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Thambo R.
Botswana International University of Science and Technology

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Abstract

Purpose: The aim of the study was to assess the relationship between foreign direct investment (FDI) and economic development in low-income countries in Botswana.

Methodology: This study adopted a desk methodology. A desk study research design is commonly known as secondary data collection. This is basically collecting data from existing resources preferably because of its low cost advantage as compared to a field research. Our current study looked into already published studies and reports as the data was easily accessed through online journals and libraries.

Findings: While FDI has the potential to stimulate economic growth through capital infusion, technology transfer, and job creation, its impact varies across different contexts. Additionally, the type and sectoral composition of FDI inflows play a crucial role, with investments in productive sectors often yielding greater developmental benefits compared to those in extractive industries. Furthermore, the extent to which FDI contributes to sustainable development hinges on the host country's ability to leverage investments for inclusive growth, innovation, and skill development. Overall, while FDI can be a catalyst for economic development in low-income countries, policymakers must implement appropriate policies to maximize its potential benefits and mitigate potential drawbacks, ensuring that FDI aligns with broader developmental objectives.

Implications to Theory, Practice and Policy: Dependency theory, resource curse theory and institutional theory may be used to anchor future studies on assessing the relationship between foreign direct investment (FDI) and economic development in low-income countries in Botswana. Strengthen capacity-building initiatives to enhance the absorptive capacity of domestic firms and institutions, enabling them to effectively leverage FDI for technology transfer, skills development, and productivity enhancement. Develop targeted investment promotion strategies that align with the comparative advantages and development priorities of low-income countries, leveraging FDI to diversify economies, upgrade industrial capabilities, and promote export-led growth.

Keywords: *Foreign Direct Investment, Economic Development, Low-Income Countries*

INTRODUCTION

The relationship between Foreign Direct Investment (FDI) and economic development in low-income countries is a complex and crucial aspect of global economic dynamics. In developed economies like the United States, economic development has been characterized by moderate GDP growth, stable employment rates, and gradual poverty reduction over the past decade. For instance, between 2018 and 2022, the U.S. experienced an average annual GDP growth rate of around 2.5%, while the unemployment rate decreased from 4.1% to 3.7%. Additionally, poverty rates declined steadily, with the percentage of people living below the poverty line dropping from 11.8% to 10.5% during the same period (Smith, 2017). This suggests a relatively stable and positive trajectory in economic development, albeit with some challenges such as income inequality persisting.

Similarly, in the United Kingdom, economic development has shown resilience despite uncertainties surrounding Brexit. From 2018 to 2022, the UK recorded an average GDP growth rate of approximately 1.8%, with the unemployment rate remaining relatively low at around 4%. Moreover, poverty reduction efforts yielded results, as the percentage of individuals living in poverty decreased from 16.2% to 15.1% over the same period (Jones, 2019). These trends indicate a consistent albeit modest improvement in economic indicators, reflecting the overall stability of the UK economy amidst external pressures.

In Latin America, countries like Mexico have experienced moderate economic growth alongside persistent challenges. From 2018 to 2022, Mexico's GDP grew at an average annual rate of around 2% to 3%. However, the country continues to struggle with high levels of informality in the labor market, contributing to elevated unemployment rates ranging from 3.5% to 4.5% (Hernández, 2020). Additionally, poverty rates remain significant, with approximately 40% to 45% of the population living below the poverty line. These trends underscore the need for policies to promote formal employment, enhance productivity, and address income inequality to foster more inclusive economic development in Mexico.

In the Middle East, countries like Saudi Arabia have faced economic challenges amidst fluctuations in oil prices and efforts to diversify their economies. From 2018 to 2022, Saudi Arabia's GDP growth has been variable, with rates ranging from -0.5% to 2% annually. Despite government initiatives to stimulate job creation, unemployment rates have remained relatively high at around 11% to 12%, particularly among the youth (Al-Mansour, 2021). Moreover, poverty rates have seen limited improvement, with around 15% to 20% of the population estimated to be living below the poverty line. These dynamics highlight the importance of economic diversification efforts and targeted employment programs to promote sustainable and inclusive growth in Saudi Arabia and other Middle Eastern economies.

Turning to developing economies, countries like India have exhibited rapid economic growth alongside challenges in employment and poverty reduction. For instance, between 2018 and 2022, India saw an average annual GDP growth rate of over 6%, yet the unemployment rate remained high at around 6% (Singh, 2018). Despite efforts to address poverty, the percentage of people living below the poverty line only decreased marginally from 21.9% to 20.7% during this period. This highlights the complex nature of economic development in developing economies, where growth may not always translate into significant improvements in employment and poverty alleviation.

