Influence of Political Stability, Economic Development, and Institutional Efficiency on FDI Patterns in MEDCs and LEDCs

Research Question: How do political stability, economic development, and institutional efficiency influence the patterns and volatility of Foreign Direct Investment (FDI) inflows in MEDCs and LEDCs?

Abstract

This research paper investigates the impact of political stability, economic development, and institutional efficiency on Foreign Direct Investment (FDI) inflows in More Economically Developed Countries (MEDCs) and Less Economically Developed Countries (LEDCs). Using GDP and FDI net inflows as primary indicators, data from 30 countries (15 MEDCs and 15 LEDCs) over the period 2014–2023 was analyzed. Statistical tools, including t-tests, Pearson correlation, and F-tests, were employed to examine the differences in FDI patterns and volatility. Findings reveal that MEDCs attract significantly higher FDI inflows, with a stronger correlation between FDI and GDP growth in MEDCs, indicating higher efficiency in utilizing investments. Contrary to expectations, FDI volatility was found to be greater in MEDCs. The study underscores the importance of addressing challenges like corruption and political instability in LEDCs to enhance FDI attractiveness and utilization. Recommendations for future research include larger datasets and regional comparisons.

Key Words: FDI inflows, economic development, MEDCs vs LEDCs, volatility of FDI, institutional efficiency

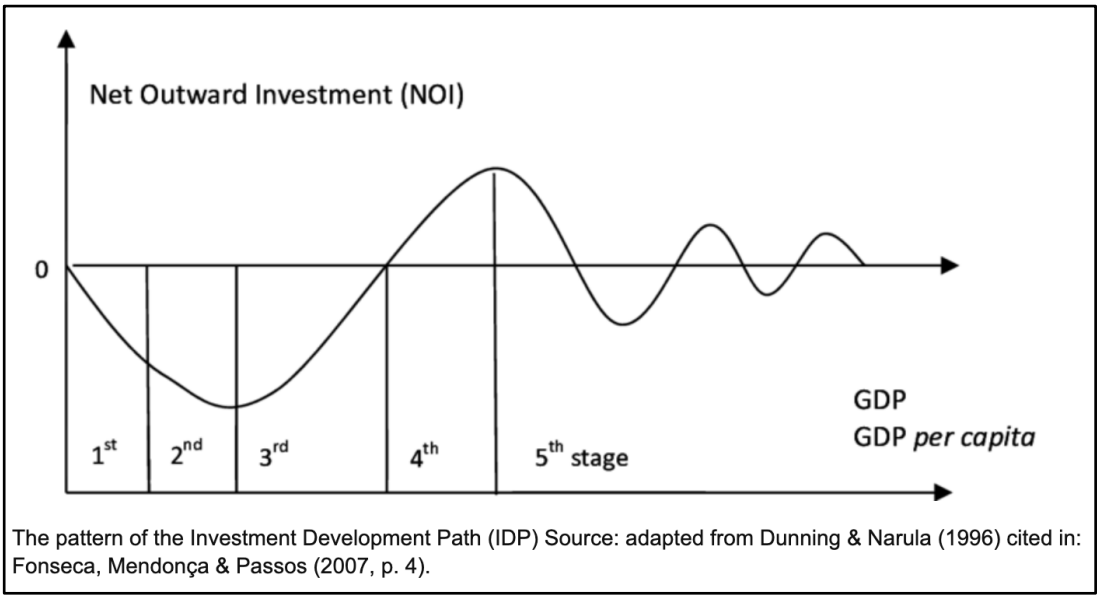
Introduction

Gross Domestic Product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period (Fernando, 2024). GDP, for a long time, has been the base on which an economy's growth and value are determined. A better measurement for it, though, is Real GDP, which considers inflation by adjusting for price changes using a base year value. There are multiple ways to calculate GDP, but all of them must account for two very important things: injections and leakages. In short, an injection is anything that brings money into the economy and its transactions, while a leakage is any debit or money that leaves the economy or its transactions. One example of an injection into the economy is Foreign direct investment (FDI) - a category of cross-border investment in which an investor living in one economy (usually a country) establishes a lasting interest in and significant influence over an enterprise present in another economy (OECD, 1996). FDI can have quite influential impacts on GDP, as shown in multiple countries worldwide. For example, Nepal had a significant 8.98% growth in GDP from 2016 to 2017 (Macrotrends, 2025) when its FDI inflow more than doubled from about $98 million to almost $203 million (World Bank, 2024).

