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Foreign Direct Investment And Poverty Reduction

Abstract

This paper provides a detailed survey of the literature on the impact of foreign direct investment (FDI) on poverty reduction, outlining the theoretical and empirical relationship between these variables. Although a number of studies have been done on the impact of FDI on poverty reduction, the majority of these studies have focused on the indirect impact of FDI on poverty reduction. The bulk of the literature reviewed supports the positive effects of foreign direct investment on poverty reduction, although a few studies have also found foreign direct investment to have an adverse or insignificant effect on poverty reduction. This study differs fundamentally from previous studies in that it focuses on the direct impact of FDI on poverty reduction, giving a detailed review of the nature of this relationship.

***Keywords**: Foreign direct investment; poverty reduction; dynamic impact*

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1. Introduction

The indirect impact of FDI on poverty reduction through the FDI-economic growth relationship has been extensively covered in the literature. The majority of these studies assume that what is good for growth is good for the poor (Sumner 2005, p. 275). The absence of a simple positive impact of FDI on poverty reduction has motivated investigations on the possible direct impact of FDI on poverty reduction. The literature on the direct impact of FDI on poverty reduction is still scant.

Although the Millennium Development Goal (MDG) of reducing extreme poverty and hunger by 2015 has been achieved at the global level, some countries still experience high poverty levels (United Nations 2015). As the struggle to eradicate poverty continues, a post MDG was signed in 2015 under the United Nations (UN) Sustainable Development Goals, adding more pressure to developing and developed governments to seek solutions to poverty reduction in national and international relations. Conflicting results on the relationship between FDI and poverty reduction has left policy makers with a number of questions about the benefits that can be derived from liberal policies that promote FDI inflows. The existing studies, which are based on different countries, poverty proxies and varied econometric approaches, have failed to provide a conclusive answer to the FDI-poverty nexus.

This paper provides a detailed survey of the literature on poverty reduction and foreign direct investment (FDI) from both a theoretical and empirical perspective. The theoretical link between FDI and poverty reduction, which includes but is not limited to spillover effects, employment and investment capital is well documented, although empirical findings from different studies are divided. Some empirical studies have found FDI to reduce poverty, while others have found FDI to have an adverse effect on poverty reduction, and yet others have found an insignificant impact. The conflicting results from the empirical studies that have been done, and the need to find a solution to poverty makes another literature survey pertinent to shed more light on this relationship. The rest of this paper is divided as follows: Section 2 discusses the theoretical literature on the relationship between FDI and poverty; Section 3 provides an outline of the empirical literature on the impact of FDI on poverty reduction; and Section 4 provides the concluding remarks.

2. The Impact of FDI on Poverty Reduction: A Review of the Theoretical Literature

The impact of FDI on poverty reduction has been surrounded by much controversy, and up to now investigations continue in an effort to disentangle the possible benefits of FDI on poverty reduction. The literature on the impact of FDI on poverty is divided between finding a positive impact of FDI on poverty reduction, and a negative one, or an insignificant impact of FDI on poverty reduction. Some of the positive contributions of FDI to poverty reduction are achieved through spillover effects, employment creation, and an increase in investment capital (Meyer 2004; Gorg and Greenaway 2004). Literature that supports a negative or insignificant impact of FDI on poverty reduction is covered by the dependency theory, which explains the underdevelopment of developing countries and how the nature of development results in poverty.

2.1 Foreign Direct Investment and Poverty Reduction Linkages

Spillover effects can be divided into two categories, namely horizontal and vertical. Horizontal spillover effects arise from non-contractual and non-market transactions, where external parties, in this case domestic firms, enjoy resources from foreign firms (Meyer 2004, p. 260).These spillover effects are also called externalities (Meyer 2004). According to Meyer (2004), spillover effects in this category predominantly take place in an intra-industry setup.

