

Foreign Direct Investment in the Age of Artificial Intelligence: New Trends and Challenges at the Global Level

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Abstract

Currently, the global foreign direct investment (FDI) environment is in a state of significant flux due to volatile regional trends and rapidly changing technology with AI, dynamic policy environments and persistent geopolitical uncertainty. Although the initial figures of 2025 show a slight recovery in the sums of FDI inflows as compared to the years before, this increase obscures significant discrepancies on the surface level (Han, Zhang, & Ru, 2025). On the one hand, such countries as the United States and India are stabilizing their status as leading FDI destinations (Pan, Chen, Ting, & Xia, 2022). They are attractive since they have business-friendly reforms, strong regulatory environments and extensive consumer markets. Greater deal-making in the form of merger and acquisition (M&A) signals strategic corporate growth and confidence in the financial markets in such areas (Singh, Poonam Gupta, & Riyazuddin, 2026). Conversely, the recovery is uneven around the world. Greenfield investment, which is vital for new capacity, infrastructural development, and employment generation, has been characteristically low particularly in most of the developing and least-developed economies. Cross-border infrastructure financing and sustainable development via international project finance remain slack despite the global economic headwinds and risk aversion among the potential financiers. This has also created apprehension regarding the growing lapses both in terms of investment and development among developed and emerging economies. An additional dimension of complexity has been created by increased levels of scrutiny and regulation of investment screening. To protect national security, supply chains, and innovative technologies, many countries have increased scrutiny of FDI (Grigoriadi, 2025). The rise of such measures along with persistent trade tensions and a rise in global borrowing costs have escalated the levels of uncertainties surrounding multinational enterprises (MNEs) that attempt to go global. Businesses are thus confronted with a twofold challenge: to capture available business across new growth areas and to operate in a steadily more complex business and regulatory environment. It is against this backdrop that the chapter examines the emerging forces driving FDI driven mainly by technological innovation, changes in various sectors and government regulations among other factors and key headwinds hindering cross-border expansion. It looks at the roles of stakeholders, operational issues, economic and social implications of these modern trends. Finally, it includes practical recommendations that call on policymakers and business and industry leaders to put resilience, innovation and sustainable approaches first to liberate the potential of FDI in a rapidly changing world (Singh D., 2023, p. 100).

Keywords: Foreign Direct Investment, Cascading regional oscillations, Technological advancement, geopolitical ambiguity, Business environment reforms, Mergers and Acquisitions, Greenfield investment, Infrastructure progress, Job creation, and Sustainable growth.

1. Introduction

Foreign Direct Investment (FDI) has long been embraced as a critical driver of economic globalization and a facilitator of cross-border trade in several ways such as the facilitation of capital, technologies including AI, management skills and market integration (Edirisinghe & Abeysekera, 2021).

According to the activities of multinational enterprises (MNEs), FDI has stimulated the network of the production system and has contributed to strong industries, high standard of living in the countries of origin and destination.

Beyond just economic transactions, the benefits of FDI can be related to knowledge leakage, business practice improvement, and global adoption of norms on environmental, social and corporate governance. FDI has historically targeted traditional sectors.

Traditionally FDI has been motivated by seeking new markets (market seeking), outreach to natural resources (resource seeking), attainment of efficiency through cost arbitrage (efficiency seeking) and seeking out or creating strategic assets (asset seeking) (Pan, Chen, Xiao, & Xia, 2021). FDI provides the host countries, particularly developing ones, with capital inflows that they critically needed, employment opportunities in terms of jobs and improved technological capacity.

For source economies and firms, FDI forms a vehicle through which to harness comparative advantages, spread risk, and gain access to potential or even strategic locations.

1.1. The Changing Contours of Global Investment Flows:

Although the basic reasoning behind FDI has not changed much, the last five years have seen a radical change in the international investment context. An example is the COVID-19 pandemic, which delivered unparalleled shocks to cross-border mobility causing a radical rebalancing of GVCs.

Multinationals trapped themselves in intense concentration risks in their supply chains which led to more efforts toward diversification, nearshoring, and, in certain circumstances, reshoring of vital segments of the production line (Tiwari & G, 2025). With this reconfiguration, the trend of FDI has been shifted, which has transformed the expansion strategies of corporations, both developed and emerging markets.

There has been increased prominence of trade and industrial policy also. Health and security issues have become pervasive factors that have transformed the attitude of governments towards a more interventionist approach.

They are not only a feature of the advanced economies but other economies that seek to possess or maintain technological advantages, or protect critical infrastructure, also have national security reviews and investment screening, as well as local content obligations and industrial subsidies.

Such actions have added another dimension to the calculus of FDI and introduced new variables to the evaluation and risk analysis of project assessment.

Remarkably, the recovery of the world is not equal in the aftermath of the pandemic. Some of the newer destinations in FDI attraction have been the United States and India; these have served as attractive destinations to M&A and large-scale corporate investment.

However, other regions, especially those associated with low-income economies, have failed to attract new investments. Greenfield FDI, referred to as the lifeblood to new job creation, industrialization and infrastructure development is particularly quiet.

This leaves many developing economies faced with an increasing investment gap which is further threatening their ability to achieve sustainable development targets as well as economic recovery in the wake of the pandemic.

Sectorally, recent FDI has gone excessively high in digital, technology, renewable energy, financial services and healthcare. In contrast, the established manufacturing and extractive industries are experiencing headwinds in the form of global market uncertainty and trade protectionism as well as the breakneck pace with regard to the adoption of digital technologies, which are disrupting long-standing business models (Tiwari & G, 2025).

1.2. The Digital Revolution and the New FDI Imperative:

The emergence of the current revolution of digitalization has even become an even stronger force in transforming global expansion. Both the type and direction of FDI is being motivated by the fast-spreading technologies like artificial intelligence (AI), cloud computing, improved robotics, and data inspection.

Digital transformation enables MNEs to streamline all worldwide activities, reach consumers in newly opened up markets, and utilize capital more efficiently (Fogel, 2025). Meanwhile, the well-developed digital infrastructure countries such as India are becoming a good manufacturing and services FDI destination, to some extent benefiting from the ecosystem effect, while collecting investor hesitation.

