# The Impact of Foreign Investments on the Achievement of Economic Growth

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## Abstract

This article deals with the analysis of the positive side of the foreign direct investments in the World´s economy. The importance of this research is derived from the significant role that can be played by foreign investments in industrialized and developing countries. Some countries are still hesitant to attract the foreign investments despite its human and physical potentialities. The foreign investments are mainly influenced by political and economical factors. Foreign direct investments to developing countries are growing very rapidly. In the past, these investments were limited to raw material sectors, nowadays the current investments involve more sectors than ever before. These investments have implications of trade and integration. The revival of foreign investments implies that the risks to private investments have been lowered mainly because of specific policy changes and of improvements of governance more generally. In this research we have mainly used the descriptive methods on the basis of data collection.

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## Key words

Foreign direct investment, global economy, international economy, developing countries, multinational companies, economic growth.

## Anotace

Tento článek se zabývá analýzou pozitivní stranky přímých zahraničních investic na celém světě. Význam tohoto výzkumu je odvozeno od významné úlohy, kterou mohou hrát zahraniční investice ve vyspělých i rozvojových zemích. Některé země stále váhají podporovat vstup zahraničních investorů i přes existence lidského a fyzického potenciálu potřebného pro ekonomický rozvoj svých ekonomik. Příjem zahraničních investic je omezován politickými i ekonomickými zásahy vlád dotyčných zemí.

Přímé zahraniční investice do rozvojových zemí rostou velmi rychle. V minulosti byly tyto investice omezeny na odvětví surovin, ve srovnání s milnulostí jsou současné investice směřovány do více oborů. Tyto investice mají dopad jak na obchod, tak na integraci. Oživení zahraničních investic znamená, že rizika pro soukromé investice byly sníženy, především z důvodu konkrétních politických změn a zlepšení správy veřejných statků obecně.

V tomto výzkumu jsme použili především popisné metody na základě sběru dat.

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## Klíčová slova

Přímé zahraniční investice, globální ekonomika, mezinárodní ekonomika, rozvojové země, nadnárodní společnosti, hospodářský růst.

## Introduction

The foreign investments have participated in establishing and developing of economic infrastructure in many countries particularly in the developing ones. This has lead to mutual cooperation and formation of economic groups and the emergence of new competitors in global economy mainly among the developing countries with China and India ahead.

The foreign investment phenomenon has clearly shown it self and largely spread after the World War II. It has participated in solving a lot of economic and social issues after the collapse due to this war which had completely demolished the political and the economic relationships with awful consequences. Within this limited research, we are attempting to study the foreign direct investment conception and how far it affects the global economy from within the multinational companies.

## Firsthand Foreign Investments

Economic experts declare that more than 45% of the individual income increase in industrialized countries is ascribed to the increasing manipulation of modern technology in industry. Therefore, investment in technological research has achieved the highest investment revenues in comparison to other investment activities.1

Nowadays, the international economy during years of strong competitors rise that affects the stability of actually achieved growth rates, as it threatens its existence in this regard due to many factors among which are: the end of the United States Housing Bubble, Credit Crisis resulting form such development, devalued dollar against main currencies and continuing degraded global economy and oil prices increase.2 Table (1) shows the actual worldwide rate of growth between (2001-2006).

Foreign direct investment has played a vital role during the second half of past century in supporting of economies in the developing countries particularly during the last two decades that witnessed a large notable increase in investment flows. It also accounts for the changes at the global economic structure and the march towards market economy in most of the developing countries and the release of trade and investments regulations in addition to increase of participations of these countries in global economy integration. This kind of foreign investment has pushed the economy for binding capital stock markets and manpower markets and caused an increase of wages and productivity of capital stock in host countries. And with the emergence of an international diverse relation network, there has been a huge trading activity where multinational companies has increasingly adopted global type strategies to make use of abundance resulting from such allotments and activity distribution.

