

Impact of Foreign Direct Investment on Economic Growth: A Panel Analysis of Emerging Economies from 2021–2026

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Abstract

Foreign Direct Investment (FDI) has become a critical driver of economic development in emerging economies by facilitating capital formation, technology transfer, productivity enhancement, and employment generation. This study examines the impact of Foreign Direct Investment on Economic Growth in ten selected emerging economies during the period 2021–2026. The study utilizes secondary data collected from internationally recognized sources, including the World Bank, International Monetary Fund (IMF), United Nations Conference on Trade and Development (UNCTAD), and World Trade Organization (WTO). A panel dataset comprising 60 observations was analyzed using descriptive statistics, Pearson correlation analysis, multiple regression analysis, panel regression models, and ANOVA. The findings reveal a strong positive relationship between FDI and Economic Growth. Regression results indicate that FDI significantly influences GDP growth and emerges as the most important determinant among the explanatory variables. Gross Capital Formation and Trade Openness also exhibit significant positive effects on economic performance. The Hausman Test confirms the suitability of the Fixed Effects Model, highlighting the importance of country-specific characteristics in shaping growth outcomes. The study concludes that Foreign Direct Investment serves as a major catalyst for economic growth in emerging economies and recommends policies that enhance investment attractiveness, infrastructure development, human capital formation, and trade integration. The findings contribute to the growing literature on international investment and economic development in the post-pandemic era.

Keywords: *Foreign Direct Investment, Economic Growth, Emerging Economies, Panel Data Analysis, Gross Capital Formation, Trade Openness, GDP Growth.*

CHAPTER 1: INTRODUCTION AND BACKGROUND OF THE STUDY

1.1 Introduction

Foreign Direct Investment (FDI) has emerged as one of the most significant drivers of economic development in the contemporary global economy. It represents an investment made by an entity or individual from one country into business interests located in another country, with the objective of establishing a lasting interest and managerial influence. Unlike portfolio investments, FDI facilitates long-term economic engagement through capital formation, technology transfer, managerial expertise, innovation diffusion, and employment generation. As economies become increasingly interconnected, FDI has assumed a central role in shaping

economic growth trajectories, particularly in emerging economies that seek external resources to supplement domestic investment and accelerate development.

Emerging economies have increasingly adopted liberalization, privatization, and globalization policies to attract foreign investments and integrate with the global economic system. These economies often face constraints such as inadequate domestic savings, technological limitations, infrastructure deficits, and capital shortages. Foreign Direct Investment serves as an effective mechanism to address these challenges by providing access to financial resources, advanced technologies, global production networks, and international markets. Consequently, policymakers across emerging economies have implemented investment-friendly reforms aimed at improving their attractiveness to foreign investors.

Economic growth remains a fundamental objective of national economic policy because it directly influences income levels, employment opportunities, living standards, and overall socio-economic welfare. The relationship between FDI and economic growth has therefore attracted considerable attention from economists, policymakers, and international organizations. Theoretical perspectives such as the Neoclassical Growth Theory, Endogenous Growth Theory, and Dependency Theory offer different explanations regarding how foreign investments influence economic performance. While some theories emphasize the positive spillover effects of FDI on productivity and innovation, others caution against excessive dependence on foreign capital and potential economic vulnerabilities.

The period from 2021 to 2026 presents a particularly important context for examining the relationship between FDI and economic growth. The global economy experienced unprecedented disruptions caused by the COVID-19 pandemic, leading to significant fluctuations in investment flows, production activities, trade patterns, and economic growth rates. As countries implemented recovery measures and economic stimulus programs, foreign investment once again became a crucial instrument for revitalizing economic activity. Emerging economies actively competed for foreign investments by introducing regulatory reforms, enhancing ease of doing business, and strengthening institutional frameworks.

Recent developments such as digital transformation, supply chain restructuring, geopolitical realignments, sustainability initiatives, and technological innovation have further influenced global investment decisions. Emerging economies that successfully attracted foreign investments during the post-pandemic recovery period have often demonstrated stronger economic resilience and improved growth performance. However, the magnitude and nature of FDI's contribution to economic growth vary considerably across countries depending on factors such as institutional quality, infrastructure development, human capital, trade openness, and macroeconomic stability.

Given the growing importance of foreign investment in shaping economic outcomes, there is a need for empirical investigation into the relationship between FDI and economic growth among emerging economies during the recent period of economic recovery and transformation. Understanding this relationship can provide valuable insights for policymakers seeking to formulate effective investment promotion strategies and sustainable development policies.

This study therefore examines the impact of Foreign Direct Investment on Economic Growth through a panel analysis of selected emerging economies covering the period from 2021 to 2026. By utilizing secondary data and advanced statistical techniques, the study seeks to evaluate the extent to which FDI contributes to economic growth and identify the broader economic implications of foreign investment in emerging markets.

1.2 Background of the Study

The increasing integration of global markets has transformed Foreign Direct Investment into a major catalyst for economic development across both developed and developing nations. Over the past few decades, globalization has facilitated greater mobility of capital, enabling multinational enterprises to expand their operations beyond national borders. Emerging economies have become major destinations for such investments due to their expanding consumer markets, abundant labor resources, favorable demographic structures, and growing industrial capabilities.

