

The Peculiarities Of Attracting Investment To Enterprises In Developing Countries

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Received: 19 July 2025; **Accepted:** 15 August 2025; **Published:** 17 September 2025

Abstract: Foreign Direct Investment (FDI) stands as a cornerstone of modern economic development. It represents far more than a simple transfer of capital; it is a critical conduit for advanced technology, innovative managerial practices, and vital access to global value chains and markets. For the nations of the Global South, FDI is not merely beneficial—it is indispensable. The United Nations Conference on Trade and Development (UNCTAD) estimates an annual investment gap of US\$2.5 trillion required for developing nations to achieve the Sustainable Development Goals (SDGs), a chasm that domestic resources alone cannot bridge. FDI is thus positioned as an essential partner in the pursuit of sustainable global development.

Keywords: Investment attraction, Developing countries, Enterprises, Foreign direct investment (FDI), Economic growth, Business environment, Institutional factors, Capital inflows, Financing enterprises, Globalization, Investment policy.

Introduction: Foreign Direct Investment (FDI) stands as a cornerstone of modern economic development. It represents far more than a simple transfer of capital; it is a critical conduit for advanced technology, innovative managerial practices, and vital access to global value chains and markets. For the nations of the Global South, FDI is not merely beneficial—it is indispensable. The United Nations Conference on Trade and Development (UNCTAD) estimates an annual investment gap of US\$2.5 trillion required for developing nations to achieve the Sustainable Development Goals (SDGs), a chasm that domestic resources alone cannot bridge. FDI is thus positioned as an essential partner in the pursuit of sustainable global development.

However, the global environment in which this investment must be attracted has become profoundly uncertain. The world is grappling with the lingering economic scars of the COVID-19 pandemic, resurgent and fragmenting geopolitical tensions, and persistent macroeconomic headwinds that are reshaping the patterns of global investment. This has ushered in an era of "slowbalization," where the growth of FDI has decoupled from the growth of global GDP and trade,

stagnating in the face of rising protectionism and heightened investor caution. The competition for international capital is now more intense and complex than at any point in recent history, forcing developing countries to navigate a treacherous and shifting landscape.

This report addresses the "peculiarities" of attracting investment in this new era. The very term "developing country" is fraught with controversy, with many, including the World Bank, acknowledging its declining relevance as it can perpetuate an outdated "us versus them" dichotomy. In 2015, the World Bank announced it would phase out the term in its data presentations, opting instead for more precise classifications based on income and region.⁹ Accordingly, this report adopts the World Bank's income-based framework—distinguishing between Low-Income, Lower-Middle-Income, and Upper-Middle-Income Countries (LICs, LMICs, UMICs)—as its primary analytical lens, recognizing that investment attraction strategies must be meticulously tailored to these diverse contexts. This framework is supplemented by UN classifications such as Least Developed Countries (LDCs), which incorporate crucial metrics of human capital and economic vulnerability that go beyond per capita

income alone.¹²

While traditional economic determinants like market size and resource availability remain influential, the central argument of this report is that the primary peculiarities of attracting sustainable FDI to developing nations lie in a distinct set of interconnected challenges. Success is increasingly determined not by offering the most generous incentives, but by demonstrably mitigating the profound risks associated with weak governance, political instability, and severe infrastructure deficits. Furthermore, investors and policymakers alike must now navigate the powerful new currents of geoeconomic fragmentation and the deep-rooted structural complexities of the informal economy, which define the unique investment labyrinth of the developing world.

LITERATURE REVIEW

The question of attracting investment to enterprises in developing countries has been widely examined through both theoretical and empirical lenses. The dominant theoretical framework is Dunning's OLI Eclectic Paradigm, which explains foreign direct investment (FDI) decisions based on the interaction of ownership-specific, location-specific, and internalization advantages (Dunning, 1980). In this model, the "location" dimension is particularly relevant to developing economies, as it encompasses factors such as market size, infrastructure quality, human capital, and institutional stability. Complementary theories, such as Vernon's Product Cycle Theory, highlight the tendency for production to shift toward lower-cost developing countries as products mature (Vernon, 1966).

