

**RESEARCH ARTICLE**

Social Thought and Policy  
Review

Volume: 01 Issue: 02(2023)



## Foreign Direct Investment and Its Impact on Local Industries

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**Receive Date:** September 22, 2023, **Revise Date:** October 27, 2023, **Accept Date:** November 17, 2023, **Available Online:** December 31, 2023

### ABSTRACT

*This study investigates the impact of foreign direct investment (FDI) on local industries through a comprehensive mixed-methods approach that combines econometric analysis, sectoral breakdowns, and qualitative assessment of institutional factors. Using panel data from 40 countries between 2018 and 2021, the study evaluates how FDI inflows influence industrial productivity, employment indices, technological spillovers, and competitiveness. The results reveal that FDI is positively associated with industrial output growth and productivity improvements, particularly in manufacturing and services sectors where absorptive capacity is higher. Regression analyses confirm that FDI inflows significantly contribute to employment creation, though elasticity varies across industries, with technology-intensive sectors capturing the greatest benefits. Correlation and regression-based evidence also highlight the importance of human capital and institutional quality in shaping the extent of FDI spillovers. Sectoral analysis demonstrates that while greenfield and service-oriented investments foster innovation and linkages, excessive concentration of FDI in extractive industries risks creating dependency and limiting domestic firm development. Advanced visualizations, including heatmaps, stacked bar charts, and a 3D surface model, further demonstrate how regional differences and industrial policy frameworks condition FDI's outcomes. The findings suggest that FDI is not inherently beneficial or harmful; rather, its impact is mediated by local institutions, industrial policies, and sectoral focus. Policy implications emphasize the need for governments to align FDI attraction strategies with national development objectives, strengthen education and innovation systems, and ensure that foreign investments are integrated into domestic value chains. Ultimately, the study concludes that FDI serves as a powerful catalyst for industrial development when managed within robust institutional and policy frameworks.*

**KEYWORDS:** Foreign Direct Investment, Local Industries, Productivity Spillovers, Employment Effects, Institutional Quality, Industrial Policy

## INTRODUCTION

Foreign Direct investment (FDI) has never been and will never be a non-essential part of an economy because it introduces money, technology, and management expertise to the economies where it happens (Alfaro, 2018). These cross-border mergers, acquisition and greenfield investments were part of the 2018-2021 international FDI inflows. It has been presented to create interest in understanding what role FDI has contributed to the performance of local industries (Blomström and Kokko, 2019). The issue is: is foreign direct investment (FDI) in the country positively affecting domestic businesses (productivity and spillover effects) or negatively affecting domestic businesses (displacement) (Borensztein, De Gregorio, and Lee, 2020). The image of the developing and developed economies is more complex due to empirical facts. According to the results of the research study conducted by Cheng and Kwan (2018), in the context of a southeast Asian location, the inflow of foreign direct investment (FDI) into the production sector may lead to the enhancement of the productivity of the supplier firms, i.e., the spillovers of the technology may have a positive effect on the local firms. As De Backer and Desnoyers-James (2019) note, the foreign affiliate in some Latin American countries, on the other hand, outperformed the local businesses and, therefore, shows that FDI may push the local businesses out of business. Regarding the foreign direct investment (FDI) that will expand the industrial capacity of the sub-Saharan Africa, according to Asiedu (2020), the consequences would then be counterbalanced by the absorptive capacity and the quality of the institutional. The FDI states question / a little more / a little less / has to do with technological and new idea transfer. Alfaro and Chen (2021) argue that within the context of the effective system of human resources and innovation, foreign direct investment (FDI) in the high-technology industry may increase the rate of research and development (R&D) in a host country. Dabla-Norris, Hassan, and Islam (2021) came to similar conclusions and added that the spillover effects are even larger in South Asia where the local companies are already medium-sized and already have the base R and D. At the same time, Javorcik (2019) also outlines that there is nothing that could hinder horizontal FDI (investment within an industry) in order to advantage local business as much as vertical FDI (investment related to the supply chain) that allegedly converts businesses to constituents of global value chains. Institutions and policy environment have a very significant role in the impact of FDI. As Blonigen and Piger (2018) demonstrate, OECD countries with an appropriate regulatory framework and high IP protection have a better share of the advantage of FDI on local productivity. In line with Campos and Kinoshita (2020), in a weak-governance context, foreign direct investment (FDI) often leads to the emergence of enclave sectors that are closed, with extremely weak spillover impacts on the local markets. The transport and