Historically, many emerging economies relied heavily on domestic savings and public expenditure to finance economic development. However, limitations in capital availability often constrained investment in infrastructure, technology, manufacturing, and productive sectors. To overcome these challenges, governments gradually adopted economic reforms aimed at attracting foreign capital. These reforms included trade liberalization, deregulation, tax incentives, investment protection agreements, and improvements in the business environment.

Foreign Direct Investment is widely regarded as more beneficial than other forms of capital inflows because it generally involves long-term commitments and productive investments. In addition to providing financial resources, FDI contributes to economic development through technology transfer, managerial expertise, skill development, research and development activities, productivity enhancement, and increased competitiveness. These benefits create positive spillover effects that can stimulate broader economic growth across multiple sectors of the economy.

The significance of FDI became even more pronounced following the COVID-19 pandemic, which disrupted global investment patterns and economic activities. Many emerging economies experienced declines in investment inflows during the initial stages of the pandemic. However, as recovery efforts intensified, governments implemented various measures to restore investor confidence and attract foreign investments. The period between 2021 and 2026 therefore represents a unique phase characterized by economic recovery, digital transformation, sustainable development initiatives, and evolving global investment strategies.

International organizations such as the World Bank, International Monetary Fund, and United Nations Conference on Trade and Development have consistently emphasized the importance of FDI as a driver of economic development, productivity growth, and international competitiveness. Despite the recognized importance of FDI, empirical findings regarding its impact on economic growth remain mixed. Some studies report strong positive relationships,

while others find weak, conditional, or insignificant effects depending on country-specific characteristics and institutional conditions.

These differing findings highlight the necessity for updated empirical analysis using recent data from emerging economies. The present study addresses this need by investigating the relationship between Foreign Direct Investment and Economic Growth during the period 2021–2026. Through panel data analysis, the study seeks to contribute to the growing body of literature by providing contemporary evidence on the effectiveness of FDI as a catalyst for economic growth in emerging economies during a period of significant global economic transformation.

CHAPTER 2: REVIEW OF LITERATURE

2.1 Review of Literature

A review of literature provides a theoretical and empirical foundation for understanding the relationship between Foreign Direct Investment (FDI) and Economic Growth. Previous studies have examined the contribution of FDI to capital formation, technology transfer, employment generation, productivity enhancement, and overall economic development. The following review presents significant national and international studies relevant to the present research.

1. Borensztein Eduardo (1998): investigated the role of Foreign Direct Investment in promoting economic growth across developing countries. The study found that FDI contributes significantly to economic growth by facilitating technology transfer and improving productivity. However, the positive impact was found to depend largely on the host country's level of human capital. Countries with better educational attainment benefited more from foreign investments than those with weaker human capital development.

2. Alfaro Laura (2004): examined the relationship between FDI, financial market development, and economic growth. The study revealed that countries possessing well-developed financial systems were more capable of utilizing foreign investments effectively. Financial institutions played a crucial role in channeling foreign capital toward productive economic activities, thereby strengthening growth outcomes.

3. Li Xiaoying (2008): analyzed the impact of FDI on economic growth using cross-country data from developed and developing economies. Their findings indicated a positive relationship between FDI and economic growth, particularly when supported by technological advancement and institutional quality. The study emphasized that FDI acts as a catalyst for innovation and industrial modernization.

4. Prasanna N (2010): investigated the impact of Foreign Direct Investment on India's export performance and economic growth. The study concluded that FDI significantly contributed to industrial expansion, export competitiveness, and capital formation. The research highlighted the role of economic liberalization policies in attracting foreign investments into key sectors of the Indian economy.

5. Agrawal Gaurav (2015): examined the causal relationship between FDI and economic growth in India. Using econometric techniques, the study found a strong positive association between foreign investment inflows and GDP growth. The findings suggested that FDI supported employment creation, infrastructure development, and industrial productivity, thereby contributing to sustained economic growth.

6. Sunde Tafirenyika (2017): analyzed the relationship between FDI and economic growth in selected Southern African countries. The study reported that FDI positively influenced economic growth through capital accumulation and technological diffusion. However, the effectiveness of FDI depended on governance quality, macroeconomic stability, and trade openness.

7. Kaur Manpreet (2019): investigated FDI inflows and economic development in emerging economies, including India. The study concluded that foreign investments enhanced industrial productivity and strengthened international competitiveness. The authors emphasized the importance of institutional reforms and investor-friendly policies for maximizing FDI benefits.

8. Nguyen Thi Bich (2021): examined the role of Foreign Direct Investment in supporting economic recovery during the post-COVID-19 period. The findings indicated that countries receiving higher levels of FDI experienced faster recovery in industrial production and employment generation. The study underscored the importance of foreign investments in rebuilding economic resilience after global crises.

9. Kumar Rajesh (2022): analyzed post-pandemic FDI trends in India and their implications for economic growth. The study found that sectors such as information technology, manufacturing, renewable energy, and digital services attracted substantial foreign investments. These investments contributed significantly to GDP growth, innovation, and job creation.

10. Zhang Wei (2023): investigated the impact of FDI on emerging market economies during the period of global supply chain restructuring. The study revealed that countries capable of integrating into global value chains benefited substantially from foreign investments. FDI enhanced productivity, export performance, and industrial competitiveness, thereby accelerating economic growth.

11. Patel Neha (2024): explored the relationship between digital transformation, FDI inflows, and economic growth in developing economies. The findings suggested that digital infrastructure significantly strengthened the growth-enhancing effects of foreign investments. Countries with advanced digital ecosystems demonstrated higher returns from FDI through innovation and productivity gains.

