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Impact of FDI on Economy: A Comparative Study of China and Latvia

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Abstract
This study is about the impact of FDI on economy. It's a comparative study between China and Latvia. Foreign direct investment (FDI) is a potent weapon of economic development, especially in the current global context. It enables developing economies to build up physical capital, create employment opportunities, develop productive capacity, enhance skills of local labour through transfer of technology and managerial know-how, and help integrate the domestic economy with the global economy (Harris, Clive. 2003). Based on the model which has been used in this study to measure the impact of FDI on economy (GDP and CPI), it has been found that China is able to utilize its FDI for growth more efficiently than Latvia as the coefficient of FDI for China is more than that of Latvia. In other words, effect of FDI is more in China than in Latvia. But Latvia is adopting new policies to attract more investors. But they still need to imply many changes like proper infrastructure development to ease the access to the markets. Latvia also needs to make some necessary adjustments in their monetary policies.
Keywords: FDI, Economy, China, Latvia.
Jell Classifications: D25, E20, F63.

Introduction

Foreign direct investment (FDI) is based on incoming of goods/assets with investments in developing countries. It includes most of the assets that are entrants in developing countries: new technologies, modern management competencies, new channels for marketing products internationally, quality, product design, brand names etc.

In a broader definition, FDI involves the acquisition or creation of assets undertaken by foreigners or foreign enterprises in the form of equity holder, asset owner for example land, farm etc., or through mergers and acquisitions. FDI outflows a country means that it is "export of silver" to "buy" or "build" foreign productive capacity; the ownership will remain with the former country. Foreign Direct Investment (FDI) is the financial investment giving birth and maintains, over time, significant degree of influence by the investor on the management of the affiliate.

Multinational companies (MNCs) and foreign direct investment (FDI) have become increasingly important in the global economy. Since the 1980s, FDI has increased twice as fast as international trade and about two-thirds of world trade is conducted by multinational companies.

- In addition, in recent years, total sales (domestic and cross-border) of foreign affiliates of multinational exceeded the value of world trade in goods and services combined.
- These facts sufficiently indicate the danger of allowing FDI in studies of international trade and trade policy.

What determines the location of FDI has been one of the most important issues in international business literature and the recent literature on foreign trade. This is a problem involving the double location country and location of the sector.

Developed countries already have a highly developing economy and advanced technological infrastructure so they prefer to share with their assets. Developing country can be seen by: degree of economic development, gross domestic product (GDP), the per capita income, level of industrialization, amount of widespread infrastructure and general standard of living.

How we know developing countries have many needs for developing, and most of time these countries have their savings or trade gap. From economic theory (equilibrium), S = I (savings equals investment). However, for each economy can rarely succeed equilibrium. For the developing countries economy, different between savings and investments are in the desired level of investment, which each of country tries to gain by capital inflows. This kind of external financing is important for economic and social development. Investment has been identified as a key variable determining economic growth.

Nowadays FDI has grown consistently in range and has succeeded an importance for development finance. It has been acknowledged that FDI can contribute to economic development; all governments want to attract it. However, there are mixed experiences. In this paper, we will be examined FDI regulation in China and Latvia, role of FDI in economic development, FDI influence on GDP growth (China and Latvia), the global and regional trends in FDI flows, and the determinants of FDI. And the last one and not less important, FDI flows changes (China and Latvia) while worlds crisis period. At the end, some suggestions will be advised to Latvian's government to pursue and learn from other developing country like China so that they can improve their inward

FDI. Statistical data will be used to compare the mode of FDI and its impact on different variables on economy. The time duration will be 1992-2013.

Determinants of FDI

At the level of the investor, a company may decide to make foreign investment due to several factors, including:

1. integrated back by buying service that their contribution is now being sold cheaper (or only) or differentiate along specific features;
2. horizontal integration by buying a business making the same product, to increase productivity, reduce costs, improve logistics;
3. integrated downstream by buying farm use or distribution of its products for value added along the chain aggressively pushed higher and distribution;
4. Diversify by buying a company with a difference purchaser's activities, to take advantage of new opportunities.