The first hand investment is defined as “Long Term Investment” and includes a common interest and dominating of a resident entity on cooperation with a project related to another economy.3 This continuous mutual interest means long term strong relationship between the investing parties and a notable level of influence on the management of both parties. The foreign direct investment includes the preliminary dealing between the tow parties and that all other subsequent financial relations with other members in relation to investing parties, either a company or otherwise.4

The foreign direct investments are diverse in activity, such as construction of a new project; own of assets of an existing corporation or through merge and ownership. The international foreign investment fund is defined as firsthand when the investor owns (10%) or more of the shares of one of the operated institutions provided that the ownership is linked to the authority to influence of the institution.5

From the above two definitions, it is obvious that the foreign investment is an actual long term investment in productive assets and means that the foreign investor is practicing some sort of influence on the management of the project. Economists

[1] *United Nations Development Program, Arabic Humanitarian Development Report (2003) page 99.*

[2] *Horizons of 2008 and Status of Global Economy, UN, N.Y 2008, p.1*

[3] *Hanaa Abdel Ghaffar “Direct Foreign Investment and Global Trade (China Model), Byit Al Hikma, Baghdad, 1st edition, 2002, P.14*

[4] *United Nations, “Guide to Global Trade statistics in Services”, issue No.86, 2006, P.15.*

[5] *Hassan Khidr, (Foreign Firsthand Investment), Arabic Institution for Planning, Kuwait 2004. P.*

consider the decrease of the economic development and the slow process of economic development goes back to a number of essential factors ahead of which what is known to be the gap of financing "Investment Gap" which is the outcome of local savings needed for investments to support the growth of economy. This gap is the most important problem that faces the economy of developing countries.

Therefore, political decision makers were oriented to abridge such gab through promotion of local savings and stimulating of the local and foreign investment within preparation and improvement of investment procedures. This is known as overall economic status, trends, political, legislative, and administrative atmosphere that might affect the attraction and activation of investments. The factors affecting the investment environment are not

| Year | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|
| World | 2.5 | 3.1 | 4 | 5.3 | 4.9 | 5.4 |
| Advanced Countries | 1.2 | 1.6 | 1.9 | 3.3 | 2.5 | 3.1 |
| United States | 0.8 | 1.6 | 2.5 | 3.9 | 3.3 | 3.3 |
| Euro | 1.9 | 0.9 | 0.8 | 2 | 1.4 | 2.6 |
| United Kingdom | 2.4 | 2.1 | 2.7 | 3.3 | 1.9 | 2.7 |
| Japan | 0.2 | 0.3 | 1.4 | 2.7 | 1.9 | 2.2 |
| Canada | 1.8 | 2.9 | 1.8 | 3.3 | 2.9 | 2.7 |
| Other advanced States* | 1.7 | 3.3 | 2.4 | 4.1 | 3.2 | 3.7 |
| Asian recent industrial countries● | 1.2 | 5.4 | 2.5 | 5.8 | 4.7 | 5.3 |
| Australia | 2.1 | 4.1 | 3.1 | 3.7 | 2.8 | 2.7 |
| Developing countries and other emerging economy markets♦ | 4.3 | 5 | 6.7 | 7.7 | 7.5 | 7.9 |
| Africa | 4.4 | 3.7 | 4.7 | 5.8 | 5.6 | 5.4 |
| Eastern and Central Europe• | 0.2 | 4.5 | 4.8 | 6.6 | 5.5 | 6 |
| League of Independent Countries | 6.3 | 5.3 | 7.9 | 8.4 | 6.6 | 7.7 |
| Asian Developing Countries | 6.1 | 7 | 8.4 | 8.7 | 9.2 | 9.4 |
| China | 8.1 | 9.1 | 10 | 10.1 | 10.4 | 10.7 |
| India | 4.1 | 4.3 | 7.3 | 7.8 | 9.2 | 9.2 |
| Middle East | 3 | 3.9 | 6.5 | 5.6 | 5.3 | 5.7 |
| Western Globe Countries•• | 0.5 | 0.3 | 2.4 | 6 | 4.7 | 5.5 |
| Brazil | 1.3 | 2.7 | 1.1 | 5.8 | 2.9 | 3.7 |
| Mexico | - | 0.8 | 1.4 | 4.2 | 2.8 | 4.8 |

Table 1: The World's real rate of growth between (2001-2006).

References: Common Arabic Economical Report, Arabic Monetary Fund, Abu Dabi.2007

* Advanced counties include : Australia - Cyprus - Denmark - Ireland - New Zealand - Norway - Sweden - Switzerland

● Recently Industrial Asian Countries are : Hong Cong - South Korea - Singapore - Taiwan.

♦ Developing Countries and Other Emerging Countries: Africa - League of Independent States - Asian. Developing Countries - Middle East - Eastern Globe.

• Eastern and Central Europe : Albania - Bulgaria - Croatia - Czech - Slovakia - Estonia - Hungary - Latfia Macedonia - Malta - Poland - Romania - Slovenia – Turkey.