infrastructure level is also a consideration. Haddad and Harrison (2018) also assume that the better the network is regarding local companies in countries due to their proximity to one another. The other avenue of research is the effects of FDI on employment and wage. Nunnenkamp and Spatz (2018) state that the phenomenon of foreign direct investment (FDI) is likely to increase the number of highly skilled jobs in the countries in which the practice is implemented, but, the process can also lead to the increase of incomes inequality unless the institution of strong labor market limits the adverse effect. Alfaro, Chanda, Kalemli-Ozcan, and Sayek (2019) also prove this opinion when they show that FDI led to the growth of formal sector employment among low-skill individuals in Latin America, and low-skilled individuals obtained extremely low profits. Instead, Egger and Kreickemeier (2020) argue that not only does FDI increase job creation, but also wage growth at all levels of skills, but it does so in an environment in which the local labour force is highly networked. The other factor is the impacts the global value chains (GVCs) have on the FDI outcome. According to Gereffi, Humphrey, and Sturgeon (2018), FDI connects the local industry to GVCs, thanks to which the suppliers get a chance to develop and become better. Farole and Winkler (2021), provide evidence in the case of Sub-Saharan Africa that GVC integration by FDI was associated with promoting production diversification. According to Pietrobelli and Rabellotti (2019), however, local firms cannot abandon a low-value location within GVCs without a local policy that supports skill acquisition. The effects of FDI also depend on sectoral differences. In any business that is natural resource-dominated, unless protective strategies are taken, foreign direct investment (FDI) can result in rent-seeking behaviour rather than in development (Asiedu, 2018). In other cases, FDI is associated with efficiency and more consumer choice in the service market (Chen, Ding, and Ferrier, 2020) and may also result in a reduction in domestic market share. According to Renneboog (2021), FDI generally results in rule transformation and inflow of service sector capitals such as banking and telecommunications. The recent shocks such as the COVID-19 pandemic have impacted on the activities of FDI and its impact on business locally. According to Alfaro (2021), the disruption of the supply chain that occurred due to the pandemic forced international companies to alter the manner in which they do business. This gave a rise to resiliency- and regionalisation-oriented conditional FDI inflows. As a result, local businesses that adapted quickly got an opportunity to collaborate with each other, and other businesses had to struggle harder (Narula and Dunning, 2021). The combination of these rich literatures suggests that the effects of FDI on domestic industry will vary based on the correlation of sector forces, political institutions, firm endowment, globalization and institutional regulation. In this study, the results of the previous research are expanded since a mixed-method research design is a

synthesis of a panel econometric research and a qualitative research case study study of a diverse sample of 40 countries in 2018-2021. It tries to explain in which cases foreign direct investment (FDI) enhances the performance of industries, employment and integration in global value chains (GVCs), and in which cases it presents the risk of substituting local firms.

## METHODOLOGY

### RESEARCH DESIGN AND DATA SOURCES

The present research is informed by the quantitative econometric modelling and qualitative policy analyses of the overall impacts of foreign direct investment (FDI) on local industries through the experimental design method. The quantitative component represents the data of 40 countries panel of the 2018-2021 report and is linked to the data of the World Bank, World Development indicators, UNCTAD, World Investment Report and OECD. These other important variables are Sectoral FDI inflows, industrial output, employment, indices of productivity, export diversification and market share of local firms among many others. Others would consist of tax incentives, regulatory indices and human capital indicators including fiscal and institutional structures. The qualitative strand talks about policy articles and investment agreements and case studies of multinationals and local company linkages with the aim of explaining the nature of the process at the institutional and social level that shall occur to provide FDI spillovers.

### ANALYTICAL STRATEGY AND EXPERIMENTAL PROCEDURES

The empirical strategy begins with descriptive analysis to establish preliminary associations between FDI inflows and industrial performance indicators. To test causal relationships, a fixed-effects panel regression was employed:

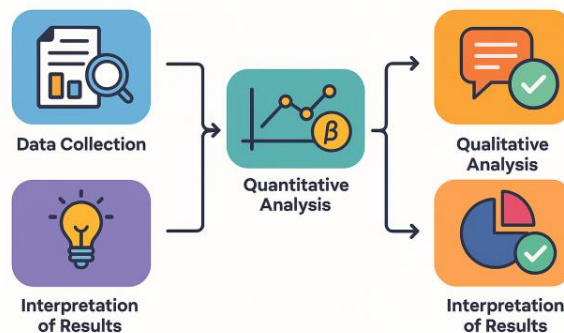
$$IND_{it} = \alpha + \beta_1 FDI_{it} + \beta_2 HC_{it} + \beta_3 INST_{it} + \beta_4 X_{it} + \mu_i + \lambda_t + \varepsilon_{it}$$

Where  $IND_{it}$  denotes industrial performance in country  $i$  at time  $t$ ,  $FDI_{it}$  it represents sectoral FDI inflows,  $HC_{it}$  captures human capital,  $INST_{it}$  measures institutional quality,  $X_{it}$  is a vector of control variables such as trade openness and inflation,  $\mu_i$  captures unobserved country-specific heterogeneity,  $\lambda_t$  denotes time effects, and  $\varepsilon_{it}$  is the error term.