However, whilst FDI generally represents an injection of capital into an economy, the level of FDI inflows and their impact on GDP can vary significantly, depending on a country's development state. Less Economically Developed Countries (LEDCs) often attract foreign investment due to location advantages, such as lower labor and land costs. However, economic uncertainties, weaker infrastructure, and political instability in these countries may limit the FDI inflow and its effectiveness in driving economic growth. Conversely, More Economically Developed Countries (MEDCs) not only invest more abroad due to their stronger GDP but may also attract FDI more easily due to their robust infrastructure, stable political environments, and highly skilled workforces. These factors may also enable them to utilize FDI more efficiently, translating it into economic growth more effectively. Based on this, this research paper aims to answer the following research question: **How do political stability, economic development, and institutional efficiency influence the patterns and volatility of Foreign Direct Investment (FDI) inflows in MEDCs and LEDCs?**

Literature Review

The Investment Development Path (IDP) theory is essential to understand the connection between FDI and a country's state of development. IDP states that an economy's net outward direct investment situation is methodically correlated with its economic state of development or GDP per capita (Djokoto, Agyei-Henaku, and Badu-Prah, 2024). In other words, the theory explores the behavior of Net Outward Investment (NOI) in countries with a lower GDP per capita - LEDCs - compared to countries with a higher GDP per capita - MEDCs.



The pattern of the Investment Development Path (IDP) Source: adapted from Dunning & Narula (1996) cited in: Fonseca, Mendonça & Passos (2007, p. 4).

Figure 1: Taken from Klich (2014)

As shown in the diagram above, stages 1 to 3 of the Investment Development Path (IDP) primarily represent LEDCs with a negative Net Outward Investment (NOI), meaning more Foreign Direct Investment (FDI) enters the country than leaves. In contrast, countries in stages 4 and 5, typically MEDCs, experience higher outward FDI as domestic firms expand internationally. Several factors shape this progression. In stage 1, low GDP per capita, weak infrastructure, and limited purchasing power restrict both domestic and foreign investment. However, FDI inflows may still occur, often driven by resource-seeking investments rather than market demand. As GDP per capita rises in stage 2, improved infrastructure and growing consumer markets attract more inward FDI, leading to increased net inflows. In stage 3, as domestic firms become more competitive and financial

markets develop, outward investment starts to rise, gradually reducing the NOI deficit. By stages 4 and 5, high-income economies see their firms actively investing abroad, shifting the NOI into positive territory. However, fluctuations in NOI can occur due to factors such as economic restructuring, shifting global investment trends, and domestic policies affecting FDI flows.

This entire correlation is closely tied with the theory of Dunning's Eclectic Paradigm. The paradigm, based on the theory of British economist J.H Dunning, is a method of economically analyzing what makes a country attractive to FDIs (CFI, 2022). It adheres to the OLI framework, which is divided into three main factors - Ownership, Location, and Internalization.

Ownership advantage means that the firm that is investing abroad should have some sort of competitive advantage to actually benefit from this FDI. A competitive advantage implies that the product is valuable and unique. The uniqueness can come from being hard to replicate or applying stamps like trademarks or copyrights. These advantages ensure fewer close substitutes from competitors, allowing a more inelastic demand, which tends to yield greater revenues. If this advantage is not available, there is no gain from investing abroad and the firm should just remain domestic.

Location advantage includes both the geographical advantage of foreign investment and advantages such as lower production costs. For example, a geographical advantage could consist of a coastal region, which would be advantageous for a transportation firm or ship-related business. Opportunities to reduce the cost of production could present themselves in the form of cheaper land, labor, and capital costs and other incentive-related benefits offered by the country, such as lower taxes and tariffs. If these advantages are not available, but an Ownership advantage is available, the firm should just produce in their own country and export it. In general, location advantage is more present in LEDCs, resulting from cheaper labor costs and lower-priced land, as well as tax advantages the governments offer to incentivize these FDIs.

Internalization advantage is essentially how the firm should produce the product. The investing firm needs to consider whether they should make it themselves (in-house

production) or pay a third party to produce them (outsourcing) before proceeding with an FDI. If neither of these is feasible, the investor should just sell their designs to a local firm (licensing) and take a percentage of their profits.