•• This group includes the Eastern part of the globe, Latin America : Argentine - Antigua - Barbuda - Al Bahamas Bleas- Barbados - Bolivia - Brazil - Chilly - Columbia - Costa Rica - Dominican Republic - Mexico - Nicaragua - Panama- Paraguai - Peru - Suriname – Uruguay - Venezuela - Trebnda and Tobago.

| **Statement** | **1994** | **1995** | **1996** | **1997** | **1998** | **1999** | **2000** | **2001** | **2002** | **2003** | **2004** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Number of countries adopting the changes in their systems with relation to foreign investments | 49 | 64 | 65 | 76 | 60 | 63 | 69 | 71 | 70 | 82 | 101 |
| Number of amendments in regulations | 110 | 112 | 114 | 151 | 145 | 140 | 150 | 208 | 248 | 244 | 271 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Amendments more suitable for direct foreign investments* | 108 | 106 | 98 | 135 | 136 | 135 | 147 | 194 | 236 | 220 | 235 |
| Less compatible amendments for direct foreign investments● | 2 | 6 | 16 | 16 | 9 | 9 | 3 | 14 | 12 | 24 | 36 |

Table 2: National amendments in regulations (1994-2004).

* Includes actual Amendments includes or those looking for the support of the market besides increase of promotions.

● Changes that aims at increase of observation besides limitations of promotion.

Reference: UNCTAD, Foreign Investment Report, 2005, P.15.

subject to the recent situations only but may extend to the future prospective related to it.6

There could be some link to bind the concept of investment environment with the collective economic polices by defining the stable urging and attractive economic environment at the collective economy level. Various countries are still adopting laws and new regulations to accommodate its economical environment for investors. Amount to 271 changes which are related to foreign direct investments that have been adopted in 2004 there are 235 one related to pave the way before new files for foreign direct investment in parallel with issuing of prompting procedures (see table No. 2).

Firsthand foreign investment has many and various forms. This is evident in type and degree of relative importance against a set of considerations, part of which is related to the investing party, and the other to the political system adopted by the host country and the nature of the economy herein.

Therefore, the selection of a foreign investor is governed by several factors beyond his reach. It is commonly known that categorization of foreign investments into activities related to the property and ownership of assets in the host country, and other activities that do have assets.7

**The first type of foreign direct investments:** The investor posses a direct influence through his complete ownership or against a share that ensures his dominance on the management of the project and it comprises the following sub-types:

1. Incorporating of new companies at the host country by the foreign investor alone, and owned by him or in equal shares with the local participants at the host country.
2. The investor buys a national public project or shares and debenture.
3. Incorporations of the companies (limited company, joint venture, subsidiary, or joint stock) related to the overseas companies to conduct the firsthand foreign investment at the host country.
4. Investment in free zones and assembly projects.

**The second type of foreign direct investments:** This typ of investment has many forms such as: "Subcontracting, turn key, administration contracts, hand delivery products delivery, market contracts, and participation in production contracts, privilege rights, licensing contracts, and marketing contracts".

Open policy of global economy, and follow up of free economy systems in promoting the flow of capital stock and products inside and abroad which supports the investors trust in economy increases the rate of transfer of products, capital stock and transfer of modern technology between countries.

It is worthy of mention that phenomenon of increase of the company's activities of multinational companies unbind to assets, particularly at the beginning of the eighties since last century, as its inherited authority and ability to gain profits and share investment risks particularly in developing countries with unstable political and economical situations.

The foreign investments and transfers of expatriates are regarded as main financing resources and helped in pushing the progress wheel and

[6] *Tarek Ahmded Nowair, International Trails for improving the Investment Environment, Egypt,the Cabinet,Development Studies Sector. 2004*

[7] *Hanaa Abdel Ghaffar "Direct Foreign Investment and Global Trade former ref, P.16*

development in a large scale which participated in the rise of participation of covering the imports of commodities, services as developing countries as a group from (66.4%) in the year 2005 up to (71.4%) in 2006.8

Governments that promote their national companies investments in other countries are looking for achieving their political and economical interests; this means that these investments are governed by mutual interests between the investing parties. Experiments have proved that the importance of the foreign investments and the role that can be played in achievement of important interests to those host countries. Some of them are:

- Provide uninterrupted resources in good terms to obtain foreign currencies and capital stock for financing the development programs.