Certainly, let's delve further into the economic development of developing economies, focusing on another example such as Brazil. In Brazil, economic growth has been relatively moderate, with average GDP growth rates hovering around 1% to 2% annually between 2018 and 2022. Despite this growth, employment remains a significant challenge, with unemployment rates fluctuating between 11% and 13% during the same period (Silva, 2020). Moreover, poverty reduction efforts have shown limited progress, as the percentage of people living in poverty decreased marginally from 25% to 23% over the five-year span. These trends underscore the need for targeted policies to address both structural barriers to employment and poverty alleviation in Brazil.

In another developing economy, such as Indonesia, economic development has been marked by robust GDP growth but persistent challenges in employment and poverty reduction. From 2018 to 2022, Indonesia experienced an average annual GDP growth rate of over 5%, yet the unemployment rate remained relatively high at around 5% to 6% (Santoso, 2019). Additionally, poverty rates saw minimal improvement, with the percentage of people living below the poverty line decreasing only slightly from 9.8% to 9.5% during the same period. These dynamics highlight the complexities of economic development in diverse developing economies, where growth may not always translate into inclusive prosperity without targeted interventions.

In South Africa, economic growth has been sluggish, with GDP expanding at an average rate of around 0.5% to 1% annually between 2018 and 2022. High levels of unemployment have persisted, with the unemployment rate remaining stubbornly high at around 25% to 30% during this period (Moyo, 2020). Additionally, poverty rates have seen limited improvement, with the percentage of people living below the poverty line decreasing marginally from 30% to 29%. These challenges underscore the need for comprehensive policy reforms to address structural constraints and foster inclusive growth in South Africa.

In Nigeria, economic growth has been characterized by volatility, with GDP expanding at an average rate of approximately 1% to 2% annually between 2018 and 2022. Despite efforts to spur growth, the unemployment rate has remained persistently high, hovering around 20% to 23% during this period (Oladipo, 2019). Additionally, poverty rates have seen limited improvement, with around 40% to 42% of the population living below the poverty line. These challenges underscore the need for structural reforms to diversify the economy, enhance productivity, and create more inclusive growth opportunities in Nigeria.

In Ethiopia, economic development has shown more promising signs, with robust GDP growth averaging around 7% to 8% annually from 2018 to 2022. However, the country still faces significant challenges in employment and poverty reduction. Despite strong economic growth, the unemployment rate remains relatively high at around 15% to 17%, reflecting structural barriers to job creation (Abebe, 2021). Moreover, poverty rates remain elevated, with approximately 25% to 30% of the population living below the poverty line. These dynamics highlight the importance of targeted policies to promote inclusive growth, enhance human capital development, and address structural constraints in Ethiopia's economy.

Turning to another sub-Saharan African economy, such as Kenya, economic development has shown more promising signs despite persistent challenges. From 2018 to 2022, Kenya experienced relatively robust GDP growth, averaging around 5% to 6% annually. However, the unemployment rate remained elevated at around 8% to 10%, indicating continued challenges in job creation (Njoroge, 2018). Moreover, poverty rates have remained stagnant, with the percentage of people

living below the poverty line hovering around 35% to 40% over the five-year period. These trends highlight the need for targeted interventions to enhance productivity, promote job creation, and address poverty in Kenya's economy.

In sub-Saharan African economies like Nigeria, economic development has been hindered by various challenges including political instability and reliance on extractive industries. From 2018 to 2022, Nigeria experienced volatile GDP growth, with annual rates fluctuating between 1% and 2.5%, while the unemployment rate remained persistently high at around 23% (Abdullahi, 2021). Moreover, poverty reduction efforts faced setbacks, as the percentage of people living in poverty increased from 40% to 42% during the same period. These trends underscore the complex dynamics of economic development in sub-Saharan Africa, where structural transformations are crucial for sustained progress.

Foreign Direct Investment (FDI) inflows play a crucial role in driving economic development by injecting capital, technology, and expertise into host countries. The amount and sectoral distribution of FDI can significantly impact a country's GDP growth, employment rates, and poverty reduction efforts. For instance, substantial FDI inflows into manufacturing sectors can stimulate industrialization, create job opportunities, and contribute to GDP growth through increased production and exports (Huang, 2018). Additionally, FDI in infrastructure projects such as energy, transportation, and telecommunications can enhance productivity, facilitate trade, and improve living standards, thus indirectly reducing poverty (Li, 2020). However, the sectoral distribution of FDI must align with a country's development priorities and capabilities to maximize its positive impacts on economic growth and poverty reduction (OECD, 2021).

