
| RESEARCH ARTICLE**Foreign and Domestic Investment in Emerging Economies: Growth Resilience from a 2010–2024 Panel****Edvin STEFANI***Barleti University, Albania***Corresponding Author:** Edvin STEFANI, **E-mail:** e.stefani@umb.edu.al

| ABSTRACT

This paper explores whether foreign direct investment (FDI) helps economies remain resilient amid recent challenges such as the pandemic, inflation, shifting supply chains, and global tensions. It uses annual data from 31 emerging countries between 2010 and 2024, focusing on real GDP growth as the main outcome. The key variable is FDI inflows from the previous year as a share of GDP, along with factors like domestic investment, trade openness, inflation, and fixed country and year effects to account for broader trends. Resilience is measured by how FDI interacted with the 2020 shock and the period after 2021. The analysis uses 399 country-year observations from 29 countries. Results show that lagged FDI has no clear or significant effect on growth during shocks. In contrast, higher domestic investment and trade openness are clearly linked to stronger growth, while higher inflation is linked to weaker growth. The findings suggest that simply attracting more FDI does not automatically boost an economy's short-run resilience. Instead, the benefits of FDI depend on strong domestic investment, stable macroeconomic conditions, good market access, and the ability to use foreign capital effectively. The study adds updated, transparent evidence to ongoing debates, emphasizing that policy should focus not just on the quantity of FDI, but on improving investment quality, supporting domestic capital, maintaining stability, and building diverse economic relationships.

| KEYWORDS

Foreign direct investment; emerging economies; domestic investment; growth resilience; trade openness; geoeconomic fragmentation

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1. Introduction

Today's global landscape has made foreign direct investment (FDI) and economic growth more dependent on policy choices than in the past. The World Bank's June 2026 Global Economic Prospects forecast global growth at just 2.5% and highlights challenges like energy shocks, rising debt, and uneven impacts across emerging economies (World Bank, 2026). It stresses the importance of strong domestic policies on inflation, fiscal health, and building physical, human, and digital capital as keys to resilience. Meanwhile, the International Monetary Fund (IMF) reports that supply chain disruptions and geopolitical tensions are causing FDI to cluster among countries with close political ties, especially in critical sectors. Some emerging economies remain vulnerable because they rely heavily on investment from distant or less-aligned partners (International Monetary Fund, 2023).

Given these changes, policymakers must now ask not just how to attract more FDI, but whether their economies can absorb shocks, maintain investment, and turn foreign capital into real gains in productivity and jobs. A country might post high FDI numbers due to a single large project or financial transaction, without boosting its long-term growth potential. On the other hand, even modest FDI can strengthen resilience if foreign firms invest locally, share technology, and build local supplier networks.

This study looks at these questions using annual data from 31 emerging economies between 2010 and 2024. This period covers commodity price shifts, the pandemic and its aftermath, high inflation, supply chain issues, and growing trade and investment fragmentation. The analysis draws on World Development Indicators (WDI) data on GDP growth, FDI inflows, domestic investment, trade openness, and inflation. The model focuses on within-country patterns, controlling for country and year effects, but does not claim to prove causation.

The main result is cautious: after accounting for other factors, there's no significant link between lagged FDI and growth, nor evidence that FDI softened the 2020 shock or changed growth patterns after 2021. Instead, domestic investment and trade openness are clearly linked to better growth, while higher inflation hurts growth. These results suggest that FDI can be valuable, but it's not a stand-alone solution for resilience.

This paper aims to provide an up-to-date, transparent benchmark for understanding FDI and growth in today's fragmented trade and investment landscape. Section 2 reviews key theories and studies on the relationship between FDI and growth, highlighting how these links have changed in today's more fragmented global setting. Section 3 outlines the data sources, country sample, variables, and the econometric methods used in the analysis. Section 4 presents both descriptive statistics and the main regression results, showing how the different factors relate to economic growth during the study period.

Section 5 discusses what these results mean for emerging economies. Section 6 offers specific policy recommendations, suggesting that countries focus on strengthening their capacity to absorb and benefit from FDI, support domestic investment, and maintain stable economic fundamentals. Section 7 concludes the paper by summarizing the findings and their relevance in the current global context.

2. Literature Review and Analytical Framework

2.1 Why FDI may support growth

Standard development thinking points to several ways FDI can boost economic growth. Foreign companies often bring new physical capital, advanced technologies, better management, connections to export markets, higher standards, and improved workforce skills. For example, Borensztein, De Gregorio, and Lee (1998) show that FDI can drive technology transfer, but its positive impact on growth depends on the host country's level of human capital. Their research also finds that FDI tends to support, rather than crowd out, domestic investment. This is a key consideration for the current study: simply increasing FDI is not enough; its developmental benefits rely on strong local capabilities that can complement and absorb these foreign investments.