1.3. The Geopolitical and Regulatory Confluence:

They have all been exacerbated by geopolitics and institutional review in an uptrend. The headwinds of international economic growth have been further exacerbated by the resurgence of economic nationalism, great power strategic competition (e.g., U.S. and China), trade barriers, trade conflicts and new investment screening measures.

Hence, the benefits of FDI have transformed into a culture of possibility and opportunity to risk and an increase in regulatory and geopolitical risks. Because of this, the environment is more difficult to predict and unrestricted than in past decades.

1.4. Outlook for 2024-2025:

Thus, 2024–2025 is a multi-dimensional and dynamic environment for the next year. It is well known that there are large and persistent regional and sectoral differences in the growth of global FDI inflows, which were moderate overall.

Countries, such as India, which are considered "developing" and have a large consumer population, have policy frameworks which are investor-friendly, and can produce goods and services with digital technology, are being pulled in by too much investment.

At the same time, it needs to be understood that the skills of dealing in the world of greenfield FDI and project finance haven't created inclusive growth and can be used to maintain the gap between fast-growing and slow-growing areas of the world. A more specific knowledge of the new logic on FDI, the nature of the successful internationalisation, the new strategic balance of actors (governments, businesses, communities) is needed in this turbulence.

The remainder of this chapter will then attempt to systematically explore these new realities to give readers evidence-based knowledge and solutions for operating in the new paradigm in this global FDI practice.

1.5. Role of Artificial Intelligence (AI):

AI is revolutionizing the landscape of FDI, impacting investment destinations, modes, and motivations for foreign direct investment worldwide.

Nations with advanced digital ecosystems—such as digital infrastructure, talent, data governance, and regulations—are increasingly gaining investment opportunities from technology, while countries where digital capabilities are not yet developed are likely to be left behind in the global capital flow.

AI also has a role in improving the investment decision-making process itself, with investments by multinationals in political risk analysis, market potential, currency stability, and supply chain viability being more data-driven and reactive thanks to the power of machine learning and predictive analytics.

AI is also fuelling a wave of investment specifically in AI-related areas, such as semiconductor manufacturing, data centers, cloud computing and automation technologies, with some major economies (like the US, China or the EU) bidding for such investments with incentives and industrial policies.

At the same time, AI is reshaping traditional FDI by making it more efficient to produce, move and service products in foreign subsidiaries, in some cases eliminating the use of labour-intensive offshoring and boosting "reshoring" of manufacturing and other activities to AI-supported facilities near home markets.

Such a transition, however, presents equity issues because developing economies with less AI infrastructure might no longer have an edge in attracting FDI based on labor costs, potentially increasing the digital and economic inequalities between the technologically advanced and lagging economies.

2. Objectives:

- i. To analyse the segments and regional variations in FDI flows and the difference between developed and developing and least developed economies
- ii. To determine key factors and barriers affecting FDI and MNE growth, such as market and technological growth, investment policies, geopolitical risks and sustainability issues.
- iii. To assess the importance and dynamics of the key stakeholders involved in cross-border investment, such as multinational companies, governments, financial institutions, local companies and international bodies.
- iv. To evaluate the economic, employment, productivity, technology transfer, integration of supply chain and competition aspects of FDI for host and home countries from the perspective of economic growth.
- v. To assess the social and sectoral effects of FDI in different regions, including (but not limited to) the effects on the skills of the local workforce, wages, local development, employment opportunities and potential inequality.

3. Research Methodology:

This section outlines the method, data sources and analysis methods that were applied to explore the impact of artificial intelligence and other emerging trends on global foreign direct investment (FDI).

3.1. Research Design and Philosophy:

The research philosophy in the study is pragmatism and the research approach is descriptive-analytical with mixed methods. A qualitative strand synthesizes theoretical and empirical literature on FDI, international business and artificial intelligence, while a quantitative strand analyses secondary trend data on global and regional FDI flows for 2019–2025.

3.2. Data Sources and Sampling:

Two categories of secondary data were used. Statistical data — FDI inflow and outflow figures, sectoral and regional breakdowns, and greenfield/M&A project count — were drawn from the UNCTAD World Investment Report 2025 and its statistical annex, supplemented by data from the world bank, the OECD, the IMF and FDI/Intelligence/FDI Markets.

Literature — peer reviewed journal articles, working papers and institutional reports published between 2015 and 2026 — was purposively sampled from some reputed journals like: Scopus/ABDC etc.

Using combinations of the keywords “foreign direct investment,” “artificial intelligence,” “multinational enterprise,” “digital transformation” and “international business.” Only English-language, full-text-available sources were retained for review.

3.3. Data Collection Procedure:

Data collection combined (i) a systematic literature review conducted in four stages — keyword search, title/abstract screening, full-text eligibility review, and thematic extraction — and (ii) structured extraction of quantitative indicators (FDI inflows/outflows, growth rates, regional shares) from the statistical sources listed in Section 3.2. Figure 1 summarizes the overall research process followed in this study.

3.4. Data Analysis Techniques:

Two complementary analytical techniques were applied:

- Thematic/content analysis of the literature, used to identify recurring drivers, challenges, stakeholder roles and theoretical perspectives — including the OLI (eclectic) paradigm.
- Descriptive and trend statistical analysis of secondary FDI data, including year-on-year percentage change and regional comparison.

Research Methodology — Process Flow



Figure 1: Research methodology — process flow

3.5. Data Analysis: Global FDI Trends, 2019–2024:

Global FDI inflows fell sharply in 2020 as the COVID-19 pandemic disrupted cross-border investment, then rebounded to a post-pandemic peak of US\$1.68 trillion in 2021 (Figure 2).

Flows declined for two consecutive years thereafter before a modest 4% recovery in 2024 to US\$1.51 trillion — still below the 2019 and 2021 levels, and a figure UNCTAD attributes partly to volatile financial “conduit” flows through a small number of European economies rather than a broad-based recovery (UNCTAD, 2025).

