabilities, whereas the Location (L) advantage, being the pull side factor, is largely host-country specific. These three categories of advantages/factors jointly explain firms' rationales for undertaking FDI; however, including them all in a single review can be a daunting task. Rather, we have narrowed our focus carefully on the location aspect because it is linked closely to the fundamental features of EEs, which distinguish them from advanced economies (AEs). For example, Luo and Tung (2007, p.483) stated that EEs represent "...countries whose national economies have grown rapidly, where industries have undergone and are continuing to undergo dramatic structural changes, and whose markets hold promise despite volatile and weak legal systems", whereas in AEs, there is more stability of markets, institutions and policy directions.

Thus, we believe that our review can produce valuable findings on EEs' location characteristics, which lead to IFDI. Note that the review does not address 'how' the investments are undertaken by foreign firms because it relates to the issue of market entry or entry mode, which has been reviewed extensively in past years (Hennart & Slangen, 2015; Shaver, 2013). Moreover, we are concerned with the impact of IFDI as part of the review, given the notion that these investments, as well as the MNEs, play a pivotal role in the development of EEs (Meyer, 2004). Specifically, we shed light on the macro-level impact, such as the economic

growth and trade, as well as the micro-level impact including technological spillovers; the impact on host country policy is also highlighted.

In short, the two research questions guiding this review are: (1) what are the location factors that explain IFDI in EEs? and, (2) how does IFDI impact EEs? By addressing these questions, we expect to also identify gaps and opportunities for future research. In this way, our work is complementary to a recent review by Bai et al. (2018) who examined the performance implications for MNEs entering EEs, and da Silva-Oliveira et al (2021) who mapped the literature using bibliometric analysis and discussed a range of themes, such as location choice, theoretical frameworks, institutional environment, innovative FDIs and capital flows.

Based on the systematic literature review (Moher et al., 2009) with thematic analysis of IFDI literature for the last 30 years (Braun & Clarke, 2006), we identified a range of location factors (including institutional quality, corruption and intellectual property rights, regional trade agreements and distances, formal and informal institutions, national and subnational diversity, and policy expectations) that may induce IFDI in EEs. Further, IFDI's macro-level impacts, such as growth, development and trade, and micro-level spillover effects are probed – including their contingency upon country-, industry- and firm-specific attributes. These findings offer a holistic understanding of the chosen phenomenon and further help us to stay updated about the current progress in and state of the field, which makes a valuable contribution to the literature (Lim, Kumar, & Ali, 2022). In addition, we also contribute to the literature by suggesting some future research directions, such as undertaking multi-level studies, incorporating the underlying moderators and mediators, and cross-industry and cross-country comparisons, and examining the policy dimensions.

The rest of the article is structured as follows: the next section discusses the review methodology, including the process, methods and some descriptives; the following two sections are on location determinants and the impact of IFDI; the last section presents some future research avenues and provides concluding thoughts.

Literature Review Methodology

We used a systematic literature review with thematic analysis to collect and synthesise research on IFDI in EEs. Moher et al (2009) suggest four steps to undertake systematic literature reviews: identification, screening, eligibility, and inclusion. As a first step, databases are searched, and additional records from other sources are identified. Then, the data are screened for duplicates and only eligible articles are reported along with reasons for any exclusions. This

leads to the final number of studies included in the analysis followed by an appropriate analysis, which is the thematic analysis for this study.

For identification of the relevant studies, we focused on both empirical and conceptual studies undertaken between 1991 and 2021 on IFDI's impact and location attractiveness factors in EEs. The starting period is 1991 as it marks the EEs' share in global FDI inflow by more than 15% (UNCTAD 1991). The review process started with the search of articles from the Web of Science (ISI) database (search performed in June 2018 and updated in June 2022) (Fetscherin et al., 2010, Perri and Peruffo, 2016). We searched Web of Science (ISI) using various filters (in the title, abstract, keywords and the main body) such as 'foreign direct investment', and 'FDI' in combination with the other two filters namely 'inward' and 'emerging economy' or 'EE'. Further, the emerging economy/EE filter was replaced with 'developing country', 'China', 'India', 'Latin America' and 'Africa'. These searches were made within the subject areas 'Economics', and 'Management'. However, systemic search of the database and the use of keywords sometimes fail to detect important evidence relevant to the topic (Greenhalgh and Peacock, 2005). To compensate this limitation, we used 'snowballing' by manually tracking references found in the previous search of Web of Science database articles. In terms of screening the collected literature, we excluded book, book chapters, as well as proceedings papers published in journals.

In total, 687 articles were identified out of which only eligible articles were included in the study. The eligibility criteria include being conceptual or empirical studies, having an IFDI and EE focus, and studies conducted during the last 30 years (1991 to 2021) and have been published on the Chartered Association of Business Schools' Academic Journal Guide 2021 (AJG) List and the Australian Business Deans Council (ABDC)'s 2019 list (ranked B and above). Using the inclusion criteria, we end up with a collection of 372 articles in 109 different academic journals. Out of these articles, 49% (181 articles) were published in 32 reputed journals ranked as 4*, 4, and 3 in the AJG list. Among the 32 reputed journals, 17 are Management journals and rest of the 15 are Economics journals. The higher proportion of the sample articles from the journals (51%) ranked below 3 in the AJG list – perhaps because of the context of the study, which is IFDI into EEs.