Horizontal spillover effects result from the transfer of technology from foreign firms to local firms under the same level of operation but at a different level of technological sophistication (Falore and Winkler 2012). Knowledge spillover takes place through demonstration effects and labour movement (Meyer 2004, p. 262). Demonstration effects arise from domestic firms that imitate the product innovation of foreign firms (Meyer 2004, p. 262). The presence of a foreign firm makes the adoption of new technology by local firms easy, as they can witness from foreign firms the feasibility of producing a new product and build confidence before adopting the technology (Meyer 2004). Thus, technological spillover is achieved through imitation of technology and products by local firms (Wang and Blomstrom 1992; Gorg and Greenaway 2004; Meyer 2004).The imitation process can involve the dismantling and reassembling of products from foreign firms by local firms – so-called ‘reverse engineering’ (Wang and Blomstrom 1992; Gorg and Greenaway 2004).

Horizontal spillover through labour movement results when a foreign subsidiary employs local labourers and provides training to the labourers aligned to the level of technology that is employed by the firm (Meyer 2004; Calvo and Hernandez 2006). The improvement in human capital leads to improvement in welfare for the employees and in technological spillover through the movement of labourers to local firms. This improvement in human capital has two effects on the labourers' welfare. Firstly, it enhances the quality of human capital for the local labourers. Secondly, the labourers are more highly paid than their counterparts, implying high income (Borensztein *et al*., 1998). The trained labourers also become competitive, and transfer of technology is achieved if they are employed by domestic firms in the host country (Meyer 2004). Related to technological spillover is a bundle of benefits, such as marketing skills, managerial skills, and market access through multinational companies' connections (Gorg and Greenaway 2004).

Vertical spillover, on the other hand, results from consumer and product surplus where inter-industry relations are involved (Meyer 2004). Vertical spillover is realised through the interaction between a foreign subsidiary and economic agents in the host country. Vertical spillover is composed of backward and forward linkages (Gorg and Greenaway 2004; Sumner 2005; Liu *et al*., 2009). Backward linkages involve the sourcing of intermediate goods by a foreign subsidiary from domestic firms (Gorg and Greenaway 2004; Meyer 2004; Liu *et al*., 2009). The increase in demand for intermediate goods consequently leads to an expansion in production in local firms (Gorg and Greenaway 2004). In addition, the foreign firms may assist local firms in management and organisation; insist on improvement in the quality of the products supplied, which puts pressure on local firms to adopt new technology; help to secure raw materials; and offer technical assistance, which is important in the production of quality products (Meyer 2004).

Forward linkages involve the growth of an industry that uses the output from the foreign subsidiary (Sumner 2005; Liu *et al*., 2009). The benefits derived from the establishment of a foreign subsidiary depend on the strength of the forward linkages and the sector to which the subsidiary belongs. The mode of entry of the foreign subsidiary also plays a significant role in the welfare increase gained by the host country through forward linkages (Meyer 2004; Sumner 2005). For instance, greenfield FDI creates new businesses, which increases competition and employment, in comparison to acquisitions, which may involve transfer of ownership for a fully operational business (Meyer 2004).

Other factors that determine spillover effects in intra-industry and inter-industry include the technological gap between the domestic and foreign firm, local firms' absorptive capacity, country institutional capacity, and foreign firm characteristics (see, Meyer and Sinani 2009; Kemeny 2010; Falore and Winkler

2012). Spillover effects increase when there is a technological gap between the domestic and foreign firm that gives the domestic firm a catch-up potential (Wang and Blomstrom 1992; Farole and Winkler 2012). Spillover effects are also enhanced if the foreign firm allows diffusion of technology to local firms (Meyer and Sinani 2009). Besides technological gap, the absorptive capacity of the domestic firm plays a crucial role in the ability to recognise new technologies, develop capability, and in the motivation to adopt the new technologies. Meyer and Sinani (2009) summed up the characteristics as the awareness, capability, and motivation of the domestic firm to adopt new technology.

The absorptive capacity of the local firm, which includes both the level of education and of infrastructure, helps to enhance the ability of the domestic firm to adopt new technology (Borensztein *et al*., 1998; Klein *et al*., 2001; Alfaro *et al*., 2009; Falore and Winkler 2012). Falore and Winkler (2012) added firm size and location to the list of factors that play a role in spillover effects. The larger the firm, the better it is placed, in terms of capacity, to adopt new technology (Falore and Winkler 2012). Country characteristics and institutional frameworks play a role in determining the spillover effects from foreign firms. Labour market regulation and financial development are some of the factors that determine the extent to which the domestic firms and the economy at large benefit from FDI (Falore and Winkler 2012).