Companies already exports to market can decide to FDI and build a production plant to reduce transportation costs and avoid tariff barriers.

In another vein, FDI is the right vehicle used by a foreign company having a monopolistic advantage vis-à-vis of other companies in the market. Favorable Conditions at host country means that the applicant has the advantage to generate economic profit above expectations to withdraw from the sale or license of benefit to other businesses.

Privileged access to a network of input-output relationships as well as providers of information is an important goal of many FDI enterprises. Note that strictly financial considerations are important as well, since a current positive cash-flow is favorable to look for investment opportunities. Together with "rational" reasons, the specific country chosen can often be forecast by an external observer in terms of "imitation", being the same as the target country of other FDI.

At the country level, FDI flows are higher when:

1. healthy financial conditions of companies, but considering that other countries are suffering from a more favorable investment condition;
2. exchange rate is "high" in historical perspective (for example, after reassessment) if foreign companies are "cheap" and exports will be limited - in this case, FDI replaces exports;
3. trade balance is positive, with an increase in exports, imports, because of capital flows offset trade flows in general;

Inflow of direct foreign investment will increase the attractiveness of the country, due to the following factors in different proportions depending on the industry and the country:

1. largest GDP and market potential;
2. top expertise;
3. skilled labor;
4. to low labor costs and wages;
5. low tax rates;
6. lower environmental protection;
7. high tariff protection;
8. favorable laws and public incentives;
9. Deliberate professional and territorial marketing.

In particular, the implementation skills and investment promotion agency, is looking for investors in industries and activities that the country has a competitive advantage and a strong need, make the difference, in terms of size, quality and positive effects of FDI.

At sub-national level, FDI is concentrated generally in the richest part of the country, where wages are higher, also because the investor can find a better infrastructure and logistics easier accessibility from abroad. The empirical evidence weakens the relationship between FDI and low wages. But at the same time, on the macroeconomic front, the net FDI inflow often occurs when a country has a trade deficit.

Literature Review

Economic effect of FDI can be estimated by calculating the share of FDI in the domestic fixed capital formation, the impact of GDP, balance of payments, foreign trade, improve the management level. As part of the citizen accounts of the country and in the equation GDP = C + I + G + (XM) [+ gross investment + government spending + eat (exports - imports], where "I" invest in a home, invest abroad, FDI is defined as the net inflow investment (inflow minus outflow).

A lot of work has been done and many researchers have looked at the effects of foreign direct investment (further FDI) in terms of the company's shareholders, whether on the basis of the host country or the target company or both on literature, it is likely that a foreign company (usually a corporation international) decides to enter the market through FDI another, reduced costs and efficiency than its competitors. Consequences of FDI in terms of the target countries will also be studied in detail. Foreign Direct Investment (FDI), transmitted by transnational corporations, many of the social consequences, one of which is the impact of FDI on economic growth in the recipient country. Most of the researchers to analyze the impact of FDI on economic growth have focused on the United States and Western European countries and implications of FDI on growth targets with important political consequences. If FDI has a positive impact on economic growth, while the country should take it encourages the flow of FDI by offering tax breaks, grants, infrastructure, exemption from import duties and other measures to attract FDI. If FDI has a negative impact on economic growth, while the country was accepted as a prophylaxis to prevent and limit capital inflows, FDI is one of the three major flows of private as well as bank loans and portfolio investment host countries capital. [1]as observed by Carkovic and Levine (2002). In 2000, private capital flows to emerging economies are close to $ 200 billion and FDI accounts for 60% of this amount.

The literature on FDI is mainly focused on the question of why multinationals to invest abroad rather than focusing their efforts on the production in the country of origin and export their products or licensing its technology to foreign countries. The most famous framework used to answer questions relating to this issue is "OLI" (ownership, location and internalization) paradigm or "eclectic" model (Dunning, 1977 and 1981). According to this model, to compensate for the obvious shortcomings of production abroad and to compete successfully in the international market, International should have the advantage of owning their foreign competitors, such as patents, designs or trade mark. If she chooses FDI on exports, it must also have the advantage of location that is closer to the user or to reduce transportation costs. Finally, it must be associated with the advantage internalization MNC, to such an extent that the product is produced by better than allowed in a foreign company.