Alfaro, Chanda, Kalemli-Ozcan, and Sayek (2004) highlight another way FDI's impact depends on local conditions. Their research finds that FDI alone does not have a clear effect on growth, but when combined with well-developed domestic financial markets, the impact becomes strongly positive. This suggests that foreign investment delivers greater benefits when local firms have access to financing, can adopt new technologies, and take part in supply chains. In environments with high interest rates, greater risk, and weaker FDI inflows, efforts to attract investment must be paired with policies that improve credit access, promote competition, develop the workforce, and upgrade infrastructure.

Long-term research shows that the effects of FDI on growth can vary widely. For instance, Herzer (2012) used advanced methods to study 44 developing countries from 1970 to 2005 and found, on average, a negative long-run link between FDI and growth, but with significant differences across countries. These differences were linked to factors such as institutional quality, FDI volatility, and dependence on primary resources. This finding reminds us that average results can be misleading, especially for emerging economies where FDI varies by sector, source country, contract type, and how well it connects to the local economy. As a result, neither positive nor negative average estimates should be seen as universal policy guidance.

2.2 Fragmentation, trade structure, and resilience

Geoeconomic fragmentation has added a new layer to the FDI and growth debate. According to the IMF's World Economic Outlook, foreign investment is increasingly concentrated among countries with close political ties, especially in strategic sectors. This trend can lead to significant long-term economic losses, and emerging and developing economies are particularly at risk when their main sources of investment are advanced economies (IMF, 2023). Similarly, Hakobyan, Meleshchuk, and Zymek (2023) find that trade fragmentation could reduce global real income by a median of 1.3 percent, with emerging regions like Asia, sub-Saharan Africa, and the Middle East and Central Asia facing even greater proportional losses than advanced economies.

Not every change in global supply chains harms all emerging economies. According to UNCTAD, many multinational companies are moving parts of their supply chains to regions like Southeast Asia, Eastern Europe, and Central America (UNCTAD, 2025). However, the same UNCTAD report points out that overall global FDI remains weak and uneven, with underlying flows dropping 11 percent to \$1.5 trillion in 2024 after removing volatile financial transfers. The report highlights the need for investment in productive industries, infrastructure, and digital skills. These trends suggest that countries with strong logistics, skilled workers, good market access, and reliable regulations are more likely to attract new investment. In contrast, others risk being left out of the evolving global production landscape.

Research on trade resilience highlights the difference between simply being exposed to global markets and having the capacity to benefit from them. Arvis et al. (2025) note that while a high trade-to-GDP ratio shows how involved a country is in international trade, it doesn't capture specific vulnerabilities like over-concentration, lack of substitutes, volatility, or complex logistics. Dennis and Shepherd (2007) find that lower export and transport costs help developing countries diversify their exports. The World Trade Organization (2021) also emphasizes the role of diversification, trade facilitation, logistics, and market information in building resilience. In this study, trade openness is viewed as a sign of broad integration with the global economy, not as a direct measure of how diversified a country's trade is. Greater openness can support growth by expanding access to different markets and inputs, but it can also increase risks for countries whose trade is too concentrated.

Recent research urges caution when making simple claims about trade and growth. Trinh and Thuy (2021) show that the benefits of export diversification depend on reaching certain thresholds; just having more products or markets doesn't always boost growth in emerging and developing economies. Mania and Rieber (2019) point out that the quality and technological sophistication of exports matter, since basic assembly work can still rely heavily on imports. Lee and Zhang (2019) find that countries with concentrated exports tend to grow more slowly and experience more economic volatility but also note that even limited diversification into related sectors can help. The overall takeaway is that economic resilience depends on the nature and depth of a country's international ties, not simply on increasing the number or volume of exports.

2.3 Research gap and hypotheses

While the existing literature offers strong explanations for how FDI affects growth, a gap remains in practical, up-to-date evidence for policymakers. Much of the classic research relies on older data or broad, long-term averages across countries, while recent studies on fragmentation often use simulations or theoretical models. These methods are useful, but they don't provide a clear, annual benchmark showing how FDI, domestic investment, trade, inflation, and real economic growth have evolved in a diverse set of emerging economies up to 2024.

This study aims to fill that gap by focusing on a specific question: after accounting for differences across countries and years, is there a link between lagged net FDI and real GDP growth, and does that link change during the 2020 shock or in the years after 2021?