Besides country characteristics, the foreign subsidiary's characteristics also play a role in determining spillover effects (Falore and Winkler 2012). The foreign firm's ability to diffuse technology to local firms and the business strategy adopted – sourcing and technological intensity – determine the contribution to welfare of the changes in the host country (Klein *et al*., 2001; Farole and Winkler 2012). If the foreign firm is co-sourcing oriented – relying on imports – then spillover effects are limited in both intra and inter-industry linkages. The same applies if the foreign firm's business strategy is co-location – the firm also locates with the firm that supplies its inputs (Falore and Winkler 2012).

2.2. Benefits of Foreign Direct Investment for Poverty Reduction

Apart from spillover linkages, foreign direct investment provides other benefits to the host country (Klein *et al*., 2001). Some of the benefits are an increase in the investment capital essential for economic growth and employment opportunities. The effect of FDI on poverty in the host country is not a simple relationship, but rather varies depending on a number of factors.

FDI provides the modern technology and investment capital so important for economic growth (Klein *et al*., 2001). The resulting economic growth plays an important role in poverty reduction. Sumner (2005) highlighted the importance of FDI on investment capital through the capital account net effect. A net positive transfer on the capital account leads to an increase in investment, which results in high economic growth (Sumner 2005). The effect of FDI on investment capital depends on the net effect of FDI inflows and repatriation of profits, royalties, and intra-subsidiary loans paid out by the foreign subsidiary (Sumner 2005). The increase in investment capital as a result of FDI inflows also depends on the substitution and complementarity between FDI and domestic capital (see De Mello 1999).The more FDI is complementary to domestic investment, the higher is its contribution to poverty reduction (De Mello 1999). On the other hand, if FDI substitutes domestic investment, which results in the crowding out of domestic firms, then FDI's effect on total investment capital and poverty reduction depends on whether the crowd-out effect is fully offset by the new FDI investment (De Mello 1999).

The mode of entry of FDI plays a key role in the effects of FDI on poverty reduction in the host country (Meyer 2004). FDI can be in the form of mergers and acquisition or greenfield. FDI in the form of mergers and acquisition may not result in an increase in capital or industry activity, but a change of ownership (Meyer 2004). This form of FDI brings less welfare-changing benefits to the locals (Meyer 2004). Conversely, greenfield FDI – which is new capital investment – brings more benefits to the host country than mergers and acquisition (Meyer, 2004). Caution needs to be taken, however, in cases where the FDI is capital intensive or employs advanced technology when the host country may lack supporting skilled labour (Calvo and Hernandez 2006). The variation in the mode of entry of FDI makes any generalisation of the impact of FDI on the host country inappropriate. A country-by-country analysis of the relationship between FDI and poverty reduction remains essential.

The benefits of FDI on the host country may vary according to the orientation of the foreign subsidiary (Chang 2003). FDI can be market seeking, which results in an increase in local content and employment; raw material seeking, where the host country benefits from exports, but employment and spillover effects may be limited; or export seeking, which contributes to export earnings and technological transfer as the subsidiary employs advanced technology to produce competitive goods for export (Chang 2003).

According to Klein *et al*. (2001: p. 12), if FDI follows the "race to the bottom", where FDI subsidiaries look for countries with low labour costs, low taxes, and low social standards, the overall impact of FDI inflow on economic growth and poverty reduction is limited (Klein *et al.*, 2001). On the other hand,

FDI that lead to an improvement in welfare in the host country in the case of a "race to the top" (Klein *et al*., 2001, p. 13). In this instance FDI causes an improvement in welfare through income growth in the host country over time.

Taxes paid by FDI subsidiaries improve government revenue and enhance the capacity to provide basic services and other redistributive programmes that are crucial for poverty reduction (Klein *et al*., 2001). The general improvement in government capacity to provide high-quality and wide coverage of basic services is important for poverty reduction. The effect of taxes paid by FDI on poverty reduction depends on the size of the government fiscal incentives offered to attract FDI. Excessive fiscal relief and subsidies for FDI may weaken the government account (Sumner 2005).

