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Impact of Cross-border Investment on the Economies of Developing Countries

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Abstract:
In the context of international economic cooperation, cross-border investment has become one of the key tools to promote the economic growth of developing countries, Cross-border investment has become one of the key tools to promote the economic growth of developing countries. This study aims to analyze the impact of cross-border investment on the economy of developing countries, the basic scope, and the conceptual definition of cross-border. Paper first clarifies the basic scope of cross-border investment and its conceptual definition, focuses on foreign direct investment as the core research object, and sets developing countries as the main target group for analysis. Through the in-depth application of literature research and comparative research, this paper reveals the multiple impacts of cross-border investment on developing countries: it has indeed introduced valuable capital, advanced equipment, and technology to these countries, and promoted economic growth and development. However, this process is also accompanied by a complex mix of pros and cons. On the one hand, cross-border investment can stimulate and promote the growth and expansion of local firms; on the other hand, it can also trigger potential hazards and risks to the local social structure and natural environment. In addition, the paper points out that the economic impact of cross-border investment on different developing countries varies significantly, and that these variations are influenced by a combination of factors, such as economic fundamentals, policy orientation, resource conditions, and sociocultural contexts of each country.

Keywords: Investigate Cross; Developing countries; Economic impact; Economic globalization.

1. Introduction

In the context of economic globalization and integration, as an important part of the world economy and an important form of international capital flow, cross-border investment has a great impact on the economic development of developing countries and is of considerable importance. Cross-border investment not only promotes the cross-border flow of capital, technology and management experience, but also has a profound impact on the economic development trajectory and global economic structure of developing countries, providing opportunities for capital development, employment opportunities and industrial upgrading.

According to a report by the Organization for Economic Co-operation and Development (OECD) [1], 40-70% of foreign investment and trade activities in the world's top 20 countries are closely related to cross-border capital flows and cross-border investment activities. This phenomenon highlights the important role of international capital in the process of global economic integration. As time goes by, the economic costs of developing and emerging markets are gradually increasing. This trend has not only changed the global economic structure, but has also created a new cross-border investment model. These new models continue to emerge in emerging and developing countries and are a new driving force for regional economic growth, transformation and improvement [2].

By reviewing the relevant literature, the current research mainly focuses on the impact of cross-border investment on the economy, and does not detail the objects of cross-border investment. Economic take-off requires multidimensional investments. Cross-border investment is a powerful means of capital flows towards the economic development of countries. Developing countries are an important component of the global economic system. From this point on, this paper will examine and discuss in detail how investors can apply the principles to find potential developing countries. How can developing countries use this liquidity appropriately to promote their economic development and explore the meaning behind investments?

The main research objectives of this article have several aspects. First, what are the effects of cross-border investment on the economic growth of developing countries? Second, are there differences in the effects of cross-border investment across economies? Third, what factors will affect the contribution of cross-border investment to economic growth? Fourth, what are the effects of cross-border investment on local enterprises in developing countries? Fifth, can local enterprises benefit from cross-border investment and improve their competitiveness, or will they be squeezed out of the market by foreign-invested enterprises? Sixth, what are the social and environmental impacts of cross-border investment in developing countries?

2. Linkages Between Cross-border Investment and the Economies of Developing Countries

Cross-border investment is the investment by an investor or company of funds, equipment or technological bonds from one country into the capital market of another country. This paper mainly studies the foreign direct investment (FDI) model of transnational investment, that is, investors in a country (natural or legal persons) obtain or control the corresponding enterprise management rights through cross-border investment capital or other factors of production. Investment activities aimed at obtaining profits or scarce factors of production. Developing countries are characterized by underdeveloped economies, low GDP per capita and an abundant labour force. Through cross-border investment, people will implement cross-border investment with developed countries with developed economies and industrial configuration. Developing countries can seize the opportunity

3. Theoretical Basis for Cross-border Investment and Capital Flows

In recent years, with the intensification of economic globalization, the scale of cross-border capital flows between developing countries and developed countries has continued to expand, and the research on cross-border capital flows and cross-border capital investment has also continued to develop. In the context of today's economic globalization, international trade dominates. With the development of global economic integration, cross-border capital flows have gradually shifted from the real economy in international trade to the virtual economy in international finance. At the same time,this virtual economy has also laid a solid economic foundation for developing countries. (Cross-border capital flow theory) David Rikato's theory of cross-border capital flow [3], is divided into the motive theory of cross-border capital flow, the crisis theory of cross-border capital flow, the flow theory of cross-border capital flow, the welfare utility theory of cross-border capital flow, and the theory of cross-border capital flow in the post-Keynesian period.

