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Economic Adjustment through Foreign Direct Investments: A Literature Review

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Abstract

Trade liberalization has been a driving force behind globalization, fostering economic interdependence among nations. Trade agreements, both bilateral and multilateral, play a crucial role in shaping international economic relations. The research on economic adjustment to the demands of the modern international environment is quite demanding and complex. Understanding these dynamics requires a multifaceted approach to internationalization trends, one form of which is FDI. The purpose of this paper is to capture the phenomenon of FDI, its motivations, and its potential effects in the economic adaptation to international environment. The study's analysis was based on a bibliographic review of the literature. Foreign direct investment is a critical component of international economic relations, influencing economic growth and development and adjustment. In this paper, as recorded in the literature review, basic forms of internationalization, theories and findings on the global economy, international trade and FDI, the role of FDI in periods of economic crises and the course of FDI in countries with adjustment programs will be provided and analysed, among others. The literature review for this study concludes with factors that push economic policymakers to turn to the choice of foreign direct investment as well as the impact that these have on economic adjustment to the international environment.

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1. Introduction

According to Wilson (1977) and Orde (1987) international activities first appeared in the Middle Ages by bankers. In the period between the 16th and 18th centuries, large European companies created commercial networks in the colonies of European countries in order to secure export rights to trade between the mother country and the colonies. After 1830, Foreign Direct Investment (FDI) emerged as a cross-border activity between parent multinationals and their subsidiaries. At the same time, Swiss textile companies established subsidiaries in southern Germany and the American Singer in Scotland. It is worth mentioning that English companies invested in the USA, as well as the French Dupout, which focused its investments on agricultural land cultivation. However, the FDI that had taken place up to the end of the 19th century was minimal because the transfer of capital concerned mainly portfolio investments. These funds originated mainly from the British market and were invested in America and the rest of Europe (UNCTAD, 1991). During the period from 1880 to World War I, Foreign Direct Investment increased significantly. More specifically, in 1915 it is estimated that Foreign Direct Investments constituted approximately 33% of all capital investments abroad and represented 9% of global GDP (Kokkinou & Psycharis, 2004). After the end of World War II, the United States dominated FDI while other countries struggled to recover from the devastation of the war. During the period from 1945 to 1960, three-quarters of new FDI originated in the United States. However, the rapid expansion of FDI occurred from 1960 onwards, when it became a global phenomenon and not limited to OECD countries. FDI became of major importance to the global economy because FDI stocks accounted for more than 20% of global GDP (UNCTAD, 1991). The spread of Foreign Direct Investment in the 1990s was a significant development that will have long-term value. The immediate benefits in the form of higher levels of domestic investment have largely materialized, however other expected benefits - faster productivity growth and better corporate governance - have slowed down across a wide range of settings and appear to have been significant for the 1990s (Falzoni, 2000). Foreign Direct Investment can offer many advantages to a country. However, there is no one best way to invest abroad. It is important for a business interested in investing in another country to consider all relevant factors for a successful investment. It is worth mentioning that Foreign Direct Investment in Eastern Europe has increased greatly in recent years due to the region's growth potential, while Western Europe remains interesting for investment due to its educated workforce and market proximity (Lipsey, 2015). However, in recent years, Foreign Direct Investment policies have become one of the central economic policies for developing countries. Foreign Direct Investment is defined as an investment in a business by a country that makes a physical investment or acquisition of a foreign business that has a lasting management interest in a business outside the country of origin of the investing business (Falzoni, 2000). Studying the course of the global economy is a means of understanding the main economic challenges that the world's largest economies will face in the context of economic globalization. The macroeconomic indicators used are primarily "*GDP, GDP per capita, GDP growth rate, inflation, unemployment rate, current account balance, trade balance, public debt as a percentage of GDP and general government borrowing*" (Roukanas, 2020). FDI contributes to economic adaptation in various forms and is an optimal option in terms of technological progress and improvement of human potential in the host country (Borensztein, De Gregorio, & Lee, 1998). FDI contributes to the creation of a relationship between the country of origin and the host country with contagion phenomena taking place (Antonietti, De Masi, & Ricchiuti, 2020). The aim of this article is to capture the phenomenon of FDI, its motivations, and its potential effects in the economic adaptation to international environment. The first part of the article lists a literature review of global economy and FDI. Then, the research methodology is analyzed, with the discussion section being the next one presented and at the end the conclusions and suggestions for future research are formulated.

2. Literature Review

2.1. Basic Forms of Internationalization

Business expansion through internationalization is the strategy followed by an organization when it aims to expand its operations beyond the national market. The need for expansion through internationalization arises when an organization has explored all expansion possibilities at the domestic level and seeks opportunities to expand beyond national borders (Al-Sadig, 2013).

However, going global is not an easy task, since the organization must comply with strict benchmarks of price, quality, and on-time delivery of goods and services, which may differ from country to country. Expansion through internationalization could be done by adopting one of the following strategies (Falzoni, 2000):

- International Strategy: Businesses adopt an international strategy to create value by offering these products and services in foreign markets where they are not available. This can be done by implementing strict control of overseas operations and providing standardized products with little or no differentiation.
- Multinational Strategy: Under this strategy, multinational companies offer customized products and services that match the local conditions operating in foreign markets. Obviously, this could be a costly undertaking because research and development, production and marketing must be done taking into account the local conditions prevailing in different countries.
- Global Strategy: Global businesses rely on a low-cost structure and offer these products and services in selected foreign markets in which they have the expertise. Thus, a standardized product or service is offered to selected countries around the world.
- Transnational Strategy: Under this strategy, companies adopt the combined approach of multinational and global strategy. Companies rely on both low-cost structure and local responsiveness, i.e., according to local conditions. Thus, a business offers its standardized products and services and at the same time ensures that they are in accordance with the local conditions prevailing in the country where it operates.

