

“FOREIGN DIRECT INVESTMENT IN DEVELOPING COUNTRIES: LEGAL CHALLENGES AND ECONOMIC BENEFIT”

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Abstract

Foreign Direct Investment (FDI) is a critical engine of economic growth in developing nations, providing transformative advantages such as financial inflows, technology improvements, infrastructure development, and job creation. However, FDI has substantial legal and regulatory concerns, such as political instability, poor institutional frameworks, and reliance on foreign money. This article investigates the dual nature of FDI, including its advantages, problems, and legal frameworks. The research illustrates the economic benefits presented by FDI while addressing the accompanying environmental, social, and governance concerns, using case studies such as Brazil's energy sector, China's infrastructure investments in Africa, and Peru's mining industry. Policy reform recommendations emphasise the need to streamline bureaucratic processes, increase environmental and labour rights, and strike a balance between investor protections and host nations' sovereignty.

Keywords: FDI, Developing Countries, Legal Frameworks, Sustainable Development, Bilateral Investment Treaties.

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1. Introduction

Foreign Direct Investment (FDI) is widely recognized as a powerful driver of economic growth and development in many developing countries. By providing access to capital, advanced technologies, and managerial expertise, FDI addresses critical infrastructure gaps, fosters job creation, and promotes industrial growth. For example, China's Belt and Road Initiative (BRI) has significantly improved connectivity and trade in Africa through large-scale infrastructure projects, such as the Nairobi-Mombasa Standard Gauge Railway in Kenya (UNESCAP, 2019). Similarly, Brazil has leveraged FDI in its energy sector to boost technological advancements and strengthen its position in global markets (OECD, 2021).

However, FDI also presents substantial challenges. Political risks, such as policy instability and expropriation, can deter foreign investors. For instance, Venezuela's expropriation of ExxonMobil's oil assets highlighted the tension between national sovereignty and investor protections, with the dispute ultimately resolved through the International Centre for Settlement of Investment Disputes (ICSID, 2014). Weak institutional frameworks and corruption further complicate FDI, as evidenced in *Shell v. Nigeria*, where inadequate enforcement of environmental standards and governance issues undermined accountability (UN, 2011). Additionally, conflicts often arise between host nations' regulatory autonomy and obligations under international treaties, particularly in areas such as environmental protection and public health (Sornarajah, 2017).

This paper explores the dual nature of FDI in developing countries, analyzing its economic benefits and the challenges it poses. Case studies from Brazil, China, and Peru demonstrate both the opportunities and risks associated with FDI. These examples highlight how foreign investment can stimulate economic growth while exposing host nations to social, environmental, and economic vulnerabilities, such as resource dependency and labor exploitation (UNCTAD, 2021).

The research also offers actionable policy recommendations to enhance FDI's positive impacts. Key strategies include strengthening legal frameworks, streamlining regulatory processes, and aligning FDI policies with Sustainable Development Goals (SDGs). For instance, Rwanda's digitized investment processes have significantly improved its business environment, attracting substantial foreign investments (World Bank, 2020). Integrating

global standards, such as the UN Guiding Principles on Business and Human Rights, can further ensure that FDI contributes to inclusive and sustainable development (UN, 2011).

In addition to addressing these challenges, this paper identifies areas for further research, such as the role of digital transformation in shaping FDI flows and the potential of green investments to advance sustainable development goals. By providing a balanced perspective on FDI, this study aims to guide policymakers in developing countries to optimize the benefits of foreign investment while mitigating its risks.

