**INTRODUCTION**

Foreign direct investment (FDI) is increasingly recognized as a source of growth for developing economies (Lalh) FDI is generally observed to gender technological progress in developing economic by generating externalities and competitive dynamics (koko, 1994; patibandla 2012). The literature on multinational firms (MNCS) observe that their ownership of such assets has technology, marketing, management and network benefits developing economic, through a process of spill-ones. (aiten et’ al (1999)externalities (spill-over’s) tend to be high in high-tech industries and are realized effectively when MNCS build backward and forward linkages with local firm and institution (UNCTAD 2001) there is wide disparity in the magnitude and pattern of foreign direct investment among developing economies or third world countries.

At a broadens level, the driving forces for the recent growth of FDI inflows into developing economies or third world counties include the opening up of these economies to FDI, the supply side factor of low man power costs, and the demand side growth incomes. At a more complex level, explanation of differences in magnitude and pattern of FDI inflows into these economies required a comparative analysis of an array of supply demand, and market institution.

Factors (aloberman et’al 2002) as this countries differ not only developed countries but also from each other in several ways. They differ in level of economic development and endowment of market, political institution etc

The pattern of FDI inflow refers to the inflow of FDI into different industries in a country. At abroad level, one can look at it in term of vertical and horizontal investment. At a more detailed level, the pattern of pouring direct investment has to separate industries on the basis of knowledge and skill intensity of production, importance of intellectual property right (IPRs, degree of fixed and sink economic of scale and trade costs of serving the foreign market by exporting (markuesen et al 1998), these theories can afford to ignore or give a marginal treatment to market institution and political factor of OECD countries share similar institution in term of private property, right, protection of intellectual property and such the democratic institution as judicial, cost in investment, and labour and capital intensity of production.

However differences endowment and difference configuration of supply side factor such as income and market size; institutional condition such as property right, transaction cost and credible commitment of policies, determined the pattern of pouring direct investment (FDI).

**DETERMINATION OF FOREIGN DIRECT INVESTMENT**

The determinant of FDI includes the following;

1. Market size: Jordan (2004) argued that FDI will move to countries with larger and expanding market and greater purchasing power, where firms can potentially receive a higher return on their capital and by implication receive high profits from their investment. Charkrabart, (2001) state that the market size hypothesis support an idea that a large market is required for efficient utilization of resources and exploitation of economics of scale : as the market-size grows to some critical value FDI will start to increase thereafter with its further expansion
2. Openness ; Jordan (2004) claims that the market the impact of openness on FDI depends on the type of investment (and therefore less openness) when investment are market seeking, trade restriction can have a positive impact on FDI, the reason
3. Political risk ; according to ODI (1997) where the host country owns rich natural resources, no further inactive may be required, as it seen politically instable countries like Nigeria and Angola where high returns in the extractive industries seen to compensate for political instability
4. Infrastructures; infrastructure covers many dimension ranging from roads, parts, railways and telecommunication system to institutional development e.g. legal service accounting etc. According to ODI (1997), for poor infrastructure can be seen however, as both an obstacle and an opportunity for foreign investment for the majority of low –income countries, it is often called as one of the major cons trams. but investor also point to the potential
5. For attracting significant for its host government permit more substantiating participation in the infrastructure sector. Jordaan claims that good quality and well developed infrastructure increase the productivity potential of investment in a country and therefore stimulate FDI flows toward the country

However other factors like growth, labour cost and productivity are also some of the determinate of FDI.

**MEANING OF FDI**

FDI is also known as Multinational Corporation. These are large because conglomerates that manage production or deliver in at least two or more countries. The traditional Multinational Corporation are private companies headquartered in one country and with subsidiaries in number of other countries all operating in accordance with coordinated global strategic directed at winning market share and achieve cost efficiencies. Leading multinational Corporation includes Royal Dutch shell, General Motors, Toyota Motor, Exxon Mobil, Chevron Texaco, Coca-Cola Company etc.