Thus, in order for the business to internationalize, it must first assess the international environment and then evaluate its own capabilities and design strategies accordingly to enter foreign markets (Efthimiou, 2024).

FDI is a form of economic internationalization and contributes substantially to the economic integration of countries. More specifically, FDI is international capital flows through which a company operating in one country expands through a subsidiary in another country (Krugman & Obstfeld, 2005). FDI is defined as investments that involve a long-term relationship and control by a business based in one economy towards a business in another economy different from that of the investor.

2.2. Definitions of Foreign Direct Investments

By Foreign Direct Investment we mean a particular type of foreign capital, as opposed to domestic investment. Fu (2000) argues that they do not include loan capital provided by international organizations, foreign governments or private commercial banks. They also do not include portfolio investments such as stocks and bonds bought by foreigners. Some international economic organizations have formulated a multitude of definitions for FDI Thus, the International Monetary Fund (IMF) (1977) defines the FDI as follows: "*Investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor, the investor's purpose being to have an effective voice in the management of the enterprise*". While, Organization for Economic Co-operation and Development (OECD) (1996) defines the FDI focusing on their main objective, which is to acquire a lasting interest from a resident ('direct investor'), in an economy different from that in which the investor operates ('direct investment business'). The benefit presupposes the existence of a long-term relationship, which is two-way but also largely related to the management of the business (Fawait et al., 2024). Direct investment includes both the initial transaction between the two entities as well as all subsequent capital transactions between them and at the same time between the associated enterprises, both joint stock and non-stock corporation (Huang, 2002). Also, according to IMF and OECD definitions, foreign direct investment reflects the objective of obtaining a "permanent interest" from a domestic entity of one economy (direct investor) to a company resident in another economy (direct investment enterprise) (Organisation for Economic Co-Operation and Development (OECD), 2020). "Permanent interest" implies the existence of a long-term relationship between the direct investor and the company as a direct investment and a significant degree of influence in the management of the latter (Organisation for Economic Co-Operation and Development (OECD), 2020).

2.3. Types of Foreign Direct Investment

This section briefly presents the three main types of Foreign Direct Investment, which are distinguished based on the direction, objective and motivation of the investment.

2.3.1. Types of FDI-Direction of FDI

The types of FDI according to the direction from which they originate or end up are distinguished into two basic categories: inward and outward FDI. More specifically, when foreign capital is invested in local-domestic resources, then inward FDI is carried out. Inward FDI can be understood as capital originating from an investor residing in a foreign country, in an economy belonging to a different country. According to the Organization for Economic Co-operation and Development (OECD) (2008): "*inward direct investment is the investment by a non-domestic direct investor in a local Direct Investment enterprise in the host country*". Therefore, for the reference economy the influence exerted by the foreign investor is internal. It is worth mentioning that this specific type of FDI also exists as Direct Investment in the economy being referred to.

In the case where local - domestic capital is invested in foreign resources, then outward FDI is carried out. According to the Organization for Economic Co-operation and Development (OECD) (2008): "*foreign Direct Investment is the investment by a local direct investor in a non-local Direct Investment enterprise*". Therefore, for the reference economy, the influence exerted by the foreign investor is external.

2.3.2. Types of FDI – Objective of FDI

The types of FDI that refer to the investment objective are divided into three categories:

1. Vertical FDI.
2. Horizontal FDI.
3. The combination of vertical and horizontal FDI (conglomerate FDI) (Caves, 1971).

2.3.2.1. Vertical FDI

According to international trade theory, vertical FDI occurs due to differences in production factors (quantitative and qualitative) and product prices between trading partners. In this way, firms are given incentives to invest in areas with cheaper inputs in order to achieve savings in production factors and maximize production profits (Artige & Nicolini, 2006).

Vertical FDI is divided into two forms: a) backward vertical FDI, and b) forward vertical FDI.

Backward vertical FDI involves the creation of a subsidiary in a foreign country that supplies raw materials or intermediate goods to the parent company in another country. Thus, if the cost of production of inputs and labor costs is lower in a foreign country, then firms are given incentives to produce non-final goods (Ghazalian & Cardwell, 2009).

Forward vertical FDI refers to firms that undertake the acquisition of distribution points to be closer to consumers (Moosa, 2002). Essentially, forward vertical FDI occurs when firms engage in FDI in the wholesale or retail sectors.

2.3.2.2 Horizontal FDI

The second category of FDI type according to the objective of the investment refers to horizontal FDI, which presents the process of producing similar goods in other countries (Ghazalian & Cardwell, 2009). Horizontal FDI aims at horizontal expansion in order to create identical or nearly identical (to the country of origin) types of goods in the foreign country (the host country). For this type of FDI, the most important element of the market is product differentiation and they are carried out in order to use in the best possible way monopoly or oligopoly advantages (for example patents or differentiated products) (Moosa, 2002). New theories of FDI place particular emphasis on the important role of horizontal FDI as a different means of trade in terms of entering foreign markets (Krugman, 1983).