Institutional quality emerges as a critical determinant of FDI inflows. Empirical studies show that a strong rule of law ensures contract enforcement and property rights protection, while weak institutions deter long-term investment (Kaufmann et al., 2010). High levels of corruption increase operational costs and uncertainty, reducing investor confidence (Wei, 2000). Similarly, regulatory quality—defined by transparent, consistent, and business-friendly policies—has been shown to correlate positively with FDI attraction (Globerman & Shapiro, 2003).

Political stability is another essential precondition. Geopolitical risk, including conflict, terrorism, and civil unrest, significantly undermines investor willingness to commit resources, particularly in asset-intensive sectors (Busse & Hefeker, 2007).

Infrastructure, both physical and digital, is fundamental to operational efficiency. Reliable transport, energy supply, and communications networks reduce transaction costs and enable integration into global

value chains (Asiedu, 2002). Inadequate infrastructure, by contrast, acts as a "tax" on productivity and can outweigh potential cost advantages from low wages.

Human capital also plays a decisive role. The absorptive capacity of a host economy—its ability to learn from and adapt imported technology—depends on the education and skill levels of its workforce. Borensztein, De Gregorio, and Lee (1998) show that FDI contributes to growth only where a threshold level of human capital is met, making workforce development an indirect but powerful FDI promotion tool.

A recurring theme in the literature is the limited efficacy of fiscal incentives in the absence of strong fundamentals. While tax holidays and subsidies may marginally improve returns, they do little to mitigate core investment risks such as institutional weakness or political instability (Morisset & Pirnia, 2001). Consequently, policy recommendations emphasize prioritizing governance reforms, infrastructure upgrades, and human capital investment over competing through costly incentive packages.

RESULTS AND DISCUSSION

The theoretical determinants of investment attraction take on a sharp and often troubling reality when examined through the lens of the latest global data. The current landscape is one of growing divergence, where a handful of developing nations are successfully navigating the complexities of the global economy, while many others are falling further behind. This section dissects the most recent trends in FDI flows and analyzes the underlying factors—the peculiar challenges and structural deficits—that define the investment climate across the developing world.

Recent data from the United Nations Conference on Trade and Development (UNCTAD) paints a concerning picture. After a period of recovery following the COVID-19 pandemic, momentum has stalled, and investment flows to the most vulnerable parts of the world are contracting.

According to the UNCTAD World Investment Report 2024, global FDI flows fell by 2% in 2023, settling at \$1.3 trillion

n. However, this headline figure, which is skewed by large financial movements through a few European "conduit" economies, masks a much more severe downturn for the developing world. FDI flows to developing countries dropped by a substantial 7% to \$867 billion. This marks the second consecutive year of decline, following a 6% drop in 2023, signaling a worrying trend that threatens to widen the SDG financing gap. (UNCTAD 2024)

The aggregate decline conceals a highly fragmented

and uneven regional landscape, as detailed in Table 1.

- Developing Asia, historically the engine of FDI growth in the Global South, experienced a significant 8% drop to \$621 billion. This was driven by a rare decline in inflows to China, the world's second-largest FDI recipient, and a precipitous 37% fall in South Asia. In contrast, South-East Asia (ASEAN) proved resilient, recording a modest 1% gain.
- Africa saw a nominal 3% decline in FDI to \$53 billion. However, this figure hides stark sub-regional divergences. While North Africa (-12%), Central Africa (-17%), and East Africa (-3%) all saw declines, Southern Africa experienced a notable 22% increase in inflows.
- Latin America and the Caribbean remained relatively stable, with FDI flows decreasing by a

marginal 1% to \$193 billion.

A Glimmer of Hope for the Most Vulnerable?

In a surprising and seemingly positive counter-trend, FDI flows to the world's most structurally weak economies increased. Inflows to the 44 Least Developed Countries (LDCs) rose by 17% to \$31 billion. Similarly, Landlocked Developing Countries (LLDCs) saw a 3% increase, and Small Island Developing States (SIDS) saw a 15% rise. While welcome, this growth must be viewed with caution. UNCTAD notes that in all three groups, FDI remains highly concentrated in just a few countries, meaning the benefits are not widespread. Most vulnerable economies remain marginalized in the global investment landscape.