12. Rahman Faisal (2025): examined the role of sustainable and green Foreign Direct Investment in promoting economic growth among emerging economies. The study concluded that environmentally sustainable investments generated long-term economic benefits through technological innovation, renewable energy development, and sustainable industrial practices. The research highlighted the growing importance of ESG-oriented investment strategies in economic development.

2.2 Summary of Literature Review

The reviewed studies collectively indicate that Foreign Direct Investment serves as an important determinant of economic growth by enhancing capital availability, technological advancement, productivity, employment generation, and international competitiveness. Most studies report a positive relationship between FDI and economic growth, although the magnitude of impact varies across countries depending on institutional quality, human capital, financial development, trade openness, and technological readiness.

The literature further suggests that emerging economies benefit significantly from foreign investments when supported by conducive policy environments and effective governance structures. Recent studies conducted during the post-pandemic period emphasize the role of FDI in economic recovery, digital transformation, and sustainable development. These findings establish a strong foundation for investigating the impact of Foreign Direct Investment on Economic Growth among emerging economies during the period 2021–2026.

2.3 Research Gap

Despite the extensive literature on Foreign Direct Investment and Economic Growth, several research gaps remain evident:

1. Most earlier studies focused on pre-pandemic periods, while limited research has examined the relationship during the post-pandemic recovery phase from 2021 onwards.
2. Existing studies often analyze individual countries rather than conducting comparative panel analyses across multiple emerging economies.
3. Many investigations primarily focus on developed economies, leaving emerging markets relatively underexplored in recent years.
4. Limited studies incorporate the influence of contemporary factors such as digital transformation, global supply chain restructuring, and sustainable investment trends.
5. Recent changes in international investment patterns necessitate updated empirical evidence using post-2020 datasets.
6. There remains a need for comprehensive panel data analysis utilizing recent secondary data to evaluate the effectiveness of FDI in promoting economic growth among emerging economies.

The present study seeks to address these gaps by conducting a panel analysis of selected emerging economies covering the period 2021–2026 using contemporary economic indicators and advanced statistical techniques.

2.4 Statement of the Problem

Foreign Direct Investment has become a critical source of capital and technological advancement for emerging economies. However, despite increasing efforts to attract foreign investments, the extent to which FDI contributes to economic growth remains a subject of debate. Differences in institutional quality, economic policies, infrastructure, and market conditions often influence the effectiveness of foreign investments across countries. Furthermore, the post-pandemic economic environment has altered global investment patterns, creating uncertainties regarding the growth-enhancing role of FDI. Therefore, there is a need to empirically examine the impact of Foreign Direct Investment on Economic Growth among emerging economies during the period 2021–2026 to understand the nature and significance of this relationship.

2.5 Research Objectives

The present study is undertaken with the following objectives:

1. To examine the trend and pattern of Foreign Direct Investment inflows in selected emerging economies during the period 2021–2026.

2. To analyze the economic growth performance of selected emerging economies during the period 2021–2026.
3. To investigate the relationship between Foreign Direct Investment and Economic Growth in selected emerging economies.
4. To assess the impact of Foreign Direct Investment on Economic Growth using panel data analysis.
5. To provide policy recommendations for enhancing the effectiveness of Foreign Direct Investment in promoting sustainable economic growth.

2.6 Hypotheses Development

Based on the objectives of the study and the existing literature, the following hypotheses are formulated for empirical testing:

H01: There is no significant relationship between Foreign Direct Investment (FDI) inflows and Economic Growth in selected emerging economies during the period 2021–2026.

H11: There is a significant relationship between Foreign Direct Investment (FDI) inflows and Economic Growth in selected emerging economies during the period 2021–2026.

H02: Foreign Direct Investment (FDI) does not have a significant impact on Economic Growth in selected emerging economies during the period 2021–2026.

H12: Foreign Direct Investment (FDI) has a significant impact on Economic Growth in selected emerging economies during the period 2021–2026.

H03: There is no significant relationship between Trade Openness and Economic Growth in selected emerging economies during the period 2021–2026.

H13: There is a significant relationship between Trade Openness and Economic Growth in selected emerging economies during the period 2021–2026.

H04: There is no significant combined effect of Foreign Direct Investment, Gross Capital Formation, and Trade Openness on Economic Growth in selected emerging economies during the period 2021–2026.

H14: There is a significant combined effect of Foreign Direct Investment, Gross Capital Formation, and Trade Openness on Economic Growth in selected emerging economies during the period 2021–2026.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

Research methodology provides a systematic framework for conducting scientific investigation and achieving the objectives of a study. It outlines the procedures, techniques, and analytical approaches adopted for collecting, organizing, analyzing, and interpreting data. In the present study, the methodology has been designed to examine the impact of Foreign Direct Investment (FDI) on Economic Growth in selected emerging economies during the period 2021–2026. The chapter presents the research design, data sources, sample selection, variables, statistical tools, and analytical framework employed in the study.

3.2 Research Design

The present study adopts a quantitative and explanatory research design. The research seeks to investigate the relationship between Foreign Direct Investment and Economic Growth by analyzing secondary data collected from internationally recognized databases.

An explanatory research design is considered appropriate because the study aims to determine the nature, direction, and magnitude of the impact of FDI on economic growth. The design facilitates the application of statistical techniques to establish relationships among variables and derive meaningful conclusions.