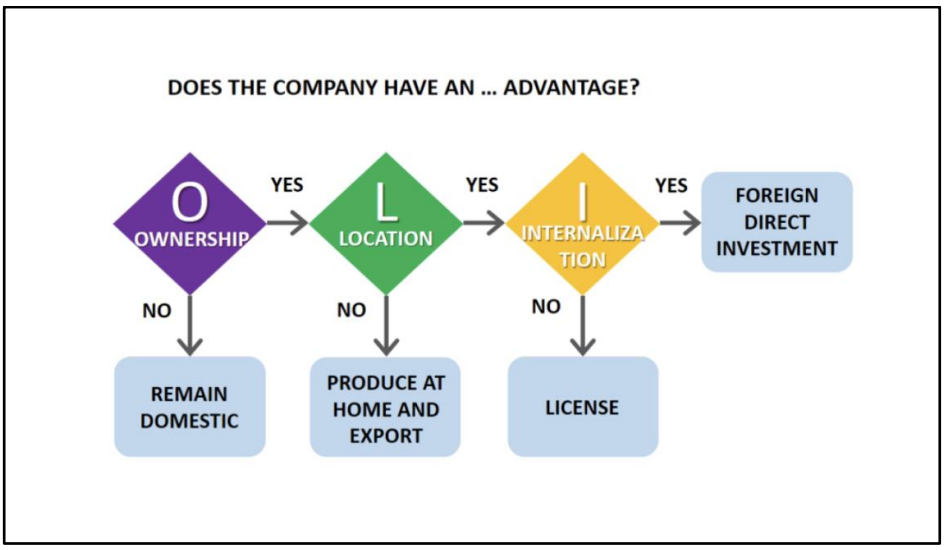


Figure 2: Taken from Bruin (2016)

The theory states that all of these advantages are essential for a firm to make an FDI, and in general, LEDCs have all of these advantages readily available. Hence, one would assume that LEDCs tend to attract more FDI than MEDCs. However, in some cases, other, more critical factors could contribute to the amount of investment a country gets. Features like political stability and infrastructure, usually worse in LEDCs, might disincentivize some firms from investing there. For example, Afghanistan has had a nearly 83% decrease in FDI inflow from 2018-2021 (World Bank, 2021) - even though, for the most part, it covers the three advantages required for an FDI, the lack of political stability in the country has been a major issue and is the most feasible reason for this decline in investment.

From the above, we can understand how FDI inflow depends on a country's development, its advantages, and the state of the infrastructure and political landscape. Now, to understand how FDI affects an economy's GDP, it is essential to know the circular flow model of income. The circular flow model, also known as the circular flow of income, demonstrates how money moves from producers to households and back again in an endless loop (Chappelow, 2022). The model

consists of five main sectors - Households, Businesses, the Government, the Foreign Sector, and the Financial Sector. Households participate in the economy by providing labor and spending money on goods and services (Consumption Spending, also referred to as C). Businesses are the ones that produce goods and services while providing wages and profits to laborers and entrepreneurs. These two make up the core of the model. The Government, Foreign, and Financial sectors help depict the finer complexities and allow for more detailed cash flow tracking. The Government contributes through Taxes (T) and Government Expenditure (G); the Foreign Sector is involved through Export Revenue (X) and Import Expenditure (M); the Financial Sector helps by providing loans for firms to increase Investment Expenditure (I) and by allowing people to keep Savings (S).

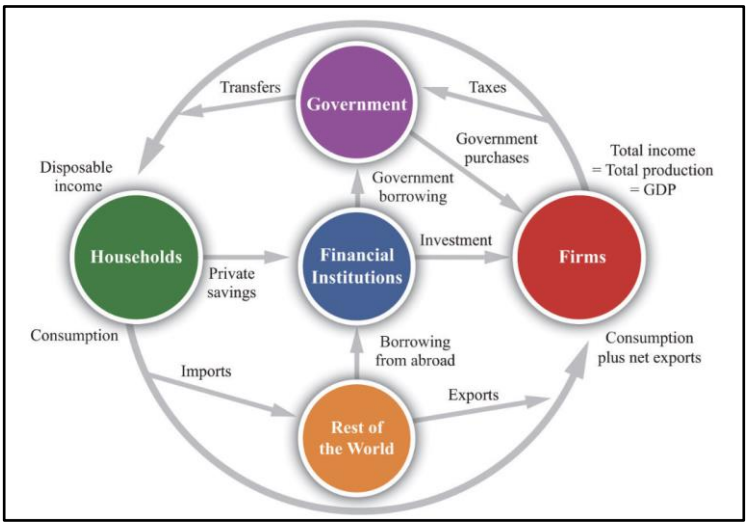


Figure 3: Taken from Cooper and John (2012)

Injections and leakages, as mentioned earlier, also play a vital role in determining the flow of funds in the economy. The latter three sectors regulate the amount of injections and leakages. The formula to calculate them is as follows:

$$\textit{Total Injections (TI)} = G + X + I$$

$$\textit{Total Leakages (TL)} = T + M + S$$

Having total injections greater than total leakages results in an increase in GDP, and in theory, as long as TI>TL, a country can sustain itself indefinitely (Chappelow, 2022).