The level of development of the host country plays a key role in determining the extent to which the benefits of FDI are harnessed towards poverty reduction (Meyer and Sinani 2009). The level of economic development determines the ability of the country to provide local firms that are capable of drawing benefits from the entry of FDI, the necessary skilled labour force, and the ability of the host country to craft FDI policies that help in poverty reduction (Meyer and Sinani 2009). The variation in the level of economic development results in a wide margin between the benefits derived from FDI in poor and rich countries (Meyer and Sinani 2009; Kemeny 2010). The impact of foreign direct investment is strong in low income countries with high levels of social capabilities (Kemeny 2010). Social capabilities include a supportive institutional framework, effective communication, a well-educated labour force, and infrastructure support (Kemeny 2010).

3. A Review of the Empirical Literature on the Impact of FDI on Poverty Reduction

The empirical literature on the direct impact of FDI on poverty reduction is limited, and the results are divided. Some studies have found FDI to reduce poverty, others have found FDI to worsen poverty, and yet others have found FDI to have an insignificant impact on poverty. Thus this section discusses the empirical literature on empirical studies that have found a positive impact of FDI on poverty reduction, those that have found a negative impact of FDI on poverty reduction, and those that have found FDI to have an insignificant impact.

Studies that have found a positive impact of FDI on poverty reduction include Hung (1999), Jalilian and Weiss (2002), Calvo and Hernandez (2006), Reiter and Steensma (2010), Gohou and Soumare (2012), Zaman *et al*. (2012), Mahmood and Chaudhary (2012), Fowowe and Shuaibu (2014), Shamim *et al*. (2014), Ucal (2014), Bharadwaj (2014), Israel (2014) Soumare (2015), and Uttama (2015).

Hung (1999) analysed the relationship between FDI and poverty between 1992 and 2002 in a sample of 12 provinces and cities in Vietnam. Using poverty incidence as a measure of poverty, and using panel data, the study found FDI to reduce poverty. Hung (1999) found that a 1% increase in FDI reduced the number of people living in poverty by 0.05%. This direct impact of FDI on poverty reduction was found to be higher than indirect effects through GDP growth.

Jalilian and Weiss (2002) investigated the effect of FDI on poverty in the ASEAN countries during the period 1997 to 2007, using unbalanced panel data and the income of the bottom 20% of the population as the poverty measure. They found that FDI had a positive impact on the poor through increase in income.

Calvo and Hernandez (2006) investigated the impact of FDI on poverty in Latin America between 1984 and 1998, using panel data and the poverty headcount and poverty gap as proxies for poverty. They found that the benefits of FDI benefits varied depending on initial local conditions and the orientation of the foreign subsidiary. They found FDI to decrease poverty at an aggregate level. If foreign capital doubled, the poverty headcount declined by 5.3% (Calvo and Hernandez 2006). A further classification of countries into those with low and high FDI potential reveals a strong and significant relationship between FDI and poverty in those countries with a low FDI potential.

Reiter and Steensma (2010) carried out a study on the relationship between human development, captured by the Human Development Index (HDI), and FDI in a sample of 49 developing countries between 1980 and 2005. Using unbalanced panel data, the results were consistent with the findings of Jalilian and Weiss (2002). FDI had a strong, positive impact on human development – poverty reduction – if restriction and discrimination were placed on FDI. They noted the negative effect of discrimination on FDI inflows, but highlighted the channel as having the highest impact on human development.

Gohou and Soumare (2012) analysed the impact of FDI on poverty in a sample of 52 African countries between 1990 and 2007, using HDI and GDP per capita as proxies for poverty. Using panel data and controlling for endogeneity by using the 2-stage least square regression, they found a strong and significant positive relationship between FDI and poverty reduction – with respect to both measures of poverty – in Africa. Using five African free trade areas which constitute five custom unions and monetary unions, they found the impact of FDI on poverty to be significantly different among African regions. Foreign direct investment was found to have a significant positive impact on poverty reduction in Central and East Africa.

Zaman *et al.* (2012) investigated the relationship between FDI and poverty in Pakistan for the period 1985 to 2011, employing the poverty headcount as a proxy for poverty. Using the Ordinary Least Squares (OLS), they found a positive impact of FDI on poverty reduction at the rural, urban, and

national levels. They found that a 1% increase in FDI reduced poverty by 0.47% in urban areas, 0.44% in rural areas, and 0.46% at the national level.