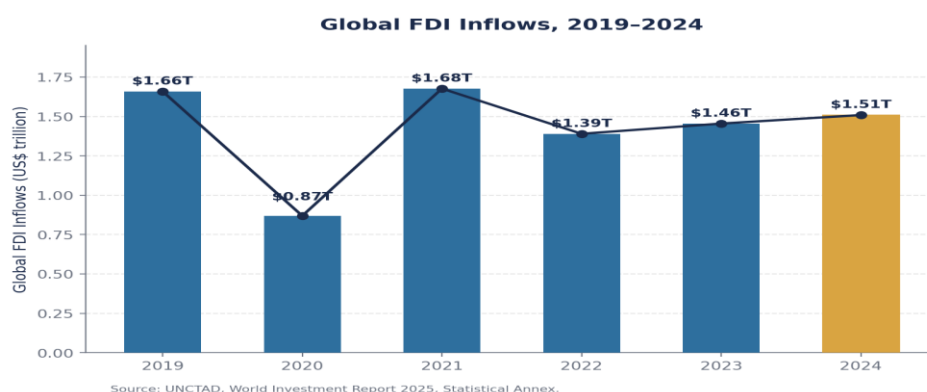
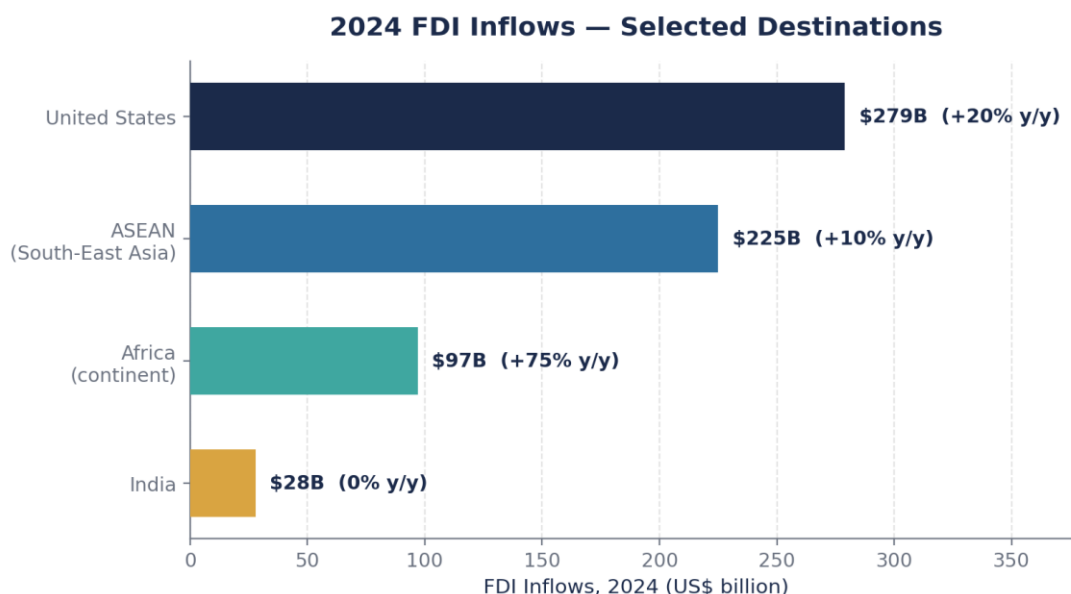


Figure 2: Global FDI inflows, 2019–2024 (US\$ trillion)

The aggregate hides significant variations at country or region level, as confirmed by country and region level data. South-East Asia (ASEAN) received a record US\$225 billion with the United States still the largest single destination with US\$279 billion (+20% year-on-year).

This was the top year for inflow to Africa, with US\$97 billion (+75%), with much of that coming from one big project in Egypt, and India remained unchanged at US\$28 billion and rose to 15th place in the global rankings (Figure 3).



Source: UNCTAD, World Investment Report 2025 (press release and country data, June 2025).

Figure 3: 2024 FDI inflows — selected destinations

This gap is even more pronounced when shown as a percentage change from the previous year (Figure 4): Africa (+75%), North America (+23%) and South-East Asia (+10%) made robust improvements, but Europe (−58%) and especially the rest of the developing world (excluding South-East Asia) (−3%) suffered declines, with China's contribution dropping by 29%.

This is in line with the key features of the global FDI recovery model described in the paper (Section 1): it is not broad-based, and the regulatory screening, geopolitical tension and financing constraints (Section 7) have disproportionate impact on some regions and sectors.

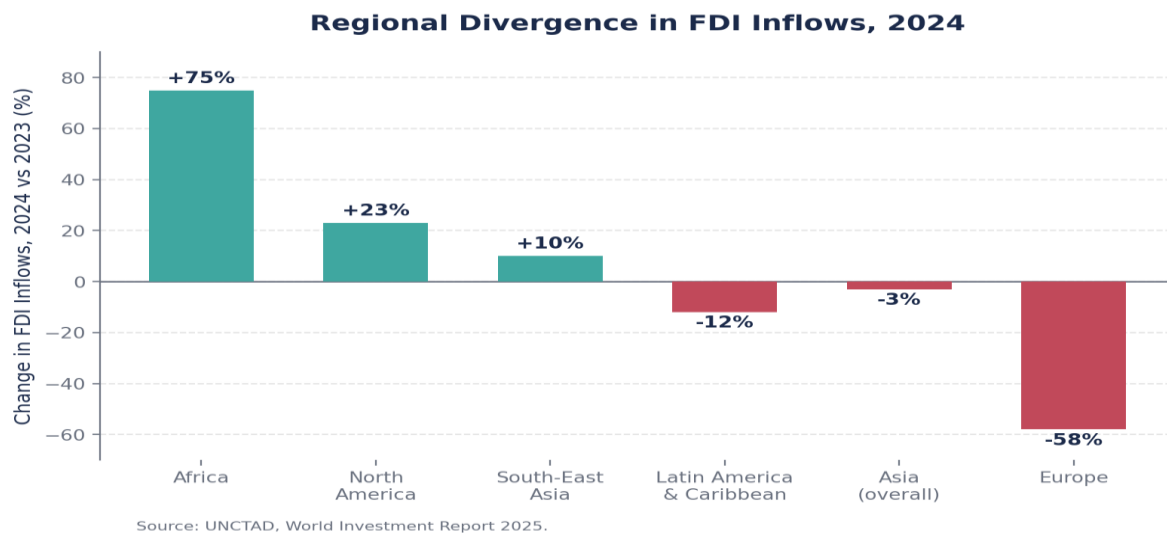


Figure 4: Regional divergence in FDI inflows, 2024 (% change year-on-year)