The temporal patterns (Table 1) indicate a surge in publications during the period between 2001 and 2010 period and a decline after that (between 2011 and 2021), with the majority of articles published in the economics domain. It is likely, because of the maturity of the field over two decades, that this has resulted in some decline in the third decade. In terms of the geographical patterns (Table 2), 61% of the studies on EE FDI are on Asia, 10% on other

EEs, 99% in Latin America and the Caribbean, and 11% of studies did cross country comparisons. This bias towards China is attributable to its economic reform since the 1970s through its adoption of policies promoting FDI inflow, initiating structural changes and complying with World Trade Organization (WTO)'s obligations (Fung et al., 2004). The temporal distribution indicates that scholarly focus on the African region has increased in the second decade and has sustained that growth in the third decade.

Table 1 and Table 2 about here

In terms of industry coverage, about two-thirds of articles (255 out of 372) did not mention the industry scope. This shows a gap of industry-specific studies. Out of the remaining 125 studies, a vast majority (102) are based on manufacturing industry, 10 on service industry and five are comparative studies. Out of the 372 studies there are 29 qualitative and the rest are quantitative studies. The main quantitative methodologies used are ordinary least squares regression, panel data models, generalised methods of moments, generalised least squares and logistic regression. There is established conceptual and empirical research in the context of AEs. Following the similar theoretical considerations found in AEs, scholars have put more focus on finding quantitative evidence on the topic such as FDI motives and impacts of policy in the context of EEs.

We undertook thematic analysis to identify, analyse and report themes in the collected literature. Nowell et al (2017) note that thematic analysis provides a flexible approach with fewer prescriptions and procedures and enables key features of large data sets to be summarised. However, flexibility can lead to inconsistency and lack of coherence. Thus, trustworthiness must be established. We ensured trustworthiness through prolonged engagement with data, discussion of initial codes/themes among the authors in order to finalise the final meaningful codes and keeping all these records on an Excel sheet (Nowell et al., 2017). While undertaking thematic analysis, we followed five phases of thematic analysis, as suggested by Braun & Clarke (2006): data familiarisation, generating initial codes, searching for themes, reviewing themes, defining and naming themes and producing the final output. We summarised the studies in an Excel sheet with various columns such as journal name and rank, year published, authors, key research question, methods, data analysis techniques, key findings, themes, and comments, which were our interpretations for the findings etc. We discussed the generated Excel sheet to create overall themes and sub-themes. We clubbed all the generated themes into two broad themes, namely location attractiveness factors and impact on EEs, which are discussed below, along with relevant subthemes.

EE IFDI Location Attractiveness Factors

In response to the first research question, six subthemes regarding EE's location factors for IFDI appeared in the literature: institutional quality, corruption and intellectual property rights, formal and informal institutional interactions, regional trade agreements and distances, regional variances, and policy expectations.

Institutional quality

Host country institutional quality is one of the major determinants of IFDI. Previous scholars focusing on IFDI determinants from the perspective of AEs mainly examined the host impact of good institutions (Bénassy-Quéré et al., 2007; Wheeler and Mody, 1992). Indeed, economies with good institutions face less uncertainty and higher productivity prospects, which attract foreign investment. However, the quality of institutions matters much more for FDI inflows in EEs as these economies usually suffer from uncertainty stemming from poor governance, high levels of corruption, weak legal systems and unstable political conditions that increases the cost of doing business (Blonigen, 2005; Globerman and Shapiro, 2003). Finally, poor institutions lead to poor infrastructure, with subsequent corporate profitability loss, and make the chance of foreign investment less likely. Hence, scholars focus on host institutional quality such as reliability of legal systems, transparency of government policies, size and type of government, privatisation and so on, as institutional determinants of IFDI in EEs (Asiedu, 2006; Emudainohwo et al., 2018; He and Sun, 2014; Uddin et al., 2019). Such findings articulate that EEs can improve their domestic investment climate through financial liberalisation, tax and tariff reforms, transparency of contracts, reducing corruption and bureaucracy, and reducing government ownership of businesses, and so on.

Economic fundamentals such as market size, real exchange rate, per capita income, and controlled currency risk also improve the locational advantages of EEs as well as promote FDI inflows (Swamy and Narayanamurthy, 2018; Tang et al., 2014). Of additional importance are infrastructure development (Zhang, 2001b), labour quality (Lin, 2011), influx of foreign aid (Anyanwu, 2012), higher education levels and lower delinquency (Escobar Gamboa, 2013), and budget balance (He and Sun, 2014), trade cost (Paul & Jadhav, 2019), freedom to trade and civil liberty (Uddin et al., 2019).

Corruption and intellectual property rights

The conventional understanding that corruption is an informal institution that can obstruct FDI inflows to the host country (Habib and Zurawicki, 2002, Wei, 2000), is revisited with the

refined concept of ‘corruption distance’, which exerts an asymmetrical impact on IFDI (Godinez and Liu, 2015). Furthermore, sectoral transparency can moderate the negative influence of corruption on IFDI, as foreign investors value private sector transparency over public sector transparency due to the presence of corruption, bureaucratic inefficiency and weak enforcement of the rule of law in the public sector (Seyoum and Manyak, 2009). Similarly, Mudambi et al. (2013) explain corruption as an endogenous part of regulatory institutions without an independent influence on IFDI.