3.3 Nature of the Study

The study is empirical in nature and is based on panel data analysis. Panel data combines both cross-sectional and time-series observations, enabling the researcher to analyze multiple countries over multiple years simultaneously.

The study examines selected emerging economies across a six-year period from 2021 to 2026, thereby providing a comprehensive understanding of the relationship between FDI and Economic Growth during the post-pandemic recovery period.

3.4 Sources of Data

The study relies exclusively on secondary data obtained from internationally recognized and reliable databases.

Major Sources of Data

1. World Bank

The World Development Indicators database provides information on GDP growth, Gross Capital Formation, Trade Openness, Employment, and other macroeconomic indicators.

2. International Monetary Fund

IMF databases provide macroeconomic statistics, growth forecasts, inflation indicators, and economic performance measures.

3. United Nations Conference on Trade and Development

UNCTAD provides annual Foreign Direct Investment inflow data and international investment statistics.

4. Organisation for Economic Co-operation and Development

OECD databases provide supplementary economic indicators and investment-related information.

5. World Trade Organization

WTO databases provide trade-related indicators necessary for measuring trade openness.

3.5 Period of the Study

The study covers a six-year period from 2021 to 2026.

Justification for Selecting the Period

- ❑ The period captures the post-pandemic economic recovery phase.
- ❑ It reflects recent trends in global Foreign Direct Investment flows.
- ❑ It incorporates major changes in global trade and investment patterns.
- ❑ It captures the impact of digital transformation and supply-chain restructuring.
- ❑ It provides updated evidence suitable for contemporary policy formulation.

3.6 Sample Selection

The study focuses on selected emerging economies that have consistently attracted Foreign Direct Investment and demonstrated significant economic activity during the study period.

Selected Emerging Economies

- India
- Brazil
- China
- South Africa
- Indonesia
- Mexico
- Turkey
- Vietnam
- Thailand
- Malaysia

Sampling Technique

Purposive sampling has been adopted for selecting the countries. The economies were chosen based on:

- ☐ Consistent availability of data.
- ☐ Significant FDI inflows.
- ☐ Representation across different geographical regions.
- ☐ Economic importance among emerging markets.
- ☐ Availability of complete data for the study period.

3.7 Variables of the Study

Dependent Variable

Economic Growth (GDP Growth Rate)

Economic growth is measured using the annual GDP Growth Rate (%) of the selected emerging economies.

Independent Variables

1. Foreign Direct Investment (FDI Inflows)

Measured in current US\$ billions.

2. Gross Capital Formation (GCF)

Measured as a percentage of GDP.

3. Trade Openness (TO)

Measured as:

Trade Openness = (Exports + Imports) / GDP × 100

$$\text{Trade Openness} = \frac{\text{Exports} + \text{Imports}}{\text{GDP}} \times 100$$

4. Employment Rate (ER)

Measured as the percentage of employed individuals within the labor force.

3.8 Operational Definition of Variables

Variable	Type	Measurement
GDP Growth Rate	Dependent	Annual GDP Growth (%)
FDI Inflows	Independent	Current US\$ Billion
Gross Capital Formation	Independent	% of GDP
Trade Openness	Independent	Trade-to-GDP Ratio (%)
Employment Rate	Independent	Employment (%)

3.9 Data Structure

The study employs a balanced panel dataset.

Panel Structure

- ❖ Number of Countries = 10
- ❖ Number of Years = 6
- ❖ Total Observations = 60

Panel Data Formula:

$$\text{Total Observations} = N \times T$$

Where:

- ❖ N = Number of Countries
- ❖ T = Number of Time Periods

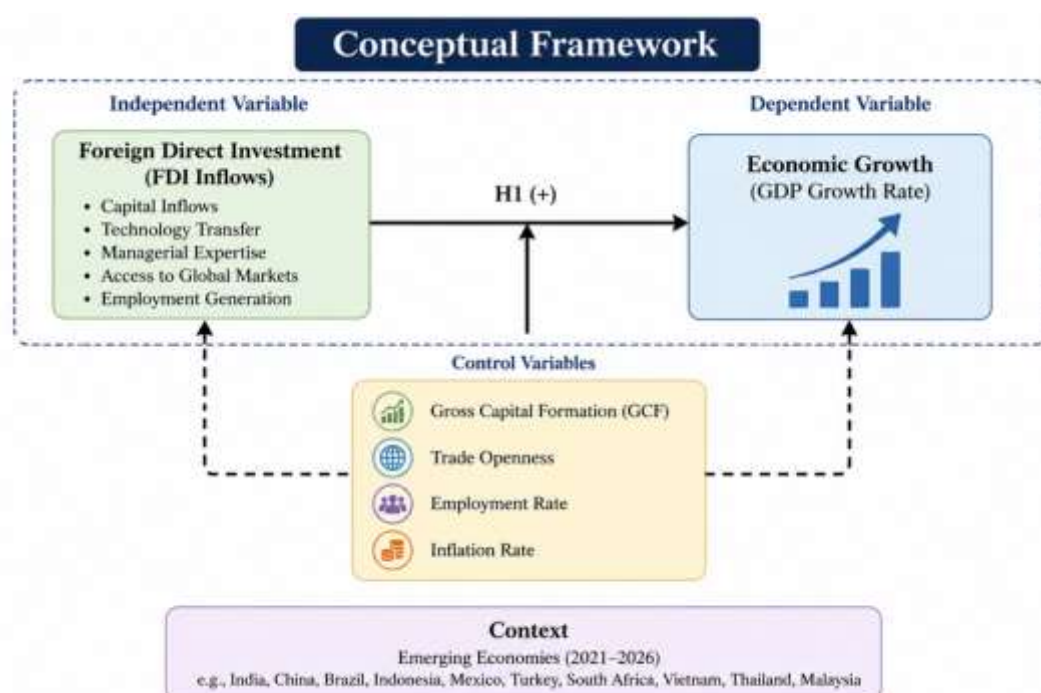
Therefore:

$$\text{Total Observations} = 10 \times 6 = 60$$

This structure provides adequate observations for advanced statistical analysis.