Table 1: Global FDI Inflows, 2019–2024

Year	Global FDI Inflows (US\$ trillion)	Year-on-Year Change
2019	1.66	—
2020	0.87	–47.6%
2021	1.68	+92.9%
2022	1.39	–17.1%
2023	1.46	+4.7%
2024	1.51	+3.7%

Source: UNCTAD, *World Investment Report 2025, Statistical Annex (2019–2024 figures)*

3.6. Limitations:

- i. The analysis is based on aggregate level (secondary) data, and a survey of primary data or a survey of the firm level regarding AI adoption in FDI decision-making was not conducted in this study.
- ii. The literature review is limited to a narrow but rapidly growing research area, namely, “AI applied specifically to global FDI,” while closely related areas (AI in international business generally, robotics/automation and location choice, AI in cross-border M&A due diligence, and AI-enabled ESG/sustainable investing) are also touched upon.
- iii. The statistical analysis is descriptive and based on trends, and not one that involves causal inference (causal testing).
- iv. The English-language limitation on literature sampling may have also limited the search for relevant non-English literature such as on FDI studies on China and Latin America.

4. Review of Literature:

UNCTAD's Global Investment Trends Monitor (2025) reports global flows, which registered an 8% fall in underlying FDI in 2024 and continued weakness in greenfield and project finance investment. Current academic and institutional publications indicate that the international context of foreign direct investment (FDI) is characterized by volatility, changes in sectoral and geographic trends, and growing regulatory complexity.

4.1 Persistent Declines and Regional Divergence:

UNCTAD's Global Investment Trends Monitor (2025) reports a second year of decline in underlying world FDI, down 8% in 2024 when volatile conduit flows are stripped out. While headline numbers signaled a nominal 4–11% rise to \$1.4–1.5 trillion worldwide, much of the increase was a result of financial flows passed through European conduit economies; if these are removed, a definite downward trend is seen.

FDI flows into developing economies declined by 2% in 2024, following a 6% decline in 2023, whereas Europe recorded a precipitous 45% decline (excluding conduits), and North America had a rise of 13%. This divergence shows a growing disparity in access to international capital.

4.2 Weakness in Greenfield Investment and Project Finance:

The problem of cross-border project finance and greenfield investment is pinpointed by the Monitor and UNCTAD World Investment Report 2025. Overall, projects declined by 7% in Greenfield, albeit with significant decreases in Asia and Africa. Cross-border project finance transactions fell by 31%, driven by both "challenging financing conditions" and the general investor uncertainty, which affected infrastructure, renewable energy and areas related to Sustainable Development Goals.

The opposite was true of cross-border M&A, which saw an increase of 2%, representing a switch from new capacities to strategic and acquisitive growth.

The International Monetary Fund (IMF, 2025), however, refers to high inflows of FDI to Central and South Asian countries, European and North American countries, and the stock of FDI reaching a new high of \$41 trillion.

Strong growth in greenfield projects was observed in India (+13% year-over-year) and other positive growth in developing Asia, while China saw a massive 29% decline. So too in Mexico and Brazil, significant inflows were supported by the development of industrial diversification and a new global supply chain.

UNCTAD and OECD both indicate a significant sectoral shift: while total FDI has weakened, technology sector investment—like AI, cloud computing, and cybersecurity—has taken off, with some reports suggesting a doubling of project size across these sectors.

The weight of technology sectors is also reflected in the increasing share of revenue of technology companies in the world's leading 100 MNEs. The Economic & Political Weekly (EPW, 2025) and World Bank reports are concerned about ongoing FDI withdrawal across much of the Global South.

Sustained weakness in greenfield and project finance investment and capital concentration in a handful of locations heighten the risk of unbalanced world development.

The OECD's 'FDI in Figures' and Kearney FDI Confidence Index indicate investor sentiment is influenced by heightened investment screening and higher regulatory scrutiny in most advanced economies.

5. Theoretical Framework or Policy Environment:

The aspects of Foreign Direct Investment (FDI) and global expansion are all subject to a variety of theoretical constructs and policy environments that jointly shape why, where and how investment occurs asymmetrically between different host countries and the home country. The knowledge of these frameworks can be applied to describe a strategic calculation of multinational enterprises (MNEs) and the effect of the government on the flow of investments, either in favour of it or against it.

5.1. The Eclectic (OLI) Paradigm:

1. John Dunning's Eclectic Paradigm (also referred to as OLI model) is the most potent holistic theory that informs analysis of FDI. This paradigm describes that the effective FDI movements undertaken by the multinational companies are based on three fundamental benefits:
2. Ownership Advantages (O): These derive from firm-specific assets like firm owned technology, ratings and reputation, management skills, patents, economies of scale etc. The benefits of ownership give the motivation of firms internationalizing and taking advantage of their competitive advantage in foreign markets instead of exporting.
3. Location Advantages: These are country-specific variables that draw FDI, including natural resources, size of market, labour costs and quality, infrastructure, regulation, tax benefits, access to regional markets, political stability. Geographic destination of investments is predicated by location advantages.

4. **Internalization Advantages:** This is the rationale that the firms receive after managing affairs across borders in house instead of allowing the licensing or external practices. Internalization saves on costs of transactions, secures proprietary knowledge, better coordination, and quality control.
5. The OLI framework remains highly applicable due to changes in global value chains (GVCs), technology and regulation. As a case in point, shifting supply chain systems and the digital economy change comparative location benefits.