Participate in local ownership development and increase the rate of private sector participation in the national outcome, and creation of a new sector of businessmen by means of social responsible individuals to participace in investment projects and updating of the new projects supporting foreign projects.

Provide of the facilities for host countries in modern technology, and advanced methods for some industries.

Provide new chances of employment, beside support of the development and training and human resources in host countries.

Support of competition between national companies, which is accompanied by a lot of interests represented by the decrease of monopoly and promotion of companies on improvement of the quality of services and products.

Support in open of new markets for exporting, particularly, multinational companies are fully equipped to penetrate the export markets with its high marketing skills.

Participation in improvement of the balance of payment by increase of export and decrease of import The release of economy in parallel with progress in the field of communication, and means of transportation to the increase of the integration of the international markets and services and capital stock.

The firsthand foreign investments have stimulated the process of integration by supporting the link between the markets and act in the way of increasing the respective wages and productivity of the companies in the host countries. The multinational companies have adopted strategies of international trait base on a large portion of privatization and potential activities to profit from the abundance that are achieved through these strategies.9

Multinational companies strategies differ in determination of the investment territory and status of competition, particulars of the host country. In this regard we could distinguish three main strategies:10 **looking for natural resources, horizontal strategy (market strategy), vertical strategy (cost minimization).**

Therefore, and in spite of continuous trials of the different countries to attract the foreign investments to threir markets, there are several political, economical, administrative factors that act as repulsion, such as:

- **Instability of total economy:** leads to retreat of the stimulus of the investors for the execution of new projects or more expansion in existing projects. More investments depend on how stable is the total economy, rate of exchange, monetray policy and the retreat of inflation and unemployment.
- **Restrictions on capital stock movement:** some countries may issue restrictions on movement of the capital stock and companies profits transfers to limit the investors, particularly foreign ones from investing in these countries.
- **Difficulty in obtaining the credits:** governments are narrowing private sectors

[8] *Hassan Khidr, (Foreign Firsthand Investment) former ref. P.1, 11*

[9] *Same above ref. p.14*

[10] *Naji Husain, "evaluation of the Investment Environment in Algeria", Jandul Magazine, 3rd year, Issue 24/2005.*

chances to obtain credits by limiting resolutions which may be required for obtaining of credits.

- **Unclear tax structure:** will lead to minimizing the ability of the investor on deciding the tax category he is subject to, in addition the governmnet can increase the taxes on companies.
- **Unskillful manpower:** is regarded as one of the restrictions of investments and may be the reason why poor countries with lack of educational facilities are becoming more poor.
- **Strict economy**: leads to minimizing of diversity of funding resources, and lack of export potentiality for the new investing companies, and limitations of the outside markets before these countries.
- **Multi resources of legislative authorities organizing the investment:** leads to less transparency and clarity in addition to the absence of laws related to the copyrights.
- **Complications of the administrative procedures:** and diversity of the authorities the investor has to deal with, and corruption suffered by the investors that will lead to more costs.
- **Unavailability of information**: about absence and investing potentialities available in several countries particularly the developing ones.

## Multinational companies and their role in conduction and steering the foreign direct investments.

The financial crisis which has started during the third quarter of 2007 has revealed the increasing risks that the global economy is facing. The crisis did not only reveal the absence of sufficient observations and automation in work organization of the local capital stock markets, but revealed an increasing risks of infection in the frameworks of international market tending to be more integrated, at the time of becoming more obscure. In addition, the crisis has shed light, once again, on the problem of total economy at international level.11

The international output of these companies, financed by the foreign investment, is one of the main phenomenon in international economic activities. It includes a large portion of openness and integrity between the economies, which constitutes a mutual dependence of deep impact on progress both in developing and industrialized countries.12

Multinational companies are known to have, manage and practice, with direct ways, or indirect ones, an investment activity (marketing, services and others), outside its local and national borders.13

European countries and the Unites states and Japan (location for 85 companies) of the multinational type, to total 100 leading companies in 2004, and there are five states (Germany, France, UK, USA, Japan), the homeland of (73) of (100) leading companies. Whereas (53) of it are in the EC. This companies gain the lion share of the foreign investment. The (100) leading over national companies which are in the top are (General Electric, Vodafone, and Ford), which has 19% of the total of the assets of the (100) companies assets and dominated the car industry, pharmaceuticals and then communications.