Interestingly, foreign investors particularly put more emphasis on formal institutions related to Intellectual Property Rights (IPR) protection, while making their FDI decisions in EEs (Du et al., 2008; Nguyen, 2020). This is explained by the prominence of imitation (knowledge spillover) in EEs. Most notably, several articles have focused on country- and firm-specific attributes that have moderated the impact of formal institutions on IFDI flows. For example, host country MNEs’ innovative activity (Mathew and Mukherjee, 2014), level of economic development (Awokuse and Yin, 2010) and adoption timing of Intellectual Property Rights (Khoury and Peng, 2011) have been found to mitigate the role of Intellectual Property Rights on IFDI. Furthermore, Ezeoha and Cattaneo (2012) find that linkage between formal institutions and FDI inflows to EEs is moderated by the host country’s natural resource endowment.

Formal and informal institutional interactions

Unlike formal institutions, informal institutions have received limited attention in the literature, though both formal and informal institutional pillars play prominent roles in legitimising EEs in the eyes of foreign investors. Indeed, institutions legitimizing through informal components (such as level of education, political stability, bilateral treaties) are better indicators of IFDI than those legitimising through formal components in EEs (such as corporate tax rates, trade openness, trade reform) (Trevino et al., 2008). Besides, informal institutions, because of the uncertainties and turbulence in the EE context, aid formal institutions to adopt informal rules, thereby creating a lingering legacy effect that positively influences inward FDI (Zhang, 2020)

Following the trend of teasing out intricacies of institutional dimensions, studies further examine how formal and informal institutional interactions influence IFDI in EEs. For example, cultural dimensions in interaction with regulative dimensions behave differently as power distance and indulgence positively interact, while individualism, masculinity and uncertainty avoidance interact negatively (Kayalvizhi and Thenmozhi, 2018). Consistently, the established wisdom that political freedom positively attracts foreign investment inflows to the

host country (Suliman and Mollick, 2009) is now replaced with a deeper understanding of why and under which circumstances foreign investors value economic freedom while overlooking political freedom when investing in emerging economies (Mathur and Singh, 2013).

Regional trade agreements and distances

The regional trade agreements (RTAs) signify both economic cooperation as well as cooperation on the political and institutional fronts. Through securing political legitimacy and harmonizing regulatory and institutional frameworks, RTAs increase FDI inflows in EEs. The potential for RTAs to affect IFDI depends on the type of regional grouping and position of countries within a regional grouping (Te Velde and Bezemer, 2006).

Multiple scholars (Li & Maani, 2018; Neumayer and Spess, 2005; Park and Park, 2008) verify that membership of RTAs contributes positively and significantly to IFDI in EEs. However, these findings contrast with the AEs' findings, which show that RTA memberships have little impact on the IFDI pattern of these economies (Blomström and Kokko, 1999b; Jang, 2011). In fact, RTAs especially affect locational advantages on which EEs rely in order to attract IFDI, whereas AEs rely on ownership and internalisation. As a result, membership in RTAs exert greater positive influence on the flow of IFDI into EEs.

In contrast to previous research in the AE context, geographical distances are less influential in determining IFDI into EEs (Naudé and Krugell, 2007; Thomas and Grosse, 2001; Zheng, 2009). It may be due to fact that advancement in communications and transport technologies make geographic distance less important in explaining IFDI into EEs. Moreover, it also challenges the conventional wisdom by stating that geographic distance does not necessarily create obstacles for FDI inflows, if host countries own the required factors and resources to support foreign investors to achieve efficiency. These results support Dunning's argument that foreign investors are either market seeking or efficiency seeking in investing EEs in order to take advantage of their larger market size and abundance of low-cost labour (Dunning and Lundan, 2008).

National, subnational and regional variances

IFDI motives and locational determinants vary both at national, sub-national and sub-regional level. Host country policy alignment to these varied motives is likely to attract more IFDI. Nationality of ownership of MNEs may have differential motives in investing to a particular host country. For example, non- Chinese Western (NCW) investors have market seeking compared to Hong Kong, Macau and Taiwan (HMT) investors who have efficiency seeking

motive for their investment decision in China (Wang et al., 2009). Their differential activities again clarify the different set of investment policies that China offer to foreign investors over the time and those different policies attract investors with different motives in China. Similarly, advanced home economies focus on efficiency-seeking purpose to exploit cheap labours in India, while emerging home economies focus on market-seeking motive to utilize the larger domestic markets in India (Zheng, 2009).

Regional-level research reveals how foreign investors choose host location by evaluating sub-regional groups' structural characteristics (Okafor et al., 2015) and the existence of regional investment clusters (Nicholas et al., 2001). These findings emphasise that, to attract the right group of investors, host countries need to formulate FDI policies that consider both their desirable IFDI patterns, and home country characteristics and FDI motives.

At subnational level, which considers existence of the subnational regional variance within large countries, variations in economic openness, differences in economic indicators are the major determinants of disparities in IFDI among subnational regions (Zheng, 2011). The factors unique to particular micro-regions and the type of investment being made contribute to differences in locational determinants. For instance, MNEs from AEs, especially service-sector MNEs, prefer to locate in metropolitan areas within China (Chadee et al., 2003). Metropolitan cities' well-developed infrastructural facilities and their advanced technological base explain the choice of such locations. This kind of activity further creates subnational agglomeration in larger cities in the host countries, which draws additional IFDI. Furthermore, scholars also highlight the importance of subnational institutional variables such as political and business centres (Ma & Delios, 2007; Ma et al., 2013), local government sponsored incentives in the form of Special Economic Zones (Zhou et al., 2002), spatial interdependencies between subnational locations (McDonald et al., 2018), and coevolution of organisational and subnational institutions (Meyer and Nguyen, 2005) to provide an investment environment that is conducive to foreign investors.