Agrawal, G., & Khan, M. A. (2011) has found that the idea of "OLI" was formally modeled recently by international economists like Markusen (1995), Helpman (1984), Brainard (1993a) and Horstmann and Markusen (1992) and others provide a comprehensive review of the literature on the theory research and models produced by international economists focusing on MNC. Previous documents and more recent studies by are examples of the use of the property and its benefit and explain the existence and location behavior of multinational corporations.

According to Gudaro, A. M., Chhapra, I. U., & Sheikh, S. A. (2010), in the literature, there is another line of research that focuses on exit strategies of transnational corporations, as only selected FDI and export licenses. In general, multinational corporations can choose one of two strategies: a multi-strategy and overall internal strategy. Multi-domestic strategy emphasizes the penetration of the local market, taking advantage of the ownership of the MNCs. This horizontal shift of FDI received by foreign multinational and produces the same types of products in different countries. In contrast, the global strategy emphasizes efficiency through the integration of production and marketing activities around the world to take advantage of placing the host country as our endowment of natural resources and low labor costs. This strategy is consistent with vertical FDI in which the TNC has been made in different countries, depending on the stage of production.

The existing literature, or in international trade or international trade, it does not provide direct answers to the areas that are most attractive to foreign direct investment, however. This suggests that some skepticism. For example, the argument about property benefits and multi-domestic strategy is obvious, given that FDI comes from comparative advantage and absolute source of rural areas. Rather, the advantage of the argument about location and especially the overall strategy seems to suggest that FDI inflows in the areas of comparative advantage and absolute host country[2].

Empirical data on FDI and economic growth is ambiguous, although it is believed in the theory of FDI is to have many positive effects on the country (for example, increasing productivity, technology transfer economy, the introduction of new processes, managerial skills and know-how, training) and in general, it is an important factor in the modernization of hospitality and promote economic growth. Especially for developing countries, the recent global changes in the 1990s led to consider favorably the FDI-ways, because we believe that they can contribute to the economic development of the country. Therefore, we focus on this in our study to examine the impact of FDI on the growth of the country.

Zhang and K. H. (2006) found that in Early studies on FDI, that the target countries of FDI they receive very little benefit because most of the benefits transferred to the multi-ethnic country. View of the negative impact of FDI on economic growth in the host country, will, while FDI will increase the level of investment and investment performance and can eat in the host country, the pace of growth has slowed due to poor resources or price distortion factor distribution. Some researchers have examined the impact of FDI on the growth of

[1] Carkovic, M., & Levine, R. (2002). Does foreign direct investment accelerate economic growth. U of Minnesota Department of Finance Working Paper.
[2] Gudaro, A. M., Chhapra, I. U., & Sheikh, S. A. (2010). Impact of Foreign Direct Investment on Economic Growth: A Case Study of Pakistan. Journal of Management and Social Sciences, 2, 84-92.

American companies of the host country. Their results showed a negative correlation between two variables. The explanation given was that the release of profits in the United States surpassed the level of new investments for each year of the reporting period 1965-1969. In the new investments, it also includes the reinvestment of income, resulting in an outflow exceeded inflow more. Therefore, most of the FDI came from the capital raised in the country in its new location in the United States, which led to the IDE causes a redistribution of capital from the country's labor intensive to capital-intensive countries. According to Houkai, W. (2002), some researchers like Bos, Sanders and Secchi (1974) found another factor that caused the negative effects of FDI on growth, protectionism and distortion due to the monopolization and finally, depletion of raw materials prices. It's also been examined the impact of FDI on economic growth in third world countries. Empirical test results showed a negative correlation between the level of foreign direct investment and growth in the period 1970-1980. His explanations are consistent with those of Bos, Sanders and Secchi (1974), the output level of the host country of FDI will stagnate if it can happen to monopolization and pricing of transactions, which leads to underutilization of the labor force, and lead to delays in the level of consumer demand for home and eventually led to the stagnation of growth.