The analysis tests three main ideas. First (H_1), that lagged FDI is positively linked to real GDP growth. Second (H_2), that this relationship might be especially strong during crises like 2020 or the post-pandemic period if foreign investment helps cushion shocks. Third (H_3), that domestic investment, stable prices, and broad trade connections are all important, so FDI alone may not have a strong effect once these other factors are considered. These hypotheses aren't meant to be definitive proof, but rather to provide a clear and transparent way to test the direction, size, and reliability of FDI's association with growth.

3. Materials and Methods

3.1 Sample and data sources

The data set contains annual observations from 2010 through 2024 for a purposively selected group of 31 emerging economies: Albania, Argentina, Bangladesh, Brazil, Bulgaria, Chile, Colombia, Costa Rica, the Dominican Republic, Egypt, Georgia, India, Indonesia, Jordan, Kazakhstan, Kenya, Malaysia, Mexico, Morocco, Nigeria, Pakistan, Peru, the Philippines, Romania, Serbia, South Africa, Thailand, Tunisia, Türkiye, Ukraine, and Viet Nam. The selection deliberately spans Europe and Central Asia, Latin America and the Caribbean, Asia, the Middle East and North Africa, and sub-Saharan Africa. It is not intended to represent the population of all emerging economies. Appendix A reports the regional composition and complete list.

All statistical variables are drawn from the World Bank WDI application programming interface on 5 September 2026. WDI defines trade openness as exports plus imports of goods and services divided by GDP, reports the series annually, and relies on country official statistics, national statistical organizations and central banks, national-accounts files, Organization for Economic Co-operation and Development files, and World Bank staff estimates (World Bank, 2026b). WDI observations are revised as national accounts are updated; the replication package therefore retains the date and raw JSON responses. The 2010–2024 raw panel contains 465 country-year observations for the principal outcome and FDI variables. The regression sample is unbalanced after removing missing controls and lags.

Variable	WDI series	Definition and transformation	Role
Real GDP growth	NY.GDP.MKTP.KD.ZG	Annual growth of GDP at market prices based on constant local currency; percent.	Outcome
FDI inflows	BX.KLT.DINV.WD.GD.ZS	Net foreign direct investment inflows as percent of GDP; used with a one-year lag and winsorized at the 1st/99th percentiles.	Main explanatory variable
Domestic investment	NE.GDI.FTOT.ZS	Gross fixed capital formation as percent of GDP; winsorized at the 1st/99th percentiles.	Control/complement
Trade openness	NE.TRD.GNFS.ZS	Exports plus imports of goods and services as percent of GDP; winsorized at the 1st/99th percentiles.	Control / external integration
Inflation	FP.CPI.TOTL.ZG	Annual consumer-price inflation; winsorized at the 1st/99th percentiles.	Control / macroeconomic stability

Table 1. Variables and construction. Source: Author's compilation from World Bank World Development Indicators. Winsorization affects regressors only; the GDP-growth outcome is not winsorized.

3.2 Econometric specification

Ordinary least squares with country and year fixed effects and country-clustered standard errors estimate the baseline regression. Country effects account for factors that don't change over time within each country, such as geography, historical institutions, resource endowments, and long-term development patterns. Year effects capture shocks or trends that affect all countries in the sample, like changes in global financial conditions or shifts in major commodity prices. With i denoting country and t denoting year, the baseline model is:

$$g_t = \beta_1 FDI_{i,t-1} + \beta_2 GFCF_{i,t} + \beta_3 Trade_{i,t} + \beta_4 Inflation_{i,t} + \mu_i + \tau_t + \varepsilon_{it}$$

In the equation, g is annual real GDP growth; FDI is lagged net FDI inflows as a share of GDP; GFCF is gross fixed capital formation; Trade is trade openness; μ_i and τ_t are country and year fixed effects; and ε_{it} is the residual. A one-year FDI lag reduces the most immediate concern that same-year growth mechanically attracts FDI. Still, it does not remove reverse causality, omitted time-varying variables, or measurement error. Accordingly, β_1 is interpreted as a conditional within-country association rather than a causal effect.

Two interaction specifications operationalize resilience. The first adds $FDI_{it} \times Shock2020$ where $Shock2020$ equals one in 2020. The second adds $FDI_{it} \times Post2021$ where $Post2021$ equals one from 2021 onward. These tests ask whether the FDI-growth association differs in a clearly identified global shock year or the subsequent period. They do not estimate the effect of fragmentation itself, because fragmentation intensity varies by sector, partner, and policy measure and is not directly observed in the aggregate national-accounts panel.