Policy expectations

A stream of researchers explains IFDI determinants from a point of view that focuses on the formation of policies that aim to increase host locational attractiveness for FDI inflows. This dimension is important for host countries, as Oxelheim and Ghauri (2008) find; for instance, China's increased attractiveness as a prospective FDI location is attributable to its growing use of investment policy measures. Chinese FDI promotion strategies evolved by stages and by gradually attracting foreign investors through the creation of special economic zones in

different regions as well as the promotion of preferential tax treatment to MNEs. A host country's national and regional FDI incentive policy determines its regional distribution of FDI (Zhang, 2001b), and the role of local authorities in improving the investment environment (Hoang and Goujon, 2014). Surprisingly, the likelihood of IFDI decreases if the EE host country adopts tougher policies regarding environmental regulations (Li, Lin & Wang, 2022).

However, to eliminate FDI diversion arising from the rivalry effect between neighbouring countries, potential host countries may negotiate to adopt a harmonised FDI tax policy on foreign investment by limiting any particular host countries' ability to attract higher FDI inflows than others (Glass and Saggi, 2014). These policy implications explicitly aim for the improvement of the institutional environment, promotion of trade liberalisation and support for human capital accumulation to ensure greater benefit from global integration. However, the influence of policy instruments varies based on the temporal changes in investors' motivation in the host country (Zhou et al., 2002). Host governments need to understand investors' motives well and update FDI policy instruments accordingly.

Similarly, foreign investors have different expectations of a host country's FDI policy. For instance, compared to non-Hong Kong investors, Hong Kong investors have diverse expectations regarding the Chinese FDI-promoting policies (Ng and Tuan, 2001). However, non-Hong Kong investors' expectations fail to be lived up to after their investment decision. This is due to Hong Kong investors being physically and culturally closer to China and better informed regarding developing genuine expectations regarding FDI-promoting policies. To cater for such differential expectations, a host government should design FDI policies that consider the special needs of investors. Besides, FDI policies also differ by regions. It is not feasible, nor acceptable, to have a uniform FDI-promoting policy. For instance, capital control policies show a neutral effect on FDI inflows to sub-Saharan Africa and the Middle East, but a negative effect on FDI inflows to East Asia and Latin America (Asiedu and Lien, 2004).

Overall, determinants and motivations for IFDI change over time because of the shift in the nature of FDI, improvement in investment environments, a variation in their competitive nature, and introduction of new economic geography in host countries. Relatedly, the research stream around IFDI determinants is slowly moving from a country-centric approach towards a disaggregated subnational approach (such as cluster, state/province, cities,) in explaining foreign investment behaviour of MNEs. Therefore, scholars can integrate both organisational perspective as well as subnational spatial dynamics to better explore the IFDI determinants in EEs.

IFDI's Impact on EEs

In response to our second research question on how IFDI impacts EEs, four main themes emerged from the literature: macro-level effects, micro-spillover effects, negative effects and policy perspectives.

Macro-level effects

One strand of the literature focuses on the macro-impact of IFDI on growth, development and trade. Whalley and Xian (2010) investigate the effect of FDI inflows on China's economic growth and find that Foreign Invested Enterprises (FIE) in China contributed over 40% of economic growth between 2003 and 2004. Besides, sustainability of China's future growth also relies on the performance of the FIE sub-economy. IFDI contributes to a host country's economic growth through several direct and indirect avenues. Studies based on the neo-classical growth model argue that IFDI impacts host country economic growth directly through sponsoring capital formation (Chen et al., 1995, Fedderke and Romm, 2006), transferring technological and managerial know-how (Hansen and Rand, 2006, Liu et al., 2001), and indirectly through increasing labour productivity (Blomström and Sjöholm, 1999, Ramirez, 2006), and generating higher returns in domestic production via externalities (De Mello Jr, 1997, Liu, 2002).

Another equally important stream of research has focused on how these macro-growth effects vary, depending on country-specific, industry-specific and firm-specific attributes. For example, a host country's financial system (Ang, 2009), conducive foreign investment environment (Nunnenkamp, 2004), geographic location (Sanfilippo and Seric, 2016), host country's absorptive capacity (Alguacil et al., 2011), host country's institutional development (Wang et al., 2013), human capital (Zhang, 2014), entry tenure of foreign firms (Zhang, Li & Li, 2014) and firm level absorptive capacity (Adams, 2009), have been found to improve the foreign investment's impact on economic growth. Moreover, agglomeration, created through geographical proximity of foreign and local firms, has had an impact on productivity growth (Jordaan and Rodriguez-Oreggia, 2012, Zhang, 2001a), which is higher than the growth that arises from dispersed FDI (Thompson, 2002).

Interestingly, MNEs with R&D activities as opposed to MNEs without R&D activities exert more influence on host economic growth, though reliance on foreign partners reduces indigenous R&D expenditure (Fan and Hu, 2007). Similarly, the phenomenon of IFDI's growth impact across the board is challenged, as it found to be more region specific and sector specific, creating regional and sectoral disparity (Xu and Sheng, 2012). However, input-output linkages

among different regions may compensate for regional disparity by interregional spillovers-transmitting regional growth stimulus to other regions (Ouyang and Fu, 2012, Zhang and Felmingham, 2002). Cross-sector spillover, through its transitory effect, may also offset sectoral disparity (Chakraborty and Nunnenkamp, 2008).