4. Impact of Investigate Cross-border

4.1 Cross-border Investment Has a Greater Impact on the Economic Growth of Developing Countries

The investment brings not only money, but also experience in technology and management. In Holland's research, it is mentioned that the opportunities brought by the fast-growing market of developing countries should be fully exploited [4]. By taking BYD cross-border, a famous cross-border investment firm, as an example, the entry of this brand has brought more jobs to the industrial industry in Thailand. The brand also brings them a new technological and management experience. Cutting-edge technology and cutting-edge management are put into the production and use of Thailand abroad, which increases the GDP of this developing country and creates greater production value.

4.2 The Economic System is Divided Into Two Types

The socialist market economy system emphasizes the dominant position of public property in the national economy, while the capitalist market economy system is based on private property. Cross-border investment can also have different impacts in these two different socio-economic systems. In socialist countries, foreign investment must go through layers of strict control and investigation before it can be put into service, and after having generated benefits, the corresponding taxes will always be levied by the State. For example, North Korea is a socialist country with a high concentration of resources. In addition to domestic supply and international interest rate trading, foreign investments have almost no opportunity to show their benefits on North Korea's national route. In capitalist countries dominated by private property; investment abroad is very well received. In addition to the low cost of labor in some developing countries, investment abroad can generate more profits for these investors and stimulate the desire for local purchase and economic flow.

4.3 The Success or Failure of Cross-border Investments is Heavily Influenced by the Institutional Framework of the Host Nation

Consequently, the socio-economic landscape of a developing country plays a significant role in its appeal as an investment hub. Political stability, along with a conducive legal framework, can offer investors a sense of security, while the country's openness to foreign investment affects their decision to invest. A strong legal system safeguards investors' rights and mitigates legal risks, whereas a lower corruption level can boost investment efficiency. Moreover, the state of infrastructure in developing countries is crucial for attracting foreign investments. An efficient transportation network enhances logistics and minimizes costs, while advanced communication technologies facilitate business operations and management. Reliable energy sources, including stable power supplies, are vital for industrial activities and commercial operations. Finally, the availability of skilled labor is often a key factor driving investors to consider developing nations for initial investments. A highly trained workforce can enhance production efficiency and foster technological advancements, while ongoing vocational training can further develop employees' skills [5]. A healthy labor force can also minimize disruptions due to illness, thereby increasing productivity.

4.4 . Cross-border Investments Significantly Influence Local Businesses in Developing Nations, Resulting in a Range of Complex and Varied Effects

Yujie's study highlights several positive outcomes: Firstly, technology transfer occurs as foreign direct investment (FDI) brings advanced technologies and managerial expertise, enhancing the technological capabilities and production efficiency of local firms. Additionally, multinational corporations can elevate the skills of local workers by implementing training initiatives, thereby improving the overall quality of the workforce. Furthermore, cross-border investment provides essential capital that enables local businesses to scale up production, modernize equipment, or penetrate new markets. Multinational firms may also offer local partners diverse financing options, such as access to international loans or bond issuance through their parent companies. Market expansion is another benefit, as foreign investors can help local enterprises reach international markets, boosting the global competitiveness of their products and services. With access to a global supply chain network, local companies have the opportunity to become suppliers to these multinational entities. The presence of multinational corporations compels local businesses to enhance product quality and service standards to remain competitive, leading to increased investment in research and development and fostering innovation capabilities [6]. On the downside, a market crowding out effect may occur, where dominant multinational corporations overshadow local firms, particularly in the initial stages of market entry. Due to their economies of scale and established brand recognition, local businesses may struggle to compete effectively. Moreover, technological dependence can arise, causing local enterprises to rely heavily on foreign technology and hindering their ability to innovate independently. Insufficient technology transfer can lead to missed opportunities for local development. Lastly, socio-economic challenges may manifest as multinational corporations often opt for low-wage foreign labor, which can adversely affect the local job market. Furthermore, investments might become concentrated in specific regions or sectors, resulting in an uneven resource distribution.