Regressors are winsorized at the first and ninety-ninth percentiles to prevent a small number of extreme flows or inflation episodes from dominating the slope estimates. This choice is reported explicitly and does not alter the GDP-growth outcome. The complete-case sample contains 399 observations from 29 countries over 2011–2024. Jordan and Nigeria do not enter the complete-case regressions because of missing values among the selected controls; Argentina contributes seven observations from 2018–2024. A sensitivity specification adds lagged GDP growth. It changes neither the sign nor the statistical significance of the main FDI coefficient.

3.3 Descriptive statistics

Variable	Observations	Mean	Standard deviation	Minimum	Maximum
Real GDP growth (%)	465	3.436	3.835	–28.759	14.012
FDI inflows (% of GDP)	465	3.122	2.314	–0.858	12.547
Lagged FDI inflows (% of GDP)	434	3.145	2.309	–0.858	12.547
Gross fixed capital formation (% of GDP)	435	22.476	5.236	11.489	35.160
Trade openness (% of GDP)	435	70.462	34.189	22.486	186.676
Consumer-price inflation (%)	457	7.303	14.322	–1.545	219.884

Table 2. Descriptive statistics for the raw analysis variables. Source: Author's calculations from World Bank World Development Indicators, downloaded 5 September 2026. Statistics use available observations before complete-case estimation and before regressor winsorization.

Table 2 confirms the sample's economic heterogeneity. Mean real GDP growth was 3.436 percent, but the range extends from –28.759 percent to 14.012 percent. FDI inflows averaged 3.122 percent of GDP, with negative observations in some country-years and a maximum of 12.547 percent. Trade openness varies widely, reminding us that its relation to growth is conditional on size, geography, product mix, and external demand. Inflation has a mean of 7.303 percent and a maximum of 219.884 percent, making transparent outlier treatment important. These raw statistics are descriptive; the regression uses the stated winsorized regressors and country-year controls.

4. Results

4.1 Growth, FDI, and the shock sequence

The temporal pattern is consistent with a large common shock followed by a rebound, rather than with a smooth linear development process. Across available country-year observations, average real growth was 3.802 percent before the pandemic, fell to –4.195 percent in 2020, and rose to 4.428 percent during 2021–2024. Mean FDI inflows declined from 3.268 percent of GDP in the pre-pandemic period to 2.182 percent in 2020, then recovered only partially to 2.993 percent in 2021–2024. Gross fixed capital formation also fell in 2020 and remained slightly below its pre-pandemic mean in the subsequent period. Inflation increased markedly after 2020, averaging 12.484 percent over 2021–2024. The period averages are not causal estimates; they establish the macroeconomic backdrop against which the fixed-effects results should be read.

Period	GDP growth (%)	FDI (% GDP)	GFCF (% GDP)	Trade (% GDP)	Inflation (%)
Pre-pandemic (2010–2019)	3.802	3.268	22.750	69.671	5.407
Pandemic shock (2020)	−4.195	2.182	21.433	63.602	5.043
Recovery and fragmentation (2021–2024)	4.428	2.993	22.054	74.155	12.484

Table 3. Period means across available sample observations. GFCF = gross fixed capital formation. Source: Author's calculations from World Bank World Development Indicators, downloaded 5 September 2026. Each variable-period mean uses its available country-year observations.