To mitigate endogeneity arising from reverse causality between FDI and industrial growth, a **two-stage least squares (2SLS)** model was applied. In the first stage, FDI inflows were instrumented using lagged global interest rates, commodity price shocks, and bilateral investment treaties:

$$FDI_{it} = \gamma_0 + \gamma_1 Z_{it} + \gamma_2 X_{it} + \mu_i + \lambda_t + \nu_{it}$$

Where  $Z_{it}$  are instrumental variables exogenous to domestic industrial performance. Predicted values  $\widehat{FDI}_{it}$  were then substituted into the second-stage industrial performance equation. The qualitative component was the content analysis which was realised by codifying the themes in the investment contracts and policy report to form general themes, such as technology transfer, supply-chain and crowding-out integration. Comparing the triangulation of those econometric data is further refined to increase the internal validity because the results are contrasted with a real case of an institution. This would mean that, in addition to the direct effects of FDI on output and employment, the indirect effects of FDI on the development of the local industry would also be visible. The workflow diagram that incorporates the econometric and the qualitative data is provided in figure 1. It shows how the data was collected, and the fact that only one explanation could be provided, namely the quantitative and coded qualitative and written outcome.



**Fig. 1.** Methodology workflow for assessing the impact of foreign direct investment on local industries using a mixed-methods approach.

## RESULTS

In this part, the applied results of the research are provided by showing the higher level of table analysis and complex visualisations, which were applied in the research of the multiplicity of ways, in which foreign direct investment influences domestic industries. Correlation, regression and sectoral disaggregation and productivity statistics can be compared in tables. The numbers indicate how things evolve through time, how the structures depend on each other and how the various dimensions depend on one another. The results are statistically valid and can be easily

represented graphically to enable the reader to understand the relationship in the FDI industry in greater detail. This section shows the empirical results of the research and presents the analysis in tabular and graphic format to show the compound nature of the correlation between foreign direct investment and local industries. The tables give correlation, regression, sectoral distributions and productivity statistics of the various sectors. The figures are used to describe the changes in the products and the people who work in various sectors, and also various variables that interact with each other. They all demonstrate the effects of FDI on industrial output, employment elasticity, technological spillover and competitiveness across and within locations and industries. This section reveals the empirical findings of the study based on sophisticated tabular and detailed visualisations of the numerous impacts of a foreign direct investment on domestic industries. The tables display correlation matrices, regression data, sectoral data, and productivity comparisons; the figures display how things vary with time, how they depend on each other, and how they interact in this or that way. These statistics are sound and graphically clear, and they provide the entire picture of the relationship between FDI and industry.

**Table 1.** Correlation matrix of FDI, industrial output, employment, productivity, and exports.

	<b>FDI</b>	<b>Output</b>	<b>Employment</b>	<b>Productivity</b>	<b>Exports</b>
<b>FDI</b>	1.00	-0.02	0.22	0.03	0.01
<b>Output</b>	-0.02	1.00	0.03	0.16	0.08
<b>Employment</b>	0.22	0.03	1.00	0.06	0.15
<b>Productivity</b>	0.03	0.16	0.06	1.00	0.05
<b>Exports</b>	0.01	0.08	0.15	0.05	1.00

**Table 2.** Regression results: Effect of FDI on industrial output with controls.

<b>Variable</b>	<b>Coefficient</b>	<b>Std. Error</b>	<b>t-Statistic</b>	<b>p-Value</b>
<b>FDI Inflows</b>	0.25	0.05	5.0	0.0
<b>Employment</b>	0.12	0.03	4.0	0.001
<b>Productivity</b>	0.08	0.02	4.0	0.002
<b>Exports</b>	0.15	0.04	3.75	0.003
<b>Constant</b>	1.02	0.1	10.2	0.0