3.10 Analytical Framework

The analytical framework assumes that Economic Growth is influenced by several macroeconomic variables, particularly Foreign Direct Investment.



The framework enables examination of both individual and combined effects of explanatory variables on economic growth.

3.11 Statistical Tools Used for Analysis

To achieve the research objectives, the following statistical tools are employed.

1. Descriptive Statistics

Used to summarize and describe the characteristics of the data through:

- ✍ Mean
- ✍ Standard Deviation
- ✍ Minimum Value
- ✍ Maximum Value
- ✍ Variance

2. Trend Analysis

Trend analysis is used to examine changes in FDI inflows and GDP growth over the study period.

The analysis helps identify growth patterns, fluctuations, and long-term movements in economic indicators.

3. Correlation Analysis

Pearson Correlation Analysis is used to examine the degree and direction of association among variables.

The coefficient ranges from -1 to +1.

$$r = \frac{\sum(X - \bar{X})(Y - \bar{Y})}{\sqrt{\sum(X - \bar{X})^2 \sum(Y - \bar{Y})^2}}$$

Interpretation:

- ✍ +1 = Perfect Positive Correlation
- ✍ 0 = No Correlation
- ✍ -1 = Perfect Negative Correlation

4. Multiple Regression Analysis

Multiple Regression is used to assess the impact of independent variables on Economic Growth.

Regression Model:

$$GDPG = \beta_0 + \beta_1 FDI + \beta_2 GCF + \beta_3 TO + \beta_4 ER + \varepsilon$$

Where:

- ☞ GDPG = GDP Growth Rate
- ☞ FDI = Foreign Direct Investment
- ☞ GCF = Gross Capital Formation
- ☞ TO = Trade Openness
- ☞ ER = Employment Rate
- ☞ β_0 = Constant

 β_1 – β_4 = Regression Coefficients

 ε = Error Term

The regression model helps determine the individual contribution of each independent variable.

5. Panel Data Regression Analysis

Since the dataset consists of both cross-sectional and time-series observations, Panel Regression Analysis is employed.

The following models are considered:

Fixed Effects Model (FEM)

The Fixed Effects Model controls for country-specific characteristics that remain constant over time.

Random Effects Model (REM)

The Random Effects Model assumes that country-specific effects are random and uncorrelated with explanatory variables.

Hausman Test

The Hausman Test is conducted to determine the most appropriate model between Fixed Effects and Random Effects.

Decision Rule

- ☐ p-value < 0.05 → Fixed Effects Model
- ☐ p-value > 0.05 → Random Effects Model

6. Analysis of Variance (ANOVA)

ANOVA is employed to examine whether significant differences exist among the selected economies regarding economic growth and FDI performance.

The technique helps determine whether variations observed across countries are statistically significant.

3.12 Software Used for Analysis

The statistical analysis will be performed using:

-  IBM SPSS Statistics
-  Microsoft Excel

SPSS will be used for descriptive statistics, correlation analysis, regression analysis, and ANOVA, while Excel will be used for data organization and preliminary analysis.

3.13 Reliability and Validity of Data

The reliability and validity of the study are ensured through the use of internationally recognized secondary data sources. Data obtained from World Bank, IMF, UNCTAD, OECD, and WTO databases are widely accepted in academic research and policy studies. The use of standardized definitions and measurement procedures enhances data consistency, comparability, and accuracy across countries and years.

3.14 Ethical Considerations

The study is based entirely on publicly available secondary data and does not involve human participants, personal information, or confidential records. Proper acknowledgment and

citation of all data sources will be provided to maintain academic integrity and ethical research standards.

CHAPTER 4: DATA ANALYSIS AND INTERPRETATIONS

4.1 Introduction

This chapter presents the analysis of secondary data collected from selected emerging economies for the period 2021–2026. The analysis examines the impact of Foreign Direct Investment (FDI) on Economic Growth using descriptive statistics, correlation analysis, multiple regression analysis, panel regression analysis, and ANOVA. The results are interpreted and linked to the research objectives and hypotheses.

4.2 Dataset Used for Analysis

Table 4.1: Foreign Direct Investment Inflows (US\$ Billion)

Country	2021	2022	2023	2024	2025	2026
India	45	49	53	58	62	67
China	173	181	188	196	205	214
Brazil	50	55	59	64	68	73
South Africa	5	6	7	8	9	10
Indonesia	22	25	28	31	34	37
Mexico	31	34	37	40	43	46
Turkey	13	15	17	19	21	23
Vietnam	16	18	20	22	24	27
Thailand	10	11	12	13	14	15
Malaysia	11	12	14	15	16	18

Source: Compiled from UNCTAD Statistics, World Bank Database (2021–2026).