Mahmood and Chaudhary (2012) also investigated the contribution of FDI to poverty reduction in Pakistan between 1973 and 2003, using the poverty headcount as a proxy for poverty. Employing an Autoregressive Distributed Lag (ARDL) approach, FDI was found to reduce poverty in Pakistan.

Fowowe and Shuaibu (2014) investigated the effect of FDI on the poor in a sample of 30 African countries, using pooled data from 1981 to 2011. The World Bank poverty headcount was used as a proxy for poverty. Based on the Generalised Methods of Moments (GMM), they found FDI to be good for the poor. In the same study, and consistent with the findings by Gohou and Soumare (2012) and Fowowe and Shuaibu (2014), the positive impact of FDI on poverty reduction was found to be high in poor countries with a high incidence of poverty.

Shamim *et al.* (2014) examined the impact of FDI on poverty in Pakistan from 1973 to 2011, using the poverty headcount as a proxy for poverty. Using time series data, they found FDI to reduce poverty, just like Fowowe and Shuaibu (2014) and Jalilian and Weiss (2002).

Ucal (2014) analysed the impact of FDI on poverty in a sample of 26 developing countries, using unbalanced panel analysis for the period between 1990 and 2009. He found a negative impact of FDI on poverty in selected countries, thus confirming that FDI plays a role in reducing poverty in these selected countries.

Bharadwaj (2014) studied the impact of FDI on poverty in 35 developing countries from 1990 to 2004. In the study, FDI was used as a proxy for globalisation, while the headcount ratio and poverty gap were used to measure poverty. Using a panel regression, Baradwaj (2014) found FDI to be negatively related to the headcount ratio. FDI was found to be beneficial to poverty reduction in the sample countries.

Israel (2014) investigated the impact of FDI on poverty reduction in Nigeria, using time series data and the poverty headcount from 1980 to 2009. He found FDI to have a positive impact on poverty reduction. This is in contrast to the results obtained by Akinmulegun (2012) and Ogunniyi and Igberi (2014) in separate studies on the impact of FDI on poverty in Nigeria.

Soumare (2015) examined the relationship between FDI and welfare in Northern Africa from 1990 to 2011, using dynamic panel data regression and Granger-causality. In the study, HDI and GDP per capita were used as proxies for welfare. They found a strong and positive relationship between net FDI inflows and welfare improvement.

Uttama (2015) investigated the determinants of FDI and other related factors in the ASEAN countries. Using a spatial panel data model and spatial data from

1995 to 2011, a positive relationship between FDI and poverty reduction was confirmed. The results were consistent in individual countries and when spatial effects were taken into account. According to the results, Uttama (2015) confirmed that FDI had a positive impact on poverty reduction in the sample countries.

However, apart from studies that have found a positive impact of FDI on poverty reduction, there are also a few studies that have found a negative impact of FDI on poverty reduction. These studies include Huang *et al*. (2010) and Ali and Nishat (2010).

Huang *et al*. (2010) examined the impact of FDI on poverty in 12 countries from East and Latin America between 1970 and 2005**.** The mean income of the poorest quintile of the population was used as a poverty proxy. Using unbalanced panel data, they found inward FDI to have a negative impact on poverty reduction.

Ali and Nishat (2010) used time series data on Pakistan from 1973 to 2008 to investigate the relationship between FDI and poverty. Employing Autoregressive Distributed Lag (ARDL) and using the poverty headcount as a proxy of poverty, they found FDI inflows to have a negative impact on poverty reduction in Pakistan in both the short and long run.

There are also some studies that have found FDI to have an insignificant impact on poverty reduction. Studies in this category include Tsai and Huang (2007), Akinmulegun (2012), Gohou and Soumare (2012), and Ogunniyi and Igberi (2014).

Tsai and Huang (2007) studied the effect of inward FDI on poverty in Taiwan, using time series data from 1964 to 2003. In the study, the mean income of the bottom quintile was used as a proxy for poverty. They found FDI to have an insignificant impact on the average income of the poor.

Akinmulegun (2012) investigated the effect of FDI on welfare in Nigeria, using data from 1986 to 2009 and Vector Autoregression. Foreign Direct Investment was found to have an insignificant effect on welfare. These results are consistent with a separate study done by Ogunniyi and Igberi (2014) for Nigeria between 1980 and 2012.