2.3.2.3. The Combination of Vertical and Horizontal FDI (Conglomerate FDI)

The third category is a combination of the two above, namely vertical and horizontal FDI. A company has the ability to expand horizontally into foreign countries, while at the same time it can engage in backward vertical FDI, in order to produce itself the necessary raw materials or intermediate goods that may be required to produce the final product.

2.3.3. Types of FDI-FDI Motivation

According to Dunning (1998) the types of FDI with regard to the investment motive are divided into four categories: 1) resource-seeking FDI, 2) market-seeking FDI, 3) efficiency-seeking FDI and 4) strategic asset-seeking FDI.

1. FDI in Search of Wealth-Producing Resources

There are businesses that are driven to carry out FDI with the aim of exploiting resources that are abundant, lower cost and of higher quality in some countries (Demirhan & Masca, 2008; Dunning, 1993; Oke, Ezike, & Ojogbo, 2012). These resources concern raw materials and labor. Of course, in recent years, the specific criterion for undertaking FDI has been differentiated (Letsou & Pantelidis, 2020). However, according to the analysis of this specific one, there are three basic forms of wealth-producing resources:

- Natural Resources: They mainly refer to minerals and agricultural products and are linked to the host country, requiring investments in infrastructure at high cost.
- Cheap Fully or Partially Unskilled Labor: Because Multinational Enterprises come primarily from developed countries where labor costs are high, they tend to target low-cost labor when investing in developing countries.
- Technological and Administrative-Management Capabilities and Skills: This specific type of wealth-producing resources mainly includes businesses related to the service sector and their status is linked to the host country.

2. FDI to Search for Markets

The company, which makes investments in a foreign country, seeks to enter new or regional markets with the aim of: a) better serving its customers who are concentrated in that region, b) reducing transportation costs, c) protection from competition, d) the removal of tariffs. In this case, the main role is played by the size and development of the market (Demirhan & Masca, 2008). It is understood that there are four main incentives for companies to make investments of this type:

- In the market in which the company seeks to invest, its suppliers and/or customers are established.
- Products and services must be harmonized with domestic consumer standards or the conditions prevailing in the production process.
- Engaging in FDI to serve a target market may be a better option in terms of cost.
- Many companies choose to resort to FDI in order to be present in markets where their competitors also exist.

3. FDI in Search of Efficiency

This specific category concerns Multinational Enterprises, which, having secured the necessary resources and their position in local markets, seek to organize their activities in a more effective and efficient manner. Essentially, businesses aim to improve their efficiency and change the range of goods they produce to the best possible extent (Oke et al., 2012).

4. FDI in Search of Strategic Resources or Capabilities

They concern strategic investments that aim either to prevent a competing firm from acquiring an asset from another firm, or to obtain assets that are potentially complementary to or complementary to existing ones (Dunning, 1993). It is worth noting that this specific category of FDI, many times, concerns companies that, through the acquisition of other companies, aim not only to maintain but also to improve their international competitiveness.

FDI is not only the flows of financial capital but also the transmission of knowledge and management skills from developed countries to developing countries. The specific result of this type of positive impact is the reduction or even complete elimination of the digital divide, resulting in people, especially the younger generation, having the opportunity to acquire proper knowledge (Efthimiou, 2024).

The primary source of competitiveness is technology, skills and improved responsiveness to innovation. With the influx of new technologies, innovation and business processes increase the efficiency of both domestic and foreign enterprises (Fawait et al., 2024). This condition can lead to an improvement in the economic situation. It should be emphasized that the benefits of FDI also depend on technological resources. It is worth noting that the development of research activities of enterprises can have a positive impact on the international development research activities of foreign investors in the host country (Letsou, Agiropoulos, Efthimiou, & Pantelidis, 2025).

3. Research Methodology

The paper examines from empirical studies and theoretical perspectives on the global economy and understanding dynamics such as fdi, international trade and adjustment programs. The clear research question is the role of FDI to economic adjustment to international environment. By a comparative bibliographic review, this study therefore collates theoretical insights and empirical studies from diverse global contexts to undertake an integrated analysis of strategies, successes, and limitations of economic resilience towards fdi.

3.1. The Distinction of Foreign Direct Investment According to the Circulating Capital

A first form of distinction of Foreign Direct Investment is according to the capital in circulation, and Greenfield and Brownfield investments are identified.

A special form of FDI is Greenfield investments, which are referred to as investments to create new capital within a foreign country. The name of these investments comes from the common type of land that companies want to create a new business in foreign lands, namely forest lands or rural areas. They are considered one of the best forms of foreign investment, since they involve the introduction of completely new capital into the country (Takefman, 2022a). A country hosting a Greenfield investment benefit through the acquisition of new production capacity, which is imported into the country, along with the utilization of inactive domestic labor. In addition, the country also benefits from new imported know-how and technology, while its connectivity with the international market is improved. Of course, there are also some disadvantages, the most important of which is the shrinking of domestic industry, as the more efficient business based on FDI displaces existing industries and deprives them of market share, producing cheaper and more, possibly higher quality, products or services. Also, the profits of the subsidiary are transferred abroad and to the country of origin of the parent company, depriving it of taxable material and capital (Kokkinou & Psycharis, 2004; Organization for Economic Co-operation and Development (OECD), 2008).

In contrast to Greenfield type, Brownfield type M&A deals concern cases where the investment is made through the acquisition and merger of existing domestic companies by a multinational company. In this way, the parent company expands the network of its subsidiaries by introducing less capital into the target country of investment than it would have contributed if it had created new production units and businesses from the beginning. In addition, a significant part of the productive capacity of the target country of investment is now controlled by foreign companies and the only substantial benefit is the know-how and technology that is imported (Takefman, 2022b).