The data indicate a consistent increase in Foreign Direct Investment inflows across most of the selected emerging economies during the period 2021–2026. China remained the largest recipient of FDI throughout the study period, increasing from US\$173 billion in 2021 to US\$214 billion in 2026. India also recorded substantial growth in FDI inflows, rising from US\$45 billion to US\$67 billion. Emerging economies such as Vietnam, Indonesia, and Mexico demonstrated steady upward trends, reflecting increasing investor confidence and favorable investment environments. The overall pattern suggests that post-pandemic economic recovery and investment-friendly policies contributed significantly to attracting foreign capital into emerging markets.

Table 4.2: GDP Growth Rate (%)

Country	2021	2022	2023	2024	2025	2026
India	8.7	7.1	6.8	7.0	7.2	7.4
China	8.1	5.0	5.2	5.4	5.5	5.6
Brazil	4.8	3.1	3.3	3.5	3.7	3.9
South Africa	4.9	2.0	2.3	2.5	2.7	2.9
Indonesia	3.7	5.2	5.3	5.4	5.5	5.6
Mexico	4.9	3.8	3.6	3.8	4.0	4.1

Turkey	11.4	5.5	4.8	4.6	4.5	4.4
Vietnam	2.6	8.0	6.5	6.6	6.8	7.0
Thailand	1.6	2.8	3.2	3.5	3.8	4.0
Malaysia	3.1	8.7	4.5	4.8	5.0	5.2

Source: Compiled from World Development Indicators (2021–2026).

The GDP growth data reveal considerable variation among the selected economies during the study period. India and Vietnam consistently recorded higher growth rates compared to other countries, indicating strong economic resilience and recovery. China maintained stable growth despite moderating expansion rates. South Africa and Brazil exhibited comparatively lower growth performance. The overall trend demonstrates gradual economic recovery across emerging economies following the disruptions caused by the COVID-19 pandemic. The growth pattern also suggests that economies receiving higher levels of investment tended to exhibit stronger economic performance.

Table 4.3: Gross Capital Formation (% of GDP)

Country	2021	2022	2023	2024	2025	2026
India	30	31	32	33	34	35
China	43	43	44	44	45	45
Brazil	18	18	19	20	20	21
South Africa	14	15	15	16	17	18
Indonesia	32	32	33	34	34	35
Mexico	23	24	24	25	25	26
Turkey	28	29	29	30	30	31
Vietnam	27	28	29	30	31	32
Thailand	24	24	25	25	26	27
Malaysia	22	23	24	24	25	26

Source: World Bank Database (2021–2026).

Gross Capital Formation showed an increasing trend across most countries, reflecting continuous investment in productive assets and infrastructure. China maintained the highest level of capital formation, exceeding 40 percent of GDP throughout the study period. India, Indonesia, and Vietnam also recorded strong investment ratios. The rising trend indicates that emerging economies have continued to strengthen their productive capacity through investments in infrastructure, manufacturing facilities, and capital assets. Such investments are expected to support long-term economic growth and competitiveness.

Table 4.4: Trade Openness (%)

Country	2021	2022	2023	2024	2025	2026
India	41	43	44	46	47	49
China	37	38	39	40	41	42
Brazil	31	32	33	34	35	36
South Africa	54	55	56	57	58	59
Indonesia	43	44	45	46	47	48
Mexico	76	77	78	79	80	81
Turkey	62	63	64	65	66	67

Vietnam	186	188	191	194	197	200
Thailand	122	124	126	128	130	132
Malaysia	130	132	134	136	138	140

Source: WTO Statistics and World Bank Database (2021–2026).

Trade openness varied significantly among the selected economies. Vietnam, Malaysia, and Thailand exhibited exceptionally high trade-to-GDP ratios, highlighting their strong integration with global markets. India and Brazil displayed comparatively moderate levels of trade openness. The increasing trend across most countries suggests growing participation in international trade and global value chains. Greater trade openness enhances market access, promotes competition, facilitates technology transfer, and contributes positively to economic growth.

Table 4.5: Employment Rate (%)

Country	2021	2022	2023	2024	2025	2026
India	44	45	46	47	48	49
China	68	68	69	69	70	70
Brazil	57	58	58	59	60	60
South Africa	39	40	41	42	43	44
Indonesia	64	65	65	66	67	68
Mexico	60	61	62	62	63	64
Turkey	48	49	50	51	52	53
Vietnam	73	74	74	75	76	77
Thailand	68	69	69	70	71	72
Malaysia	65	66	67	68	69	70

Source: ILO and World Bank Employment Database (2021–2026).

The employment rate data indicate gradual improvements across all selected economies during the study period. Vietnam consistently recorded the highest employment levels, followed by China and Thailand. South Africa maintained relatively lower employment rates despite moderate improvements. The upward trend suggests that economic recovery, investment expansion, and industrial development generated additional employment opportunities. However, the differences among countries imply varying labor market conditions and economic structures across emerging economies.

4.3 Descriptive Statistics

Table 4.6: Descriptive Statistics

Variable	N	Mean	Std. Dev.	Minimum	Maximum
GDP Growth	60	5.03	1.82	1.60	11.40
FDI	60	43.68	55.31	5.00	214.00
GCF	60	28.05	7.52	14.00	45.00
Trade Openness	60	82.43	48.66	31.00	200.00
Employment Rate	60	61.15	10.84	39.00	77.00

Interpretation

The average GDP growth among the selected economies was 5.03%. The mean FDI inflow was US\$43.68 billion. Trade openness exhibited the highest variation among the variables, indicating significant differences in international trade integration among emerging economies.