Table 1:

FDI Inflows to Developing Economies by Region and Sub-Group

Economic Grouping/Region	FDI Inflows 2022 (US\$B)	FDI Inflows 2023 (US\$B)	% Change
Developing Economies	930	867	-7%
Africa	54	53	-3%
...North Africa	15	13	-12%
...West Africa	13	13	-1%
...Central Africa	7	6	-17%
...East Africa	12	11	-3%
...Southern Africa	7	9	+22%
Developing Asia	678	621	-8%
...East Asia	315	286	-9%
...South-East Asia	223	226	+1%
...South Asia	58	36	-37%
...West Asia	72	65	-9%
...Central Asia	10	7	-27%
Latin America & Caribbean	196	193	-1%
Least Developed Countries (LDCs)	27	31	+17%
Landlocked Dev. Countries (LLDCs)	24	24	+3%
Small Island Dev. States (SIDS)	7	8	+15%

The divergent trends in FDI flows are not random; they are the direct result of how investors perceive and price the peculiar risks and opportunities present in developing countries. The following analysis deconstructs the core determinants that shape these investment decisions.

For any enterprise considering a long-term, capital-intensive investment, the quality of governance is not a "soft" issue but the hard, non-negotiable foundation of

the investment climate. Data from the World Bank's Worldwide Governance Indicators (WGI) and Transparency International's Corruption Perception Index (CPI) provide a clear, quantitative link between institutional quality and investment outcomes. The WGI framework measures six key dimensions based on the perceptions of tens of thousands of firms, experts, and citizens worldwide, offering a robust snapshot of the institutional environment.

- **Political Stability and Absence of Violence/Terrorism:** This indicator, which measures the perceived likelihood of political destabilization or violence, often serves as a primary screen for investors. High instability translates directly into a high-risk premium that can make even the most promising projects unviable.
- **Rule of Law:** This dimension captures confidence in the rules of society, especially contract enforcement, property rights protection, and the predictability of the judiciary. For an MNE, a weak rule of law means contracts may not be honored and assets could be expropriated with little recourse, an unacceptable risk for any responsible board.
- **Control of Corruption:** This indicator measures the perception that public power is exercised for private gain. Endemic corruption acts as a crippling tax on business, introduces profound uncertainty into regulatory processes, and erodes trust in all public

institutions.

Table 2 starkly illustrates this governance-investment nexus. It juxtaposes FDI inflows with key governance indicators for a selection of developing countries. The contrast is telling. Rwanda, a low-income, landlocked country, has made a concerted effort to improve governance. Its relatively strong scores for Political Stability (0.25), Rule of Law (0.15), and Control of Corruption (0.55) are mirrored by a remarkably high FDI-to-GDP ratio of 5.3%. Conversely, Nigeria, an oil-rich nation with a vast market, suffers from extremely weak governance scores across the board (Political Stability -1.95, Rule of Law -1.05, Control of Corruption -1.20) and attracted a meager 0.3% of GDP in FDI. This comparison powerfully demonstrates that a credible commitment to good governance can overcome significant structural disadvantages, while a failure to do so can repel investment regardless of market size or resource wealth.

**Table 2:
The Governance-Investment Nexus: A Cross-Country Snapshot**

Country	Income Group	FDI, net inflows (% of GDP) 2023	Political Stability (WGI Est. 2023)	Rule of Law (WGI Est. 2023)	Control of Corruption (WGI Est. 2023)	Corruption Perception Index (2024 Score)
<i>Sample UMICs</i>						
Vietnam	LMIC	4.1%	0.15	-0.30	-0.45	41
South Africa	UMIC	0.9%	-0.85	-0.05	-0.08	41
Brazil	UMIC	3.1%	-0.60	-0.35	-0.42	34
<i>Sample LMICs</i>						
India	LMIC	1.3%	-0.55	0.10	-0.15	38
Nigeria	LMIC	0.3%	-1.95	-1.05	-1.20	26
Bangladesh	LMIC	0.7%	-1.10	-0.85	-1.15	23
<i>Sample LICs</i>						
Rwanda	LIC	5.3%	0.25	0.15	0.55	57
Ethiopia	LIC	2.5%	-1.50	-0.70	-0.65	37
Uganda	LIC	5.5%	-0.80	-0.55	-0.90	26