3.2. Foreign Direct Investment, Theories and International Trade

The objectives that the economic entity that pursues an internationalization strategy wishes to achieve constitute an additional criterion based on which foreign direct investments can be categorized.

3.2.1. Foreign Direct Investment as a Strategy for Import Substitution

One of the roles played by Foreign Direct Investment is that it can substitute for imports from the country of origin. Specifically, imports concern products that are either finished, semi-finished, or intermediate and originate from the host country. This specific strategy plays an important role since penetrating the new market removes potential barriers to entry, as well as the possibility of high protective tariffs being imposed. Among the most basic factors that are an enticement for an entity to follow foreign direct investment as a strategy are the growth prospects that exist in the host country, the reduction of transportation costs and, at the same time, the tariffs that are likely to exist on what is imported from the country of origin (Efthimiou, 2024; E. Letsou & Pantelidis, 2020).

3.2.2. Foreign Direct Investment as a Strategy for Increasing Exports

Foreign Direct Investments, which play a key role in increasing the exports of the country of origin, mainly concern those sectors of the economy that are export-oriented and mainly concern businesses that produce components or final products. Both components and finished products will be transported to the country of origin or to another country that will use them to complete the production of its own products. The key factor in implementing such a strategy is to integrate all the activities of the parent company in order to achieve maximum overall profits (Efthimiou, 2024; Letsou & Pantelidis, 2020).

3.3. The Theory According to Market Imperfections

One of the pioneers in the analysis of the reasons why firms decide to internationalize their activities was Hymer (1960). According to theorists such as Kindleberger (1969) and Hymer (1976) the so-called "imperfect markets" played a major role, a similar view is expressed by Caves (1971). Market imperfections are structural in nature and lead to deviations from perfect competition, deviations that are considered to be the result of the control exercised over property-type advantages. Advantages of ownership include technology, access to superior quality raw materials and abundant wealth-producing resources, the ability to incorporate economies of scale, etc. According to Kindleberger (1969) market imperfections were the main reason for the emergence of the concept of Foreign Direct Investment, based on the identification of the following causes: a) imperfection of goods markets, b) imperfection of production factors, c) imperfection of economies of scale and d) distortions imposed by governments. The theory of market imperfections is based on the fact that Foreign Direct Investment occurs primarily in oligopolistic markets (Kyrkilis, 2010). For this reason, imperfections are likely to be, ultimately, more profitable for those entities that pursue an expansionary policy at a vertical or horizontal level, especially if they prefer the prospect of mergers, rather than insisting on competition. Therefore, based on this theory, market imperfections cause differences in the costs of producing products in third countries, from which multinational enterprises try, through FDI, to derive benefits, such as reducing costs and maximizing profits. On this basis, it is now expected that multinational companies will seek methods of unifying and internalizing franchisor and franchisee relationships, creating monopoly-type advantages through the vertical integration of a potential franchising activity.

Improving quality and developing innovation may be an advantage of international activity, but the opportunity presented by the internal organization of a multinational in terms of strengthening its monopoly power is always emphasized. Hymer (1976) interests also included barriers to entry, although they usually arise from geographical or ethnological characteristics rather than from qualitative characteristics of the firm. Also, Hymer (1976) maintains some doubts about whether all or most property advantages can be considered as negotiable for sale, and even links negotiability to the marketability of the asset. This is why certain brands or innovations can be considered as marketable, while elements such as practical know-how cannot (Fawait et al., 2024). Thus, how well a company can cope with the costs of international operations is linked to the successful synergy of its marketable assets with its non-marketable capabilities and capabilities.

3.4. The Emergency for Economic Adjustment

For some scholars, FDI poses the risk of worsening income distribution, increasing "urban bias" or distracting local entrepreneurs from the most dynamic sectors (Doner, 1991; Moran, 1978; Singer, 1975). The study of economic history reveals that the international economy is periodically subject to crises. Crises may have a national, regional or global dimension. These are often crises in foreign exchange markets, goods markets, public debt, inflation, money and capital markets, etc., which have limited impacts and a limited duration. More rarely, global crises of a generalized nature occur, that is, of both the monetary and real economy (Droukopoulos, 2011; Kotz, 2009). The latest global economic downturn was characterized as a systemic crisis, as its origins were the elements that constitute the core of the neoliberal model. This particular crisis was responsible for the blows that were received by important components of the economic circuit, primarily the markets and banks of the United States of America and Great Britain, as they were the drivers of all other markets at a global level. Martin Wolf from the Financial Times has recorded 38 financial crises between 1945 and 1971 and 139 between 1973 and 1997. These crises were mainly resolved by providing enhanced liquidity. Below we will briefly present the most important of these crises, while also briefly looking back in time (Droukopoulos, 2011). Two of the most basic systemic crises of the past century are presented, which are:

- A crisis that concerns the period from the end of 1920 and continued over the next ten years.
- Crisis that concerns the period from 1970 to the end of the decade, which was caused by the rise in oil prices and caused the phenomenon of stagflation, as well as the transition from Keynesianism to neoliberalism (Droukopoulos, 2011).

3.5. The Role of Structural Adjustment Programs in Economic Resilience and Adaptation

Structural adjustment programs usually involve many different policies, which interact with each other. It is very likely that countries implementing SAPs will differ in terms of their economic and programmatic conditions from countries not participating in the program, as well as from each other. Therefore, it is not easy to isolate the effects of SAPs on poverty, which are generally complex and not clear.