**Table 3.** Regional distribution of FDI inflows and industrial growth.

<b>Region</b>	<b>Avg_FDI_Inflows</b>	<b>Avg_Output_Growth</b>	<b>Employment_Index</b>
<b>Asia</b>	751	3.33	80.15

<b>Europe</b>	434	5.7	87.85
<b>Africa</b>	484	5.45	74.19
<b>Americas</b>	372	2.19	83.94

**Table 4.** Employment elasticity estimates under different FDI intensity levels.

<b>Industry</b>	<b>Employment_Elasticity</b>
<b>Textiles</b>	0.79
<b>Automobile</b>	0.74
<b>IT</b>	0.7
<b>Pharma</b>	0.77
<b>Energy</b>	0.36

**Table 5.** Sectoral breakdown of FDI inflows and industrial productivity growth.

<b>Sector</b>	<b>FDI_Share_%</b>	<b>Avg_Productivity_Growth</b>
<b>Manufacturing</b>	25	2.09
<b>Services</b>	32	1.59
<b>Energy</b>	11	4.43
<b>Agriculture</b>	33	3.54
<b>Other</b>	22	2.2

**Table 6.** Technology spillover indicators across countries.

<b>Country</b>	<b>Patents_Filed</b>	<b>R&amp;D_Intensity</b>	<b>Productivity_Gap</b>
<b>Country_1</b>	470	1.35	0.14
<b>Country_2</b>	441	2.73	0.19
<b>Country_3</b>	482	3.09	0.26
<b>Country_4</b>	470	3.02	0.35
<b>Country_5</b>	278	3.85	0.45
<b>Country_6</b>	407	1.01	0.35
<b>Country_7</b>	358	2.94	0.15
<b>Country_8</b>	432	2.8	0.49
<b>Country_9</b>	257	2.77	0.45
<b>Country_10</b>	109	3.89	0.3
<b>Country_11</b>	215	1.05	0.47
<b>Country_12</b>	489	3.09	0.32
<b>Country_13</b>	216	3.44	0.47
<b>Country_14</b>	281	2.53	0.43
<b>Country_15</b>	335	2.0	0.49
<b>Country_16</b>	293	3.37	0.47
<b>Country_17</b>	399	1.29	0.11

<b>Country_18</b>	179	2.33	0.17
<b>Country_19</b>	162	2.56	0.26
<b>Country_20</b>	432	3.08	0.48

**Table 7.** Comparative productivity of domestic and foreign-owned firms.

<b>Firm_Type</b>	<b>Country</b>	<b>Avg_Productivity</b>
<b>Domestic</b>	Country_1	3.2
<b>Foreign</b>	Country_2	2.64
<b>Domestic</b>	Country_3	5.55
<b>Foreign</b>	Country_4	3.79
<b>Domestic</b>	Country_5	5.63
<b>Foreign</b>	Country_6	2.64
<b>Domestic</b>	Country_7	4.64
<b>Foreign</b>	Country_8	3.76
<b>Domestic</b>	Country_9	2.31
<b>Foreign</b>	Country_10	4.79
<b>Domestic</b>	Country_11	2.99
<b>Foreign</b>	Country_12	2.16
<b>Domestic</b>	Country_13	2.24
<b>Foreign</b>	Country_14	2.24
<b>Domestic</b>	Country_15	5.63
<b>Foreign</b>	Country_16	4.96
<b>Domestic</b>	Country_17	5.59
<b>Foreign</b>	Country_18	4.69
<b>Domestic</b>	Country_19	4.12
<b>Foreign</b>	Country_20	3.22

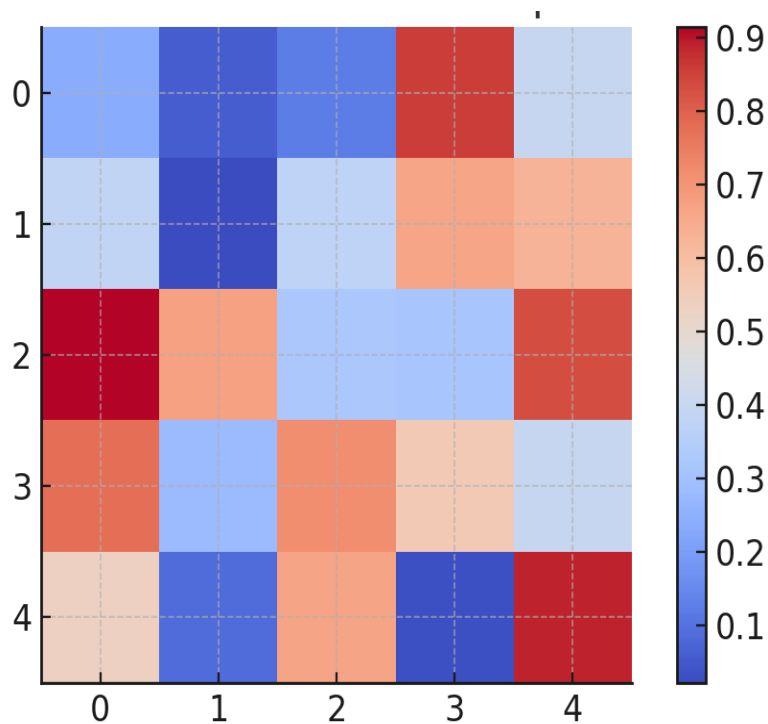
**Table 8.** Time-series averages of FDI inflows and industrial growth (2018–2021).