5.2. Policy Environment: The Government's Role in Shaping FDI:

Most of the countries promote FDI by facilitating administrative procedures and providing various investment incentives (tax privileges, grant, provision of land, etc.), establish special economic zones and realize bilateral trade or regional trade (Hasan & Ojala, 2024).

These measures will increase the attractiveness of the host countries via lowering the barriers to entry, and the cost of operation. At the same time, concerns over security and technological independence, cyber infrastructure, and geopolitical competition are driving an increase in investment screening mechanisms in some countries.

Countries where foreign investments can be linked to sensitive areas are starting to worry about the transfer of technology or the possible economic dependence and are therefore looking more closely at foreign investments. There are additional control layers and "cautions" for the foreign investor in high-tech industries, energy and strategic industries.

Through these treaties, legal frameworks are developed to establish systems to protect investors, thus investments are safeguarded by way of fair treatment, proscriptions against expropriation, dispute decision mechanisms (such as investor-state dispute settlement), and commitments concerning transparency.

Today, BITs increasingly include provisions relating to sustainable development, corporate social responsibility and enforcement of environmental and labor standards in response to new global standards. Regulatory uncertainty and opportunities arise for regulatory arbitrage due to differences between jurisdictions in the tax, labour and environmental components. Harmonization or regional integration (e.g. in the global context within the framework of USMCA or the EU Single Market) aims for more predictable and, in other contexts, more consistent environments.

In general, the policy climate significantly influences the risk-return analysis of FDI projects and a change in the government's policy stance can contribute to an increase or decrease in the respective investment flows.

5.3. Sectoral and Technological Factors:

Changes in the sector and technological advancements are becoming important determinants of the nature and direction of FDI, especially since the world economy is becoming less sustainable and digital.

5.3.1 Industrial and Innovation Policy: Host countries focus on strategic industries so as to get the technology-intensive and high-value FDI. The presence of new location advantages is created by policies that favour the growth of renewable energy, biotechnology, semiconductor manufacturing, artificial intelligence, and digital infrastructure. The countries that have innovation ecosystems (universities, research institutions, start-ups and incubator facilities) obtain competitive advantages to attract foreign investors.

5.3.2 Energy Transition: The need in the global market to transition to cleaner energy and decrease carbon emissions transformed the renewables into an investment hotbed. Nations that invest in solar, wind, hydrogen and battery storage technologies have been receiving not only greenfield investments but also M&A opportunities in these industries (Peres, et al., 2019; Yang, Fuxiang, & Yue, 2026)

5.3.3 Digital Transformation: The emergence of cloud computing, big data analytics and Internet of Things (IoT) as well as Industry 4.0 technologies impacts the magnitude and nature of FDI. Digital solutions open new frontiers of global trade, such as digitalized services, online commerce, and financial technology, generally replacing traditional manufacturing and commodity value chains. The availability of infrastructure investments in digital development and advantageous data governance become crucial location factors.

5.3.4 Sectoral shifts impact FDI patterns: These shifts exert pressure on traditional sectors like textile, resource extraction, and basic manufacturing due to the factors of automation, changing consumer tastes, and political scrutiny. In the meantime, industries with a high share of services are in steadily increasing relative importance in FDI inflows and are changing the landscape of investments and the abilities companies need to utilize.

6. Drivers and Challenges of FDI and Global Expansion: Detailed Analysis

A stable country can provide an environment that attracts FDI with consistent growth of GDP, management of inflation as well as sensible fiscal and monetary policy.

The predictability will make the investors more confident and multinational enterprises (MNEs) will be able to plan long term. **India:** Indian will also have strong macro indicators, sound fiscal policies, and vigorous economic reforms with growth continuing to rise above 7 percent of annual growth rates (IMF, 2025).

It has been a very desirable destination for FDI along with currency stability and attempts to curb public deficits. **The US** remains a favourable destination for international capital as a result of its profound financial market, stable judicial system, and consistent economic growth. The US has been considered a safe haven of investment even during the turbulence in the world.

The world of business is changing as rapid technological innovation and developments occur locally and globally in various forms of artificial intelligence (AI), cloud computing, advanced semiconductors, and strong digital infrastructure. The reason behind this status being hotspots of FDI is the lure of high payoffs and strategic gains.

6.1 Magnet Sectors: Investments involving cloud computing, fintech, advanced manufacturing, and digital services cross-border are on the rise. Indicatively, the number of international technology-driven M&A deals and corporations has doubled as compared to 2023 (UNCTAD, 2025).

6.2 Operational Synergies: Digitalization offers MNEs the opportunity of utilizing global talent pools, automated operations, and service delivery to new markets. It will also facilitate platform business models and integration of supply chains.

Proactive government policies such as facilitating investments, having legal safeguards and specific incentives directly affect the potential of a country to attract and retain FDI.

6.3 The Indian Model: India has crossed the threshold of the top foreign destinations of investments by using digitized app processes to streamline app approvals (single-window clearances), monetary sector-based incentives (like the Production Linked Incentive, PLI, plan and new Bilateral Investment Treaties, BITs (Invest India, 2025).

6.4 Global Trend: Increased FDI inflows are experienced in countries that are undertaking policy reform efforts in an active way, i.e. making compliance non-random, putting a mechanism in place to resolve disputes, and decreasing the bureaucratic burden. The FDI geared towards both manufacturing and services attracts a young population with growing services and an expanding consumer base as well as a future-ready labor force, having large presence and dynamic population.

6.5 India/Southeast Asia: A median age of less than 30 and a growing middle-income population of people bodes well for the vast potential of the 100+ million new customers coming to the global economy by 2030 in India and Southeast Asia.

6.6 Investor Perspective: Demographic Profiles Multinationals see a long-term market opportunity as well as a scalable talent pool and have invested in industries as varied as consumer goods, technology, or even finance.

7. Major Challenges:

7.1. Geopolitical Tensions/ Economic Nationalism:

A growing geopolitical rivalry (most evident between the United States and China), regional tensions (such as India-Pakistan conflicts) and the reemergence of economic nationalism (in the form of protectionism, reshoring, local content requirements) have not only led to destabilized flows of investment, but also to greater unpredictability.