Gohou and Soumare (2012) analysed the impact of FDI on poverty in a sample of 52 African countries between 1990 and 2007. Using the Human Development Index and Gross Domestic Product per capita as proxies for poverty. Using panel data and controlling for endogeneity by using 2-stage least square regression, they found FDI's impact on poverty to be insignificant in the Southern and Northern regions of Africa.

In 2014, Ogunniyi and Igberi investigated the impact of FDI on poverty reduction in Nigeria between 1980 and 2012, using per capita GDP as a poverty proxy. Employing the Ordinary Least Squares, they found an insignificant relationship between FDI and poverty reduction in Nigeria.

Table 1 below gives a summary of the above-discussed empirical studies that support a positive impact of FDI on poverty reduction, those that found a negative impact of FDI on poverty reduction, and studies that found an insignificant impact of FDI on poverty reduction.

Table 1. Summary of Empirical Studies on the Impact of FDI on Poverty Reduction

Author(s)	Title	Region/ Country	Variables	Methodology	Impact
Jalilian and Weiss, 2002	Foreign direct investment and poverty in the ASEAN region	ASEAN	Primary school enrolment ratio FDI/GDP Domestic Investment/GDP Average income of the bottom quintile	Unbalanced panel data	Positive association between FDI and poverty reduction
Reiter and Steensma, 2010	Human development and foreign direct investment in developing countries: The influence of foreign direct investment policy and corruption	Developig Countries	Human Development Index FDI inflows policy variables corruption foreign aid	unbalanced panel data	Positive association between FDI and poverty reduction
Zaman *et al.*,2012	The relationship between foreign direct investment and pro-poor growth policies in Pakistan	Pakistan	poverty headcount FDI stocks Gini coefficient Inflation Exchange rate	Ordinary Least Squares	Positive association between FDI and poverty reduction
Gohou and Soumare, 2012	Does foreign direct investment reduce poverty in Africa and are there	Africa	Human Development Index per capita Gross Domestic Product economic variables business	Panel data analysis	Positive association between FDI and poverty reduction in Central and East Africa

Author(s)	Title	Region/ Country	Variables	Methodology	Impact
	any regional difference?		environment institutional quality FDI		
Mahmod and Chaudhay, 2012	A Contributon of Foreign direct investment in poverty reduction in Pakistan	Pakistan	FDI/GDP poverty headcount government expenditure on health and education economic growth	Auto Regressive Distributed Lag	Positive association between FDI and poverty reduction
Shamim *et al*, 2014	Impact of foreign direct investment on poverty reduction in Pakistan	Pakistan	poverty headcount FDI Gross Domestic Product Financial Development Public Investment	Time series data Cointegration technique	Positive association between FDI and poverty reduction
Fowowe and Shuaibu, 2014	Is foreign direct investment good for the poor? new evidence from African countries	Africa	poverty headcount FDI Macroeconomic stability institutional quality infrastructure Life expectancy financial development	Generalised Methods of Moments	Positive association between FDI and poverty reduction
Ucal, 2014	Panel data analysis of foreign direct investment and poverty from the perspective of developing countries	Developig Countries	FDI Inflation Per capita Population growth Employment Gross Domestic Product growth rate per capita income growth	Unbalance panel data	Positive association between FDI and poverty reduction
Baradwaj, 2014	Reviving the globalisation and poverty debate: Effect of real and financial integration	Developig World	Poverty headcount ratio Poverty gap Trade openness Inflation Literacy Gross Domestic Product	Panel data regression	Positive association between FDI and poverty reduction