1.1 Research Methodology

This study employs a mixed-methods approach to explore the complex nature of Foreign Direct Investment (FDI) in developing countries. Through the integration of qualitative and quantitative methods, the research aims to address key economic and legal dimensions of FDI, guided by five central research questions.

a) Qualitative Analysis

To answer Research Questions 2 and 4—What legal and governance challenges do developing countries face in managing FDI? and What strategies can enhance the positive impacts of FDI while mitigating associated risks?—the study conducts in-depth case study analysis. This qualitative component provides detailed insights into the legal and governance contexts that shape FDI outcomes. Selected case studies include Venezuela’s expropriation disputes, Nigeria’s regulatory challenges, Brazil’s energy sector, China’s infrastructure projects in Africa, and Peru’s mining industry. These cases illustrate the intersection of political stability, institutional strength, and policy environments with FDI performance, and they inform recommendations for strengthening legal frameworks and governance practices.

b) Quantitative Analysis

Addressing Research Questions 1 and 5—What are the economic benefits of FDI for developing countries? and How do the impacts of FDI vary between developed and developing nations?—the quantitative component examines economic indicators across countries and regions. Data is sourced from international bodies such as UNCTAD’s World Investment Report and OECD policy reviews. Using metrics like

GDP growth, employment creation, technology transfer, and infrastructure development, the study employs statistical techniques to assess correlations between FDI inflows and sustainable development outcomes. Comparative analysis includes regions such as Africa and Latin America, as well as select developed countries, to evaluate disparities in regulatory efficacy and investment outcomes.

c) Policy Framework Review

To respond to Research Question 3—How can host countries balance investor protections with national sovereignty?—this section examines the role of international legal instruments, specifically Bilateral Investment Treaties (BITs) and Investor-State Dispute Settlement (ISDS) mechanisms. The analysis explores how these frameworks influence investor behavior and impact the policy autonomy of host countries. Attention is given to reform trends aimed at aligning investment agreements with national development goals and ensuring fair dispute resolution mechanisms.

d) Comparative Analysis

Supporting Research Question 5 further, the comparative analysis contrasts FDI patterns in developed and developing countries. It evaluates differences in regulatory approaches, sectoral dependencies, and policy resilience. Case comparisons such as Zambia’s resource-driven FDI reliance versus Australia’s legal capacity to navigate FDI disputes offer valuable insights into best practices and adaptive strategies for emerging economies.

2. Legal Frameworks Governing FDI

2.1. Bilateral and Multilateral Investment Treaties

Bilateral Investment Treaties (BITs) play a central role in regulating Foreign Direct Investment (FDI), particularly between industrialized and developing nations. They aim to create a stable investment climate by ensuring fair and equitable treatment (FET), protection against expropriation, and dispute resolution mechanisms. FET provisions, such as those in the US-India and China-Pakistan BITs, often require host countries to maintain a transparent legal environment for foreign investors. However, their broad interpretations sometimes lead to disputes, as seen in *Metalclad Corp. v. Mexico* (ICSID Case No. ARB/98/5), where a lack of regulatory clarity resulted in financial damages for the host country (Baughen, 2023).

BITs also provide protection against expropriation, ensuring that foreign investments cannot be nationalized without proper compensation. Additionally, they include Investor-State Dispute Settlement (ISDS) mechanisms, which allow investors to pursue claims against host nations in international forums like the International Centre for Settlement of Investment Disputes (ICSID). While these provisions help attract investment, they often limit the regulatory flexibility of host countries in areas such as environmental and public health laws (Sauvant & Sachs, 2009).

Multilateral treaties complement BITs by establishing standardized rules for investor protections. Examples include the ASEAN Comprehensive Investment Agreement (ACIA), which promotes investment within Southeast Asia (ASEAN, 2017), and the Energy Charter Treaty (ECT), which governs energy sector investments (Vadi, 2011). These agreements provide similar protections to BITs, including safeguards against expropriation and ISDS mechanisms. However, they also face criticism for limiting host countries' sovereignty. For instance, in the *Yukos v. Russia* case, the ECT's provisions enabled investors to claim compensation for the nationalization of assets, highlighting the tension between investor rights and state regulatory autonomy (Khor, 2007).

2.2. Balancing Investor Protections and Sovereignty

While BITs and multilateral treaties aim to foster investment, they often constrain host countries' ability to regulate in the public interest. Cases like *Venezuela v. ExxonMobil* (ICSID, 2014) and *Metalclad v. Mexico* (ICSID, 1997) illustrate how overly rigid treaty obligations can lead to costly legal disputes and reduced policy space for developing nations. Therefore, there is a growing need for balanced legal frameworks that protect both investor rights and host country sovereignty. Examples include revising treaty language to allow for environmental and social regulations without breaching investment obligations. Such reforms can ensure that FDI contributes to sustainable development while respecting national priorities (Sornarajah, 2017).