This did not mean no developing progressive development of the companies, (particularly government owned companies), for the economies. Foreign firsthand investment has reached (133) milliard $ by 2005, that means 17% of the cash flow in that year, and this new resources would be of great importance to the host countries characterized by less national revenues.These several developing economies companies have become investment companies in several countries of less development. UNCTAD showed that the firsthand foreign investment, in southern states has expanded quickly within the last 15 years. Total flow has raise to 4 milliard $ between 1985, and to 61 millard $ in 2004, most of which has been directed to the developing and transitional economies.

From the table we notice that the asian group has occupied the first class among other developing countries in attracting the firsthand foreign investment, as it reached : 220.9 milliard $, in 2006

[11] *International economical status and horizons, UN, NY, 2008, P.3*

[12] *Hanaa Abdel Ghaffar " Direct Foreign Investment and Global Trade, former ref 2002, P.135*

[13] *Hassan Khidr, (Foreign Firsthand Investment ), former ref. P.12*

compared to 177.7 millard $ in 2005, with an increase of : 24.3%. And, China, Hong Kong and Singapore, Turkey, Thailand are the most attractive for such investment.

The Latin American countries and Caribbean, comes second to above. Investment reached 83.8 mill. $ in 2006, compared to 75.5 mill.$ in 2005, with an increase of 10.9%. Brazil, Mexico, Celli are considered the most attractive in this group.

Third category comes arab countries, with 62.4 milliard $ in 2006, compared to 45.8 milliard $ in 2005, with an increase 36.2%. But the total share of the arab countries of the international firsthand investment stayed at 4.8%. As for the African continent, it witnessed retreat in firsthand investment as: 12 mill. $ in 2006, with a collapse to 21% from 2005. The firsthand Foreign Investment was mainly directed to two countries: Nigeria and Equatorial Guinea. Whereas the independent group of countries reached: 69.3 milliard in 2006,

| | **Company** | **Origin** | **Industry** |
|---|---|---|---|
| 1 | General Electric | USA | Electronics,electrical |
| 2 | Vodafone Group plc | USA | Communications |
| 3 | Ford Motors | USA | Vehicles |
| 4 | General Motors | USA | Vehicles |
| 5 | British Petroleum | UK | Oil exploration, refinery |
| 6 | Exxon Mobil | USA | Oil exploration, refinery, |
| 7 | Royal Dutch / shell Group | UK & Holland | Oil exploration, refinery, |
| 8 | Toyota Motors | Japan | Vehicles |
| 9 | Total | France | Oil exploration, refinery |
| 10 | France telecom | France | Communication |
| 11 | Volkswagen | Germany | Vehicles |
| 12 | Deutsch telecom | Germany | Communication |
| 13 | RWE Group AG | Germany | Water, Electricity, gas |
| 14 | Suez | France | Water, Electricity, gas |
| 15 | E.on | Germany | Water, Electricity, gas |
| 16 | Hutchison Whampoa | Hong Kong China | Miscellaneous |
| 17 | Siemens AG | Germany | Electronics/ electrical |
| 18 | Nestle SA | Switzerland | Food and beverage |
| 19 | Electricte de France | France | Oil exploration, refinery |
| 20 | Honda Motor CO.LTD | Japan | Cars |
| 21 | Vivendi Universal | France | Miscellaneous |
| 22 | Chevron Texaco | US | Oil exploration, refinery |
| 23 | BMW AG | Germany | Cars |
| 24 | Daimler Chrysler | Us & Germany | Cars |

Table No. 3: The top 24 over nationals companies, non-financial, in the world in the order of the foreign assets as of year 2004.