FDI is a perfect example of an injection. It is a form of direct investment and can be used to create new capital or replace existing capital in the country. This new capital works as assets and is an injection into the economy. The availability of more capital allows more production and increases incomes in the form of more jobs, improving the overall GDP. The feature that separates an FDI from any other form of foreign investment is its 'lasting interest,' which essentially states that to count as an FDI, the investor must own equity that qualifies for at least 10% of voting rights (CFI, 2022). This increases the impact of FDI on the receiving countries (as more investment is made) and reduces the volatility of the investment. Hence, subtle changes in exchange rates or inflation will not affect FDI as much as normal foreign investments, showing how FDIs are generally more stable.

Several factors can constrain the effectiveness of FDI inflows in increasing a country's GDP. A country's dependence on FDI is crucial in determining its impact. Typically, LEDCs rely more on FDI than MEDCs and may offer extensive incentives - such as tax breaks or regulatory leniency - to attract investors. In some cases, weaker regulatory enforcement can lead governments to overlook environmental or labor protections, increasing the risk of negative externalities like pollution and resource depletion. As a result, the overall economic benefits of FDI in LEDCs may be diminished compared to MEDCs, where stronger institutions and stricter regulations prevent such issues. Furthermore, the effectiveness of FDI is often greater in countries with a more skilled labor force. In many LEDCs, laborers may lack the necessary training to maximize the productivity and innovation that foreign investments can bring. This limits the extent to which FDI can drive sustainable economic growth and development.

Hypothesis

Based on the literature review, we can form three testable hypotheses:

- The average FDI inflow to MEDCs is higher than that to LEDCs due to the latter having a

greater level of political instability, lacking or weak infrastructure, and smaller economic size

- The correlation between FDI inflow and GDP growth rate is higher in MEDCs than in LEDCs due to potential inefficiencies such as corruption and lack of skilled labor in the economies of the latter

- The volatility (variance) of FDI inflows is higher in LEDCs compared to MEDCs due to factors such as political instability, terrorism, and economic uncertainty.

Methodology

The data consists of the following two indicators - Gross Domestic Product (GDP) (current US$) and Foreign Direct Investment (FDI), net inflows (BoP, current US$), where net inflows are defined as the value of inward direct investment made by non-resident investors in the reporting economy (World bank, 2009). The data was taken from the years 2014 - 2023 (the last ten years) as this time frame was deemed fit to be recent enough and large enough to produce a comprehensive and accurate analysis. Thirty countries were chosen, 15 each between MEDCs and LEDCs. To ensure that the countries were accurately classified as MEDCs or LEDCs, data was taken from a source that identified the development status of the countries based on information published directly by the UN (Investopedia, 2019). For MEDCs, 15 countries were chosen using a random generator to minimize bias, ensuring the validity of the comparison. For LEDCs, 15 countries were also selected using a random generator. However, due to the unavailability of data for some of the chosen countries, they had to be replaced with another randomly picked one. For example, the random generator first picked Afghanistan and Sudan, but they did not have FDI data for 2023 and hence had to be excluded.

All the data was extracted from the World Bank Databases. The World Bank is an international development organization owned by 187 countries (World Bank, 2012). The decision to use the World Bank was influenced by its credibility and the easily available data on both FDI and GDP for a number of countries.

With regard to the analysis of the data, the following statistical tools were used:

- Basic statistical analysis, such as mean and standard deviation, was done to understand the data better.
- A two-sample t-test was done to compare the means of two independent groups (LEDCs vs. MEDCs), which helped determine if the average FDI inflow to MEDCs is significantly higher than that to LEDCs (Hypothesis 1).
- Next, Pearson's product-moment correlation was used to calculate the correlation coefficients of GDP and FDI inflows for both LEDCs and MEDCs. These values were then used in a Fisher's z-transformation test, which allowed us to compare the two correlation coefficients and determine if the correlation in MEDCs is statistically higher than in LEDCs (Hypothesis 2).
- Finally, a F-test was done to compare the variances of the two groups. This was used to determine whether the variance (a measure of volatility) of FDI inflows in LEDCs is significantly higher than that in MEDCs (Hypothesis 3).