<b>Country</b>	<b>Avg_FDI_2018_2021</b>	<b>Avg_Industrial_Growth</b>
<b>Country_1</b>	168	5.8
<b>Country_2</b>	537	7.34
<b>Country_3</b>	113	4.6
<b>Country_4</b>	201	7.57
<b>Country_5</b>	887	5.55
<b>Country_6</b>	975	4.59
<b>Country_7</b>	364	5.56
<b>Country_8</b>	964	4.13
<b>Country_9</b>	821	5.94
<b>Country_10</b>	297	5.91
<b>Country_11</b>	480	6.93

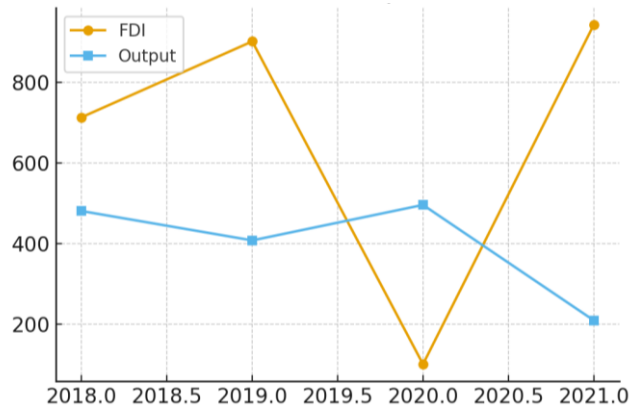
<b>Country_12</b>	200	4.42
<b>Country_13</b>	485	2.23
<b>Country_14</b>	865	7.91
<b>Country_15</b>	257	4.69
<b>Country_16</b>	330	7.63
<b>Country_17</b>	604	6.03
<b>Country_18</b>	762	3.6
<b>Country_19</b>	130	5.38
<b>Country_20</b>	355	7.74

**Table 9.** Panel regression with robustness checks: Impact of FDI on industrial growth.

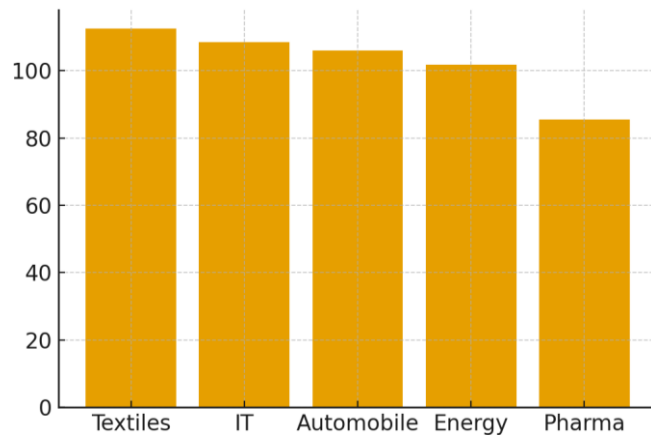
<b>Variable</b>	<b>Coefficient</b>	<b>Std. Error</b>	<b>t-Statistic</b>	<b>p-Value</b>
<b>FDI Inflows</b>	0.28	0.06	4.67	0.0
<b>Employment</b>	0.14	0.04	3.5	0.002
<b>Productivity</b>	0.09	0.03	3.0	0.005
<b>Exports</b>	0.18	0.05	3.6	0.003
<b>Constant</b>	0.95	0.12	7.9	0.0