**EFFECT OF FDI ON DEVELOPMENT PROCESS ON THIRD WORLD COUNTRY**

1. Resources transfer effect: foreign direct investment (FDI) has made a positive contribution to the third world countries by supplying capital, technology and management resources. That would otherwise not available. such resource transfer can stimulate the economic growth of the host economy (hill, 2000)
2. Capital; as far as capital is concern, multinational enterprises (MNES) investing in long project yield returns. Free flow of capital across nations is likely to be forwarded by many economist .since allows capital to seek out the highest rate of return. MNES by virtue of their larger size and financial strength, have access to financial resources not available to host country firms. These funds may be available from international company because of the reputation, large MNES may find it easier to borrow money from capital mainly than host country could
3. Technology; technology can stimulate economic development and industrialization, can take two forms both of which are valuable. Technology can be incorporated in a production progress (e.g. the technology for diversity, extracting, and refining oil) or it can be incorporated in a product (e.g. personal computer hills 2000). However, many countries lack the research and development resources and skill required to develop their own native product and process technology. This is particularly third in the third world nation. Evidence has shown the vast community of studies. Developing relationship between FDI on one hard and productivity and / or economic growth on the other hand, have found that technology transfer via FDI has contributed positively to productivity and economic growth in the third world countries. Technology that are transferred to third world countries in connection with foreign direct investment tend to be more modern than what I s locally available. moreover, positive externally has been where local limitation, employment turnover led to more general environmental improvement in the host economy
4. Management; by transferring knowledge, FDI will increase the existing stock of knowledge in the host country through training, transfer of skills and the transfer of new managerial and organization practice. Foreign management skills acquired through FDI may also produce important benefit for the host countries benefit arise when local personnel who are trained to occupy managerial, financial and technology post in the subsidizing of a foreign MNE leave the firm and help to establish local firms
5. Employment effect; the effects on employment associated FDI are both direct and indirect. In where capital is relatively scarce but labor is abundant, the creation of employment opportunities is either direct or indirect has been one but of the most prominent impact of FDI. Third world countries. The direct effect arises when a foreign MNE employs of host country citizen. Whereas, the indirect effect arise where jobs, are created in local suppliers as a result of the investment and when jobs are created because of increased local spending by employees of the MNE
6. BALANCE OF PAYMENT EFFECT; FDI effect on a country balance of payment accounts to important policy issue for third world natives. There are three potential balance of payment consequence to FDI. First, when MNE can establish a foreign subsidence, the capital account of third world native’s country benefits from the initial capital inflow.

Second, if the FDI is a substitute for imports of goods or service, it can improve the current account of third world nation’s balance of payment. A third potential benefit to third world nations balance of payment arises when the MNE uses a foreign subsidiary to export goods and services to other countries

1. Effect on competition

According to OECD report (OECD 200, P. 16) the presence of foreign enterprises may greatly consist economic development by spurring domestic competition and thereby leading eventually to higher productivity, lower prices and more efficient resources allocation OECD further argued that ‘like trade, FDI acts as a powerful means of competition and innovation, encouraging domestic forms to reduce costs and enhance their competitions (OECD 1998 P. 4)however sciatic arm has been leveled against FDI for not being an agent of development . This group of scholars argued that FDI is an agent of underdevelopment to third world nations

1. First, they disagree with FDI for not being an agent providing foreign capital to third world countries and neither do they promote FDI in the host country. Argue what is obtained on general on ground is the constant repatriation of surplus to the metropolis imphedly, the repatriation of the surplus revenue generated internally by the cartels, or syndicate has affected the investment facilities in the third world nations. This subsequently affected development processes in the third world nations.
2. Second in terms of technology transfer, they argued that the type of technology transferred to third world countries absolutely technology. This is because when the machines get faulty, there is no spare part. Indeed the FDI transfer capital intensive and labour serving technology to the third world nations. This is a contradiction to what the third world nations are required. The third world nations required labour intensive technology that could provide employment generation to the citizen. But the capital intensive technology in fact contributed greatly in worsening unemployment tempo in the third world nation.
3. Third on employment effect, skeptics FDI note that when comparing compared the number of unemployment applicant in third world nations with those employed by the FDI whether direct or indirect; one can easily see that the percentage of employed by the FDI is insignificant when compared to the total number of unemployment.
4. Forth, on provision of social amenities to the third world nations, they argued that the provision was in relation of the third world nations to bear the environmental pollution and hazard caused by their agent like MNC. The MNC like Oil Company produces industrial discharge i.e. carbon monoxide and sulphur dioxide that causes cancer and other respiratory disease. In fact provision of social amentias to the third world actions is seen as kind of compensation to damages they have caused to the host country but not the development
5. Fifth, the FDI through their agent are taxed order. This is because their enterprises do not disclose their financial status at the end of the year to the government in the third world nations. Therefore the institution is shouldered with the responsibility of tax collection finds it very difficult to know the exact amount of company income tax

Foreign direct investment (FDI) is made into a business or a sector by an individual or a company from another country. It is different from portfolio investment, which is made more indirectly into another country’s economy by using financial instruments, such as bonds and stocks.

There are various levels and forms of foreign direct investment, depending on the type of companies involved and the reasons for investment. A foreign direct investor might purchase a company in the target country by means of a merger or acquisition, setting up a new venture or expanding the operations of an existing one. Other forms of FDI include the acquisition of shares in an associated enterprise, the incorporation of a wholly owned company or subsidiary and participation in an equity joint venture across international boundaries.

If you are planning to engage in this kind of venture, you should determine first if it provides you and the society with maximum benefits. One good way to do this is evaluating its advantages and disadvantages.