Audit Burrell and Pain (1999) the benefits of FDI for the American International in the four countries of the European Union and said that foreign direct investment can affect the performance of the host country in a positive way in which technologies are transferred and whether the host economy of FDI.

He tried Carkovic and Levine (2002) to reconsider the relationship between FDI and economic growth in 72 countries over the period 1960-1995. They share a common the method of moment's estimator (GMM) panel to determine the impact of FDI on economic growth. Their results indicate that for developed countries and emerging economies, FDI inflows have an independent effect on economic growth. In particular, the exogenous component of FDI has a positive effect on economic growth robust, even taking into account the level of education, level of economic development, financial development and openness of the recipient country trade.

According to the United Nations (2001), countries that usually attract a large number of foreign direct investments are those with good economic conditions, high levels of education, high levels of political and macroeconomic stability, growth prospects and favorable investment conditions. From the point of view of the countries with economies in transition, the report notes, the difference between the countries selected as a candidate in the first wave of accession to the EU (Czech Republic, Hungary, Poland, Slovenia and Estonia) and those who will follow in the second wave (Bulgaria, Romania, Latvia, Lithuania and Slovakia). The first group received almost 60% of the total annual flow of FDI. They must take the political decisions that continue to attract more FDI and their location and growth prospects are encouraging. Members of the second group are less fortunate, or from a remote location developed markets or policies hostile foreign investors, or high political risk. Bulgaria and Romania have been characterized for many years' immobility political and economic crises. However, after the major programs of privatization and rapid political change, they were admitted to the second wave membership in the EU. On the other hand, Bosnia and Herzegovina and Croatia has received a lot of foreign aid but have not been able to attract FDI from the slow pace of economic reforms and political instability. Azerbaijan, Kazakhstan, Turkmenistan and Kyrgyzstan in many countries with natural resources (oil and gas from the first three gold medals, the fourth), but it attracted a lot of FDI in extractive industries. In the early 1990s, and later Hungary and Estonia and Latvia showed signs of growth led FDI-. On the other hand, Poland, the economic recovery (1992) before the wave of FDI. Croatia, Slovakia and Slovenia, there were periods of rapid growth without attracting FDI. They found that, although significant technology transfer through FDI, there was a positive effect on productivity and indeed in some cases, negative externalities inter-branch (Czech Republic, Slovenia, Estonia)[1].

Hypothesis Development and Differences in China and Latvian Economies Regarding FDI

Hypothesis Development

In order to develop hypotheses followings, we review a number of related literatures. Using data over the period of 2001 to 2010 Abbas *et al*. (2011) investigated impact of FDI and CPI on the GDP's of SAARC member countries. Conducting a multiple regression analysis authors found significant positive impact of FDI on GDP while a significant negative impact of CPI was observed on these countries. A similar study conducted by Gudaro *et al.* (2010). They study examined the effect of FDI in Pakistan for the period (1981 – 2001) and found a significant positive impact of FDI on economic growth and a significant negative impact of CPI on economic growth of Pakistan which is similar to the findings of Abbas *et al*. (2011).

Wu & Chiang (2008) examined whether FDI can promote economic development. By using threshold regression analysis on data of 62 countries over the period (1975 – 2000), authors found and concluded that FDI has a positive impact on GDP.