Policies and variables that may affect poverty and income distribution include currency depreciation, budget deficit reduction, and changes in growth rates, inflation rates, and interest rates. Some argue that a country's economic growth has a direct effect on poverty, as the gains achieved through growth will trickle down and benefit the poor, leading to poverty reduction (Oberdaberning, 2010). However, most agree that neither macroeconomic stability nor economic growth is sufficient to alleviate poverty (Gunter, Cohen, & Lofgren, 2005). Although higher growth rates are on average accompanied by greater progress in poverty reduction - as some economic means are required to combat poverty that can only be achieved through growth - this does not prove that anti-poverty strategies are the best methods of combating it. It is important to also consider distributional effects (Stiglitz, 2002). It is obvious that not just one but many factors should be taken into account when analyzing the impact of policy changes on poverty. Therefore, the specific characteristics of the affected countries, as well as the details of the reforms implemented, need to be taken into account. The following section should provide an overview of the theoretical expectations of these reforms for poverty (Oberdaberning, 2010). One of the objectives of structural adjustment programs is to reduce inflation. It is generally accepted that high levels of inflation have negative effects on growth and poverty (Letsou et al., 2025). However, some studies find that countries that achieve and maintain macroeconomic stability may not necessarily gain significant returns in growth and poverty reduction (Gunter et al., 2005). Lower inflation is likely to improve the real incomes of the poor if the adjustment of incomes to inflation-driven spending increases is slow. The impact of lower inflation rates on income distribution depends on the price rigidity of income for each group of individuals. This means that if poorer individuals face longer adjustment lags than richer ones, lower inflation will reduce inequality in income distribution (Garuda, 2000).

Easterly and Fischer (2000) report that inflation increases poverty, as the wealthier have better access to inflation-protected assets or other financial instruments that somehow offset inflation.

Adjustment lending is generally associated with currency depreciation. However, in developing countries, negative effects of currency depreciation can occur. This is due to imported inflation due to devaluation, low price elasticity of exports and high price inelasticity of imports, increased cost of servicing external debt, increased cost of financing subsidies for imported inputs, fear of loss of confidence on the part of foreign investors, etc. There is no clear conclusion yet on the relationship between depreciation and poverty (Gunter et al., 2005). However, theoretically, one effect of currency depreciation is a reduction in the price index of non-tradable goods. This can be good for alleviating poverty and improving income distribution within a country if the poor are farmers who produce goods for export as their income increases, but it can worsen income inequality if the poor are urban consumers, facing higher food prices (Garuda, 2000).

Devaluation may worsen the distribution of income among sectors of the economy. Exporting sectors may experience greater benefits, while importing sectors and consumers of imported goods and services may see their real incomes decline (Pastor Jr, 1987). Fiscal policies also have redistributive effects, and in particular the elimination of government deficits. This can be achieved through higher levels of taxation and/or reductions in public spending. Of course, the redistributive effects of such a policy depend on the composition of the government's fiscal cuts, but they are also influenced by the mobility of producers and the adaptability of consumption patterns.

In order to achieve a real reduction in expenditure, social spending and the privatization of the public sector should be reduced first (Handa & King, 1997). According to the research of Johnson and Salop (1980) when public spending is adjusted downwards in relation to GDP, the possibility arises that the whole process will receive the support of the public sector (Vreeland, 2002). When public spending is reduced, especially spending on employee salaries (which also leads to an increase in the level of unemployment, even if temporarily), then a tendency for poverty to increase and for unequal income distribution to worsen can be observed, especially in those cases in which the reductions concern employees who are paid the lowest legal salaries.

The policies already mentioned so far in the context of the research and study for the purposes of this thesis are very likely to affect prices for consumer goods. This view, for many scholars, is quite ambiguous. When the prices of goods and services change, then the possibility of affecting the real incomes of the have-nots is very high. In this change, nominal income plays no role, so the effects either reduce or increase poverty levels (Garuda, 2000). Public spending cuts and/or increases in tax rates, alongside cuts in real wages and limited credit, are almost certain to lead to a reduction in domestic demand, and therefore to a reduction in total spending. According to Heller, Bovenberg, Catsambas, Chu, and Shome (1988) research, a reduction in spending such as the one mentioned above "is almost certain to reduce the well-being of the workforce and the poorest members of an economy."

3.6. The Role of Foreign Direct Investment in Periods of Economic Crises

The role of foreign direct investment (FDI) in the global market is increasingly important. As can be seen from Figure 1, which presents trends in FDI inflows in the world as a whole, as well as in developed and developing countries in particular, global FDI inflows have been growing rapidly since the early 1980s (Liu, 2012). During the period 1980-2000, global foreign direct investment inflows increased from US$54.08 billion to US$1,400.54 billion. The average growth rate was about 17% per year, compared with an average rate of 7% for global exports of goods and services during the same period (UNCTAD, 2000).