Reference: ONCTAD, Foreign Investment Report, 2005, P.10

| **Countries** | **incoming cash flow** | | | | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **Rate of change %** | **Share %** |
| World | 742.1 | 945.8 | 1,305.90 | 38.1 | 100 |
| Advance states | 418.9 | 590.3 | 857.5 | 35.3 | 65.7 |
| EC | 204.2 | 486.4 | 531 | 9.2 | 40.7 |
| UK | 50 | 193.7 | 139.5 | -28 | 10.7 |
| USA | 135.8 | 101 | 175.4 | 73.6 | 13.4 |
| Independent states | 40.3 | 41.2 | 69.3 | 68.3 | 5.3 |
| Federal Russia | 15.4 | 12.8 | 28.7 | 125.1 | 2.2 |
| Romania | 6.5 | 6.5 | 11.4 | 75.8 | 0.9 |
| Developing Countries | 283 | 314.3 | 379.1 | 20.6 | 29 |
| Africa | 11 | 15.2 | 12 | -21 | 0.9 |
| Nigeria | 2.1 | 3.4 | 5.4 | 60 | 0.4 |
| Equatorial Guinea | 1.7 | 1.9 | 1.7 | -11.6 | 0.1 |
| Asia | 153 | 177.7 | 220.9 | 24.3 | 16.7 |
| China | 60.6 | 72.4 | 69.5 | -4.1 | 5.3 |
| Hong Kong | 34 | 33.6 | 42.9 | 24.6 | 3.3 |
| Singapore | 19.8 | 15 | 24.2 | 61.3 | 1.9 |
| Turkey | 2.9 | 9.8 | 20.1 | 105.2 | 1.5 |
| India | 5.8 | 6.7 | 16.9 | 152.9 | 1.3 |
| Thailand | 5.9 | 9 | 9.8 | 8.9 | 0.7 |
| Latin America | 94.3 | 75.5 | 83.8 | 10.9 | 6.4 |
| Brazil | 18.1 | 15.1 | 18.8 | 24.7 | 1.4 |
| Mexico | 22.4 | 19.7 | 19 | -3.5 | 1.5 |
| Chilly | 7.2 | 7 | 8 | 14.3 | 0.8 |
| Arab countries | 24.7 | 45.8 | 62.4 | 36.2 | 4.8 |
| Saudi Arabia | 1.9 | 12.1 | 18.3 | 51.2 | 1.4 |
| Egypt | 2.2 | 5.4 | 10 | 86.8 | 0.8 |
| UAE | 10 | 10.9 | 8.4 | -23.1 | 0.6 |
| Sudan | 1.5 | 2.3 | 3.5 | 53.6 | 0.3 |
| Tunisia | 0.6 | 0.8 | 3.3 | 323.5 | 0.3 |
| Jordan | 0.7 | 1.5 | 3.1 | 103.7 | 0.2 |
| Bahrain | 0.9 | 1 | 2.9 | 177.9 | 0.2 |
| Morocco | 1.1 | 2.9 | 2.9 | 0 | 0.2 |
| Lebanon | 2 | 2.8 | 2.8 | 0 | 0.2 |
| Algeria | 0.9 | 1.1 | 1.8 | 66 | 0.1 |
| Qatar | 1.2 | 1.2 | 1.8 | 55 | 0.1 |
| Libya | 0.4 | 1 | 1.7 | 67.1 | 0.1 |

Table No. 4: Firsthand foreign investments flows into regions of the world between 2004 -2006 , (Billions of dollars and percentage terms).

Ref. Common Arabic Economical Report, Arabic Monetary Fund, Abu Dhabi, 2007, Statistical Apendix

compared to 41.2 mill. $ in 2005, with notable increase of 68.3%.

The economical growth has been maintained in the developing countries during 2007 (6.7%), and accelerated growth for those transitional countries (8%), due to rise in prices of essential materials and strong demand in locally.14

The other type is decentralized, which has full freedom of issuing his own decisions in accordance to actual requirements. This type is catheterized by multi national owners, and geographically

[14] *Report about the economical statues in the world (2008), UN, N.Y, 2008, P. 2*

spreading in practicing activities and operations in worldwide bases.

European countries and the Unites states and Japan (location for 85 companies) of the multinational type, to total 100 leading companies in 2004, and there are five states (Germany, France, UK, USA, Japan), the homeland of (73) of (100) leading companies. Whereas (53) of it are in the EC. This companies gain the lion share of the foreign investment. The (100) leading over national companies which are in the top are (General Electric, Vodafone, and Ford), which has 19% of the total of the assets of the (100) companies assets and dominated the car industry, pharmaceuticals and then communications.

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The economical growth has been maintained in the developing countries during 2007 (6.7%), and accelerated growth for those transitional countries (8%), due to rise in prices of essential materials and strong demand in locally.15

The other type is decentralized, which has full freedom of issuing his own decisions in accordance to actual requirements. This type is catheterized by multi national owners, and geographically spreading in practicing activities and operations in worldwide bases.

In fact there are 4 principals affecting investment resolution: search for markets, efficiency and resources (and all are methods for exploiting the assets), search for updated assets (strategy for increasing the assets).16

Studies assure that the main motive of these companies is looking for markets inside the territories and inside the developing countries, and the second one, is that looking of efficiency. And this investment centers around some industries like (electrical, electronic, textiles).

