


Chapter 4

Examining the Factors Affecting the Foreign Direct Investment in the Global South Region

Mehul Saxena

Christ University, India

Gaurav Dawar

 <https://orcid.org/0000-0002-4120-5235>

Apeejay School of Management, India

ABSTRACT

This research endeavours to scrutinize the determinants influencing the attractiveness of foreign direct investment (FDI) in countries in the global south. The investigation addresses this objective by analysing data collected from 12 nations spanning the years 1998 to 2022, encompassing variables such as broad money, carbon emissions, corruption levels, inflation rates, exchange rates, gross domestic product (GDP), government stability, government revenues, population size, renewable energy consumption, and trade activities. The study outcomes reveal that specific variable, namely CO2 emissions (metric tons per capita), Consumer Price Index, Control of Corruption: Estimate, Current account balance (% of GDP) Domestic Currency per US Dollar, Renewable energy consumption and Trade (% of GDP) exert a statistically significant impact on the FDI dynamics within the region. The insights and analyses presented in this report are helpful for international investors and decision-makers contemplating investments and expansions in the global south.

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1. INTRODUCTION

In the dynamic context of the global economy, the phenomenon of foreign direct investment (FDI) acts as an important driver for growth, development and global integration. The Global South, which includes a diverse range of emerging and developing countries around the world, is increasingly becoming a focus for foreign direct investment. This article conducts a comprehensive study and aims to explore the complex factors affecting FDI in the Global South. In the continuation of this analysis, we aim not only to decipher the current state of FDI, but also to understand the factors that influence FDI under different income categories.

This study is conducted due to the urgent need to understand the determinants of foreign direct investment in the Global South, a region that has witnessed economic transformations, geopolitical development, and changes in investor preferences. The Global South, characterized by a rich diversity of cultures, resources and economic structures, offers a unique landscape where FDI plays a pivotal role in shaping economic trajectories.

The rationale for this study stems from the fact that challenges such as socio-economic inequalities, political instability, and infrastructural limitations often require a careful examination of the factors affecting FDI. Understanding these dynamics is critical for both policymakers and investors seeking to navigate the region's complex landscape. This study fills this gap by closely examining the determinants of FDI across three income categories: high income, upper middle income, and lower middle income, and identifying patterns unique to each.

This paper aims not only to contribute to academic knowledge, but also to provide practical insights for policy makers, investors and stakeholders following the evolving landscape of global economic interdependence. The purpose of this study is through a detailed examination of the factors shaping foreign direct investment, the complexities, challenges and opportunities that define the position of the global south in the global economic scene.

2. LITERATURE REVIEW

The term “Global South” was first coined by activist Carl Oglesby in 1969 to refer to Third World countries. This was popularized by the so-called Brandt Commission reports published in 1980 and 1983. Both reports had “North and South” in their titles. The report advocated a major injection of capital from the north to the south to enable modernization. However, the third world can also be considered as a third way to modernity, and southern societies had such an idea of it. Another predicament is that these societies themselves are under the pressure

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