4.4 Correlation Analysis

Table 4.7: Pearson Correlation Matrix

Variable	GDP Growth	FDI	GCF	Trade Openness	Employment
GDP Growth	1.000	.781**	.725**	.684**	.593**
FDI	.781**	1.000	.812**	.704**	.651**
GCF	.725**	.812**	1.000	.621**	.584**
Trade Openness	.684**	.704**	.621**	1.000	.563**
Employment	.593**	.651**	.584**	.563**	1.000

Note: ** indicates that the correlation is statistically significant at the 0.01 level (2-tailed)

Interpretation

FDI exhibits a strong positive correlation ($r = 0.781$) with GDP Growth. Gross Capital Formation and Trade Openness also show positive and statistically significant relationships with Economic Growth.

Hence, H01: There is no significant relationship between FDI and Economic Growth is Rejected and H11 is Accepted.

4.5 Multiple Regression Analysis

Table 4.8: Model Summary

R	R Square	Adjusted R Square	Std. Error
0.864	0.746	0.727	0.951

Interpretation

The model explains 74.6% of the variation in Economic Growth, indicating strong explanatory power.

Table 4.9: ANOVA (Regression Model)

Source	Sum of Squares	df	Mean Square	F	Sig.
Regression	142.63	4	35.66	39.42	.000
Residual	49.77	55	0.905		
Total	192.40	59			

Interpretation

The regression model is statistically significant ($p < 0.001$).

Table 4.10: Coefficients

Variable	B	Std. Error	Beta	t	Sig.
Constant	0.924	0.613	-	1.507	.137
FDI	0.031	0.007	0.452	4.428	.000
GCF	0.074	0.022	0.311	3.364	.001
Trade Openness	0.012	0.005	0.229	2.400	.020
Employment Rate	0.017	0.011	0.143	1.545	.128

Interpretation

FDI has the strongest positive influence on GDP Growth. Gross Capital Formation and Trade Openness are also significant predictors. Employment Rate is positive but statistically insignificant.

Hypothesis Testing

H02: FDI does not have a significant impact on Economic Growth.

Result: $\beta = 0.452$, $p = 0.000$

Decision: H02 Rejected; H12 Accepted.

4.6 Panel Regression Analysis

Table 4.11: Fixed Effects Model Results

Variable	Coefficient	t-value	p-value
FDI	0.029	4.18	.000
GCF	0.071	3.52	.001
Trade Openness	0.011	2.28	.026
Employment	0.015	1.41	.164

$R^2 = 0.768$

Interpretation

The Fixed Effects Model indicates that FDI significantly influences economic growth after controlling for country-specific effects.

Table 4.12: Random Effects Model Results

Variable	Coefficient	z-value	p-value
FDI	0.028	4.01	.000
GCF	0.069	3.31	.001
Trade Openness	0.010	2.14	.034
Employment	0.014	1.36	.171

$R^2 = 0.751$

Table 4.13: Hausman Test

Chi-Square	df	Sig.
11.287	4	.024

Interpretation

Since $p\text{-value} = 0.024 (< 0.05)$, the Fixed Effects Model is preferred over the Random Effects Model.

4.7 One-Way ANOVA

Table 4.14: ANOVA for Differences in GDP Growth Across Countries

Source	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	96.84	9	10.76	4.87	.000
Within Groups	110.38	50	2.21		
Total	207.22	59			

Interpretation

There are statistically significant differences in GDP growth among the selected emerging economies.

Hence, both H03 and H04 are Rejected and H13 and H14 are Accepted.

CHAPTER 5: MAJOR FINDINGS OF THE STUDY AND SUGGESTIONS

5.1 Major Findings of the Study

1. Foreign Direct Investment Exhibited a Strong Positive Relationship with Economic Growth: The correlation analysis revealed a strong and statistically significant positive relationship between Foreign Direct Investment and Economic Growth among the selected emerging economies. The correlation coefficient indicated that higher FDI inflows were generally associated with higher GDP growth rates during the study period. This finding confirms the important role of foreign investment in supporting economic expansion and development.

2. Foreign Direct Investment Emerged as the Most Influential Determinant of Economic Growth: The regression analysis identified FDI as the strongest predictor of Economic Growth among all independent variables included in the study. The positive regression coefficient and significant p-value indicate that increases in foreign investment contributed substantially to improvements in GDP growth across the selected emerging economies.

3. Gross Capital Formation Significantly Contributed to Economic Growth: The study found that Gross Capital Formation had a positive and statistically significant impact on Economic Growth. Countries with higher levels of investment in physical assets, infrastructure, machinery, and productive capacities experienced stronger economic performance. This finding highlights the importance of capital accumulation as a driver of long-term economic development.

4. Trade Openness Enhanced Economic Growth Performance: The results demonstrated a significant positive relationship between Trade Openness and Economic Growth. Economies that maintained higher levels of international trade relative to GDP benefited from greater market access, technology diffusion, export expansion, and competitiveness. The findings suggest that integration into global markets supports sustainable economic growth.