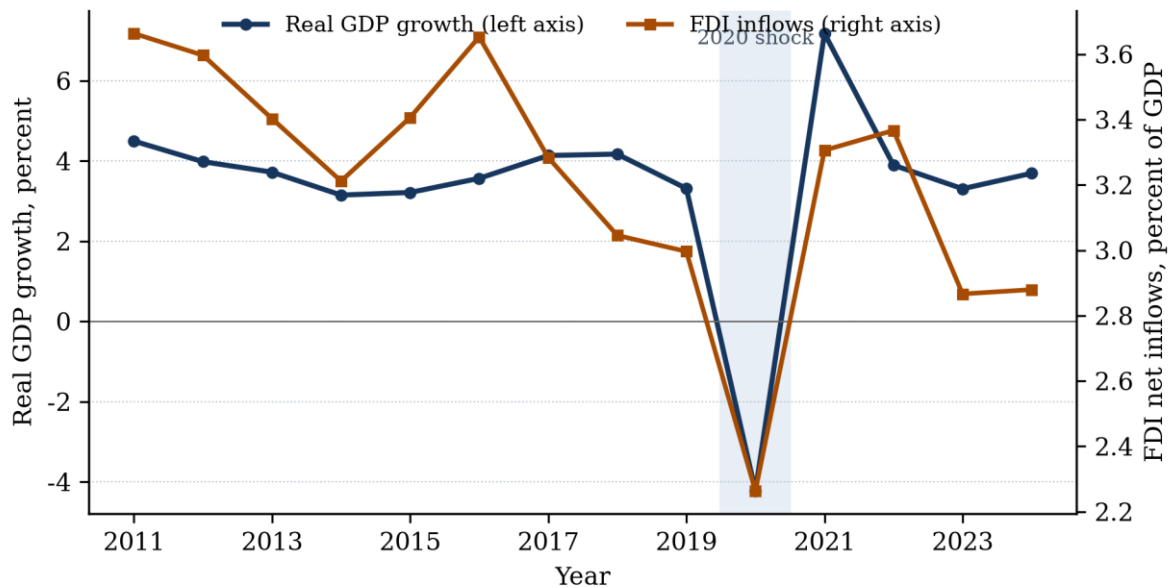


Figure 1. Annual mean real GDP growth and FDI inflows in the regression sample, 2011–2024. The shaded band marks the 2020 shock year. Source: Author's calculations from World Bank World Development Indicators, downloaded 5 September 2026.

Figure 1 makes two points. First, the simultaneous 2020 decline in output and FDI is visible at the sample mean, supporting the inclusion of common year effects. Second, a recovery of average growth does not map mechanically onto a recovery of average FDI. The post-2021 period combines strong rebound growth in 2021 with subsequent normalization, while average FDI remains below its 2011–2019 level. This divergence cautions against interpreting a common time-series co-movement as evidence that FDI is independently responsible for growth.

4.2 Baseline fixed-effects estimates

Table 4 reports the baseline fixed-effects results. The coefficient on lagged FDI inflows is -0.135 with a country-clustered standard error of 0.139 and a p -value of 0.330 . The estimate is not statistically different from zero at conventional levels. Thus, after including controls, country fixed effects, and year fixed effects, the data do not support H_1 as a general within-country proposition. The result should not be read as proof that FDI is harmful or irrelevant. Rather, it indicates that a one-percentage-point increase in the aggregate FDI-to-GDP ratio does not have a precisely estimated average growth association in this sample and specification.

Variable	Coefficient	Clustered standard error	p-value
Lagged FDI inflows (% of GDP)	−0.135	0.139	0.330
Gross fixed capital formation (% of GDP)	0.295**	0.148	0.046
Trade openness (% of GDP)	0.050**	0.022	0.021
Consumer-price inflation (annual %)	−0.129**	0.051	0.011
Country fixed effects	Yes		
Year fixed effects	Yes		
Observations	399		
Countries	29		
R-squared	0.617		

Table 4. Baseline association with annual real GDP growth. Country-clustered standard errors are reported. ** $p < 0.05$. Regressors are winsorized at the 1st and 99th percentiles; GDP growth is not winsorized. Source: Author's calculations from World Bank World Development Indicators, downloaded 5 September 2026.

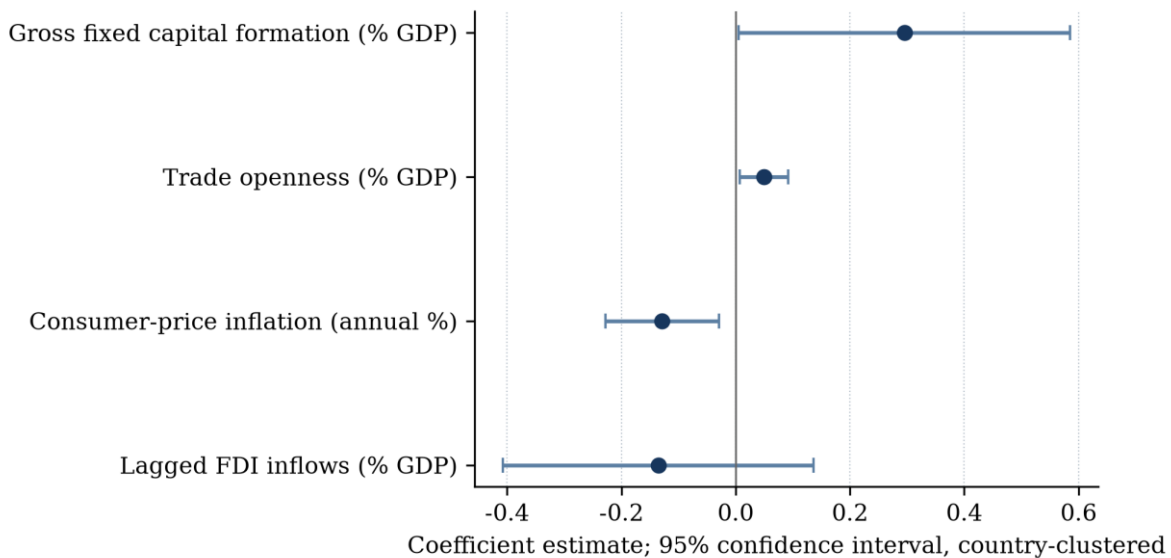


Figure 2. Baseline coefficient estimates and country-clustered 95 percent confidence intervals. Source: Author's calculations from World Bank World Development Indicators, downloaded 5 September 2026.