4.5 Local Businesses Have the Opportunity to Gain From Cross-border Investments

Thereby improving their competitive edge instead of merely being displaced by foreign competitors. In contrast to Sino-U.S. trade, Liming's study highlighted that collaboration between domestic firms and international companies often leads to mutually beneficial outcomes. Local enterprises can adapt their partnership models: technology transfer - where foreign firms typically possess superior technology and management expertise - can occur through joint ventures or technology licensing. Additionally, market access allows local companies to penetrate international markets by partnering with foreign firms, while these foreign entities can swiftly enter local markets by leveraging the distribution channels of local businesses. Through strategic collaboration with foreign enterprises, local firms can boost their competitiveness, provided they implement effective strategic planning and execution [7,8].

4.6 The Influence of Cross-border Investment on the Social and Environmental Aspects of Developing Nations Presents a Complex Challenge

While it can stimulate economic growth, enhance productivity, create job opportunities, and elevate social welfare, it also poses risks such as environmental degradation, resource depletion, and harm to ecosystems. Consequently, it is crucial for developing countries to strike a balance between fostering development and safeguarding the environment when courting foreign investment, implementing appropriate policies to amplify the benefits of such investments while mitigating their adverse effects. The influx of foreign capital has notably expanded job prospects, particularly in the manufacturing and service industries, aiding in the reduction of unemployment, raising wage levels, and enhancing residents' living standards. Furthermore, the advanced technologies and management practices introduced through cross-border investment can facilitate the advancement of technological capabilities in developing countries and enhance the skill set of the local workforce. The financial resources brought by foreign investments also allow these nations to channel funds into social infrastructure, education, healthcare, and other areas of social welfare, thereby improving the quality of life and raising living standards. However, substantial foreign investments may also incur negative environmental consequences, with certain projects resulting in ecological damage that threatens local biodiversity and depletes natural resources. Thus, it is imperative for developing countries to adopt effective management strategies to ensure that the social and environmental benefits of cross-border investment are realized.

5. Suggestion

Clarify the areas and standards of foreign investment access, guide the flow of foreign investment to industries and fields that are the focus of the country's development, such as high-tech industries, green industries, etc., avoid excessive concentration of foreign investment in a few industries, and promote the diversification of industries.

Strengthen the talent cultivation of local enterprises, cultivate a group of local entrepreneurs and management talents with innovation ability and international vision through cooperation with universities and scientific research institutes, etc., promote the internationalization of local enterprises, and encourage local enterprises to expand the international market and improve their international competitiveness by means of outward investment and cross-border mergers and acquisitions.

Increase investment in transportation, energy, communications and other infrastructure, improve the quality and level of infrastructure, provide a favorable development environment for foreign-funded enterprises and local enterprises, encourage foreign participation in infrastructure construction, attract foreign investment into the infrastructure sector through PPP and other modes, ease the pressure on domestic capital, and improve the efficiency and quality of infrastructure construction.

6. Conclusion

This paper explores the link between cross-border investment and developing countries and the impact of cross-border investment on developing countries, using the literature review method and comparative research method to explore the impact of cross-border investment on developing countries in multiple dimensions, and summarizes the following positive impacts.

Investment brings a large amount of capital to developing countries, which helps to fill the gap of domestic capital and support the construction of infrastructure, such as transportation, energy, communication, and other fields. Improved infrastructure can reduce the operating costs of enterprises, improve productivity, and attract more investment and economic activities, thus promoting long-term economic growth.

Cross-border investment from developed countries is often accompanied by the transfer of advanced technology and management experience. Enterprises in developing countries can obtain advanced production technologies, processes, and management methods through cooperation, joint ventures, or technology licensing with foreign-funded enterprises, to enhance their own technological level and innovation capacity and promote industrial upgrading and optimization of economic structure.

The investment of foreign-funded enterprises in developing countries usually creates many employment opportunities, including not only direct jobs but also indirect employment opportunities in the upstream and downstream industries related to the investment projects. This helps to ease the employment pressure in developing countries and raise the income level of residents, which in turn stimulates consumption and economic growth.

Cross-border investment can promote the adjustment and upgrading of industrial structures in developing countries. The entry of foreign-funded enterprises may bring new industries and business models and promote industrial diversification in developing countries. At the same time, the competitive pressure of foreign-funded enterprises will also prompt domestic enterprises to improve their competitiveness and accelerate the process of optimizing industrial structure.

Authors Contribution
All the authors contributed equally and their names were listed in alphabetical order.

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