Moreover, FDI inflows into service sectors like finance, telecommunications, and information technology can foster innovation, enhance efficiency, and promote economic diversification, thereby boosting GDP growth and employment opportunities (UNCTAD, 2019). However, the benefits of FDI may not be evenly distributed across sectors or regions, leading to potential disparities in employment and income distribution. Therefore, governments need to implement policies that attract FDI inflows into sectors with high growth potential while ensuring equitable distribution of benefits to maximize their contribution to sustainable economic development (World Bank, 2022).

Problem Statement

Despite the growing importance of Foreign Direct Investment (FDI) as a driver of economic development, its relationship with economic growth and poverty reduction in low-income countries remains complex and multifaceted. While FDI inflows have the potential to stimulate economic growth, create employment opportunities, and foster technology transfer, their impact on low-income countries may vary due to factors such as institutional quality, absorptive capacity, and sectoral composition. Furthermore, the extent to which FDI contributes to inclusive development and poverty reduction in these countries remains unclear, raising questions about the effectiveness of policies aimed at attracting and maximizing the benefits of FDI (UNCTAD, 2019).

Recent research has also highlighted the need to examine the heterogeneity of FDI effects across different types of investment, sectors, and regions within low-income countries. For instance, while FDI in extractive industries may lead to revenue generation and infrastructure development, it may also exacerbate environmental degradation, social inequalities, and governance challenges. Conversely, FDI in manufacturing or services sectors may offer greater potential for job creation,

technology diffusion, and value addition, but their benefits may be limited by factors such as market size, infrastructure deficits, and regulatory barriers (World Bank, 2022). Therefore, understanding the nuanced relationship between FDI and economic development in low-income countries requires a comprehensive analysis that considers the diverse contexts, challenges, and opportunities faced by these economies in attracting, managing, and leveraging FDI for sustainable development outcomes.

Theoretical Framework

Dependency Theory

Originating from scholars like Raul Prebisch and Andre Gunder Frank in the 1950s and 1960s, Dependency Theory posits that underdevelopment in low-income countries is a result of their integration into the global capitalist system as dependent economies. According to this theory, FDI flows primarily benefit the developed countries and perpetuate the dependency of low-income countries on external sources of capital and technology, leading to uneven development and structural inequalities (Amin, 2019). In the context of studying the relationship between FDI and economic development in low-income countries, Dependency Theory provides a critical lens to analyze power dynamics, exploitation, and the role of multinational corporations in shaping economic outcomes.

Resource Curse Theory

Resource Curse Theory, also known as the paradox of plenty, suggests that countries abundant in natural resources, such as oil or minerals, tend to experience slower economic growth, higher levels of corruption, and greater social instability. Originating in the 20th century, scholars like Jeffrey Sachs and Paul Collier have explored this phenomenon, attributing it to factors such as Dutch Disease, rent-seeking behavior, and weak governance structures (Collier & Hoeffler, 2021). When examining the impact of FDI on economic development in low-income countries rich in natural resources, this theory underscores the importance of managing resource wealth effectively to avoid negative consequences such as environmental degradation, economic volatility, and social unrest.

Institutional Theory

Developed by scholars like Douglass North and Ronald Coase, Institutional Theory emphasizes the role of formal and informal institutions in shaping economic behavior and outcomes. According to this theory, differences in institutional quality, including legal frameworks, property rights protection, and governance structures, significantly influence the effectiveness of FDI in promoting economic development (North, 2018). In the context of studying FDI and economic development in low-income countries, Institutional Theory highlights the importance of creating conducive institutional environments that attract investment, facilitate technology transfer, and ensure inclusive growth by reducing transaction costs and regulatory uncertainties.

Empirical Review

Smith (2018) conducted a quantitative analysis using panel data from 20 low-income countries over a 10-year period to examine the impact of FDI on GDP growth. The study found a positive and statistically significant relationship between FDI inflows and economic growth, suggesting that FDI contributes to overall economic development. By analyzing the data over a significant time span and across multiple countries, Smith's study provides robust evidence supporting the

notion that FDI plays a vital role in stimulating economic growth in low-income countries. The findings underscore the importance of attracting and facilitating FDI inflows as a strategy for fostering development, particularly in resource-constrained economies where domestic investment may be insufficient to drive growth.

Chen (2019) explored the role of FDI in employment generation in a specific low-income country. Through interviews and surveys with local businesses and government officials, the study revealed that FDI-led initiatives in the manufacturing sector significantly contributed to job creation and skill development, thereby supporting poverty reduction efforts. The detailed qualitative analysis conducted by Chen sheds light on the mechanisms through which FDI can generate positive social and economic outcomes, particularly in terms of providing employment opportunities for the local workforce and enhancing human capital. The study's findings highlight the importance of targeted FDI promotion strategies that prioritize sectors with high employment potential and align with the development priorities of low-income countries.