Three conditional associations are estimated more precisely. Gross fixed capital formation has a coefficient of 0.295 and is significant at the five-percent level. The estimate means that, within the model, a one-percentage-point increase in domestic fixed investment as a share of GDP is associated with a 0.295-percentage-point increase in contemporaneous real GDP growth, holding the included variables and fixed effects constant. Trade openness has a positive coefficient of 0.050. Consumer-price inflation has a negative coefficient of -0.129 . The coefficient plot in Figure 2 shows that the confidence interval for FDI crosses zero, whereas those for domestic investment, trade openness, and inflation do not at the 95-percent level.

The domestic-investment result accords with the complementarity mechanisms proposed by Borensztein, De Gregorio, and Lee (1998) and Alfaro et al. (2004). External capital tends to boost growth most when it complements, rather than replaces, domestic investment. The same logic applies to trade: while openness provides access to markets, inputs, and knowledge, the broad measure used here doesn't show whether a country's trade is diversified or focused on risky products and partners. The inflation findings also highlight the critical role of macroeconomic stability, in line with current global policy recommendations (World Bank, 2026).

4.3 Stress-period interactions and sensitivity

Table 5 tests H2. In the 2020 specification, the interaction between lagged FDI and the shock year is 0.049 with a p-value of 0.884. In the post-2021 specification, the interaction is 0.040 with a p-value of 0.866. Both intervals are wide and include zero by a large margin. The estimates therefore provide no evidence that higher aggregate FDI inflows in the preceding year systematically buffered the 2020 contraction or generated a distinct growth association in the post-2021 period. The absence of precision is substantively informative because it discourages claims that headline FDI alone provided a general resilience dividend across diverse emerging economies.

Term	2020-shock interaction model	Post-2021 interaction model
Lagged FDI inflows (% of GDP)	-0.136 (0.138), p = 0.322	-0.143 (0.141), p = 0.311
Lagged FDI × 2020 shock	0.049 (0.333), p = 0.884	—
Lagged FDI × post-2021	—	0.040 (0.234), p = 0.866
Domestic investment, trade, inflation	Included	Included
Country and year fixed effects	Included	Included
Observations / R-squared	399 / 0.617	399 / 0.617

Table 5. Resilience interaction tests. Standard errors in parentheses are clustered by country. Neither FDI interaction is statistically significant. Regressors are winsorized at the 1st and 99th percentiles. Source: Author's calculations from World Bank World Development Indicators, downloaded 5 September 2026.

The sensitivity model includes lagged GDP growth. Its FDI coefficient is -0.124 with a p-value of 0.347, compared with -0.135 and 0.330 in the baseline. Gross fixed capital formation, trade openness, and inflation retain their signs and conventional significance. Lagged growth itself is not significant. This narrow exercise does not solve the dynamic-panel bias associated with including a lagged dependent variable alongside fixed effects. Still, it shows that the main conclusion is not driven by omission of one year of growth persistence. Results for all specifications, the raw WDI responses, the tidy panel, and the code that generated the estimates are retained in the replication package.

5. Discussion

5.1 Interpreting the non-result on headline FDI

The principal result is a non-result, but it is not an empty one. A statistically imprecise average relationship between lagged FDI inflows and annual growth is consistent with an extensive literature that finds heterogeneity and complementarity rather than a universal effect. FDI aggregates combine greenfield investment, reinvested earnings, debt instruments, acquisitions, and in some settings transactions linked to special-purpose entities or financial conduits. These components have different implications for local capacity, employment, exports, and technology transfer. The same FDI-to-GDP ratio can therefore represent very different underlying economic processes.

This distinction is especially important in today's environment. UNCTAD (2025) notes that headline FDI numbers can be distorted by volatile financial flows, with real underlying investment falling in 2024. The IMF, for similar reasons, now focuses on greenfield project counts new investment projects rather than overall FDI flows, to avoid the effects of "phantom" investments and better capture where new investment is happening. The FDI data used here is a useful broad measure. Still, it can't tell us whether inflows are truly creating lasting benefits for the local economy or simply reflecting financial transactions with little impact on GDP growth.