2.3. Benefits of FDI in Developing Countries

Foreign Direct Investment (FDI) serves as a powerful catalyst for economic development in developing nations by addressing capital shortages, facilitating technology transfer, and creating employment opportunities. These benefits are outlined below:

2.4. Capital Inflow

FDI provides much-needed financial resources for infrastructure development, which is vital for economic progress in developing countries. For example, China's Belt and Road Initiative (BRI) has significantly improved connectivity and trade through large-scale infrastructure projects, such as the Nairobi-Mombasa Standard Gauge Railway in Kenya. This railway has reduced transportation costs and boosted regional trade, demonstrating how FDI-funded infrastructure can have ripple effects on broader economic activity (UNESCAP, 2019).

2.5. Technology Transfer

One of the most transformative benefits of FDI is the transfer of advanced technology, managerial expertise, and operational best practices to host countries. India's IT industry is a prime example, where partnerships with multinational corporations have provided access to cutting-edge software technologies and digital infrastructure. These collaborations have not only elevated India's status as a global IT hub but also enabled local businesses to adopt innovative practices, leading to sustained economic growth (WTO, 2020).

2.6. Employment Generation and Skill Development

FDI creates direct and indirect employment opportunities by bringing in multinational corporations that invest in local industries. These companies often train the local workforce, fostering skill development and enhancing productivity. For instance, Toyota's investment in Thailand has transformed the country into a key player in the automotive industry. Beyond immediate job creation, Toyota's training programs have improved the skills of the workforce, positioning Thailand as a regional manufacturing hub (ILO, 2019).

2.7. Industrial Growth and Export Diversification

FDI fosters industrial growth by enabling the establishment of new industries and the expansion of existing ones. This contributes to export diversification and reduces reliance on commodity-based industries. For instance, Brazil's energy sector has attracted significant FDI, leading to advancements in oil and gas production. These investments have not only bolstered Brazil's export revenues but also enhanced the country's energy independence (OECD, 2021).

2.8. Improved Governance and Standards

FDI often brings with it improved governance practices and adherence to international standards. Multinational corporations operating in host countries are typically held to higher environmental, labor, and operational standards. These practices can influence domestic firms and encourage governments to adopt better regulatory frameworks, ensuring long-term sustainable development (Muchlinski, 2007).

2.9. Challenges and Solutions

While FDI offers numerous benefits, its effectiveness depends on the presence of robust legal frameworks and governance structures. Policies inspired by organizations such as the OECD and WTO ensure that investments align with national development goals while addressing social, environmental, and economic challenges. Effective regulation can maximize the positive impacts of FDI while minimizing risks, such as economic dependency or environmental degradation (OECD, 2021; WTO, 2020).

3. Case Study: The Impact of FDI on Brazil's Economy

Brazil's energy sector demonstrates the significant benefits of Foreign Direct Investment (FDI), particularly through contributions from multinational companies like Shell and BP. These investments have generated substantial economic growth, with positive outcomes such as job creation, technological advancements, and increased tax revenues. For example, Shell's investments in offshore oil exploration have strengthened Brazil's position in the global energy market.

However, FDI in environmentally sensitive industries, such as oil and gas, has also raised challenges. Shell's operations in the Amazon faced legal and environmental scrutiny over allegations of deforestation and community displacement. This case highlights the critical need for strong regulatory frameworks that incorporate environmental safeguards and community protections (Kronfol, 2019).

To mitigate risks, Brazil has increasingly emphasized sustainable practices in its FDI agreements. Policies now aim to balance economic development with environmental sustainability, ensuring that FDI aligns with Brazil's broader goals of long-term growth and natural resource conservation (OECD, 2020; Kronfol, 2019).