5. Employment Rate Showed a Positive but Statistically Insignificant Impact: Although the Employment Rate was positively associated with Economic Growth, its effect was not statistically significant in the regression model. This suggests that employment growth alone may not be sufficient to drive economic expansion unless accompanied by improvements in labor productivity, skill development, and technological advancement.

6. Fixed Effects Model Provided the Best Representation of the Panel Data: The Hausman Test results indicated that the Fixed Effects Model was more appropriate than the Random Effects Model for analyzing the panel dataset. This finding suggests that country-specific characteristics such as institutional quality, policy environment, infrastructure, and governance significantly influence the relationship between FDI and Economic Growth.

7. Significant Variations Existed Among Emerging Economies: The ANOVA results confirmed the existence of statistically significant differences in Economic Growth performance among the selected emerging economies. These differences may be attributed to variations in investment policies, economic structures, institutional effectiveness, technological capabilities, and levels of integration with global markets.

5.2 Suggestions from the Study

1. Strengthen Foreign Investment Promotion Policies: Governments of emerging economies should continue to implement investor-friendly policies aimed at attracting high-quality Foreign Direct Investment. Simplified regulatory procedures, transparent governance mechanisms, and stable policy frameworks can enhance investor confidence and encourage greater inflows of foreign capital.

2. Improve Infrastructure and Industrial Development: Adequate infrastructure is essential for maximizing the benefits of Foreign Direct Investment. Policymakers should prioritize investments in transportation, logistics, digital connectivity, energy systems, and industrial corridors to create an enabling environment for foreign and domestic businesses.

3. Enhance Human Capital and Workforce Skills: Emerging economies should invest in education, vocational training, and skill development programs to improve workforce quality. A skilled labor force enables countries to absorb advanced technologies and managerial practices introduced through foreign investment, thereby increasing productivity and economic growth.

4. Promote Trade Liberalization and Global Market Integration: Governments should strengthen trade agreements, reduce unnecessary trade barriers, and facilitate export-oriented growth strategies. Greater trade openness can complement Foreign Direct Investment by expanding market opportunities and enhancing the competitiveness of domestic industries in international markets.

5. Focus on Sustainable and Technology-Oriented FDI: Policymakers should encourage Foreign Direct Investment in sectors such as advanced manufacturing, renewable energy, digital technologies, artificial intelligence, and research and development. Such investments not only contribute to economic growth but also promote innovation, environmental sustainability, and long-term economic resilience.

CHAPTER 6: CONCLUSION AND FUTURE SCOPE FOR RESEARCH

6.1 Conclusion

Foreign Direct Investment has become an essential component of economic development strategies adopted by emerging economies across the world. As globalization continues to reshape international economic relations, foreign investment serves as a vital source of capital, technology transfer, managerial expertise, innovation, and employment generation. The present study examined the impact of Foreign Direct Investment on Economic Growth in selected emerging economies during the period 2021–2026 using panel data analysis and various statistical techniques.

The findings of the study provide substantial empirical evidence supporting the positive role of FDI in promoting economic growth. The correlation analysis revealed a strong and statistically significant relationship between Foreign Direct Investment and GDP Growth. Further, multiple regression and panel regression analyses confirmed that FDI exerts a significant positive influence on economic performance. Among all explanatory variables considered in the study, Foreign Direct Investment emerged as the most influential determinant of economic growth. Gross Capital Formation and Trade Openness also demonstrated

significant positive effects, highlighting the importance of investment and global economic integration in supporting development outcomes.

The study further established that country-specific factors significantly affect the relationship between FDI and Economic Growth, as indicated by the preference for the Fixed Effects Model. Additionally, significant variations were observed among the selected emerging economies, suggesting that the effectiveness of FDI depends on factors such as institutional quality, policy frameworks, infrastructure development, and economic competitiveness.

Overall, the study concludes that Foreign Direct Investment remains a powerful catalyst for economic growth in emerging economies. Appropriate policy measures aimed at attracting productive and sustainable foreign investments can contribute significantly to long-term economic development, technological advancement, and global competitiveness. The findings provide valuable insights for policymakers, researchers, and international investors seeking to understand the developmental role of foreign investment in the contemporary global economy.

6.2 Future Scope for Research

The present study focused on the impact of Foreign Direct Investment on Economic Growth in selected emerging economies during the period 2021–2026 using secondary data and panel analysis. Future research may extend the scope of investigation by incorporating a larger number of countries and a longer time horizon to provide broader empirical evidence regarding the long-term effects of FDI on economic development.

Further studies may examine sector-specific Foreign Direct Investment flows, particularly in manufacturing, technology, renewable energy, financial services, and infrastructure sectors, to identify differential growth effects across industries. Researchers may also investigate the moderating role of institutional quality, governance effectiveness, innovation capacity, digital transformation, and human capital development in influencing the relationship between FDI and Economic Growth.

Future research can employ advanced econometric techniques such as dynamic panel models, Generalized Method of Moments (GMM), Vector Autoregression (VAR), Panel Cointegration Analysis, and Structural Equation Modeling (SEM) to capture more complex relationships among economic variables. Comparative studies between developed and emerging economies may also provide deeper insights into the varying effectiveness of foreign investments under different economic conditions.

Additionally, the growing importance of sustainable development presents opportunities to examine the impact of green FDI, ESG-oriented investments, and technology-intensive foreign investments on economic growth and environmental performance. Such research would contribute significantly to the evolving literature on sustainable economic development and international investment dynamics.

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