The findings during periods of stress underscore this complexity. Foreign firms can help stabilize exports and maintain access to global finance and technology. Still, they can also transmit negative shocks from abroad, such as weaker demand or supply-chain disruptions. In a fragmented global economy, the effects of FDI may vary widely across industries, source countries, political alignments, and local capabilities. As a result, average national FDI figures can't capture all these differences. The lack of a clear average buffering effect should be seen as a call for more detailed analysis, not as a reason to turn away from global investment connections.

5.2 Why domestic investment, trade, and inflation matter

The strong link between domestic investment and growth found in this study directly supports the idea that foreign and local investment work best together. Building infrastructure, factories, and other productive assets not only increases a country's output but also helps foreign investment deliver greater benefits by ensuring the necessary power, logistics, suppliers, and complementary equipment are in place. If policies attract foreign firms but domestic investment is held back by high borrowing costs, poor infrastructure, or uncertainty, countries are unlikely to get the full development benefits from external capital.

The results for trade also point to the importance of economic connections, though they don't prove a direct cause-and-effect. Greater trade openness can mean more efficient specialization and access to important inputs. Still, as the World Bank points out, trade-to-GDP ratios alone don't reveal whether a country is resilient or just exposed to risk. True resilience comes from being able to switch products, markets, suppliers, routes, and financing when shocks hit. So, policy should aim for diversified openness, spreading risk and expanding opportunity rather than either extreme of total integration or self-sufficiency, which can raise costs and stifle learning.

Finally, the negative relationship between inflation and growth in the analysis highlights the ongoing need for sound macroeconomic management. Inflation erodes real incomes, complicates business planning, weakens financial systems, and raises borrowing costs. While the post-2021 period saw both higher inflation and stronger growth, the study's methods separate broad global trends from country-specific inflation effects. This finding reinforces the World Bank's advice that controlling inflation and maintaining fiscal sustainability are crucial for emerging economies facing today's global shocks (World Bank, 2026).

5.3 Limitations

Several important limitations should be kept in mind when interpreting these results. First, this study is observational; it uses a one-year lag and fixed effects to control some confounding factors, but it doesn't prove causation. Expectations for growth may influence FDI, unmeasured reforms may affect both variables, or other unobserved factors may play a role. A truly causal analysis would need something like an external shock to FDI, a sector-specific instrument, or a well-designed quasi-experiment.

Second, the sample of 31 countries, while carefully chosen, is diverse and not fully representative of all emerging economies, so the results shouldn't be generalized too broadly.

Third, the analysis looks at total net FDI, not the quality of investment projects, their source countries, sectors, technology, or how well they connect with the local economy. Similarly, it uses a broad measure of trade openness rather than details about trade partners, products, or value added. These are important simplifications, as the literature shows that sector specifics, networks, and alignment matter a lot.

Fourth, using annual data means that within-year shocks or data revisions might not be captured; the timing of data downloads is noted, but figures can change as national accounts and balance-of-payments are updated.

Fifth, country-clustered errors with 29 countries are standard practice, but they don't replace more extensive robustness checks. Overall, the findings should be seen as a reproducible, descriptive benchmark rather than definitive proof.

For future research, combining more detailed data such as bilateral greenfield investment, customs-level trade, sectoral performance, geopolitical distance, and measures of domestic financial strength and logistics could help clarify whether FDI from more diverse sources or in sectors with strong local ties is linked to better outcomes like jobs, productivity, or resilience to downturns. This kind of data could also separate short-term shock absorption from longer-term structural changes in the economy.

6. Policy Recommendations

6.1 Shift from FDI quantity targets to investment quality and embeddedness

The evidence does not support evaluating investment policy primarily by the headline FDI-to-GDP ratio. Investment-promotion agencies should report project-level characteristics alongside aggregate inflows: sector, capital expenditure, employment, export orientation, local procurement, training, technology transfer, energy use, source-country concentration, and expected linkages with domestic firms. Incentives should be transparent, time-bound, and tied to verifiable development outcomes. This approach is consistent with the IMF's broader synthesis that industrial and diversification policies should be targeted, disciplined, and compatible with fiscal and external sustainability (Delechat et al., 2024).

6.2 Crowd in domestic fixed capital and domestic capabilities

The positive association between gross fixed capital formation and growth points toward an investment ecosystem rather than a foreign-versus-domestic capital dichotomy. Governments should protect high-return public investment in transport, energy reliability, digital networks, and skills; deepen domestic capital markets; and reduce regulatory uncertainty that inhibits local firms. Supplier-development programs can help domestic small and medium enterprises meet quality standards and financing requirements needed to participate in foreign-invested production networks. The objective is to turn FDI from an enclave flow into a catalyst for domestic investment and capability accumulation.