Due to the slowdown in economic activity in major industrial economies and the sharp decline in their stock market activities, global foreign direct investment inflows have declined sharply since 2001, in developed economies. Global foreign direct investment flows began to increase again in 2003 and peaked in 2007 with foreign direct investment inflows of US$1,975.536 billion. The global financial crisis that occurred in 2008 led to a decline in global foreign direct investment. However, it has recovered since 2010 and increased by 17% to $1,524.422 billion in 2011, as shown in Figure 1 (Liu, 2012). Furthermore, in the following chart, it is evident that developing countries are becoming increasingly attractive investment destinations and have attracted for the first time more than half of the global flow of foreign direct investment in 2010 (UNCTAD, 2010). Countries in developing regions are taking steps to improve the main determinants that influence FDI location choice. Compared to developed countries, developing countries have superior competitive advantages at both the socio-economic and business levels. As a result, developing countries are now the main recipients of capital, while developed countries are more likely to seek investment opportunities in developing economies (Liu, 2012).

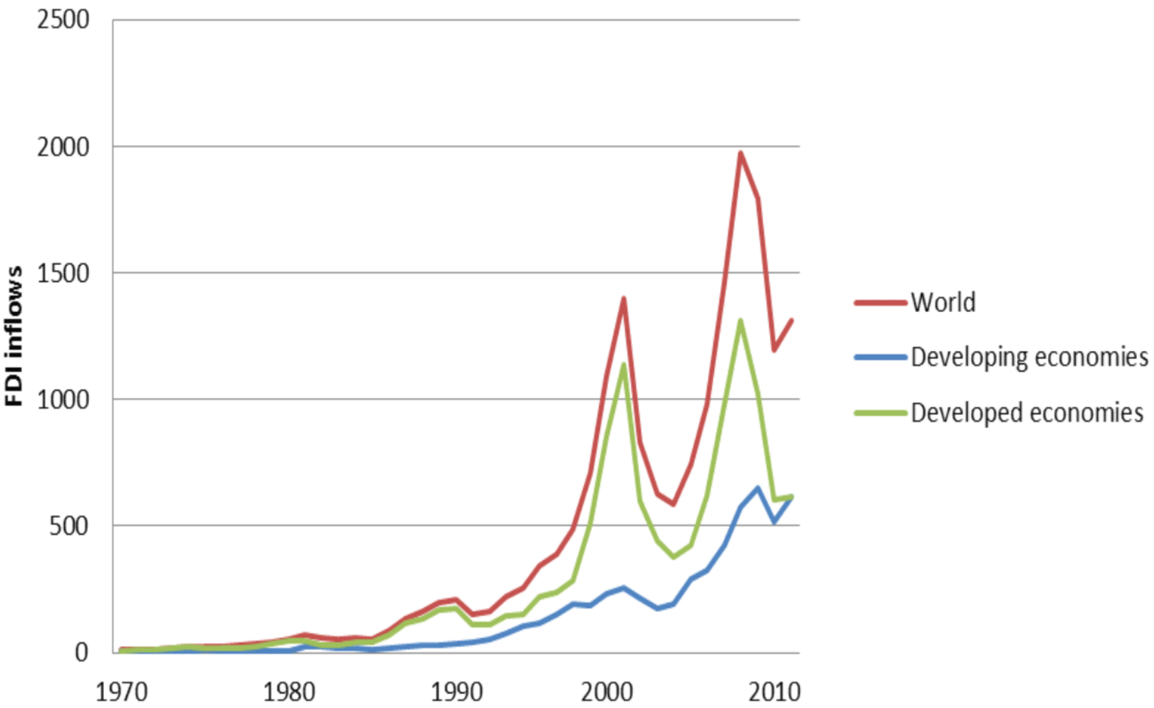

Figure 1. Foreign direct investment flows.

Source: UNCTAD (2010) and Liu (2012).

In developing countries with low savings and investment rates and therefore low per capita GDP growth rates, an effective way to escape the low-level equilibrium trap is to attract more foreign capital through FDI (Hayami, 2001).

Furthermore, using a panel of 66 countries over the period 1970-2003, Levchenko and Mauro (2007) found that FDI flows are less volatile than portfolio securities flows and bank lending. This has led to the hypothesis that FDI inflows tend to increase during a financial crisis (Acharya, Shin, & Yorulmazer, 2011).

After the outbreak of the international financial crisis, the central role played by the state in the global economy emerged through the commitments made by governments to rescue the financial sector, and the argument that countries do not play a central role in shaping the global economy was weakened (Roukanas, 2020).

Research on the evolution of foreign direct investment in recent financial crises examines the pattern of foreign direct investment activity during a specific financial crisis, such as the Asian financial crisis of 1997 - 1999 and the current global financial crisis of 2008 - 2012 (Liu, 2012). The conclusions drawn from these financial crises contribute significantly to the understanding of the relationship between financial crises and foreign direct investment activity. However, it is difficult to classify some of the financial crises into any specific type of crisis (Liu, 2012).

3.7. The Course of FDI in Countries with Adjustment Programs

Structural Adjustment Policies and Programs (SAP) refer to programs that aim to resolve economic disruptions and structural weaknesses such as public debt, inflation, unemployment, balance of payments deficits, etc. These are high-power austerity policies and measures, implemented in many countries around the world since the early 1980s and are a prerequisite for receiving international loans from the International Monetary Fund or other official creditors (Beneria, 1999). This process is reinforced by trade liberalization and the relaxation of rules regulating foreign investment, increasing the degree of globalization of the economy, with an emphasis on the production of tradable versus non-tradable goods and services. This reinforces the need to make efforts for more efficient production, so as to be able to compete in international markets and reverse the problem of external debt (Beneria, 1999).