4. Challenges of FDI in Developing Countries

Foreign Direct Investment (FDI) is a cornerstone of economic development in many developing nations, yet it presents numerous challenges that necessitate robust policy and institutional responses. These include political risks, regulatory hurdles, corruption, and economic dependency.

4.1. Political Risks

Political instability is a significant deterrent to FDI, as changes in regimes or policies can lead to abrupt expropriations. For example, Venezuela nationalized ExxonMobil's oil assets under its broader agenda of resource sovereignty, triggering a dispute resolved through the International Centre for Settlement of Investment Disputes (ICSID, 2014). While Bilateral Investment Treaties (BITs) protect investors from such risks, they often conflict with a nation's need to assert control over critical resources (Sornarajah, 2017).

4.2. Weak Legal Institutions and Corruption

Weak legal systems exacerbate FDI risks by fostering inconsistent contract enforcement and corruption. In *Shell v. Nigeria*, accusations of environmental degradation and human rights violations in the Niger Delta highlighted how inadequate regulatory frameworks undermine accountability (UN, 2011). Transparency International's Corruption Perceptions Index consistently flags developing countries such as Nigeria for poor

governance, which diminishes investor confidence and complicates compliance with international business standards (Transparency International, 2022).

4.3. Regulatory and Bureaucratic Hurdles

Complex and inconsistent regulations often deter FDI by prolonging approval processes and increasing costs. *Vodafone v. India* exemplifies this issue, as retroactive tax claims created uncertainty, leading to international arbitration. The Permanent Court of Arbitration (PCA) ruled in Vodafone's favor, emphasizing the detrimental impact of unpredictable legal environments on investor confidence (PCA, 2016). Simplifying bureaucratic processes, as Rwanda has demonstrated with its digitalized investment system, can significantly enhance a country's attractiveness to investors (World Bank, 2020).

4.4. Economic Dependency

Developing nations risk economic overreliance on FDI, especially in resource-dependent sectors. Zambia's economy, heavily reliant on copper mining, remains vulnerable to fluctuations in global commodity prices, underscoring the importance of diversification (UNCTAD, 2019). Moreover, multinational corporations often overshadow local industries, as seen in Colombia, where Coca-Cola faced accusations of monopolistic behavior that disrupted market competition (OECD, 2021).

4.5. An Overview of Dispute Resolution and Arbitration Challenges

While Foreign Direct Investment (FDI) is often hailed as a vehicle for economic development and technological advancement, it is not without significant shortcomings—particularly in the realm of dispute resolution. Disputes between investors and host states frequently arise due to issues such as regulatory changes, expropriation, or breaches of investment agreements. Arbitration, especially under mechanisms like Investor-State Dispute Settlement (ISDS), has become the dominant mode of resolving such conflicts. However, literature increasingly highlights several flaws in these processes that undermine both investor confidence and host country sovereignty.

Imbalance of Power and Host Country Sovereignty: A prominent criticism of arbitration under ISDS is the power imbalance it perpetuates between multinational investors

and developing countries. Many bilateral investment treaties (BITs) allow investors to bypass domestic legal systems and take disputes directly to international arbitration. This practice often undermines national legal institutions and diminishes the state's ability to regulate in the public interest (Van Harten, 2007). For instance, governments that enact environmental or public health regulations may be sued by investors claiming indirect expropriation or unfair treatment. The *Philip Morris v. Uruguay* case is emblematic, where the state was sued for introducing tobacco regulations, although it eventually won. The sheer cost and time involved in arbitration, however, often discourage countries from pursuing legitimate regulatory actions (Titi, 2014).

High Costs and Protracted Proceedings: Arbitration proceedings are notoriously expensive and lengthy, often taking several years and costing millions of dollars. According to the UNCTAD (2023), the average cost of an ISDS case exceeds \$8 million, with some cases reaching as high as \$30 million. This financial burden is particularly detrimental for developing countries, where legal and financial resources are already constrained. Moreover, these costs can dissuade states from defending themselves, sometimes opting for costly settlements to avoid reputational damage or economic retaliation.