6.3 Build diversified openness and shock-aware connectivity

Trade policy should seek diversified market access and reliable sourcing rather than narrowly defined friend-shoring or blanket protection. Practical measures include digitized customs, risk-based border procedures, interoperable standards, port and corridor reliability, trade-finance availability, and support for firms entering new markets. These measures lower the fixed costs of diversification identified by Dennis and Shepherd (2007) and reduce the logistics constraints emphasized by the WTO (2021). Regional integration and South-South commercial relationships can widen options, but they should complement rather than replace links to the global economy. A portfolio of markets and suppliers is more resilient than dependence on a single route or political bloc.

6.4 Preserve macroeconomic credibility and policy space

Macroeconomic stability is not separate from investment strategy. The negative inflation association in the present study, combined with the current global environment of elevated borrowing costs and energy uncertainty, supports credible monetary, fiscal, and debt-management frameworks. Commodity exporters should improve revenue diversification and use well-governed fiscal rules and buffers to avoid procyclical cuts in productive investment. Import-dependent economies should combine targeted social protection with measures that reduce energy and food vulnerability. Stable macroeconomic conditions lower the premium demanded by both domestic and foreign investors and improve the capacity to respond to shocks without sacrificing long-term capital formation.

6.5 Protect a predictable multilateral investment and trade environment

National policy is necessary but cannot fully offset fragmentation generated by major economies. The disproportionate modeled losses for emerging and developing regions reported by Hakobyan, Meleshchuk, and Zymek (2023) underline the value of predictable, rules-based trade and investment relations. International cooperation should preserve market access, limit unnecessary restrictions on civilian technologies and essential inputs, improve transparency in investment screening, and expand development finance for digital and climate-resilient infrastructure. Where security concerns require restrictions, spillovers to third countries should be assessed explicitly. Fragmentation that reinforces concentration can raise vulnerability even when it appears to reduce a particular bilateral dependency.

7. Conclusion

This paper investigated the association between FDI, domestic investment, and growth resilience in 31 emerging economies during 2010–2024. The analysis is motivated by a global environment in which investment flows, supply chains, and trade relationships are being reshaped by shocks and geoeconomic tensions. Using publicly available WDI data, country and year fixed effects, and country-clustered standard errors, the paper finds no statistically robust average association between lagged aggregate FDI inflows and annual real GDP growth. It also finds no evidence that aggregate FDI moderated the 2020 growth shock or generated a distinct association in the post-2021 period.

The more consistent associations concern domestic fixed capital formation, trade openness, and inflation. Domestic investment and trade openness are positively associated with growth, while inflation is negatively associated. These results do not establish causality, and they do not negate the potential benefits of FDI. Instead, they reject a simpler claim: that higher headline FDI, considered in isolation, is a dependable general-purpose engine of short-run growth resilience. The policy implication is that emerging economies should compete for productive, linked, and diversified investment while building the domestic capital, skills, infrastructure, financial systems, and macroeconomic credibility that convert external flows into durable development.

Future work should make this test more granular by tracing the source, sector, quality, and local linkages of investment and by measuring trade concentration and substitutability directly. Until then, the prudent conclusion is not to retreat from international integration, but to pursue diversified and embedded integration: external capital and trade relationships that broaden an economy's productive options rather than deepen dependence on a narrow set of activities, suppliers, markets, or financial conduits.

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Appendix A. Country Sample

The sample was selected to provide broad regional coverage and does not constitute an exhaustive or random emerging-economy universe. The complete-case regression sample excludes Jordan and Nigeria because selected controls are missing; Argentina contributes observations beginning in 2018. The descriptive panel retains available observations for all 31 selected economies.

Regional grouping	Economies	Selected economies (abbreviated)
Europe and Central Asia	8	Albania, Bulgaria, Georgia, Kazakhstan, Romania, Serbia, Türkiye, Ukraine
Latin America and Caribbean	8	Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Mexico, Peru
East, South, and Southeast Asia	8	Bangladesh, India, Indonesia, Malaysia, Pakistan, Philippines, Thailand, Viet Nam
Middle East and North Africa	4	Egypt, Jordan, Morocco, Tunisia
Sub-Saharan Africa	3	Kenya, Nigeria, South Africa
Total	31	

Table A1. Purposive emerging-economy sample by broad regional grouping. Source: Author's selection and World Bank country naming conventions.