Another stream of literature focuses on the effects of FDI on innovation gains. Using Chinese provincial data, Cheung and Ping (2004) and Fu (2008) argue that FDI has a positive impact on the development of regional innovation capacity. The impact on innovation capacity is conditional on the availability of absorptive capacity, access to finance, a host firm's existing technological capabilities, industrial structure and obtainability of innovation complementary assets in the host region (Jin, Garcia & salomon, 2019; Lew and Liu, 2016; Wang et al., 2016). Besides, Wang and Wu (2016) highlight geographical proximity of foreign-invested firms on Chinese electronics industry's innovation capacity. They find that localised innovation-related activities of foreign-invested firms, not merely FDI presence, significantly facilitate domestic firms' product innovation. The FDI-led innovation stream of research is understudied due to the proprietary nature of innovation and the related intellectual property rights issues in production technologies. Other groups of researchers focus on labour productivity, which underlies the assumption that FDI increases capital formation, improves efficiency and eventually affects host country labour productivity. Previous empirical works provide support for the view that FDI affects labour productivity in Mexico (Kokko, 1994), China (Buckley et al., 2002, Yi et al., 2015), Vietnam (Nguyen, Sun & Beg, 2019), (Indonesia (Takii, 2005), Africa (Gui-Diby and Renard, 2015) and India (Marin and Sasidharan, 2010).

Another interesting stream of research exploring the impact of IFDI on trade provides evidence of increased export propensity of recipient firms (Kemme, Nikolsko-Rzhevskyy, & Mukherjee, 2014), export upgrading (Li, Liu, & Zhao, 2021), higher OFDI (Chen, Zhan, Tong, & Kumar, 2020; Reyes, Newburry, Carneiro, & Cordova, 2019), and direction of EMNEs' upward or downward OFDI (Gao, 2021). Additionally, a positive impact of IFDI is found on migrant remittances (Piteli, Kafouros, & Pitelis, 2021), local wages (Girma, Görg, & Kersting, 2019; Nguyen, 2019), women's economic status (Yu, Zhang, & Wen, 2019), and host firm's corporate social responsibility performance (Nyeadi, Adjasi, & Akoto, 2021).

Scholars incorporating an endogenous economic growth model are interested in uncovering the two-way link between IFDI and economic growth, and in turn, explaining the surge of foreign inflows into EEs. The two-way link, which has both short- and long-term dimensions, stems from the fact that foreign inflows increase host economic growth, whereas host growth prospects attract further foreign investment. More emphasis has been placed on

FDI-led growth causality than on the reverse causality, growth led FDI, and focus on both short- and long-term dimensions together are few. Empirical results show that direction of causality is country-specific and has significant impact on formulating FDI-related policies. In total, the empirical evidence of macroeconomic FDI-growth relationship is evident in literature, but whether FDI triggers economic growth or economic growth brings FDI is still unresolved.

Micro-spillover effects

IFDI may generate spillover to domestic firms in EEs. However, the occurrence of spillover is not automatic (Kokko, 1996) and the spillover outcome varies across countries and sectors (Grether, 1999). According to Buckley et al., 2007b, ‘‘...there is little controversy within existing theoretical research on the causes of spillovers, but a considerable amount of debate within empirical work to date, largely because the evidence on spillovers remains stubbornly inconclusive’’.

A partial reason for inclusiveness is that magnitude of spillover is conditional on the characteristics of both host country and MNEs (Blomström and Kokko, 1999a). For example, nationality of ownership of MNEs (Buckley et al., 2002, 2007a), MNEs’ strategic focus (Marin and Sasidharan, 2010, Spencer, 2008), MNEs characteristics (Hansen et al., 2009) confer contrasting spillover effects from the MNE characteristics perspective. Likewise, region-specific institutional idiosyncrasies (Yi et al., 2015), heterogeneous ownership of local firms (Li et al., 2001), larger technology gap (Lai et al., 2009, Takii, 2005), productivity gap (Shen, wang & Lin, 2021), industry characteristics (Buckley et al., 2007b), variation in subnational institutional development in the host market (Xiao & Park, 2018), and local firms’ absorptive capacity (Blalock and Gertler, 2009) explain the asymmetric impact of spillover from the host country characteristics perspective. Besides, spillover effects may occur in different directions affecting both the foreign and local firms in a country (Liu et al., 2009).

At the same time, at micro-level, in-depth exploration on the extent of spillovers reveals intra- and inter-industry spillover from MNEs to local firms in a host country (Blalock and Simon, 2009, Wei and Liu, 2006). Intra-industry spillover occurs if FDI influences local firms in the same industry through demonstration effects and the movement of labour; whereas inter-industry spillover occurs if FDI influences local firms in other industries through backward and forward linkages. Interestingly, presence or absence of intra-industry spillover does not guarantee inter-industry spillovers and vice versa (Fedderke and Romm, 2006, Ito et al., 2012, Kugler, 2006). Again, both intra- and inter-industry spillover do not necessarily have symmetrical impact. A majority of scholars report a positive inter-industry but a negative intra-

industry impact (Jeon et al., 2013, Jordaan, 2008, Liu et al., 2009). While the results of inter-industry spillover effects are confirmatory, micro-level understanding of how they occur is still lacking. A small stream has focused on the importance of backward linkages over forward linkages in creating inter-industry spillover (Anwar and Nguyen, 2014, Liu, 2008). Therefore, the relative importance of the differences between backward and forward linkages and the absence of spillover effects from IFDI requires further attention.