Beyond governance, the physical and digital infrastructure of a country is a fundamental determinant of its ability to attract and sustain investment. For developing countries, severe deficits in this area act as a direct and substantial tax on business productivity, eroding the cost advantages they might otherwise offer.

- **Energy:** The challenge is twofold. First is access: an estimated 600 million people in Sub-Saharan Africa still lack any electricity connection. But for businesses, a more pernicious problem is unreliability. Even where a grid connection exists, frequent outages force firms to invest in costly and inefficient backup generators, undermining their

competitiveness. (World Bank 2020) Recent World Bank research reveals that at least

1.18 billion people globally are effectively "energy poor" because the electricity they have access to is too unreliable or unaffordable to be of practical use.

- **Logistics:** The ability to move goods efficiently is the lifeblood of any manufacturing or export-oriented enterprise. The World Bank's Logistics Performance Index (LPI), which measures customs efficiency, infrastructure quality, and timeliness, reveals a stark performance gap between high- and low-performing countries. (World Bank 2022) As shown in Table 3, the average LPI score for Sub-Saharan Africa and LDCs is just 2.6, compared to 4.0 for high-income countries. This translates directly into higher costs, longer lead times, and reduced reliability, making it difficult for firms in these regions to compete in time-sensitive global value chains.

- **Digital Connectivity:** In the 21st-century economy, digital infrastructure is as crucial as roads

and ports. Yet, a vast digital divide persists. In 2024, internet penetration stands at a mere 37.5% in Africa and 35% in LDCs, compared to over 90% in Europe. (UNESCO (n.d.) Literacy.) This gap severely limits the ability of local enterprises to engage in e-commerce, adopt modern digital business tools, and partner effectively with global MNEs.

The data reveals a critical, self-perpetuating cycle. The infrastructure deficits highlighted in Table 3 are a major deterrent to private investment. Closing these gaps requires massive capital outlays, much of which has historically come from international project finance deals for large-scale infrastructure. Yet, UNCTAD reports that these very deals have been hit hard by tight global financing conditions, with a 26% fall in 2023. In essence, the primary mechanism for fixing a key deterrent to FDI is itself failing, locking many developing countries in a low-investment, low-infrastructure trap.

**Table 3:
The Infrastructure & Logistics Gap: A Regional Comparison (World Bank LPI 2023)**

Region/Group	LPI Overall Score (1-5, 2023)	LPI Infrastructure Score (1-5, 2023)	Access to Electricity (% pop, 2022)	Internet Users (% pop, 2024)
Sub-Saharan Africa	2.6	2.4	48.5%	37.5%
South Asia	3.2	3.1	92.5%	66.1% (Asia & Pacific)
Latin America & Caribbean	3.1	2.9	97.6%	86.5% (The Americas)
Middle East & North Africa	3.2	3.0	97.4%	69.6% (Arab States)
East Asia & Pacific	3.4	3.3	97.9%	66.1% (Asia & Pacific)
Comparison Groups				
Least Developed Countries (LDCs)	2.6	2.4	55.0%	35.0%
High-Income Countries	4.0	4.1	100%	92.5% (Avg. Europe/N. America)

A large, youthful population is often cited as a key advantage for developing countries. However, this demographic dividend can only be realized if the workforce is educated and skilled. For investors, particularly those in higher-value sectors, the quality of human capital is a decisive factor. It determines a country's "absorptive capacity"—its ability to effectively utilize the advanced technologies and managerial practices that FDI brings. (IMF 2001)

The human capital deficits in many developing regions are profound.

- **Basic Literacy:** Globally, 754 million adults remain illiterate, with two-thirds being women. The problem is most acute in Sub-Saharan Africa and South

Asia, which together account for over 75% of the world's illiterate adult population.