FDI screening and Protectionism Expanded FDI screening regimes in the US, EU, and elsewhere wrap up transactions in areas of particular strategic interest, commonly on grounds of technology sovereignty or national security. Trade Wars: Tariffs and counter-tariffs increase the prices and retard cross-border transactions.

These tendencies introduce an increased risk factor, limit the potential of smooth international operations and create an opportunity of retaliatory actions as well as possible rerouting or the blocking of foreign investment.

7.2. Financing Constraints:

The global trend of rising interest rates—driven by central banks fighting inflation—and tighter credit standards have escalated the cost of capital, especially in developing markets.

- **Project Finance Implications:** Large-scale infrastructure and greenfield projects are most vulnerable; delayed projects undermine medium- and long-term development.
- **Private Capital's Role:** While private equity and M&A in advanced economies still grow, capital for greenfield projects in developing regions is comparatively scarce (UNCTAD, 2025).

7.3. Regulatory Scrutiny

Rising global regulatory hurdles and due process requirements – frequently targeting strategic sectors – create complexity, increases transaction costs and can deter or block investments.

- **Heightened Vetting:** Vetting procedures on foreign investments (CFIUS in the US, EU FDI Screening Regulation) are becoming more detailed, involved, with even greater demands in how they are disclosed and cleared.
- **Transaction Risks:** In 2024, about 15 percent of all cross-border transactions in the world necessitated compulsory reports, or needed reviews (OECD, 2025).

7.4. Decline of Greenfield & Project Finance:

The key drivers of real-economy growth are greenfield investments: new enterprises, plants, or construction. The international decline of such projects and stalled project finance are concerning. FDI Patterns: The increasing trend of M&A as the engine and driver of FDI has been a good factor of financial rebalancing yet offers very little to contribute to new productive capacity to host economies.

Impacts on developing countries are especially sensitive to infrastructure, clean energy, and industrial employment in developing countries; according to the World Bank, international project finance deal volume will decline by 31 percent in 2024 alone.

8. Stakeholder Analysis:

FDI and international expansion are multifactor, complicated processes. The direction and effects of FDI are not determined by just one entity, given that it is influenced by varied, and contesting stakeholders. It is imperative to understand the identity of these actors, the way they interact, and the implications thereof as a part of analysis and policy formulation.

In the form of MNCs, they are the key agents of global FDI flows. The reasons behind this international investment are varied, and include the ability to gain market access, cost production control, acquisition of strategic resources or capability in technology.

The combination of them presents both strategic investors and technology transfer agents, managerial innovation, and globalization.

- **Host Governments:** These include governments of nations in which FDI is sought. They develop and carry out policies which affect the investment climate, which offer incentives or protection or provide regulations or screening and/or restrictions in terms of strategic reasons (e.g., national security).
- **Local Businesses:** These can be the joint venture partners, suppliers, distributors or even competitors. Although FDI may expose local companies to the possibility of joint ventures, foreign technology and development of the market, it can also subject them to competition that may put other less productive local businesses at risk.

Workforce: The local workforce is an agent and beneficiary, a stakeholder at the same time. FDI usually results in creation of employment, development of skills as well as wage increases. Nevertheless, displacement of workers, higher rate of job insecurity or rising wage gaps could also occur. Banks, investment funds and private equity firms have now attained the status of very important facilitators and partners in FDI.

They are a source of mergers and acquisitions capital, project finance, greenfield and infrastructure investment and risk-sharing, either in the form of syndicated loans or co-investment. The growing involvement of alternatives, namely, private equity is transforming the global growth, facilitating larger and more complicated transactions on the one hand and raising new forces, such as a short investment period or focus on financial engineering, on the other hand.

The United Nations Conference on Trade and Development (UNCTAD), World Trade Organization (WTO), World Bank., IMF, OECD and regional institutions such as the EU or ASEAN. Functions given below:

1. Monitor and report on strategic global trends in FDI, provide advice and set standards.
2. Develop fund projects and capacity-building of host economies.
3. Suggest technical support and methods of dispute resolution.
4. Promote collaboration and harmonization of investment policies.

9. Roles and Relationships:

9.1. MNCs and Governments:

1. MNCs have to obtain government permission, adhere to the regulatory provisions, and frequently bargain incentives, including tax reductions or land allocation.
2. Governments seek, in turn, technology transfer, local sourcing, job creation, and compliance with local regulations.
3. The relationship is not static: both can experience the benefits, but the tensions accrue when it comes to market dominance and national security or environmental effects.

9.2. Governments and Financial Institutions:

Most financial institutions in a home country collaborate with the host government to attract or support FDI. This could be ease of project finance; it could be guarantees; it could be co-investment in priority areas.

Such associations are coordinated by the regulators and departments of investment promotion.

Global institutions determine the standards, regulations, and reporting instruments in which FDI takes place (e.g., the WTO regulation on investments, IMF guidelines on movement of capital). They aid cross-border conflict resolution and the exchange of excellence in practice by means of forums, research and technological support.

Foreign Direct Investment (FDI) does not represent a single action; instead, it is a package of interdependent operational action and decisions that play out over a period of time.

Any strategic vision depends on how well the multinational enterprises (MNEs) can implement the dynamics of operations in environments that are becoming more dynamic, complex, and technologically oriented, as part of determination of success and sustainability of any FDI project.

10. Processes and Workflows:

10.1 Phased Approach:

The process of FDI projects is structured and is in many ways an iterative approach that takes into consideration every important aspect of a project—commercial, regulatory, financial, and operational:

At the first stage, MNEs need to use information on the size of the target market, its growth, and level of competition, the regulations, and cultural compatibility.

The step entails feasibility research, risk profiling and identification of the appropriate sectors or regions to enter. It is important to navigate host-country regulations. Clearances related to foreign investment, sectoral clearances, land registration, environmental clearances, land purposes, straight taxations are some of the approvals MNEs must address.

This is an action that most of the time involves interaction with various government entities and can involve negotiating incentives, the conditions of local partnerships or performance requirements (e.g., local content rules).

