FDI as a Key Element for Progress in Developing Countries

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Abstract:

From the strategic point of view, not all Foreign Direct Investments are always positively benefiting the host economy, i.e. not all MNE's are promoting local/host economies. Even more, not all FDIs are equally beneficial for the different sectors within the same economy. The fact is that FDI could have different impacts on different sectors and it is not only based on the amount of FDI itself, but MNE motivations and the peculiarities of the host economy, which could be different from country to county. In other words, only aggregated per year FDI numbers are not really giving the comprehensive picture of the process and even more, in many cases are driving to incorrect strategic decisions. Based on Eclectic Paradigm by J. Dunning, motivations of FDI are classified into: resource based, market-seeking, efficiency-seeking, and strategic asset-seeking motivations. Each of them has different impacts on host economy and each of them is characterized by different level of economic development and economic integration into global markets. The goal for the host economy is to get as much benefits as possible, out from the MNE created assets. However, it is very much depended on both, local governmental policy and MNE motivation. The less there is a connection between host economy and MNE, the more it is unclear what host economies really benefits out of those FDI's, i.e. FDI's has the possibility to improve the competitiveness of the host economy, but its impacts are different. Paper will answer if there is a crucial role of FDI in local economic progress in Georgia. To cut a long story short, MNEs motivations and the Georgian expectations are not the same. However, the path is correct and more benefits for both sides are expected to appear.