- **Tertiary Education:** Access to higher education, which is critical for developing the engineers, managers, and technicians needed for a modern economy, is starkly limited. As shown in Table 4, the gross enrollment ratio in tertiary education for Sub-Saharan Africa is a mere 9%, the lowest in the world and far below the global average of 42%.⁴⁷ South Asia also lags significantly at 29%. This lack of higher-level skills is a major bottleneck preventing countries from moving up the value chain and attracting more sophisticated forms of investment.

Table 4:

Human Capital Readiness: Education and Skills Across Developing Regions (World Bank Gender Data Portal n.d.2023)

Region/Group	Adult Literacy Rate (%)	Youth (15-24) Literacy Rate (%)	Tertiary Gross Enrollment Ratio (%)
Sub-Saharan Africa	67%	78%	9%
South Asia	74%	90%	29%
Latin America & Caribbean	94%	99%	54%
Middle East & North Africa	81%	94%	40%
East Asia & Pacific	96%	99%	54%
World Average	87%	92%	42%

On top of these long-standing structural challenges, developing countries must now contend with new, powerful forces that are reshaping the global investment landscape.

A profound shift is underway, with geopolitical alignment emerging as a key determinant of FDI flows. The escalating strategic competition between the United States and China has given rise to policies like the US Inflation Reduction Act and a broader push for "friend-shoring"—relocating supply chains to trusted, politically aligned countries.

The impact of this trend is already visible in the data. Research from the IMF and others shows that FDI flows are increasingly concentrated within geopolitical blocs (a US-centric bloc, a China-centric bloc, and a group of non-aligned nations) and are declining between them. One study found that being in different geopolitical blocs reduces greenfield FDI flows between two countries by almost two-thirds.⁴⁹ This is a critical new "peculiarity" for developing countries. A nation's

foreign policy stance and its relationships with major powers are now integral to its investment promotion strategy. Non-aligned nations, in particular, face a difficult balancing act, as they risk being perceived as unreliable by both blocs and could suffer from reduced investment from all sides.

This trend creates a dangerous divergence between the type of investment needed and the type of investment being delivered. While FDI to LDCs may have ticked up recently, global investment in sectors critical for the SDGs—such as agrifood systems, water, sanitation, and clean energy—fell by 11% in 2024.²⁸ This suggests that the FDI flowing into the most vulnerable countries may be increasingly narrow and resource-seeking, driven by the global green transition's demand for critical minerals and commodities, rather than broad-based, development-enhancing investments that build local industries and create sustainable jobs.

The quality and sectoral composition of FDI are becoming as important as the headline volume.

The Double-Edged Sword of the Informal Economy

The informal economy is a defining feature of most developing countries, employing over 60% of the world's workforce and accounting for a vast share of economic activity. This presents a complex, double-edged sword for investment attraction.

On one hand, a large informal sector is a major challenge for formal investors. Informal firms are typically small, have low productivity, and lack access to formal finance, as they cannot use their assets as collateral. They do not contribute to the tax base, which limits the government's ability to fund the very infrastructure and public services (like education) that are needed to attract more investment. (CID, Harvard Kennedy School (n.d.) CID Working Paper No. 058:) For an MNE, this creates an unreliable and underdeveloped local supply chain, increasing operational risks and costs.

On the other hand, the informal economy represents a massive, untapped reservoir of entrepreneurial energy and labor. It is a safety net for billions of people who lack access to formal employment. The policy challenge is not to eradicate the informal sector, but to facilitate a gradual transition to formality. This involves a comprehensive set of policies aimed at simplifying business registration, improving access to finance for small enterprises, expanding social protection systems to cover informal workers, and strengthening education to provide pathways into the formal sector. For investors, a country that is successfully managing this transition represents a significant opportunity, as it signals a growing pool of potential suppliers, employees, and customers within a more stable and predictable economic ecosystem.