Data Collection

LEDCs		
	Mean ($\bar{x}$)	Std Deviation (σ)
Bangladesh		
GDP (current US$)	$328,600,000,000	$98,080,692,403
Foreign direct investment, net inflows (BoP, current US$)	$2,011,505,261	$485,236,157
Mozambique		
GDP (current US$)	$15,950,000,000	$2,537,824,966
Foreign direct investment, net inflows (BoP, current US$)	$3,356,943,183	$1,118,116,344
Tanzania		
GDP (current US$)	$61,030,000,000	$11,436,107,535
Foreign direct investment, net inflows (BoP, current	$1,165,802,054	$224,439,886

US$)		
Solomon Islands		
GDP (current US$)	$1,500,000,000	$120,000,000
Foreign direct investment, net inflows (BoP, current US$)	$34,776,538	$18,445,069
Kiribati		
GDP (current US$)	$233,500,000	$34,313,101
Foreign direct investment, net inflows (BoP, current US$)	$1,143,424	$1,531,897
Tuvalu		
GDP (current US$)	$49,790,633	$9,147,803
Foreign direct investment, net inflows (BoP, current US$)	$246,287	$73,981
Cambodia		
GDP (current US$)	$24,280,000,000	$4,960,017,921
Foreign direct investment, net inflows (BoP, current US$)	$3,045,388,943	$771,315,768
Myanmar		
GDP (current US$)	$66,990,000,000	$5,862,773,329
Foreign direct investment, net inflows (BoP, current US$)	$2,458,911,758	$1,187,450,069
Rwanda		
GDP (current US$)	$10,337,000,000	$1,986,499,154
Foreign direct investment, net inflows (BoP, current US$)	$278,824,823	$92,053,885
Uganda		
GDP (current US$)	$36,610,000,000	$6,642,364,037
Foreign direct investment, net inflows (BoP, current US$)	$1,426,384,462	$840,238,504
Lao PDR		
GDP (current US$)	$16,660,000,000	$1,987,292,966
Foreign direct investment, net inflows (BoP, current	$1,103,064,413	$360,860,528

US$)		
Nepal		
GDP (current US$)	$32,030,000,000	$6,711,192,972
Foreign direct investment, net inflows (BoP, current US$)	$110,117,450	$62,959,633
Haiti		
GDP (current US$)	$16,610,000,000	$2,668,103,779
Foreign direct investment, net inflows (BoP, current US$)	$101,239,220	$101,439,338
Niger		
GDP (current US$)	$12,868,000,000	$2,347,768,681
Foreign direct investment, net inflows (BoP, current US$)	$606,331,406	$251,337,375
Mali		
GDP (current US$)	$16,780,000,000	$2,519,611,963
Foreign direct investment, net inflows (BoP, current US$)	$525,290,541	$219,019,730

MEDCs		
	Mean ($\bar{x}$)	Std Deviation (σ)
Australia		
GDP (current US$)	$1,448,000,000,000	$164,438,438,329
Foreign direct investment, net inflows (BoP, current US$)	$44,571,956,831	$16,641,968,694
Austria		
GDP (current US$)	$443,900,000,000	$39,747,676,382
Foreign direct investment, net inflows (BoP, current US$)	-$4,754,333,161	$16,368,954,183
Switzerland		
GDP (current US$)	$750,900,000,000	$65,680,117,066
Foreign direct investment, net inflows (BoP, current	-$11,525,702,305	$133,651,528,898

US$)		
Sweden		
GDP (current US$)	$560,300,000,000	$40,911,965,107
Foreign direct investment, net inflows (BoP, current US$)	$20,304,708,583	$19,060,274,843
Belgium		
GDP (current US$)	$539,800,000,000	$53,661,076,313
Foreign direct investment, net inflows (BoP, current US$)	-$8,201,631,520	$31,569,289,967
Canada		
GDP (current US$)	$1,799,000,000,000	$228,640,912,058
Foreign direct investment, net inflows (BoP, current US$)	$46,124,106,954	$13,279,344,294
United States		
GDP (current US$)	$21,450,000,000,000	$3,229,465,039,979
Foreign direct investment, net inflows (BoP, current US$)	$352,001,000,000	$122,936,481,985
United Kingdom		
GDP (current US$)	$2,935,000,000,000	$220,466,676,746
Foreign direct investment, net inflows (BoP, current US$)	$70,870,513,221	$108,823,636,510
Norway		
GDP (current US$)	$446,300,000,000	$73,259,129,124
Foreign direct investment, net inflows (BoP, current US$)	$4,115,670,651	$10,994,986,790
France		
GDP (current US$)	$2,731,000,000,000	$194,619,286,471
Foreign direct investment, net inflows (BoP, current US$)	$49,428,470,345	$35,849,978,796
Germany		
GDP (current US$)	$3,898,000,000,000	$336,015,872,641