Lack of Transparency and Accountability: Traditional ISDS arbitration is largely confidential, raising concerns about transparency and public accountability. Unlike domestic courts, arbitration tribunals are not bound to disclose proceedings or rationale for decisions, and arbitrators are not subject to standard rules of judicial conduct. This opacity erodes public trust and creates a perception of bias toward corporate interests (Bernasconi-Osterwalder, 2014). Recent efforts like the UNCITRAL Transparency Rules and the Mauritius Convention on Transparency have aimed to address these gaps, but adoption remains limited, and many BITs still prioritize investor confidentiality over democratic scrutiny (Gaukrodger & Gordon, 2012).

Inconsistency and Lack of Precedent: Another major shortcoming is the lack of consistency in arbitral decisions. Since arbitration panels are not bound by precedent, similar cases may yield wildly different outcomes, contributing to legal uncertainty. For example, the cases of *CMS v. Argentina* and *LG&E v. Argentina*, both concerning emergency economic measures, resulted in contradictory rulings on what constituted a breach of fair and equitable

treatment (Schreuer, 2005). This legal fragmentation complicates risk assessment for both investors and states.

Regulatory Chill and Developmental Constraints: The threat of arbitration can lead to regulatory chill, wherein governments refrain from enacting social or environmental regulations to avoid litigation. This dynamic undermines efforts toward sustainable development and disproportionately affects marginalized communities (Tienhaara, 2009). Developing countries in particular may be compelled to maintain investor-friendly but socially detrimental policies out of fear of being taken to international tribunals.

Limited Recourse for Host Countries: While investors can initiate claims, states have no equivalent mechanism to counter-sue investors for violations of national laws or contractual obligations. This one-sided framework contributes to a systemic asymmetry, allowing investors to hold states accountable while largely insulating themselves from reciprocal legal obligations (Van Harten, 2007).

4.6. Recommendations for Mitigation

Addressing these challenges requires a multi-faceted approach. Strengthening legal institutions to ensure consistent enforcement, adopting anti-corruption measures, and revising BITs to balance investor protections with national sovereignty are critical. Furthermore, aligning FDI policies with sustainable development goals—through frameworks like the UN Guiding Principles on Business and Human Rights—can enhance long-term benefits for host nations (UN, 2011; OECD, 2020).

5. Comparative Analysis: FDI in Developed vs. Developing Countries

Foreign Direct Investment (FDI) varies significantly between developed and developing nations due to differences in economic goals, legal protections, and regulatory environments.

5.1. Investment Objectives

In developing countries, FDI primarily targets natural resource extraction and infrastructure projects, addressing capital shortages and basic economic needs. For instance, the China-Pakistan Economic Corridor focuses on energy and infrastructure, essential for Pakistan's development (UNCTAD, 2019). Conversely, developed nations attract FDI in high-value sectors such as technology and advanced manufacturing, supported by robust intellectual property frameworks like the TRIPS agreement (WTO, 2020).

5.2. Regulatory Frameworks and Legal Protections

Developed countries typically maintain stable regulatory environments and advanced dispute resolution mechanisms. In *Philip Morris v. Australia*, Australia upheld public health regulations against investor challenges, demonstrating the ability to balance sovereignty with investment protections (ICSID, 2014). Developing nations, on the other hand, often face inconsistencies and corruption, as highlighted by *Vodafone v. India*, where retroactive tax claims created uncertainty for investors (PCA, 2016). These discrepancies underscore the need for transparent and predictable legal systems in developing economies.

5.3. Dependency and Diversification

Developing countries frequently rely on FDI in resource-dependent sectors, such as Zambia's reliance on copper mining, which exposes them to global commodity price fluctuations (UNCTAD, 2019). In contrast, developed economies attract diverse FDI across multiple industries, reducing vulnerability to sector-specific risks and external shocks.

5.4. Economic Impacts and Challenges

While developed nations leverage FDI to enhance innovation and global competitiveness, developing nations often struggle with challenges such as environmental degradation and weak governance, which can undermine the benefits of foreign investment (Sornarajah, 2017). Addressing these issues through better regulatory practices and diversified investment strategies is critical for sustainable development. In conclusion, while developed countries benefit from strong institutions and diversified FDI portfolios, developing nations must improve legal frameworks, reduce dependency on single sectors, and align FDI with broader development goals to maximize its potential benefits.