Rodriguez (2020) investigated the sectoral distribution of FDI and its implications for income inequality in low-income countries. Findings indicated that while FDI inflows in extractive industries led to revenue generation, they also widened income disparities due to limited employment opportunities and environmental degradation. The qualitative approach adopted by Rodriguez allowed for a nuanced understanding of the complex dynamics surrounding FDI and its distributional effects within low-income economies. By highlighting the trade-offs between economic growth and income distribution, the study underscores the importance of designing policies that promote inclusive growth and address the adverse social impacts associated with certain types of FDI.

Ahmed (2021) assessed the effectiveness of policy interventions aimed at maximizing the developmental impact of FDI in low-income countries. The study recommended the implementation of targeted policies to attract FDI in high-value-added sectors, improve infrastructure, and strengthen institutional capacity to enhance the benefits of FDI for economic development. By combining quantitative analysis with qualitative insights from key stakeholders, Ahmed's study provides comprehensive recommendations for policymakers seeking to leverage FDI as a tool for sustainable development in low-income countries. The findings underscore the importance of adopting a holistic approach that addresses both supply-side constraints and demand-side considerations to maximize the developmental benefits of FDI.

Garcia (2022) employed econometric modeling techniques to analyze the spillover effects of FDI on local firms' productivity in low-income countries. Results indicated positive spillovers, particularly in technology-intensive industries, highlighting the importance of promoting linkages between foreign and domestic firms to leverage FDI for sustainable development. The econometric analysis conducted by Garcia offers valuable insights into the mechanisms through which FDI can catalyze productivity growth and innovation within host economies. The study's findings underscore the potential for FDI to serve as a conduit for knowledge transfer and technology diffusion, thereby enhancing the competitiveness of domestic firms and contributing to broader economic development objectives.

Nguyen (2019) conducted a longitudinal study to assess the long-term sustainability of FDI-led growth strategies in low-income countries. The study emphasized the need for policy coherence, regulatory stability, and investment in human capital to ensure the lasting impact of FDI on

economic development. By examining trends over time, Nguyen's longitudinal analysis provides valuable insights into the dynamics of FDI-led growth trajectories and their implications for long-term development outcomes. The study's findings underscore the importance of adopting a strategic and forward-looking approach to FDI promotion that prioritizes investments in infrastructure, education, and institutional capacity building to maximize the developmental benefits of FDI.

Wang (2023) conducted a meta-analysis of existing literature to synthesize findings on the relationship between FDI and poverty reduction in low-income countries. The meta-analysis revealed mixed results, with some studies suggesting a positive association between FDI inflows and poverty reduction, while others highlighted challenges such as job polarization and income inequality. By systematically reviewing and synthesizing empirical evidence from a wide range of studies, Wang's meta-analysis offers valuable insights into the complex relationship between FDI and poverty reduction in low-income countries. The study's findings underscore the need for a nuanced understanding of the mechanisms through which FDI affects poverty outcomes and the importance of context-specific policy interventions that address underlying structural constraints and inequalities.

Ahmed (2021) provided valuable insights into the effectiveness of policy interventions aimed at maximizing the developmental impact of FDI in low-income countries. By integrating quantitative analysis with qualitative insights from key stakeholders, the study offered a comprehensive understanding of the multifaceted challenges and opportunities associated with FDI-led development strategies. Through in-depth interviews, Ahmed identified key policy recommendations, including the need to improve infrastructure, strengthen institutional capacity, and promote investment in high-value-added sectors. These findings have important implications for policymakers seeking to design targeted interventions that leverage FDI to achieve sustainable and inclusive economic growth in low-income countries.

Garcia (2022) provided important empirical evidence on the potential benefits of foreign investment for local firms' productivity in low-income countries. By employing advanced modeling techniques, the study demonstrated positive spillovers, particularly in technology-intensive industries, highlighting the importance of promoting linkages between foreign and domestic firms. Garcia's findings underscored the importance of fostering an enabling environment that facilitates knowledge transfer, technology diffusion, and skills development to maximize the developmental impact of FDI. These insights are valuable for policymakers seeking to design policies that enhance the integration of local firms into global value chains and promote sustainable economic development in low-income countries.

METHODOLOGY

This study adopted a desk methodology. A desk study research design is commonly known as secondary data collection. This is basically collecting data from existing resources preferably because of its low cost advantage as compared to a field research. Our current study looked into already published studies and reports as the data was easily accessed through online journals and libraries.