Case Studies: Strategies for Successful Investment Attraction

While the challenges are formidable, numerous developing countries have crafted successful strategies to attract high-quality FDI by directly addressing their unique "peculiarities." These cases offer valuable lessons in how to turn structural weaknesses into competitive strengths.

Case Study 1: Costa Rica – The High-Tech Ecosystem Model

- Challenge: As a small Central American nation, Costa Rica lacked the large domestic market that typically attracts market-seeking FDI.
- Strategy: Instead of competing on size, Costa Rica competed on quality. Its strategy was to build a complete, high-value ecosystem attractive to high-tech, export-oriented MNEs. This culminated in successfully attracting a landmark investment from

Intel in the late 1990s. The country's approach was built on several pillars. First, it leveraged its long-standing political stability and relatively corruption-free environment as a key differentiator in a volatile region. Second, it offered a comprehensive Free-Zone Incentive Package, which included exemptions on import duties, profit taxes, and export taxes, creating a highly favorable fiscal environment. (RankiaPro 2024)

- Peculiarities Addressed: Costa Rica's masterstroke was its proactive approach to addressing the human capital and absorptive capacity challenge. Recognizing that a generic labor pool was insufficient for a firm like Intel, the government, through its investment promotion agency CINDE and the Costa Rican Technology Institute, partnered directly with the company. They co-developed specialized "certificate" and "associate degree" programs in semiconductor manufacturing and offered tailored language training. This ensured a steady supply of skilled technicians and engineers, demonstrating a deep commitment to meeting the investor's specific needs. Furthermore, the government's highly coordinated, multi-agency approach, led from the presidency, streamlined the investment process and significantly reduced the bureaucratic "hassle costs" that often plague investors in developing countries. Intel's investment, in turn, created a powerful "signaling" effect, validating Costa Rica as a credible high-tech hub and attracting a cluster of other international firms.

Case Study 2: Vietnam – The Integration and Reform Model

- Challenge: Emerging from decades of conflict and central planning, Vietnam in the 1990s was a transition economy with significant institutional and infrastructural weaknesses.
- Strategy: Vietnam pursued a deliberate and patient dual strategy of deep domestic reform coupled with aggressive international integration. Domestically, it passed a series of laws to liberalize the economy, including a revised Law on Investment and a new Public-Private Partnership (PPP) Law, designed to encourage foreign participation in large infrastructure projects.⁵⁷ Internationally, Vietnam systematically joined major trade blocs and signed a series of crucial Free Trade Agreements (FTAs), including with the EU (EVFTA), the UK, and as part of regional pacts like the RCEP and CPTPP. (U.S. Department of State 2014)
- Peculiarities Addressed: Vietnam skillfully used its key asset—political and social stability—as a bedrock for its economic transformation. The FTAs were not just about market access; they served as a powerful commitment mechanism, locking in domestic reforms and providing foreign investors with a

predictable, rules-based trading environment. This strategy made Vietnam an indispensable node in global supply chains, perfectly positioning it to capture investment from MNEs seeking to diversify their manufacturing footprint away from China. The government actively promotes this advantage, with senior leaders frequently meeting with foreign investors and the semi-annual Vietnam Business Forum providing a dedicated platform for dialogue.

Case Study 3: Rwanda – The Institutional Turnaround Model

- **Challenge:** A small, landlocked, low-income country recovering from the devastating 1994 genocide, Rwanda faced almost every conceivable structural disadvantage.
- **Strategy:** Recognizing it could not compete on market size or geography, Rwanda focused with singular intensity on what it could control: its institutional quality and business environment. The cornerstone of this strategy was the creation of the Rwanda Development Board (RDB), a powerful, multi-institutional "one-stop shop" for investors, reporting directly to the President's office. The RDB consolidated eight different agencies, streamlining everything from business registration to environmental impact assessments under one roof.⁶³ This was coupled with a zero-tolerance policy on corruption and robust legal protections for investors, including fair compensation for expropriation.
- **Peculiarities Addressed:** Rwanda's story is a powerful testament to the idea that a credible commitment to reform can overcome immense structural hurdles. By aggressively tackling the governance deficit, Rwanda has consistently punched above its weight. Its high scores on the WGI and CPI relative to its income-level peers (as seen in Table 2) are not an accident but the result of deliberate, long-term policy. This has created a predictable and secure environment that has attracted significant investment, particularly in services and ICT, making Rwanda a model for how the most challenged nations can successfully compete for global capital.

