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FDI, economic decline and recovery: lessons from the Asian financial crisis

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Abstract

Purpose

While many studies have investigated the impact of foreign direct investment (FDI) on a host country's economic development, little research has been done on the role of FDI as related to economic decline and recovery. This paper aims to fill this gap by investigating the economic effects of inward and outward FDI during turbulent times.

Design/methodology/approach

This paper develops a theoretical argument postulating that FDI will have a stabilizing effect on a nation's economic growth during crisis and also at times of recovery. Hypotheses were advanced and tested with data collected from affected economies during the Asian financial crisis using a fixed-effect panel regression analysis.

Findings

Results confirm that both inward and outward FDI stabilizes a country's economic growth during times of a financial crisis. Countries that had higher levels of FDI prior to the crisis experienced a milder recession and a more gradual recovery. This stabilizing effect, however, is found to be more robust for FDI-stock than for FDI-flow.

Social implications

This paper reveals that FDI has a stabilizing rather than an accelerating effect on a country's economy growth during both periods of crisis and recovery. It contradicts the



Originality/value

This paper makes original contributions by uncovering the complex and unexpected role of FDI as related to a nation's economic decline and recovery during a financial crisis. The findings have important implications for both international business scholars and public-policy decision makers.

Keywords

- Foreign direct investment
- Financial crisis
- Economic recession
- Economic recovery
- International business
- Multinational corporations

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