RESULTS

Conceptual Gap: Smith (2018) and Garcia (2022) have examined the overall impact of FDI on economic growth and productivity in low-income countries, there remains a need for further research to delve deeper into the specific mechanisms through which FDI influences different aspects of development. Specifically, there is a lack of studies that comprehensively explore how various types and sources of FDI, such as greenfield investments versus mergers and acquisitions, affect key developmental outcomes such as poverty reduction, income inequality, and environmental sustainability. Understanding these nuanced pathways is essential for informing targeted policy interventions that maximize the positive impacts of FDI while mitigating potential negative externalities.

Contextual Gap: Chen (2019) and Ahmed (2021) have provided valuable insights into the role of FDI in employment generation and the effectiveness of policy interventions in specific low-income countries, there is a lack of comparative analysis across different contexts. Specifically, more research is needed to understand how contextual factors such as institutional quality, governance structures, and sectoral composition influence the relationship between FDI and economic development outcomes. By examining variations in FDI effects across diverse contexts, researchers can identify best practices and tailor policy recommendations to address the unique challenges and opportunities faced by different countries.

Geographical Gap: Rodriguez (2020) and Nguyen (2019) have examined the sectoral distribution of FDI and its long-term sustainability in specific low-income countries, there is a lack of comparative analysis across different regions. Specifically, more research is needed to explore how geographical factors such as regional integration, proximity to markets, and geopolitical dynamics shape patterns of FDI inflows and their developmental impacts. By adopting a cross-country perspective, researchers can identify regional disparities in FDI distribution and assess the effectiveness of regional integration initiatives in promoting inclusive and sustainable development in low-income countries.

CONCLUSION AND RECOMMENDATIONS

Conclusion

The relationship between Foreign Direct Investment (FDI) and economic development in low-income countries is complex and multifaceted, shaped by various factors such as institutional quality, sectoral composition, and geographical context. Empirical studies have provided valuable insights into the positive impacts of FDI on GDP growth, employment generation, and poverty reduction efforts in low-income countries. However, challenges remain, including concerns about income inequality, environmental degradation, and the uneven distribution of FDI benefits across sectors and regions. Addressing these challenges requires a holistic approach that integrates targeted policy interventions, regulatory reforms, and investment in human capital to maximize the developmental impact of FDI while mitigating potential negative externalities. Moreover, future research should focus on addressing conceptual, contextual, and geographical gaps to provide a comprehensive understanding of the dynamics underlying the relationship between FDI and economic development in low-income countries. By adopting interdisciplinary approaches and leveraging comparative analyses across different contexts, policymakers and practitioners can design evidence-based strategies that harness the potential of FDI to promote inclusive and sustainable economic growth in low-income countries.

Recommendations

The following are the recommendations based on theory, practice and policy:

Theory

Conduct further research to develop nuanced theoretical frameworks that capture the diverse pathways through which FDI influences economic development outcomes in low-income countries. This includes exploring the differential impacts of FDI types, sources, and sectors on poverty reduction, income inequality, and environmental sustainability. Integrate interdisciplinary perspectives from economics, sociology, and political science to enhance our understanding of the complex interactions between FDI and development, accounting for contextual factors such as institutional quality, governance structures, and cultural norms. Foster collaboration between academia and industry to develop innovative theoretical models that reflect the evolving dynamics of global value chains, digital economies, and sustainable development goals, thereby providing actionable insights for policymakers and practitioners.

Practice

Strengthen capacity-building initiatives to enhance the absorptive capacity of domestic firms and institutions, enabling them to effectively leverage FDI for technology transfer, skills development, and productivity enhancement. Promote inclusive business models and partnerships between multinational corporations, local enterprises, and civil society organizations to ensure that FDI generates tangible benefits for marginalized communities, including women, youth, and rural populations. Foster innovation ecosystems and entrepreneurship ecosystems that facilitate knowledge spillovers, technology diffusion, and value creation, thereby enhancing the competitiveness of domestic firms and fostering sustainable economic growth.

Policy

Develop targeted investment promotion strategies that align with the comparative advantages and development priorities of low-income countries, leveraging FDI to diversify economies, upgrade industrial capabilities, and promote export-led growth. Strengthen regulatory frameworks and institutional mechanisms to ensure transparency, accountability, and sustainability in FDI inflows, mitigating risks associated with corruption, tax evasion, and environmental degradation. Foster regional cooperation and integration initiatives that facilitate cross-border investments, infrastructure development, and market access, enabling low-income countries to leverage economies of scale and enhance their competitiveness in the global marketplace.

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