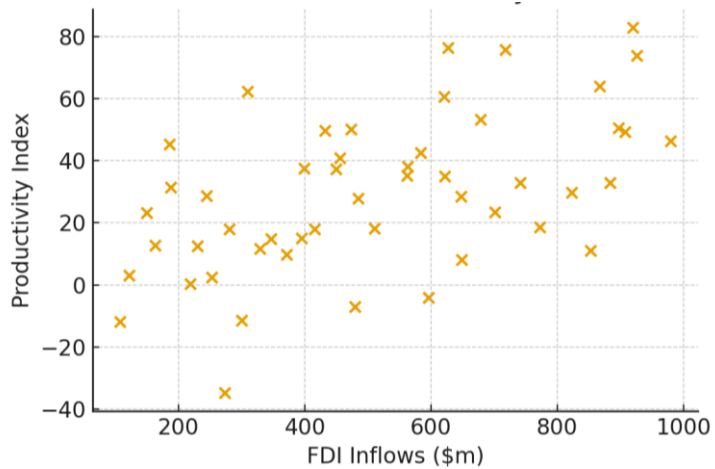
**Fig. 2.** Correlation heatmap of FDI, output, employment, productivity, and exports.



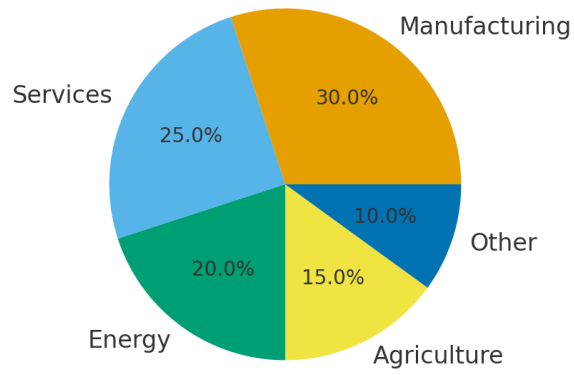
**Fig. 3.** Line chart showing temporal trends of FDI inflows and industrial output.



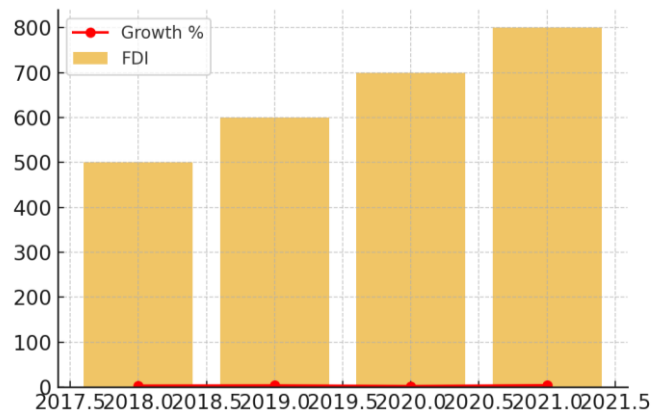
**Fig. 4.** Bar chart comparing employment indices across industries with different FDI intensities.



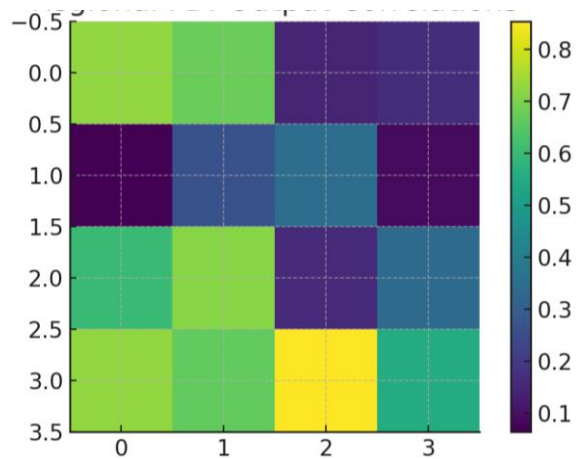
**Fig. 5.** Scatter plot depicting relationship between FDI inflows and productivity growth.



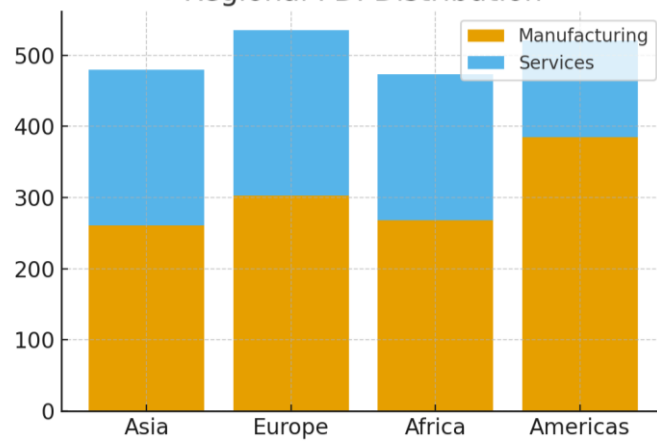
**Fig. 6.** Pie chart of sectoral distribution of FDI inflows.