In summary, SAPs aim for profound economic and social changes such as:

- To increase productivity levels, even in the initial stages, with lower real wages.
- To eliminate inefficiency, and "rationalize" the economy, according to the signals dictated by an expanding market.
- Achieving a higher degree of openness to foreign competition and integration into the world economy through trade and economic liberalization.
- Modifying economic and social relations and shifting the distribution of resources, rights and privileges towards social groups that benefit from the market.
- Achieving the ultimate goal of returning to acceptable levels of economic growth and stability (Beneria, 1999).

Following the previous analysis, the question arises about the behavior of FDI in EU countries that, due to the problems they faced, resorted to the financial support mechanisms of the EU and the IMF. The various empirical studies concerning FDI inflows in countries experiencing an economic crisis have shown that in the cases of countries with prospects of a quick exit and a favorable political and institutional environment, as well as prospects of future profits, foreign investors sometimes not only do not limit their investments, but on the contrary increase them (Efthimiou, 2025).

Table 1. FDI inflows to EU countries under crisis (In million dollars).

Inputs	2007	2010	2011	2012	2013	2014	2015
Greece	2.111	330	1.143	1.740	2.818	2.687	1.268
Ireland	24.707	42.804	23.545	48.883	50.609	48.248	217.869
Portugal	2.804	2.912	7.428	8.229	8.447	4.897	7.630
Cyprus	23.238	33.430	36.623	63.502	22.261	46.454	23.946

Source: UNCTADstat (2025).

Based on UNCTAD data, Table 1 was compiled for four EU countries that implemented adjustment programs.

The main conclusions that emerge are the following:

In Ireland, with the exception of 2011, where there was a slight decline in FDI compared to the pre-crisis year of 2007, all other years have seen a significant FDI inflow. Apparently, investors have not lost their confidence in the Irish economic and political system. Also, the consistent implementation of adjustment measures and reforms boosted their confidence in Irish economic policy, which caused a significant increase in foreign capital inflows. This contributed to improving the liquidity of the Irish economy, increasing domestic demand and employment, as a result of which the country was assisted in its path to exit from the Memorandum. Similarly, Cyprus, despite the international financial crisis, managed to significantly increase its traditionally high FDI inflows. A very mild decrease is observed only in 2013, compared to 2007. Consequently, in the case of Cyprus, market confidence was maintained and thus the country quickly exited the Memorandum and continued its development path (Efthimiou, 2025).

Portugal, before the crisis, was among the countries with low FDI inflows. The year it signed for the implementation of the adjustment program showed a slight increase in FDI inflows, compared to 2007. It is impressive that in the years following the implementation of its memorandum commitments, this country managed to quadruple its FDI inflows. This is apparently due to the improvements brought about by the Memorandum and the significant reforms in the country's business ecosystem. Clearly, FDI inflows contributed to the country's exit from the adjustment program. In the case of Greece, a different picture is observed. First, it should be emphasized that traditionally Greece has not been an attractive FDI destination, primarily due to unfavorable internal conditions, such as bureaucracy, market rigidity, polygamy, opacity, high taxation, etc. Thus, in 2007, FDI inflows amounted to only $2,111 million, the lowest among the four countries under consideration. In the first year of implementation of the adjustment program, inflows were minimal. They then show a mild recovery and only in 2013 and 2014 do they manage to exceed the 2007 level, but only by a very small margin. In 2015, due to political and economic turmoil and uncertainties, FDI inflows decreased by more than 50%. Consequently, Greece is the only one of the four countries with a memorandum that was unable to create favorable reception conditions and utilize adjustment policies to attract foreign capital (Efthimiou, 2025). This would certainly contribute to strengthening the economy's fragile liquidity, increasing investment, production, employment and extroversion. On the contrary, instead of improving the conditions for receiving FDI, the country added to the aforementioned disincentives new inhibiting factors, such as macroeconomic and political uncertainty, the reduction in liquidity and the banking system crisis, the possibility of exiting the eurozone, the great recession, etc.

The following key conclusions emerge from the above analysis:

Ireland and Cyprus, despite austerity programs, managed to remain as strong FDI destinations and improve their position, increasing FDI inflows. Portugal used the adjustment program to improve the investment environment and significantly increase FDI inflows. All three of the above countries were supported by increased FDI inflows, which, by increasing liquidity, investment, demand and employment, had a countercyclical effect on the restrictive fiscal measures imposed by the adjustment programs. In contrast to the above model, Greece deviates sharply, in which, due to the deterioration of reception conditions, a significant decline and then a mild recovery in FDI was observed at first (Efthimiou, 2025).