CONCLUSION

Attracting high-quality, sustainable investment to developing countries in the 21st century is a complex, multi-layered challenge that requires moving far beyond a narrow focus on low labor costs or generous fiscal incentives. The global investment landscape is being reshaped by economic uncertainty, geopolitical fragmentation, and an increasing investor focus on risk mitigation and resilience. This analysis has demonstrated that while traditional economic factors remain relevant, the most critical "peculiarities"

differentiating the investment climate in developing nations are the deep-seated structural challenges related to governance, infrastructure, and human capital.

The most successful countries are not necessarily the largest or most resource-rich, but rather those that build a holistic and predictable "ecosystem" for investment. They understand that the determinants of FDI form a hierarchy: foundational stability provided by good governance and the rule of law is the non-negotiable base; enabling infrastructure that ensures operational viability is the next essential layer; and only then do factors like market size and specific incentives become decisive. A failure at the foundational level cannot be compensated for by advantages at the higher levels. In this new era, a country's foreign policy, its commitment to building the skills of its people, and its strategy for integrating the informal economy are becoming central components of a successful investment promotion strategy.

Based on this comprehensive analysis, the following strategic recommendations are proposed for policymakers in developing countries seeking to enhance their attractiveness to foreign direct investment:

1. **Fortify Institutional Foundations (Address the Governance Deficit):** This is the paramount priority. A strong, predictable institutional framework is the most valuable incentive a country can offer. Governments must prioritize public investment in an independent and efficient judiciary, robust and empowered anti-corruption agencies, and transparent, streamlined regulatory bodies. A credible commitment to the Rule of Law and

Control of Corruption builds the investor confidence that is essential for long-term capital commitments.

2. **Strategic Infrastructure Investment (Close the Gaps):** Infrastructure development must move from a series of ad-hoc projects to a strategic, integrated approach. The focus should be on building national and regional logistics corridors that connect production centers to markets. Crucially, the goal must be not just access but reliability. Public and Public-Private Partnership (PPP) investments should target ensuring a consistent supply of electricity and high-quality digital connectivity, as unreliability acts as a hidden and prohibitive tax on business operations.

3. **Build "Absorptive Capacity" (Invest in People):** A demographic dividend of a large youth population can only be realized through education. National education and technical/vocational training (TVET) strategies must be deliberately aligned with the needs of target investment sectors. This requires

strengthening the entire educational pipeline, from ensuring basic literacy and numeracy to expanding access to quality tertiary education and promoting digital literacy. This builds the human capital base necessary to absorb and benefit from the technology and knowledge spillovers that FDI brings.

4. Empower Proactive Investment Promotion Agencies (IPAs): IPAs should be modeled on success stories like Rwanda's RDB and Costa Rica's CINDE. They must be empowered with the authority and resources to act as true partners and problem-solvers for investors, capable of coordinating across multiple government ministries to reduce bureaucratic friction. Their role should evolve from simple marketing to active facilitation and de-risking.

5. Leverage Development Finance Institutions (DFIs) Strategically: Governments should actively partner with multilateral and bilateral DFIs to catalyze investment in new, high-potential, or higher-risk sectors. By using instruments like blended finance, political risk insurance, and first-loss capital, DFIs can help de-risk "pioneer" investments, creating a "demonstration effect" that proves the viability of a sector and ultimately "crowds in" purely commercial investment.

6. Navigate Geopolitical Realities with Diversification: In an era of "friend-shoring" and great power competition, over-reliance on a single source of investment is a significant vulnerability. Developing countries should pursue a strategy of investment diversification by strengthening regional trade blocs (e.g., the African Continental Free Trade Area, ASEAN) and actively promoting

South-South investment. This builds a more resilient and balanced portfolio of capital inflows, reducing exposure to the geopolitical shifts of any single major power.

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