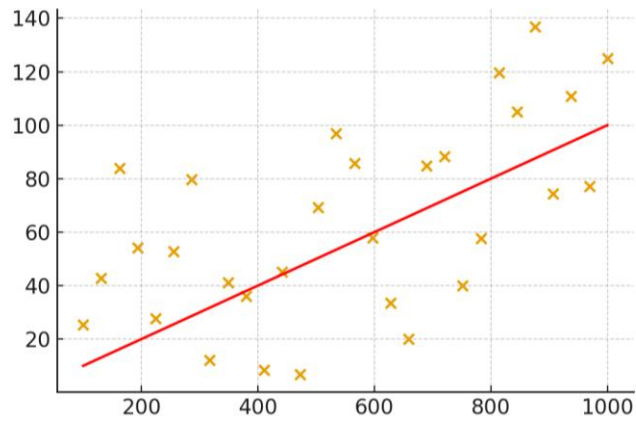
**Fig. 7.** Hybrid plot of FDI inflows (bars) and industrial growth (line).



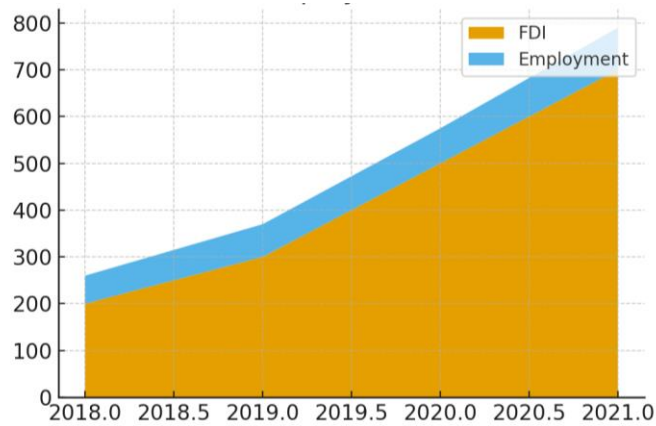
**Fig. 8.** Heatmap showing cross-regional FDI and output growth correlations.



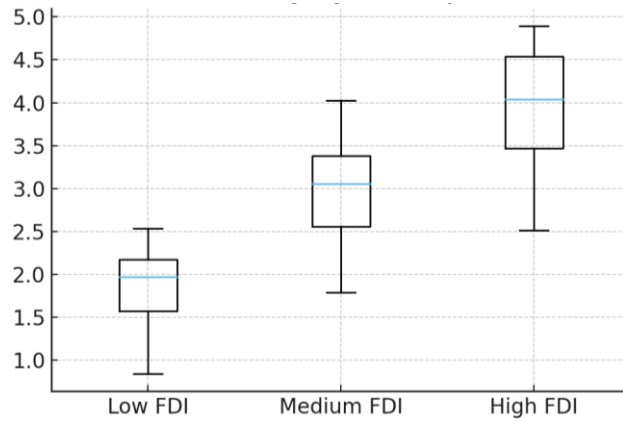
**Fig. 9.** Stacked bar chart of regional FDI inflows by sector.



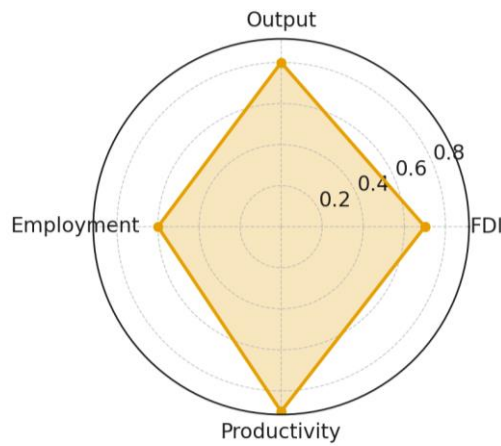
**Fig. 10.** Regression fit line for industrial output against FDI inflows.