Foreign direct investment, net inflows (BoP, current US$)	$85,485,397,762	$54,369,050,585
Ireland		
GDP (current US$)	$399,500,000,000	$104,465,039,341
Foreign direct investment, net inflows (BoP, current US$)	$50,945,613,139	$97,356,544,291
Italy		
GDP (current US$)	$2,031,000,000,000	$135,683,455,145
Foreign direct investment, net inflows (BoP, current US$)	$25,086,912,778	$21,430,337,584
Spain		
GDP (current US$)	$1,365,000,000,000	$113,455,816,167
Foreign direct investment, net inflows (BoP, current US$)	$39,695,789,041	$12,647,270,171
Japan		
GDP (current US$)	$4,799,000,000,000	$352,245,179,764
Foreign direct investment, net inflows (BoP, current US$)	$31,576,769,668	$16,907,200,737

Data Analysis

Hypothesis 1 - Two-sample t-test

Null hypothesis (H_0): *The average FDI inflow to MEDCs is less than or equal to that of LEDCs.*

Alternate Hypothesis (H_1): *The average FDI inflow to MEDCs is greater than that of LEDCs.*

Significance level: 0.05

Mean of MEDC FDI inflows: $\frac{\$795,725,241,987}{15} = \$53,048,349,466$

Mean of LEDC FDI inflows: $\frac{\$16,225,969,762}{15} = \$1,081,731,317$

Std. Dev of MEDC FDI inflows: *$87,435,703,459*

Std. Dev of LEDC FDI inflows: *$1,147,638,492*

T-test value: *0.0181* (obtained using Excel command =T.TEST(array1, array2, tails, type))

T-test value (0.0181) < significance level (0.05); therefore, the null hypothesis is REJECTED, and the alternate Hypothesis is ACCEPTED, i.e., the average FDI inflow to MEDCs is greater than that of LEDCs.

Hypothesis 2 - Pearson's product-moment correlation and Fisher's z-transformation test

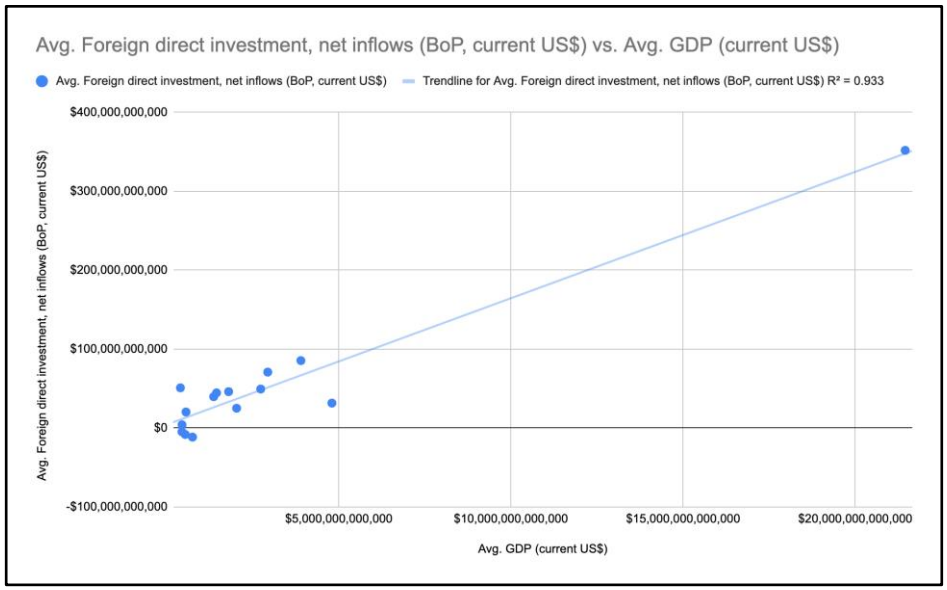
Null Hypothesis (H_0): *The correlation between FDI inflow and GDP growth rate is the same in MEDCs and LEDCs.*
Alternate Hypothesis (H_1): *The correlation between FDI inflow and GDP growth rate is different in MEDCs and LEDCs.*