Policy perspectives

From policy perspective, impact of foreign investment in the host country also depends on the quality of an investor's relationship with a host government (Sanyal and Guvenli, 2000) and the investor's willingness to contribute to the host country's productivity (Khan et al., 2015). For instance, FDI-supportive policy can secure significant foreign investors but cannot guarantee the creation of linkage effect. Institutional and organisational competence is required to reap the FDI linkage benefits and eventually improve the competitiveness of the host country. Host governments should develop comprehensive policy design considering both market-creating and non-market-creating institutions in order to promote MNEs' interactions with local firms to create linkage effects (Hatani, 2009). Countries adopting such comprehensive policies will focus on developing market-creating institutions such as property rights and rule of law along with upgrading non-market institutions through corroding business operations and linking research and development with education. From a policy maker's perspective, it is favourable to develop policies that fulfil the IFDI potential in a host country, while MNEs can still take advantage of domestic market opportunities.

Another policy dimension, centred on reaping FDI benefits, covers the formation of policies to utilise IFDI in a host country. IFDI provides a platform to integrate a host country's economy with the global economy and to reap spillover benefits to improve a host country's economic growth and development. According to Rodrik (1999), "Today's policy literature is filled with extravagant claims about positive spillovers from FDI, [but] the hard evidence is sobering." This, in part, depends on the nature of investment, but also on host government policy for obtaining development effect. The Indian pharmaceutical sector, in the absence of strong intellectual property protection and flexible FDI policy, observes knowledge spillover only between MNEs and not between MNEs and local firms (Feinberg and Majumdar, 2001). Besides, a liberalised FDI regime needs to be implemented with a liberalised trade policy regime to maximise the gains from FDI spillover (Kohpaiboon, 2006). MNEs may contribute to host economic productivity if FDI policy ensures alignment between IFDI and development

goals (Reiter and Steensma, 2010), and conditions for improving local firms' absorptive capacity (Ferretti and Parmentola, 2010). Not only FDI spillover, but the magnitude and direction of FDI spillover are also dependent on host industrial policy (Du et al., 2014). In order to utilise FDI fully, governments should focus on developing policies to strengthen local firms to compete efficiently with MNEs and to increase their absorptive capacity to obtain FDI spillover effectively.

Negative effects

A smaller stream of literature focuses on the negative impacts of IFDI, such as competition effects, employment reduction and pollution in developing countries. (Liu and Agbola, 2014, Wang et al., 2013). Increased competition by foreign entry not only provides lower prices and higher quality to consumers, but also creates a crowding-out effect on domestic firms. Studies relying on the competitive dynamics perspective explain the negative impact of foreign presence on domestic firms' survival rates (Chang and Xu, 2008); domestic firms' productivity (Aitken and Harrison, 1999, Waldkirch and Ofosu, 2010), domestic firms' innovation (Lew and Liu, 2016), urban–rural wage inequality (Wang, Fidrmuc, & Luo, 2021), host countries' levels of corruption (Pinto & Zhu, 2016), host countries' economic development (Meyer and Sinani, 2009), and retail industries' competitive dynamics (Lu et al., 2016). As the ongoing wave of liberalisation makes a highly-concentrated market less likely, competition effect of IFDI is getting less attention in recent literature.

Future Research Avenues

A summary of the above literature syntheses and main findings is presented in Figure 2. The Figure highlights various EE location attractiveness determinants and potential mediators and moderators for their micro- and macro-level effects on EEs. Based on the literature syntheses and findings, future research areas are also presented in this Figure. These potential research areas are discussed next.

Figure 2 about here

Multi-level determinants

Studies covering motives and determinants of FDI inflow show that the majority of studies are country-level analyses. This is due to lack of a firm level dataset to analyse. For example, foreign investors consider the importance of intellectual property rights (IPR) while directing FDI flows to EEs. This country-level characteristic needs to be supported with firm-level

capacity. Further research needs to be carried out, considering the role of host firm innovative activities in the relationship between IPR and FDI.

IFDI is a multi-level issue and FDI topics in EEs are examined on various levels such as industry, country, firm and project level. However, few researchers have addressed the multi-level nature of FDI through multi-level analysis tools in order to learn the combined impact of multi-level variables on FDI determinants. The use of multi-level analysis in the studies is a comparatively recent phenomenon. Multi-level analysis models the hierarchical data simultaneously, while keeping the distinct effect of multi-level variables explicit in the analysis. Wang et al. (2012) analyse that FDI spillover is negatively moderated by pace and irregularity of foreign entry through hierarchical regression analyses. Similarly, Lien and Filatotchev (2015) conduct subsidiary and parent-level analysis as well as multi-level interactions between parent-firm and subsidiary-ownership factors to determine the FDI locational factors in China. Sanfilippo and Seric (2016) examine the outcome of IFDI spillover in the sub-Saharan African context by considering country-, city-, industry- and firm-level variables simultaneously. Given that few studies employing multilevel analysis have been done, while this phenomenon is multi-level in nature, scholars should focus their attention on conducting multi-level analysis in the context of IFDI in emerging economies.

Underlying conditions as potential moderators

In addition to positive effects, a small group of researchers focus on the negative impact of IFDI in EEs. Higher focus on positive impact creates an imbalance in the IFDI spillover literature and only gives us an incomplete picture of the impact of FDI. Focus on the competition effect of IFDI and subsequent negative impact should be dealt with proper scholarly attention. Even the positive impact studies have not focused much on the conditions that would be favourable for emerging positive spillover. Whether the effect is positive or negative may depend on certain underlying conditions, which need to be explored.