A question about greenfield mix (new facility or venture), brownfield (acquisition of existing assets) and M&A (mergers & acquisitions) depends on strategic objectives, regulatory and market conditions. Structuring is also associated with choosing ownership share, governance, a mix of funds invested (debt/equity), and the level of integration. At this step, companies are now committing financial, human, and technological resources often in stages that are in line with investment milestones.

It is possible that deployment not only entails initial outlays but continuous reinvestment and scaling. Operational integration after establishment is very important. This includes the employment of the local labour and their training, the implementation of the corporate systems and culture, incorporation into prevailing supply chains, and the quality standards.

It is possible that M&A projects necessitate alignment of the IT systems, processes and organizational cultures in order to generate synergies. Ongoing performance tests, risk management, and responsiveness to regulatory or market changes guarantee the sustainability of projects.

10.2. Technological Integration:

Technological capabilities are now a cornerstone of successful FDI operations, enabling efficiency, scalability, and competitive differentiation:

ERPs bring finance, supply chain, procurement, inventory, HR, and compliance together using integrated digital platforms, improving visibility and control over operations that span long distances. MNEs avail of real-time management and coordination using global ERP systems.

Computerized procurement, inventory and transportation systems eliminate manual handling of files and data, ensure maximum use of working capital, and allow fast reaction to demand or disturbance.

Supply chain: With the help of technologies such as IoT, sensors, and robotics, firms can digitize and automate the supply chain, which becomes particularly beneficial during the process of expansion in manufacturing and retail.

In businesses selling to local customers, foreign investors implement e-commerce, smartphone applications, and customer relationship management systems to attract the local customers, personalize their offering, and deliver an end-to-end service. This access to a large, in many cases youthful consumer base of the emerging markets will be made possible by digitalization.

Smart manufacturing methods (automation, AI-powered analytics, predictive maintenance) are becoming a feature of new FDI projects, cutting costs and time-to-market and supporting customization. The most significant manifestation is in segments powered by technology: the sectors of electronics, automotive and advanced manufacturing.

International business relies on secure and compliant data flows. Spending in data centers, data protection methodologies and adherence to local and international data protection laws are increasingly becoming part of success in a project.

Technological integration goes beyond raising efficiency as it helps multinational firms to align global operations, handle risk on a real-time basis, and be innovative with products and services to fit local markets. ERPs unify finance, supply chain, procurement, inventory, HR, and compliance into integrated digital platforms, enhancing visibility and control across far-flung operations. MNEs leverage global ERP systems for real-time management and coordination.

Automated procurement, inventory tracking, and logistics systems reduce manual errors, optimize working capital, and enable rapid response to demand or disruption. Technologies like IoT, sensors, and robotics allow firms to digitize and automate supply chains, which is especially valuable in manufacturing and retail expansions.

In consumer-facing sectors, foreign investors deploy e-commerce solutions, mobile applications, and CRM platforms to engage local customers, customize offerings, and provide seamless service. Digitalization allows for a direct interface with emerging markets' sizeable, often youthful, consumer segments. New FDI projects increasingly feature smart manufacturing practices (automation, AI-driven analytics, predictive maintenance), reducing costs and time-to-market while enabling customization.

This is most visible in tech-driven sectors—electronics, automotive, and advanced manufacturing. Cross-border operations depend on secure, compliant data flows. Investments in data centers, cybersecurity protocols, and compliance with local and international data protection standards are becoming integral to project success.

10.3. Compliance and Risk Management:

This advanced regulatory and reputational operating environment, in the modern day, requires well-structured compliance and risk management frameworks. MNEs are experiencing an increasing tide of expectations:

Numerous nations require that foreign investors engage in a certain level of domestic sourcing, technology transfer or joint ventures to be involved in some identified sectors. Strict adherence to contracts, supply chains, and HR policies is mandatory.

Investors should comply with both host-nation environmental regulations, labor rights, and governance standards, and the global ESG standards. Non-compliance with sustainability conditions may also involve some regulatory fines, denial of access to public procurement, or reputational damage.

Strict anti-bribery (e.g., U.S. FCPA, UK Bribery Act).and transparency regulations demand high-quality reporting in financial statements, market-enforcement of compliance, and moral business practices.

Firms place compliance officials, whistleblower legislation, and periodic training to avert danger. Before investing, MNEs engage in comprehensive due diligence which is not only legal, financial, but also socio-political and supply chain risk diligence.

These are screening against sanctions exposure, political instability, fraud and future ESG controversies. After entry, the companies have compliance management platforms and risk analytics to monitor the regulatory changes and raise the red flags of possible violation of the policies before they occur.

11. Economic and Social Impacts of FDI and Global Expansion: In-Depth Analysis:

11.1. Market Outcomes and Growth Metrics:

a) Economic Growth:

Foreign direct investment (FDI) has always acted as a catalyst in stimulating economic growth especially in fast emerging markets.

FDI augments the productivity of host economies, escalates GDP, and integrates home markets into international value chains because it facilitates the capital (with modern technology and managerial expertise) inflows into host economies.

This course of action is further justified by the fact that India registered the highest volume of FDI inflows in its history of \$81 billion in FY24-25 (Invest India, 2025), meaning that the country is where to invest. This capital inflow has made the GDP growth rates more than 7 percent (IMF, 2025) and also assisted in manufacturing and digital industries amongst other factors making India one of the most favourable investment destinations.

By way of analogy, one can observe the same results in Brazil, some of the ASEAN economies (Vietnam, Indonesia, Malaysia), and in their cases, the FDI inflows are variously associated with new industrial capacity, employment, and higher development indicators.

Digital transformation is on course in all countries and regions around the world; FDI is focusing more on software services, advanced manufacturing (e.g., automobiles, EVs), e-commerce, fintech, and cloud computing. According to UNCTAD (2025), more than 40 percent of the new announced FDI projects around the world now have technology and digital platforms as targets.

In contrast, comparatively flat inflows are recorded in traditional industries (textiles, basic manufacturing, and extractives) suggesting movement in world demand, automation, and policy priorities that sees the desire to achieve sustainable growth.