Significance level: 0.05

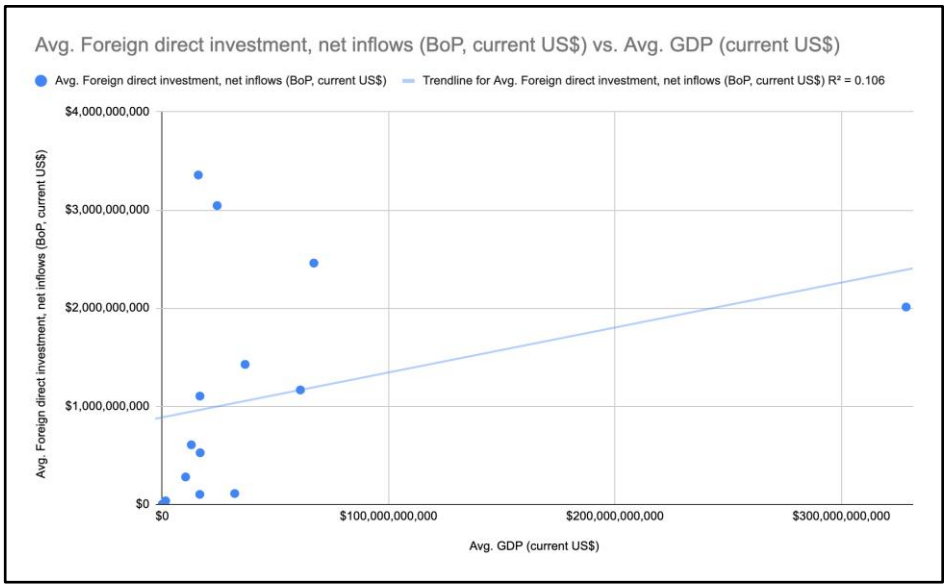
MEDCs Pearson's product-moment correlation (□) = 0.966 (strong positive correlation)*

LEDCs Pearson's product-moment correlation (□) = 0.325 (weak positive correlation)*

**The Pearson's product-moment correlations were derived using the below graphs*



Graph 1: Line of Best Fit and Pearson's Correlation for MEDCs



Graph 2: Line of Best Fit and Pearson's Correlation for LEDCs

Fisher value for MEDCs: 2.028697888 (obtained using Excel command =FISHER(r-value))

Fisher value for LEDCs: 0.3372275238 (obtained using Excel command =FISHER(r-value))

Std Error: $\sqrt{\frac{1}{(\square\square\square\square\ \square\square\ \square\square\square\square\square\square\square\square\square\square\ 1-3)}+\frac{1}{(\square\square\square\square\ \square\square\ \square\square\square\square\square\square\square\square\square\square\ 2-3)}}=\sqrt{\frac{1}{15-3}+\frac{1}{15-3}}=$

0.4082482905

Z test: $\frac{2.028697888-0.3372275238}{0.4082482905} = 4.143239308$

Two-tailed p-value: *0.00003* (obtained using Excel command =2(1−CDF))

P value (0.00003) < significance level (0.05); therefore, the null hypothesis is REJECTED, and the alternate hypothesis is ACCEPTED, i.e., MEDCs have a stronger correlation between FDI inflow and GDP growth rate as compared to LEDCs.

Hypothesis 3 - F-test

Null Hypothesis (H_0): *The variances of FDI inflows in MEDCs and LEDCs are equal.*
Alternate Hypothesis (H_1): *The variances of FDI inflows in MEDCs and LEDCs are different.*

Significance level: 0.05

Variance of MEDC: □□□ □□□□□□□□□□ □□ □□□□□^{2} = *$87,435,703,459$*^{2} = *7,645,002,239,453,300,000,000.00*

Variance of LEDC: □□□ □□□□□□□□□□ □□ □□□□□^{2} = *$1,147,638,492$*^{2} = *1,317,074,108,320,030,000.00*

F-Statistic: $\frac{\square\square\square\square\ \square\square\square\square\square\square\square\square}{\square\square\square\square\ \square\square\square\square\square\square\square\square} = \frac{1,317,074,108,320,030,000.00}{7,645,002,239,453,300,000,000.00} = 0.0001722791004$

Two-tailed F-test: *0.00000000000000000000000015252163* (obtained using Excel command =2*min(F.DIST(x,df1,df2,TRUE),F.DIST.RT(x,df1,df2)))

F test value (0.00000000000000000000000015252163) < significance level (0.05); therefore, we firstly REJECT the null hypothesis and ACCEPT the alternate hypothesis, i.e., the variances of

FDI inflows in MEDCs and LEDCs are different. Since the F-statistic is less than 1, it would suggest that the variance in FDI inflows is much lower in LEDCs compared to MEDCs

Discussion

Hypothesis 1, i.e., the average FDI inflow to MEDCs is higher than that to LEDCs due to the latter having a greater level of political instability, lacking or weak infrastructure, and smaller economic size, will be accepted based on the results of the t-test conducted on the data of the sample population used in this research. As stated in the hypothesis itself, the primary reasons that may contribute to the average inflows of FDI being higher in MEDCs rather than LEDCs can be attributed to the former's comparatively bigger economy size and potential, stability (both on an economic and political front), and greater infrastructure. Additionally, many investors may opt to invest in well-known companies from countries that have a consistent history of good returns, as it is a much safer option.