4. Discussion

First, the empirical literature finds weak support for a strong exogenous positive effect of FDI on economic growth (Carkovic & Levine, 2002). Findings in this literature indicate that a country's ability to benefit from exogenous FDI may be limited by local conditions, such as the development of local financial markets or the level of education of the host country, that is, by its absorptive capacities. Borensztein et al. (1998) and Xu (2000) show that FDI transfers technology, which translates into higher growth, only when the host country has a minimum stock of human capital (Alfaro, Chanda, Kalemli-Ozcan, & Sayek, 2010). Alfaro, Chanda, Kalemli-Ozcan, and Sayek (2004); Durham (2004) and Hermes and Lensink (2003) provide evidence that only countries with well-developed financial markets can obtain significant benefits from foreign direct investment, in terms of their growth rates (Alfaro et al., 2010). The microeconomic empirical literature finds mixed results on the impact of FDI on firm productivity. This literature review is divided into three categories. Starting with the pioneering work of Caves (1974) relevant research focuses on country case studies and the industry level (Blomström, 1986). These studies find a positive correlation between the productivity of a multinational enterprise and the average value added per employee of domestic enterprises within the same sector. This is followed by second-generation studies, which use operational data as a constant (Alfaro et al., 2010). However, most of these studies do not find an effect of foreign presence or further negative productivity impacts from multinational companies in developing countries (Aitken & Harrison, 1999). Positive results were found only for developed countries (Haskel, Pereira, & Slaughter, 2002). Based on these negative results, third generation of studies argues that, since multinationals would like to prevent information leakage to potential local competitors, they ultimately benefit from knowledge spillover to their local suppliers, the spillover effects from FDI should be between different industries. Therefore, one should look for vertical (inter-industry) externalities, instead of horizontal (intra-industry) externalities (Alfaro et al., 2010). This means that externalities from FDI manifest themselves from the inside out, that is, the contacts between domestic suppliers of intermediate inputs and their multinational customers (backward linkage) or between foreign suppliers of intermediate inputs and domestic customers (forward linkage) (Hirschman, 1958). Alfaro et al. (2010) pointed out the positive impact of FDI on economic growth, emphasizing the importance of local financial markets in this process. Furthermore, these results are confirmed by a series of studies that analyzed countries from different parts of the world (Dornean, Işan, & Oanea, 2012). For Asia, Zhang (2001) found that the positive effect of FDI in promoting economic performance is stronger in coastal China than inland China. Furthermore, Choong, Yusop, and Soo (2004) emphasized that, for East Asian countries, the level of development of the financial sector is very important. This can be seen as a source of competitive advantage in attracting FDI from host countries and, ultimately, in promoting economic growth. The results are the same for Taiwan (Chang, 2005) Malaysia and Thailand (Chowdhury & Mavrotas, 2006). This positive relationship between FDI and economic growth has also been found for 18 Latin American countries (Bengoa & Sanchez-Robles, 2003) and could be improved by various elements from the host country, such as: adequate human capital, economic stability or liberalized markets. The same relationship was found to be true for 10 other African countries (Esso, 2010). On the other hand, the results mentioned above were not confirmed by the empirical analysis conducted by Carkovic and Levine (2002) through which it was emphasized that FDI does not exert an independent effect on economic performance and its influence depends on other determinants of economic growth (Dornean et al., 2012).

5. Conclusion

As already mentioned, there is a widespread belief that Foreign Direct Investment produces positive results in productivity for host countries and economic adjustment to the international environment in general. The main mechanisms for these externalities are the adoption of foreign technology and know-how, which can occur through licensing agreements, imitation, training of employees, as well as the introduction of new processes and products by foreign firms (Fawait et al., 2024; Letsou et al., 2025). In addition, the creation of links between foreign and domestic firms also contributes to this direction. These benefits, combined with the direct capital financing provided, suggest that FDI can play an important role in modernizing the national economy and promoting economic growth. However, the empirical evidence on the existence of such positive productivity externalities is equivocal (Alfaro et al., 2010; Alfaro & Rodriguez-Clare, 2004; Blomström & Kokko, 1998; Gorg & Greenaway, 2004; Lipsey, 2002; Navaretti & Venables, 2004). Foreign direct investment inflows increase invested capital, productivity, output, employment and incomes in the host country. Export-oriented foreign direct investment can also promote exports and economic growth. Foreign direct investment is not a simple transfer of capital. They are associated with the transfer of technology, new marketing practices or management techniques. All these aspects imply a long-term relationship and their mobility is limited and more stable than other forms of capital flows, and through them multinational companies derive significant benefits during economic difficulties. Regarding the fundamental questions of whether and to what extent a country's crisis and adjustment program affect FDI inflows, based on empirical observation in EU countries, that implemented adjustment programs, it is found that FDI inflows are not affected by the programs themselves, but by the overall reception conditions. In the case that programs improve these conditions, a significant increase in FDI inflows is observed. On the contrary, when adjustment programs in a country are not implemented consistently or contain failures and inappropriate measures, they worsen the domestic environment and prevent multinational enterprises from investing, resulting in the country's economy being unable to benefit from their countercyclical effect. The literature was selected and reviewed by aforementioned researches and studies in order to investigate the concept of FDI in their entirety. Through the comparative analysis it emerges that foreign direct investment inflows increase the invested capital, productivity, production, employment and the income in the host country. The foreign direct investments which are export oriented can also promote them exports and economic growth. This point of view is the comparative advantage of this form of investment. Through the literature review it is found that through the FDI the economic adjustment of the economic cycle of countries to the modern international environment is facilitated, in case that through these forms' companies set up or expand their business operations abroad, creating brand new jobs in and assets through financial transactions between companies. FDI is a direct and straightforward way of transferring capital, which contributes to the alleviation of economic hardships and to economic resilience and adaptation to the demands of the modern international environment. FDI is also identified as one of the most important factors in the economic development of a country. For this reason, almost all countries in the world seek to attract them, in the context of a highly competitive investment environment in order to obtain a particular competitive result. They are a driving force of a country's economic cycle and a safe way of economic development, especially in times of economic insecurity. Through FDI, the productive capacity of countries can be significantly improved, especially FDI-receiving countries. Increasing productivity also increases the competitiveness of businesses. This results in an increase in the efficiency and quality of the company's production. These resources such as competitiveness, efficiency and production quality are the resources that businesses need to gain access to foreign markets through transnational networks. The search and recording of FDI sizes by country or by industry categories in global economy combination with the effects of factors on FDI that have recently been formed in the international investment environment could be a trigger for future research.

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