11.2. Future Trends and Opportunities in FDI and Global Expansion:

There has been an increase in the influence of the institutional investor on the flow of FDI around the world, notably by private equity (PE) firms, pension funds, sovereign wealth funds and insurance companies. In contrast to the conventional corporate FDI practiced within the industries by multinational enterprises (MNEs), such investors have large amounts of capital aimed at providing financial returns on their investments in areas of high growth rate and emerging markets.

Due to their focus on technology-based companies (fintech, digital platforms, AI), high-scale infrastructure development and resources with sustainable sources of income and economic downturn resistance, PE and institutional investors are becoming increasingly active. Their investment period also tends to be medium-to long-term as the need to have stable cash income and wide diversification increases.

In addition to capital, such investors ensure good governance, strategic management know-how and access to a global network, and frequently catalyse cross-border growth and innovation in portfolio companies.

Their expanded engagement offers variety in the sources of FDI, brings in new funding patterns, and results in more dynamic engagement in areas of corporate FDI which have been underserved in the past, such as renewable energy, healthcare facilities, and logistics.

11.3. Securitization & Flexibility in Financing:

There is a growth in the numbers and the types of securitized investment products and syndicated financing structures/mechanisms that are being developed and used to provide cross-border FDI.

The securitization process (the process to convert illiquid assets to tradable securities) allows the capital markets to invest in infrastructure and real estate projects as well as large industrial development projects. Syndication models and pooled investment vehicles can be used to enable several investors to share exposures, which decreases risk exposure.

It increases the possibility to finance long-horizon, high-cost projects, and particularly in the emerging and frontier markets, where the credit/political risk can be prohibitive to individual investors.

Such mechanisms make it easier to access capital in terms of projects in geographically or politically complex areas. They are also promoting the access of various classes of investment such as retail investors who are interested in sustainable infrastructure or green assets.

11.4. Regionalization and Shifting Global Value Chains:

Heightened geopolitical tensions (e.g., the US-China rivalry), potential disruptions in global trade, and protectionist policies encourage MNEs to reorganize their various global value chains (GVCs), preferably moving towards regional centres rather than networks that are spread out across the globe. ASEAN states and Eastern Europe are becoming essential beneficiaries of the trend because of excellent geographic position, strengthening infrastructure, beneficial trade agreements, and affordable labour costs.

As an example, Southeast Asia is turning into an exciting manufacturing and digital services destination, and Eastern Europe is seeing investments in aerospace, automotive and high-tech. Companies focus on resilient supply chains, diversification of risk, and flexibility.

This desire can be linked to government ambitions in these areas to position themselves as stable, attractive places to locate nearshoring or as they have branded it, friendshoring activities. Regionalization ensures intra-exchanges and intra-investments in the regions, encourages infrastructural development and technological spillovers involving the regional countries. It is also in tandem with the rise of regional trade agreements and cooperation structures.

12. Conclusion:

The current global environment is far more complex and dynamic than before the global footprint and the Foreign Direct Investment (FDI) efforts are being engaged in globally. The economic, technological, and regulatory changes interrelate in a complex manner and reinvent the way multinational enterprises (MNEs), host and home countries and financial players view and conduct international investment.

The economic context still remains the basis of influence on the movements of FDI. Characteristics of an uneven recovery in terms of continuity of structural challenges—financing constraints, inflationary pressures, and the legacies of the recent global shocks indicate moderate prospects of global growth by the year 2025.

These considerations are accompanied by the dynamic development of technologies, in particular, digitalization, artificial intelligence, green technologies, which not only open up new sources of investment opportunities but also step by step demand changes in operational and strategic models.

At the same time, the regulatory environment has also become more complex.

The tighter reviews of national security, investment screening, data protection legislation, and sustainability requirements impose higher standards of conformity and further complicate the process of cross-border investment decision-making.

Such regulatory changes are intertwined with geopolitical rebalancing and the emergence of economic nationalism, which has given the environment a more unpredictable and risky character.

The ability of the various stakeholders in this new paradigm—namely MNEs, governments, financial institutions, and local communities—to become agile for responsiveness is what will determine the success of this new paradigm. Stakeholders must:

1. **Adaptation to policy changes:** Take the initiative to track and actively participate in regulatory changes to preempt the risk and develop desirable frameworks. Governments shall learn to find the balance between openness and strategic safeguards and investors should create sound compliance mechanisms.
2. **Exploit the shift in technologies and demographics:** Invest in promising, innovative economic activity by exploiting online revolutions and demographic dividends. Investment in human capital and infrastructure to facilitate the next-generation industries will help countries become more attractive to investors.
3. **Tackle structural and geopolitical risks:** Identify and cope with risks generated by geopolitical tensions, supply chain risks and unbalanced development. Market and partnership diversification are also essential strategies, not to mention cooperation among states and institutions.

Necessity of Strategic, Inclusive Approaches:

Finally, it is worthwhile to note that maximizing the positive effects of FDI requires participatory policies that incorporate social, environmental, and economic factors. To achieve sustainable development results, there is a need to ensure that there is equitable access to investment benefits, including improving the creation of employment opportunities, technology transfer, and infrastructure developments, and minimizing potential drawbacks, including market monopolization and environmental degradation.

The policymakers ought to embrace future-centered policies that will incentivize greenfield investment and emerging sectors and enhanced participation in global value chains. Businesses must plan growth in line with sustainability objectives and interact positively with surrounding stakeholders to forge resilience and social license.

13. Recommendations:

Enforce transparency, stability and predictability of policy environments in the attraction and maintenance of quality FDI. Fast track approvals and simplify understanding of compliance, make doing business easy. Develop the economy by investing in infrastructure and human capital that can attract technology-intensive and sustainable investments. Encourage regional collaboration on participation in value chains.

Focus on the markets that have good macroeconomic indicators and which offer superior protection regulation. Introduce the ESG principles into investment policies to find common grounds with the market and policies. Compliance management software should be used to ease the operations. Seek partnership models that will maximize local participation and long-term resilience.

Develop more investment in under-performing areas. Share information and best implementation of investment promotion and risk reduction.

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