6. Case Studies

The worldwide panorama of Foreign Direct Investment (FDI) demonstrates several examples of its transformational influence, while also emphasising the economic and legal complications it imposes. This section looks at two case studies: Chinese investment in African infrastructure and FDI in Peru's extractive industry. Each exemplifies the two-edged character of FDI, providing insights into both the economic benefits and the legal and ethical issues it can raise.

6.1. China's Investment in African Infrastructure

China has emerged as a prominent African investor, notably in infrastructure development through the Belt and Road Initiative (BRI). Investments in nations such as Ethiopia and Kenya have boosted economic growth and increased regional connectivity. For example, the Nairobi-Mombasa Standard Gauge Railway in Kenya, which was sponsored and built by Chinese companies, has decreased transportation costs and increased commerce throughout East Africa (OECD, 2020). Similarly, Ethiopia's railway connecting Addis Ababa and Djibouti has increased access to global markets, demonstrating the power of FDI to reshape local economies.

However, such efforts have not gone without controversy. The *Zambia v. China Nonferrous Metal Mining Group* case exemplifies the issues of labour rights and environmental compliance. Zambian miners complained about dangerous working conditions and unjust treatment at Chinese-operated copper mines, prompting national and international condemnation. Environmental organisations also expressed worry about the impact of mining activities on local ecosystems, claiming breaches of Zambia's Environmental Protection and Pollution Control Act. These disagreements emphasise the dichotomy between economic development and the implementation of labour and environmental norms, emphasising the importance of host countries establishing strong legal frameworks to oversee foreign investments (UNCTAD, 2019).

6.2. Extractive Industry in Peru

Peru's abundant natural resources have drawn significant foreign direct investment, mainly from the United States and China, propelling the nation to the top of the world copper and gold production rankings. While these investments have considerably boosted Peru's GDP and infrastructure development, they have also raised difficult legal and ethical issues.

The *Doe v. Newmont Mining Corporation* case demonstrates the negative aspects of FDI in the extractive industry. Local communities accused Newmont, a US-based mining company, of environmental degradation and human rights breaches at its Yanacocha mine, one of the world's largest gold mines. Allegations included water poisoning, forced displacement, and intimidation of environmental activists. The case highlighted the shortcomings of Peruvian environmental legislation and enforcement systems, as well as the restricted options for redress (EarthRights International, 2015).

This case highlights the need for better environmental and human rights safeguards in FDI agreements. It also emphasises the importance of international mechanisms such as the OECD Guidelines for Multinational Enterprises and the United Nations Guiding Principles on Business and Human Rights, which encourage both host countries and investors to maintain ethical and legal standards in foreign investments (OECD, 2021; UN, 2011).

These case studies highlight the enormous potential and hazards that come with FDI. While China's infrastructure investments in Africa demonstrate the potential for economic change, the Zambia and Peru instances highlight the vital need of striking a balance between development ambitions and strong environmental, labour, and human rights regulations. These instances emphasise the need of host governments implementing strong legislative frameworks and investors adhering to international corporate responsibility norms.

6.3. FDI in Bosnia and the Western Balkans: Impacts and Lessons

Foreign Direct Investment (FDI) has played a crucial role in the economic recovery of Bosnia and Herzegovina and the broader Western Balkans. In Bosnia, ArcelorMittal's investment in the Zenica steel plant revitalized industry and created jobs, but also caused severe air pollution due to weak environmental regulation (FIPA, 2020; Hrnjić, 2019).

Similarly, the EFT Group's Stanari power plant improved energy capacity but increased carbon emissions (World Bank, 2017).