Agrawal and Khan (2011) investigated the impact of FDI on economic growth of China and India. Using

[1]Foreign investments in Latvia. (n.d.). Retrieved November 17, 2014, from http://balticexport.com/?article=arvalstu-investiciju-vide-latvija&

data over the period (1993 – 2009), authors conducted OLS regression analysis and found that 1% increase in FDI would result in 0.07% increase in GDP of China and 0.02% increase in GDP of India. Authors also observed that China's growth is more impacted by FDI, than India's growth. Using cross sectional time series data (1985 – 1999), Houkai (2002) investigated the impact of FDI on regional economic growth in China and empirically observed that FDI's inflows lead approximately to ninety percent of the gap in GDP growth rate between eastern developed regions and western undeveloped regions in China. Zhang (2006) investigated the extent of impact of FDI on China's income growth. Author used provincial data over the period of 1992-2004 and observed that FDI inflows affect China's growth positively. Authors concluded that this positive impact seems to increase over time and stronger in coastal regions than inland regions.
Based on the above studies we have developed hypotheses as follows:
H01: There is positive relationship between FDI and the host country's growth, as measured by the GDP.
H02: The magnitude of impact of FDI on Economic growth of China is more than that of Latvia.

Empirical Model
The objective of this study is to investigate the relation of GDP with FDI and inflation (CPI) in the context of China and Latvia. To achieve our objectives, we employ Gudaro et al. (2010) theoretical model as follows:

GDP=F (FDI & CPI)[1]

Thus, empirically we adopt Gudaro et al. (2010) model and employed following multiple regression model:

$$GDP = \alpha + \beta_1 FDI + \beta_2 CPI + \mu$$

In the empirical model,
GDP=Gross domestic product of a country
FDI= Foreign direct invest
CPI=consumer price index (i. e. inflation rate).
We run two separate multiple regressions for China and Latvia to test our hypotheses.

Data Sources and Variables Description
The main source of data is World Bank development indicators produced by the World Bank and thus considered as reliable and authentic. Based on the availability, we consider the data over the period (1992-2013). We used GDP as the dependent variable, measured in GDP (constant 2005 US dollars). To examine the changes, we take the logarithm of GDP amounts in our analysis. FDI was measured by FDI net inflows (in US dollars). And CPI was measured by the annual inflation rate. All data have been taken form World Bank development indicator data bank.

Empirical Results and Discussion
Table 4.1 and Table 4.2 exhibit the estimated results from regression models explaining the impact of FDI on GDP of Latvia and China respectively.

Table 4.1 Empirical results for Latvia

Country	Variable	Co-efficient	T value		F value		R-Square	Adjusted R-Square
			Computed value	Sig.	Value	Sig.		
Latvia	FDI	0.637***	4.093	0.001	12.834	0.000	0.575	0.530
	CPI	-0.27*	-1.735	0.099				
	Constant	23.079***	318.258	0.000				

Note: *** denotes significance at 1%; * denotes significance at 10%.

Table 4.2 Empirical results for China

Country	Variable	Co-efficient	T value		F value		R-Square	Adjusted R-Square
			Computed value	Sig.	Value	Sig.		
China	FDI	0.835***	10.647	0.000	74.829	0.000	0.887	0.875
	CPI	-0.304***	-3.877	0.001				
	Constant	27.812***	331.539	0.000				

Note: *** denotes significance at 1%

According to table 4.1, In case of Latvia, both variables, FDI and CPI are significant at 1% and 10% level of significance respectively and 57.5 % variations are explained by FDI and CPI. F-value is 12.834 and significant. Therefore, we can deduce that model is overall very much significant, and the results are not by chance. As can be seen from table-1, that FDI has a positive slope of 0.637% which is significant at 1% level which means FDI has a significant positive impact on Latvia's GDP while we found a significant negative impact of inflation, measured by Consumer Price Index (CPI). Other things being remaining same, A one

[1] Gudaro, A. M., Chhapra, I. U., & Sheikh, S. A. (2010). Impact of Foreign Direct Investment on Economic Growth: A Case Study of Pakistan. Journal of Management and Social Sciences, 2, 84-92.

percentage change in FDI will bring about 0.637% change in GDP of Latvia meanwhile 1 % change in CPI will cause for -0.27% change in GDP.