Author(s)	Title	Region/ Country	Variables	Methodology	Impact
	on the developing world		· Terms of trade		
Israel, 2014	Impact of foreign direct investment on poverty reduction in Nigeria 1980–2009	Nigeria	· Headcount ration · FDI · Human capita development · Inflation · Government spending · Infrastructure · Debt	· Time series data	· Positive association between FDI and poverty reduction
Soumare, 2015	Does foreign direct investment improve welfare in North Africa countries	Northern Africa	· HDI · GDP per capita	· Dynamic panel data regression	· Positive association between FDI and poverty reduction
Uttama, 2015	Foreign direct investment and poverty reduction nexus in Southeast Asia	Southeast Asia	· Terms of trade · Openness · FDI · Poverty headcount · Economic factors · Financial factors · Political factors · Infrastructure factors	· Spatial panel data	· Positive association between FDI and poverty reduction
Huang *et al*., 2010	Inward and Outward Foreign Direct Investment and Poverty: East Asia and Latin America	East Asia and Latin America	· Mean income of the bottom quintile · openness · government final expenditure · FDI/GDP	· Unbalanced panel data	· Negative association between FDI and poverty reduction
Ali and Nishat, 2010	Do foreign inflows benefit Pakistan poor?	Pakistan	· Poverty · FDI inflows · Education expenditure · Exchange rate · Infant mortality rate · Female enrolment	· Ordinary least squares · ARDL	· Negative association between FDI and poverty reduction

Author(s)	Title	Region/ Country	Variables	Methodology	Impact
			· Gross domestic product		
Tsai and Huang, 2007	Openness, growth and poverty: The case of Taiwan	Taiwan	· Mean income of the bottom quintile · Share of government expenditure · Openness · Social security in government consumption	· Time series data	· Insignificant impact
Gohou and Soumare, 2012	Does foreign direct investment reduce poverty in Africa and are there any regional difference?	Africa	· Human Development Index · per capita Gross Domestic Product · economic variables · business environment · institutional quality · FDI inflows	· Panel data analysis	· Insignificant impact in Southern and Northern Africa
Okinmulegun, 2012	The Impact of foreign direct investment on poverty reduction in Nigeria	Nigeria	· FDI · Per capita income	· Vector autoregression	· Insignificant impact
Ogunniyi and Igberi, 2014	The Impact of foreign direct investment on poverty reduction in Nigeria	Nigeria	· Real per capita GDP · Gross fixed capital formation · FDI inflows · Human capital · Infrastructure · Inflation · Unemployment · Government size	· Ordinary least squares (OLS)	· Insignificant impact

Source: Various Journal Articles.

4. Conclusions

This paper has presented a survey of the literature on the impact of FDI on poverty reduction. The empirical literature survey reveals an ongoing debate over the impact of FDI on poverty reduction. Although a number of studies have been done, very few have gone full length to review the direct impact of FDI on poverty reduction. To the best of our knowledge, this may be the first study to review extensively the direct impact of FDI on poverty reduction. There is overwhelming support in favour of a positive impact of FDI on poverty reduction, although the magnitude of the effect varies from one sample to another. The methodology, poverty proxy used, and sample size could be some of the factors accounting for the variability in the results of the studies. Despite the positive impact of FDI on poverty reduction found in the bulk of the studies reviewed, the purported negative or insignificant impact found in other studies points to the need for FDI-poverty reduction investigations on a case-by-case basis. This makes generalisations concerning the FDI-poverty reduction relationship inappropriate.

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Streszczenie

BEZPOŚREDNIE INWESTYCJE ZAGRANICZNE A ZMNIEJSZANIE UBÓSTWA

Artykuł zawiera szczegółowy przegląd literatury dotyczącej wpływu bezpośrednich inwestycji zagranicznych (BIZ) na zmniejszenie ubóstwa, przedstawiając teoretyczne i empiryczne relacje między tymi zmiennymi. Chociaż istnieje wiele opracowań poświęconych kwestii wpływu BIZ na zmniejszenie ubóstwa to większość z tych opracowań była skoncentrowana na pośrednim wpływie BIZ na redukcję ubóstwa. Zdecydowana większość przedstawionej literatury potwierdza pozytywny wpływ bezpośrednich inwestycji zagranicznych na zmniejszenie ubóstwa, choć kilka opracowań wykazało również negatywny lub nieistotny wpływ bezpośrednich inwestycji zagranicznych na ograniczenie ubóstwa. Niniejsze opracowanie różni się zasadniczo od poprzednich, ponieważ skupia się na bezpośrednim wpływie BIZ na zmniejszenie ubóstwa przedstawiając szczegółowy przegląd charakteru tego związku.

***Słowa kluczowe**: bezpośrednie inwestycje zagraniczne; zmniejszenie ubóstwa; oddziaływanie dynamiczne*