Hypothesis 2, i.e., the correlation between FDI inflow and GDP growth rate is higher in MEDCs than in LEDCs due to potential inefficiencies such as corruption and lack of skilled labor in the economies of the latter, will be accepted based on the results of the Pearson's product-moment correlation and Fisher's z-transformation tests conducted on the data of the sample population used in this research. A large part of the reason is the prevalence of corruption in most LEDCs, as mentioned in the hypothesis itself. The result shows that, in fact, LEDCs are less able to convert their FDI inflows to GDP growth which means there is inefficiency in the allocation of these funds in the economy. Moreover, the lack of skilled labour in many LEDCs could imply that the FDI is not used as innovatively and efficiently as required to create drastic changes in economic growth, i.e., GDP.

Hypothesis 3, i.e., the volatility (variance) of FDI inflows is higher in LEDCs compared to MEDCs due to factors such as political instability, terrorism, and economic uncertainty, will be rejected based on the results of the F-test conducted on the data of the sample population used in this research. Based on further research, there are various possible reasons why the volatility of FDI inflows would be higher in MEDCs rather than LEDCs. The most prominent factor may be the

difference in the sectors and industries the FDI goes to. Most MEDCs tend to attract FDI to their energy and technology sectors, as seen in the case of Sweden (US Department of State, 2024). On the other hand, LEDCs get a more significant part of the FDI inflows through the manufacturing sector. For example, 40.5% of Bangladesh's FDI inflow came from the aforementioned sector in 2022-23 (Lloyds Bank, 2024). Since industries such as the technology and energy sectors are widely known to be far more volatile than the manufacturing sector (Marc Davis, 2022), this would impact the volatility of the FDI inflows. Furthermore, FDI inflows into LEDCs may be for more long-term purposes, leading to the funds being locked in for a lengthier and less volatile period.

Conclusion

A country's GDP is the most widely used measure of the state of an economy's development and progress. Although simple, it is fundamental in classifying economies. The volume and sources of injections and leakages can significantly affect the GDP, with the most impactful injection being FDI. This type of long-term, substantially large investment makes up the majority of an economy's injections and is vital in its functioning. However, the amount of FDI received, its volatility, as well as its effectiveness in improving the economy varies from country to country, and this paper aimed to analyze how these aspects differ between MEDCs and LEDCs.

The Investment Development Path theory helps connect the FDI of an economy or country to its state of development, highlighting how, as a country develops, it first tends to attract investment but later starts investing in other countries. This correlation was further expanded on by the theory of Dunning's Eclectic paradigm, which discusses the general features that make a country attractive or appealing to FDIs. These features include ownership advantages, location advantages, and internalization advantages, which are discussed in detail in the literature review. Although, according to these theories, LEDCs seem to be an ideal fit for FDIs, there are various other factors, such as corruption, political instability, and lack of skilled labor, that strongly affect investors' decisions. This is clearly shown in the example of Afghanistan which saw a steep decline in their FDI inflows despite being an ideal country according to Dunning's Eclectic Paradigm.

Based on various tests conducted on a random sample of 15 MEDCs and 15 LEDCs, it was found

that MEDCs do, in fact, have a higher inflow of FDIs than LEDCs, confirming the first hypothesis. Additionally, results also pointed to a higher effectiveness in the use of FDI in MEDCs than LEDCs, as shown by a much stronger correlation between FDI inflow and GDP growth rate in the former. However, the third hypothesis was proved incorrect, as the tests showed that the volatility of FDI inflow was much greater in MEDCs than in their counterpart. The cause of this is likely the volatility of the sectors in which the investment is commonly made and the length for which the investment is intended, as elaborated in the discussion.

While the results and conclusion of this paper are strong and able to provide an answer to the proposed research question, it is vital to acknowledge any limitations in the methodology and propose how these can be improved in the future. Firstly, the study used only 15 MEDCs and 15 LEDCs. This implies that the conclusion obtained is representative of a smaller sample population. In the future, such a study may be conducted with a wider database as this could improve the accuracy of the results and better account for any anomalies. Moreover, a continent-specific comparison between MEDCs and LEDCs may also be interesting as the differences in geographic advantages could be further explored and compared through such a study.

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