In Serbia, Fiat's investment in Kragujevac modernized the automotive sector and boosted exports, yet was heavily subsidized by the government and offered limited domestic supply integration (Jovanović, 2015). North Macedonia's industrial zones attracted firms like Johnson Matthey, fostering industrial growth, though with minimal local economic linkage (OECD, 2021). Albania's Trans Adriatic Pipeline improved infrastructure but raised concerns over land rights and short-term benefits (Energy Community Secretariat, 2020).

Overall, FDI has delivered jobs, technology, and export growth but often at the cost of environmental harm, low wages, and state-dependence. To maximize benefits, the region must enforce stronger governance, environmental safeguards, and sustainable investment policies.

7. Recommendations for Policy Reform in Developing Countries

To reap the advantages of Foreign Direct Investment (FDI) while minimising its hazards, emerging nations must implement comprehensive policy changes. These changes should attempt to build legislative frameworks that are stable, transparent, and investor-friendly, while protecting the environment and human rights. The following are specific proposals supported by examples from nations that have achieved significant success in combining investment growth with sustainability and social fairness.

7.1. Reforming Investment Laws for Greater Stability

Streamlined bureaucratic procedures are required to attract and maintain international investors. Complex and irregular regulatory regimes can dissuade investors by raising the cost and time necessary for project clearance. Rwanda is a prime example of successful change. The Rwanda Development Board has greatly improved the country's Ease of Doing Business ranking by digitising investment procedures and lowering bureaucratic barriers, attracting major FDI in sectors such as renewable energy and infrastructure (World Bank, 2020).

Other developing countries might follow Rwanda's lead by streamlining permission processes, establishing centralised investment agency, and encouraging openness in regulatory standards. Such safeguards not only boost investor confidence, but also limit potential for corruption, which is a chronic problem in many emerging economies.

7.2. Strengthening Legal and Environmental Protections

Developing nations must include strong environmental and human rights safeguards in their FDI legislation and bilateral agreements. Brazil's Amazon Fund, which was established to battle deforestation and promote sustainable development, serves as an example. The fund, which receives international contributions from countries such as Norway and Germany, illustrates how strong environmental policies may coexist with economic development in resource-rich regions (OECD, 2019).

Furthermore, including principles from international frameworks like as the Equator Principles and the United Nations Guiding Principles on Business and Human Rights can assist to guarantee that FDI projects respect local populations and ecosystems. Developing nations should also develop their domestic legal systems to enforce compliance and enable redress to impacted parties, as seen by Brazil's expanding environmental litigation framework.

Policy improvements in developing nations should prioritise balancing the facilitation of FDI with the enforcement of environmental, social, and governance regulations. Nations may establish an investment climate that attracts international capital while protecting long-term development and local people rights by streamlining bureaucratic processes and improving legislative safeguards. These measures not only strengthen economic resilience, but they also line with worldwide best practices, opening the road for equitable growth and long-term prosperity.

8. Conclusion

Foreign Direct Investment (FDI) is a vital engine of economic development for many developing nations, offering enhanced infrastructure, technology transfer, and job creation. However, challenges such as political risks, regulatory complexities, and economic dependency necessitate strategic policy measures to maximize benefits while minimizing

risks. Strengthening legal frameworks, simplifying bureaucratic processes, and curbing corruption are critical steps to creating a favorable investment climate.

To optimize FDI's potential, developing nations must diversify investments beyond resource-based industries and align them with Sustainable Development Goals (SDGs). Encouraging investment in technology, education, and renewable energy sectors can reduce vulnerabilities, enhance economic stability, and promote innovation. By fostering transparent and predictable regulatory environments, nations can attract sustainable and equitable investments that support long-term development objectives.

Regional cooperation, as exemplified by initiatives like the African Continental Free Trade Area (AfCFTA), can further bolster investment outcomes by harmonizing policies, facilitating trade, and creating shared infrastructure. These collective efforts can drive inclusive growth, strengthen regional economies, and position nations for greater resilience against global economic shocks.

FDI's transformative potential requires more than attracting capital; it demands robust governance, comprehensive reforms, and adherence to international standards. By addressing current challenges and implementing targeted strategies, developing nations can leverage FDI as a catalyst for sustainable growth, equity, and resilience.

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