The reasoning is partly because the majority of studies, ignoring the micro-level perspective, have taken macro-level perspective. Scholars urge bringing ‘the firm back into spillover research’ (Meyer and Sinani, 2009). Local firms are the indirect recipients of FDI spillover, though firms do not accrue spillover automatically. Empirical research supports the finding that local firms’ resource endowments and firm-level strategies facilitate spillover. Yet, what facilitates a local firm’s ability to benefit from FDI spillover is a potential area to explore. We suggest that the characteristics of both MNEs and local firms need to be investigated to understand what facilitates spillovers. For instance, local firms with IFDI may benefit through

their direct links to foreign entities, whereas other firms may not have such benefits. Again, not all the firms will benefit to the same extent from their IFDI. Local firms' involvement in IFDI and what they achieve from the activities needs to be explored to shed more light on firm-level studies of spillovers.

Mechanisms of spillover as potential mediation effects

From the review, it is evident that majority of the studies consider that FDI brings positive technological spillover and examine the impact of technological spillover on manufacturing firms and industries, as well as host economies. Hymer (1976) argues that apart from technological knowledge, MNEs also possess other firm-specific advantages, such as brand name, managerial and marketing practices. As a result, MNEs also generate management and marketing expertise spillover through their FDI activities in their host countries. Sufficient theoretical claim of gaining managerial and marketing spillover is there, but empirical analysis of such spillover is scarce. Examination of such managerial and marketing spillover will expand the understanding of FDI spillover more accurately. In the review, it is found that a study conducted by Lu et al. (2016) is one of the few that examine the impact of MNEs' marketing practices in the context of the Chinese gasoline market. Scholars should add to the IFDI spillover literature by shifting their analysis focus from technological spillover to managerial and marketing expertise spill over.

Cross-industry and -country comparisons

Researchers need to shift their focus from intra-industry spillover to inter-industry spillover. We find more articles on intra-industry spillover than inter-industry spillover. Research on inter-industry spillover should focus on how the interactions between MNE and local firms create spillover and what relationship characteristics facilitate the spillover. For example, local firms benefit from both international production network integration and industrial clusters. However, which one is a more favourable way for local firms to achieve spillover benefits needs to be researched.

Almost 60% of the studies in this study sample have chosen Asia as their context of analysis, with special focus on China. The Latin America and Africa regions are under-researched compared to the Asia region and thus provide further research opportunities. Besides, there has been less research focus on comparative industry studies. Only five articles related to IFDI compared different industries. For instance, Chadee et al. (2003) explore how IFDI characteristics are related to location choice decisions in China and report notable

differences in the location of investment in Chinese manufacturing and service industries. Chakraborty and Nunnenkamp (2008) examine how the effect of IFDI varies between different Indian industries. They find favourable growth effects of IFDI in Indian manufacturing industries and transitory effects in service industries. Buckley et al. (2007b) conduct a comparative industry study on Chinese technology and labour-intensive industries. They argue that, in the Chinese context, FDI generates greater spillover in technology-intensive industries than it does in labour-intensive industries. Future studies should focus on comparative industry analysis to address the differential influence of FDI in different industries.

Policy dimensions

We find that most of the policy studies focus on how to maximise gains from IFDI than on whether or not to allow FDI inflows to emerging economies. Until now, research has been done on formulation of host country policies to get FDI-led growth. Understanding of the consequences of MNE operations within and towards emerging economies have not been addressed properly. The link to IFDI and MNE operation in the host country can provide empirical and theoretical highlights to policy makers about the creation of MNEs (in emerging economies) and the performance and competitiveness of these firms. Policy-oriented studies further analyse the growth-related impact of both outward FDI and IFDI from and to emerging economies on the basis of the investment development path.

Context and industry

Manufacturing industry is the heavily researched area in the EE context. Focus should also be given to other industries, specifically service industries. Moreover, evidence shows that high-quality service inputs are beneficial to increase the productivity and innovation capacity of manufacturing firms (Mas-Verdú et al., 2011). Scholars need to provide empirical evidence of forward and backward linkages from services and subsequent spillover effects on productivity, growth and development. These empirical studies would help policy makers to identify the industries that show higher potential for spillover and to develop their FDI incentive plans accordingly.

Cross-industry studies can be done to learn whether both manufacturing and service industries have the same or different impact to that of IFDI. In the case of context, Asia is the most studied region in IFDI determinants, impact and policy. It is now high time to shift scholars' focus to EEs in other regions such as Latin America and Africa. More cross-country analysis will need to be conducted to reveal determinant, impact and policy differences

between developed and emerging economies, as well as emerging economies in different regions.

Conclusions

By reviewing the location factors that explain IFDI in emerging economies and the impact of IFDI on the host economies, we have aimed to provide a comprehensive understanding of the chosen phenomenon and suggest avenues for future research. Such research will help to provide a more thorough understanding of the domain being reviewed. Under this type of approach, the results might be impacted by researchers' bias. However, we have aimed to ensure the trustworthiness of this study by utilising criteria as suggested by Braun & Clarke (2006) and Nowell et al, 2017.