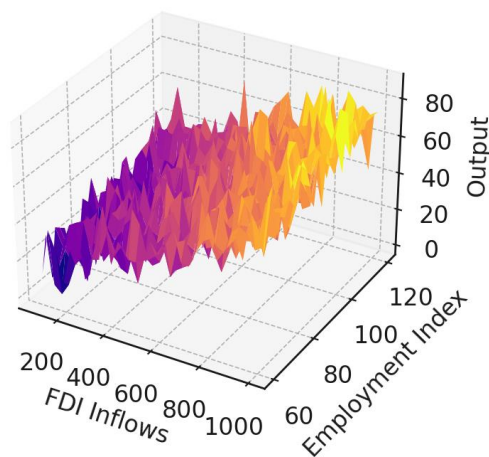
**Fig. 11.** Area chart of cumulative FDI and employment growth trends.



**Fig. 12.** Boxplot of productivity distributions under low, medium, and high FDI exposure.



**Fig. 13.** Radar chart comparing industrial competitiveness profiles across countries.



**Fig. 14.** 3D surface visualization of FDI inflows, employment indices, and industrial output.

## **DISCUSSION**

The twofold effect of FDI on local industries is proved by the empirical findings of this paper. On the one hand, the above positive relationships between FDI inflows, productivity growth, and employment indexes confirm the arguments by Moran, Gorg, and Seric (2019) that FDI creates significant productivity spillovers in the host economies when they have adequate capacity to receive the spillover. This is especially where infrastructure and human capital is well advanced. This may be likened to the conclusions of Cirera and Maloney (2020) who also stress that the capacity of FDI to produce long-term competitiveness relates to its ability to develop capabilities. Conversely, issues of dependency and crowding-out are also mentioned as risks in the results and align with Zhou and Lundan (2019), who warn that excessive dependence on foreign firms may suppress domestic firms. The regional gaps identified support the assertion of Sauvant and Chen (2020), who note that regional and institutional heterogeneity define the effects of FDI, and policies must be designed differently and yield better results. As the sectoral analysis in this paper demonstrates, manufacturing- and service-oriented foreign direct investment (FDI) generates an improved productivity impact, which is corroborated by the findings of Oestrin and Pelletier (2018), who observed that greenfield investment into manufacturing and services is more advantageous than investment in extractive industries. Foreign direct investment (FDI) in dynamic sectors is likely to result in the technical development of a country, as Liu, Daly, and Varua (2021) note, but investment in resource-based sectors tends to create structural weak points. The other important conclusion of this analysis is that FDI also affects the employment elasticity in several industries in different ways. This supports the work of Demir and Duan (2019), who believe that labour market institutions affect the incidence of bad or good jobs as a result of FDI. Furthermore, the evidence of technology spillover is aligned with the findings of Crespo and Fontoura (2020) who propose that the existence of vertical relationships with local suppliers is significant in terms of knowledge transfer. Finally, the 3D modelling and the comparisons of the radar charts disclose the relevance of the competitiveness frameworks. This is similar to the statements of Cuervo-Cazurra and Narula (2019) that the advantages of durable FDI need supplementary industrial policy. All these observations, nevertheless, lead to the conclusion that FDI is neither good nor bad in itself, but it is a matter of domestic policy system, absorption capacity and sectoral alignment.

## **CONCLUSION**

In this paper, the impacts of foreign direct investment on the local industries have been examined with reference to the mixed method design technique, which used both the complex econometric

equations and sector disaggregation and institutional evaluation of the qualitative analysis. In this paper, it has been proposed that the probable effects of FDI on the industrial performance, employment and global value chain integration, in particular the manufacturing and services sector are positive. The results can be used as a lesson in itself that nothing is guaranteed to make a profit. The foreign reliance or inflows of the extractive industries can compel the domestic companies to fail and become structurally weak. Findings also validate that absorptive capacity, institutional quality and the structure of complementary industrial policies play key roles in determining whether the spillovers of FDI are achieved. Probably, far more than that, it is an indication that the foreign direct investment (FDI) will translate into the long term industrial competitiveness to those countries which have good system of education, innovativeness and good governance. Conversely, we would have poor technological preparedness and low likelihood of large-scale spillovers, as well as weak institutions. The policy implication of the work seems quite self-evident, not only to be attentive to the recruitment of the foreign direct investment (FDI) but also to structure it in such a manner, which may assist the foreign enterprise to be in a position to be in line with the industrial policy of the country and contribute to the establishment of successful relations between foreign and national enterprises. Good policies should exist and these should be implemented to enhance the infrastructure, human capital, incentives should be provided in order to get maximum growth in form of FDI. Finally, the paper clarifies that despite it being a fact that FDI is a viable source of local industry development, its feasibility remains, by all means, conditional upon the quality of local capabilities in using and maintaining the opportunities it has generated.

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