Table 4.2 reveals empirical results of our proposed model in case of China. As we see from the table, both FDI and CPI are significant at 1% level and R^2=0.887 indicates that 88.7% variations are explained by FDI and CPI. F-value is found as 74.829 and significant. Thus, the model is well-fitted. Empirically we found FDI has a significant positive impact on China's GDP while a negative impact of inflation is observed. A one percentage change in FDI will bring about 0.835% change in GDP of China meanwhile 1 % change in CPI will cause for -0.304% change in GDP, holding other things constant.

On comparing the impact of FDI on GDP of Latvia and China, China can utilize its FDI for growth more efficiently than Latvia as the coefficient of FDI for China is more than that of Latvia. In other words, effect of FDI is more in China than in Latvia. Following conclusions can be made based on above results:

- The method of attracting FDI in china is greatly very different from Latvian struggles to attract to FDI to their country. Latvia is in a primary stage to attract FDI from other countries and they have done a significant amount of work on it and got a very impressive feedback. If we compare the FDI contribution to GDP for last 4 years with Chinese economy, Latvia has an upper hand. The main reason is Latvia has learned a lot from other countries FDI attraction policies and accordingly they have devised their policies in such way which are very beneficial for interested investors.
- China has a big economy and the infrastructure is very supportive for them to attract FDI but on the other hand, Latvia has not that much developed infrastructure for examples, roads, easy access to the business economic zones, deep sea ports to handle big cargo ships, etc.
- To improve performance and promote sustainable economic growth in the medium term, companies need to invest more in Latvian economy. However, given the low level of savings in the Latvian economy, it is also important to attract more foreign direct investment. While at the same time, Chinese economy has good income per capita but lower than Latvian people but average level of savings in Chinese economy is more than Latvian economy which gives more opportunities to Chinese people to invest or to do business.
- For Latvia, It is also a good time to invest to maintain increasing competitiveness in recent years, given the use of low interest rates, the availability of EU funding and a sound financial position of the company while at the same time Chinese economy is changing overtime as interest rates are higher as compare to Latvia and their exchange rate is increasing, which is creating more troubles for Chinese economy to attract significant FDI as in past decades.

Conclusion, Suggestions and Limitations

Latvia today renews the old to create the new displays and a revitalized national presence on the European scene with pride. The rest of the world is rediscovering Latvia as well. He discovers a country that has been a sovereign state since 1918, but one of the national moods for centuries. A country that has survived two world wars and 50 years behind the Iron Curtain, even more committed to the principles of freedom, democracy and international cooperation. A country with a language, culture and attitude of its own - but with a form of national identity for its dynamic Baltic Sea through the fabric and with different historical influences. Latvia is a Baltic country, a Baltic country, a European country. In 2004, he became a NATO and the European Union and is actively developing its specific role in a global community changing, increasingly globalized.

Latvia is a cornerstone of the prosperity of the Baltic region of Northern Europe. A country of 2.2 million people exploring forward to seeing what it means to live, work and raise their families in a natural environment that can be modeled. It is a place where young people, business, social and cultural national leader have good reason to be optimistic about their future. A future in which Latvia is free to preserve, protect and develop their special place in the world.

After the accession of Latvia to the European Union, foreign direct investment has increased rapidly and peaked in 2011 (EUR 9.370 million). The main factors that encourage FDI inflows of new market opportunities for foreign investors, a stable monetary policy, the advantageous geographical location of Latvia between the EU and the CIS countries, and its well-developed infrastructure. After being hit hard by the global financial crisis, Latvia has implemented major austerity measures. As a result, the economy of Latvia, the confidence of foreign investors and FDI inflows are on the rise again.

Historically, most FDI capital of Latvia came from neighboring countries in the Baltic Sea and other EU Member States. The largest amount of investments in 2011 were Sweden, the Netherlands and Estonia. The stock of FDI in these three countries has increased by 37% of the total stock of FDI in the economy of Latvia at the end of 2011 each of these three countries shows clearly dominant in the areas of investment: Swedish IDE concentrated in financial services (59%), with 24% invested in real estate; 76% of FDI in the Netherlands in real estate, transport, storage and well as in the trade; and nearly 53% of foreign direct investment in Estonia in 2011 was in real estate. Much of the success of FDI in Estonia "transit investments" Scandinavian investors and others through regional offices based in Estonia. In 2011, investments in the EU accounts for about 70% of total FDI inflows.