Based on a review of 372 academic journal articles published between 1991 and 2021, the findings indicate trends such as a substantial increase in research during 2000 to 2010, Africa and Latin America being under-researched but with an increasing focus on Africa recently, fewer investigations addressing underlying mechanisms and context, and less focus on the service sector IFDI. Further, various EE location determinants have been examined, such as institutional quality, corruption and intellectual property rights, regional trade agreements and distances, formal and informal institutions, national and subnational diversity and policy expectations. Macro- and micro-level impacts of IFDI are also examined in the literature. Drawing from these trends, determinants and impacts of IFDI, this study suggests that rich research opportunities exist in examining the mechanisms (mediators) and conditions (moderators) that influence relationships between the antecedents of IFDI and their outcomes. Further opportunities exist in examining the role of the context and in undertaking a multi-level analysis.

Table 1: Research fields and areas

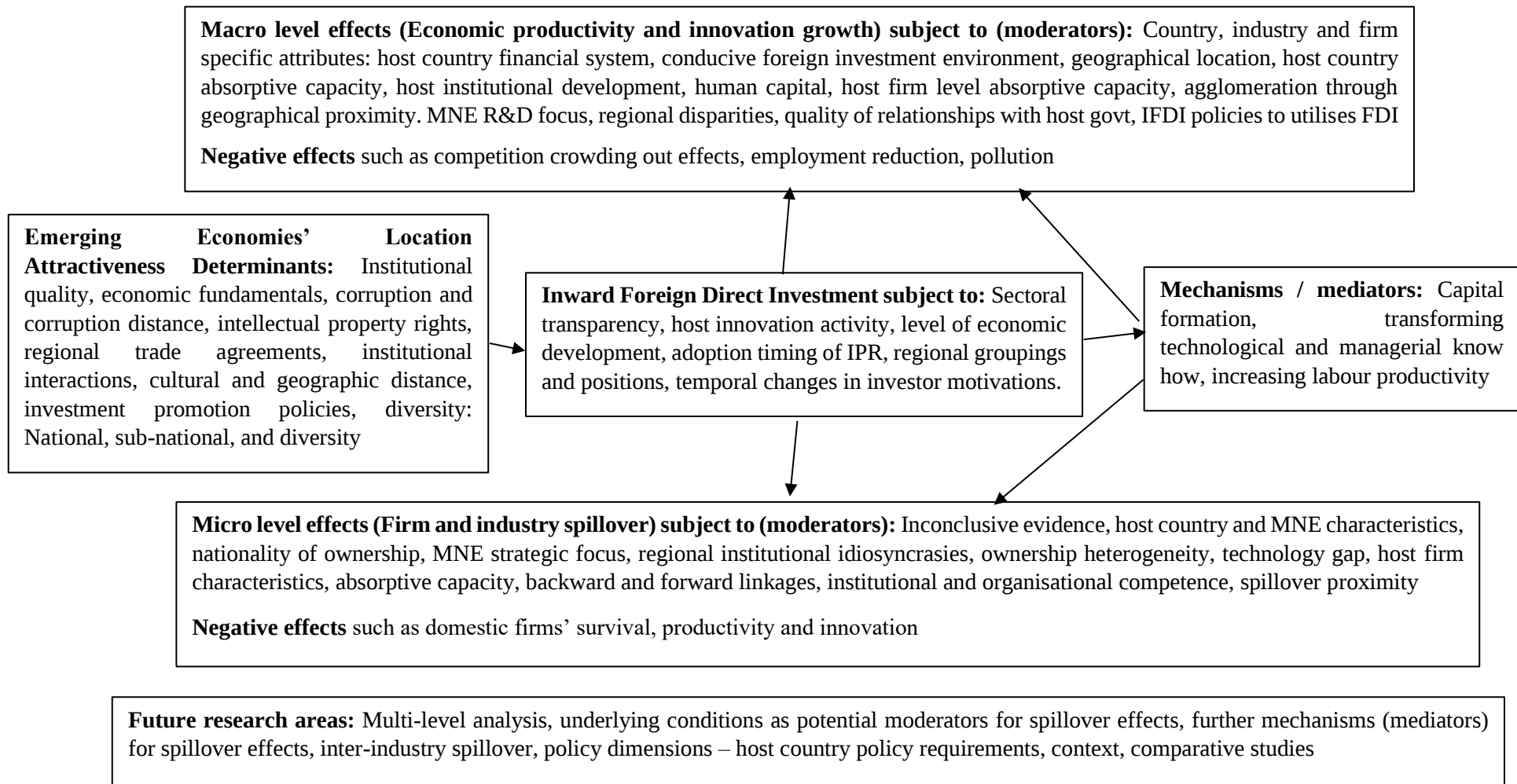
Research Context	1991-2000	2001-2010	2011-2021	Total (%)
A. Research Field				
Economics	28	121	76	225 (60)
Management	12	66	49	147 (40)
Total (%)	40 (11)	187 (50)	145 (39)	372 (100)
B. Research Areas				
Determinants of IFDI	24	84	66	174 (46)
Impact of IFDI	16	103	84	203 (54)
Total (%)	40 (12)	187 (58)	96(30)	377 * (100)

Note: The total number of studies in the research area exceeds 372 as some studies cover more than one research area

Table 2: Regional distribution

Research Context	1991-2000	2001-2010	2011-2018	Total (%)
Asia	23	106	98	227 (61)
Africa	1	15	19	35 (09)
Latin America and the Caribbean	8	17	08	33 (9)
Assorted Emerging Economies	3	19	14	36 (10)
Cross-country comparisons	5	30	06	41 (11)
Total (%)	40 (11)	187 (58)	96 (30)	372 (100)

Figure 1: Summary of the literature synthesis



Sources: Authors' summary from the literature review

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