Electrical and electronic investment will concentrate regionally, whereas the foreign direct investment will be in textiles and in wide range. Generally speaking they are all after markets and assets of the corporations available to the national ones which is less important in developing countries, and not expected to spread in developing countries.There has been two changes in development dynamics especially after 2000.17

*[15] Report about the economical statues in the world (2008), UN, N.Y, 2008, P. 2*
*[16] UNCTAD, World Investment Report 2006,p 32.33*
*[17] Report about the economical statues in the world (2008), UN, N.Y, 2008 . p. 24*

First: international development during the last five years dominated by the increasing developing economies which participated by China, in almost 25%. Whereas China, India, Russian has participated by 50%, and all the growing economies participated by 2/3 of the global growth compared with the seventies of 20th century.

Second: continuous growth in the importance of the rising and developing economies. It participates with 1/3 of the total international Trade and more than ½ of the increase in the imports by 2000. Moreover, pattern of the trade has witnessed a change in other developing countries, by increase in the trade with Asia.

**There are four main factors affecting attraction and helping in understanding how companies are rushing to developing counties and are:**

**First:** factors related to the market are very strong that pushed the companies in the developing countries outside their homeland or attract host counties. In case of Indian companies, there are the needs for finding clients for promotion of the Special Products (Techno, and Information Technology).

**Second:** the most important is the costs of production in the original country (particular manpower), which is very important to Multi National companies in East and South, Korea, Singapore, Malaysia, and also Morehouse (which has standing industries depending on the welfare of manpower and directed to export, like textile industries.). though these costs are of no importance as for China and India as tow sources for Firsthand Foreign Investment.

**Third:** pressure of competition on the developing countries companies that restrict expansion of these companies outside. Such as producers of low cost productions, particularly owner of actual industries in East and South.

**Fourth:** the policy of the official government in host countries on the resolutions related to Firsthand Investment outside.

The Chinese regulations in this regard are very good and help the globalization of their operations. On the other hand, it pushed the Indians in the same directions as there are motives supporting the host countries form India, in additions to reasonable regulations in both investment and competition. South Africa and others indicates that there is a transparent management, and they invest in the infrastructure, and manpower, and they have stable patent rights, and exchange rate system which is stable. Most important is the emancipation of the host economies that crest several chances for investment.

Multinational companies are important channel for the appearance to the technology subordination through investment in giant values projects, particularly if these countries continue there developing attitude in looking for technology progress.

Information technology has led to separation among stage of the production phases. So, the companies distribute these operations on geographical bases according to the site features.

This means decimalized production and centralized in some functions related to finance and updating of the technology which is concentrated in Multi National companies.18

Foreign countries have got a lot of activities and research in host countries that will reflect the increase in the globalization of the research and development. By 1995-2002, expenses on research and development rise from 30 Milliard $, to 67 Mill. $.

## Conclusion

1. Though there is a big role played by the firsthand foreign investment in economical development to different countries, but several other contrives in the world are still restricting, intentionally or deliberate, the access of foreign investment to it.
2. Developing countries are still holding the property of the great wealth, but they lack political control, long term economical planning, required for such development.Still the share of the developing countries of the foreign investment are devalued.
3. Developing countries has to adopt polices towards export policy, which participates in

[18] *UNCTAD, World Investment Report 2006 ,Page. 32*

creation of new markets for newly emerged investment and of marketing chances for investments so as to be able to trade their products therefore increase profits.

4. Expansion in contracting activities for ensuring the investment among the developing countries with the advanced ones which will lessen the risks and create a reasonable investment environment.
5. Arrange for mutual visits with the foreign investors and show them the available facilities that the government provides for the investors and characteristics of investing in the national economy. And held contracts to stand against the double tax among countries.
6. Cooperate with international institutions who are involved in investment and providing of investment services.

We noticed the big role played and practiced by the foreign investment in affecting the different countries economy around the world and by their dominance on the Multi National Companies on the Production Process for the most important products, particularly the Food Stuff Commodities and electronic products and car industry. We can say that the multi national companies control all the hinges of the global economy and have the final decision in this regard.

Therefore, the different countries through the world has to full social, economical and political methods reasonable to gain the required benefits, and to try to transfer technology and scientific recognition available to foreign investor, and to use it in uprising their economy as they have manpower, and only need honesty to manipulate such potentialities.

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