Overall, however, FDI inflows in Latvia covering a wide range of economic sectors. The largest share of FDI stock is attributable to services: IDE grouped by sector shows that most investment is attracted to real estate transactions (24%) and financial intermediation (23%). FDI in wholesale retail / e of production constitutes 13% and 12% of total FDI stock, respectively.

Latvia has a strong international persistence, because these companies have recognized around the world as Coca-Cola, Bucher SCHOERLING, Schneider Electric, Tieto, Cytec, JELD-WEN, Statoil Fuel & Retail, Generex Biotechnology, Cemex, Brabantia and others have chosen to benefit from the competitive advantages of Latvia.

However, Latvia can attract more FDI if they put more emphasis on research and development of every major potential areas of foreign attraction. This can be done in private and public sectors, as the development of research and development. Investment in public infrastructure, it is also important to improve the business environment and promote the private sector. Moreover, it is necessary to strengthen the basis of the distribution of EU funds in the new programming period, so it encourages companies to make investments in quality.

Conclusion

In this paper, the relationship between FDI and socio-economic factors of China and Latvia have been analyzed and compared as well. It summarizes the main determinants of FDI and their impact on GDP and other key economic factors, including inflation, interest rate, yield, etc. These include the enormous size local market, which exceeds the cheap labor policy of the open door, and tax exemptions and other incentives to foreign investors. Growing FDI in China has affected the Chinese economy through different channels and in Latvia as well but still China is managing to use FDI more effectively than Latvia. Based on analysis in chapter 5 and from media sources like Latvian newspaper and Latvian central bank media reports, here are the main reasons, which mention why China is utilizing its FDI more efficiently than Latvia:

1) Since 1979 China has adopted open door policy and has attracted FDI to modernize its economy while keeping its capitalistic characters. China has adopted a delineated FDI regime in major investment laws and their implementing regulations.

Latvia also adopted the path of liberalization from 1991 onwards but due to lack of political consensus the labor reforms, fiscal reforms has not yet taken place. Also, the red tapism, prevailed in the system, unnecessarily causes delay in approval of projects and de- motivates the investors.

2) Economic activities in Latvia remain less exposed to foreign technologies than other developing countries, despite the increased openness of the Latvian economy following the liberalization of trade and foreign investment.

3) Like China, Latvia also has large numbers of free trade zones and 100% export-oriented units, but location specific and infrastructure bottlenecks hamper their functioning.

4) MNCs (Multi National Corporations) bring with them the latest technologies and managerial know how. It depends on host country how much it can exploit these technology transfers. China strongly encourages the transfer and use of technology.

Limitations Future Research

This paper can not confirm the specific interaction between FDI and GDP, as it could not prove empirically the benefits of the growth of FDI widespread belief in China and Latvia. Only intuitive explanation is been described for the positive and negative coefficients FDI.

And, perhaps, the importance of FDI is not the FDI itself, but the openness of government created to attract FDI. This opening leads to a market economy and a rich economy.

Although the study was able to achieve significant results, there are issues that must be addressed in research and the limitations of this study future.

I. First, it is very difficult to get all the data for China and Lativa in the last twenty-one years, therefore, the study makes several assumptions.
II. Secondly, Latvia and China grew at different times and In addition, this study did not statistically test the determinants of foreign direct investment in emerging markets, because the models do not allow limitations including all determinants, although most relevant determinants were included.
III. Third, this study only discusses China and Latvia, and does not include other emerging markets such as Brazil and Russia (BRIC). the determinants of FDI in the BRIC countries over the past twenty-five years can be added to the results of this study.

Furthermore, analysis of the sector-wise can be done to identify areas that have led to the growth of China and their relationship with FDI flows over time.

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