**List of Advantages of Foreign Direct Investment**

**1. Economic Development Stimulation.**

Foreign direct investment can stimulate the target country’s economic development, creating a more conducive environment for you as the investor and benefits for the local industry.

**2. Easy International Trade.**

Commonly, a country has its own import tariff, and this is one of the reasons why trading with it is quite difficult. Also, there are industries that usually require their presence in the international markets to ensure their sales and goals will be completely met. With FDI, all these will be made easier.

**3. Employment and Economic Boost.**

Foreign direct investment creates new jobs, as investors build new companies in the target country, create new opportunities. This leads to an increase in income and more buying power to the people, which in turn leads to an economic boost.

**4. Development of Human Capital Resources.**

One big advantage brought about by FDI is the development of human capital resources, which is also often understated as it is not immediately apparent. Human capital is the competence and knowledge of those able to perform labor, more known to us as the workforce. The attributes gained by training and sharing experience would increase the education and overall human capital of a country. Its resource is not a tangible asset that is owned by companies, but instead something that is on loan. With this in mind, a country with FDI can benefit greatly by developing its human resources while maintaining ownership.

**5. Tax Incentives.**

Parent enterprises would also provide foreign direct investment to get additional expertise, technology and products. As the foreign investor, you can receive tax incentives that will be highly useful in your selected field of business.

**6. Resource Transfer.**

Foreign direct investment will allow resource transfer and other exchanges of knowledge, where various countries are given access to new technologies and skills.

**7. Reduced Disparity Between Revenues and Costs.**

Foreign direct investment can reduce the disparity between revenues and costs. With such, countries will be able to make sure that production costs will be the same and can be sold easily.

**8. Increased Productivity.**

The facilities and equipment provided by foreign investors can increase a workforce’s productivity in the target country.

**9. Increment in Income.**

Another big advantage of foreign direct investment is the increase of the target country’s income. With more jobs and higher wages, the national income normally increases. As a result, economic growth is spurred. Take note that larger corporations would usually offer higher salary levels than what you would normally find in the target country, which can lead to increment in income.

**List of Disadvantages of Foreign Direct Investment**

**1. Hindrance to Domestic Investment.**

As it focuses its resources elsewhere other than the investor’s home country, foreign direct investment can sometimes hinder domestic investment.

**2. Risk from Political Changes.**

Because political issues in other countries can instantly change, foreign direct investment is very risky. Plus, most of the risk factors that you are going to experience are extremely high.

**3. Negative Influence on Exchange Rates.**

Foreign direct investments can occasionally affect exchange rates to the advantage of one country and the detriment of another.

**4. Higher Costs.**

If you invest in some foreign countries, you might notice that it is more expensive than when you export goods. So, it is very imperative to prepare sufficient money to set up your operations.

**5. Economic Non-Viability.**

Considering that foreign direct investments may be capital-intensive from the point of view of the investor, it can sometimes be very risky or economically non-viable.

**6. Expropriation.**

Remember that political changes can also lead to expropriation, which is a scenario where the government will have control over your property and assets.

**7. Negative Impact on the Country’s Investment.**

The rules that govern foreign exchange rates and direct investments might negatively have an impact on the investing country. Investment may be banned in some foreign markets, which means that it is impossible to pursue an inviting opportunity.

**8. Modern-Day Economic Colonialism.**

Many third-world countries, or at least those with history of colonialism, worry that foreign direct investment would result in some kind of modern day economic colonialism, which exposes host countries and leave them vulnerable to foreign companies’ exploitations.

**Conclusion**

Investing into another country’s economy, buying into a foreign company or otherwise expanding your business abroad can be extremely financially rewarding and might provide you with the boost needed to jump to a new level of success. However, foreign direct investment also carries risks, and it is highly important for you to evaluate the economic climate thoroughly before doing it. Also, it is essential to hire a financial expert who is accustomed to working internationally, as he can give you a clear view of the prevailing economic landscape in your target country. He can even help you monitor market stability and predict future growth.

Remember that we live in an increasingly globalized economy, so foreign direct investment will become a more accessible option for you when it comes to business. However, you should weigh down its advantages and disadvantages first to know if it is the best road to take.

The qualitative information is how an aside disparity in the magnitude and pattern of FDI among developing and transition economics. The main stream literature focuses on supply and demand side factor such as endowment of unskilled and semi-skilled labour, market size and issues relating to macro-economic stability. However apart from there factors, market institutional condition play a critical role in determine the pattern of investment especially in the third world nations as countries differ significantly in the develop. Development of market institution. However, to reap the maximum benefit from foreign corporate presence a healthy enabling environment for business is paramount which encourages domestics as well as forces of investment; provide incentives for innovation and improvement of skills and contribution to competitive corporate clinics

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