

T.C.  
İSTANBUL AYDIN UNIVERSITY  
INSTITUTE OF SOCIAL SCIENCES



**IMPACT OF FOREGIN DIRECT INVESTMENT IN HOST COUNTRY:  
CASE OF TELECOMMUNICATION IN AFGHANISTAN**

**THESIS**

**Ahmad Asim HAQZOY**

**Department of Business  
Business Administration Program**

**Thesis Advisor: Asst. Prof. Dr. Emine Zeytinli**

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İSTANBUL AYDIN ÜNİVERSİTESİ  
SOSYAL BİLİMLER ENSTİTÜSÜ MÜDÜRLÜĞÜ

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**To My friends and fellows,**



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## ABBREVIATIONS

<b>ADB</b>	: Asia Development Bank
<b>ARIC</b>	: Asia Regional Integration Center
<b>BITs</b>	: Bilateral Investment Treaties
<b>CAREC</b>	: Central Asia Regional Economic Cooperation
<b>EC</b>	: Electronic Commerce
<b>ECOTA</b>	: Economic Cooperation Organization Trade Agreement
<b>EOC</b>	: Enterprise Operating Country
<b>FDI</b>	: Foreign Direct Investment
<b>GDP</b>	: Gross Domestic Product
<b>GFCF</b>	: Gross Fixed Capital Formation
<b>HC</b>	: Host Country
<b>ICT</b>	: Information communication technology
<b>IDPs</b>	: Internally Displaced Persons
<b>LDCs</b>	: Less Developed Countries
<b>MNO</b>	: Mobile Network Operators
<b>M &amp; A</b>	: Merger and Acquisition
<b>MICT</b>	: Ministry of Information and Communication Technology
<b>MNCs</b>	: Multinational Corporations
<b>MNEs</b>	: Multinational Enterprises
<b>NAFTA</b>	: North America Free Trade Area
<b>OECD</b>	: Organization for Economic Cooperation and Development
<b>ORD</b>	: Organization for Research and Development
<b>PRC</b>	: Republic of china
<b>PTA</b>	: Preferential Trade Arrangements
<b>R&amp;D</b>	: Research and Development
<b>SAARC</b>	: South Asian Association for Regional Cooperation
<b>SAPTA</b>	: SAARC Preferential Trading Arrangement
<b>SD</b>	: Sustainable Development
<b>SIDS</b>	: Small Island Developing States
<b>SMS</b>	: Short Message Service
<b>TAPI</b>	: Turkmenistan-Afghanistan-Pakistan-India gas pipeline
<b>TFA</b>	: Trade Facilitation Agreement
<b>UN</b>	: United Nation
<b>UNCTAD</b>	: United Nation Conference on Trade and Development

**UNESCAP** : United Nations Economic and Social Commission for Asia and the Pacific  
**UNECE** : United Nation Economic Commission for Europe  
**WTO** : World Trade Organization



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## **IMPACT OF FOREIGN DIRECT INVESTMENT IN HOST COUNTRY:**

### **ABSTRACT**

Globalization and economic interaction involved in every part of the daily life and in modern businesses due to growth and international trade and country specialization. Therefore, the purpose of this study is to explore and identify the significant importance of FDI (Foreign Direct Investment) across the country, later examine the spillover of FDI on the host country, the country where a multinational corporation starts its branch of operations, and finally examine its contribution in economic and development of the host country.

The study shows that foreign investment across the countries and regions played a crucial role in economic and development well-being and globalizations. The effect of foreign companies on domestic ones is one of the critical components of the study, the foreign companies' productivity automatically spills over on local firms and in their industries. They must increase their productivity in order to survive in the market.

Part of the study focused on telecommunications, where nowadays has been steady growth across the countries in the world. Telecommunication influenced the growth of unemployment as a whole and just like other businesses telecommunication considered an important dynamic component of a strong economic growth. Telecommunication has helped more in economic growth and development as it promotes sectors such as education, infrastructure, cumulative human skills, capacity building, and improve the public transportations.

**Keywords:** *Economic Integration, Foreign Direct Investments, Host Country, Economic Growth and Development.*



## DOĐRUDAN DIŐ YATIRIMIN ETKİLERİ: AFGANİSTAN TELEKOMÜNİKASON SEKTÖRÜ ÖRNEĐİ

### ÖZET

Büyüme, uluslararası ticaret ve ülke özelleşmesine baėlı olarak küreselleşme ve ekonomik ilişki günlük yaşantı ve modern faaliyetlerin her aşamasında yer almaktadır. Bu nedenle, bu çalışmanın amacı Doğrudan Yabancı Yatırım'ın ülke genelindeki önemini keşfetmek ve tanımlamak, daha sonra çok uluslu bir şirketin faaliyetlerine başladığı yatırım alan ülkeye Doğrudan Yabancı Yatırım'ın dağılma etkisini incelemek ve en son olarak da yatırım alan ülkenin ekonomisine ve gelişimine katkısını araştırmaktır.

Bu çalışma yabancı yatırımın ülkeler ve bölgeler çapında ekonomi ve gelişim refahı ve küreselleşmede önemli bir rolü olduğunu göstermektedir. Yabancı şirketlerin yerel şirketler üzerindeki etkileri bu çalışmanın çok önemli parçalarından biri olup yabancı şirketlerin üretkenliği otomatik olarak yerel şirketler ve endüstrileri üstüne dağılmaktadır. Bu şirketler piyasada kalmak adına üretkenliklerini artırmak zorundadırlar.

Çalışmanın bir bölümü günümüzde dünyada ülkeler çapında istikrarlı bir büyüme gösteren telekomünikasyona odaklanmıştır. Telekomünikasyon işsizliėin büyümesini bir bütün olarak etkilemiş ve diėer işler gibi güçlü bir ekonomik büyümenin de önemli dinamik bir bileşimi olmuştur. Telekomünikasyonun ekonomik büyüme ve ilerleme dışında eğitim, altyapı, giderek artan insan becerileri, kapasite geliştirme ve toplu taşımaların geliştirilmesi gibi birçok sektöre de katkısı olmuştur.

**Anahtar kelimeler:** *Ekonomik Birleşme, Doğrudan Yabancı Yatırım, Yatırım Alan Ülke, Ekonomik Büyüme ve Gelişim*

## **1. INTRODUCTION**

### **1.1 Background and Conceptual Framework**

Modern world of business brings much economic interdependency among countries, hence all business activities become open around the world. There is no hundred percent self-efficiency or self-sufficient economy meaning that goods and services could be produced in one region and exported to another region for consumption and this trend known as foreign direct investment (FDI) where an investor can invest anywhere. This is considered a key factor towards expansion of globalization and key component to facilitate international trade according to the significant attention around the world. Therefore, countries around the globe offer more attention to attract inward foreign investments that motivated by foreign capital investment benefits and positive spillovers to the host country. Impact of FDI might be in different range and could affect the different business channels, increasing national income, economic growth, stimulating and organizing domestic businesses.

Over past two decades FDI has been rapidly growing worldwide and it has strong influence on host countries and their level of development. The empirical aim of this study is to find how potential benefits of FDI effects host countries in development and in transition of economy.

Afghanistan has dramatically attracted FDI in Telecom sectors and I try to find out the determinant and desired side of these inflows. As FDI is an important factor for improving globalization and interaction between customers, supplier and services so in this regards the process facilitates the flow of business transactions worldwide in addition with human and capital flow to host country.

Telecom in Afghanistan has been one of the most promoted sectors which discretely increased since 2002. Promoting and enabling welfare to the society and rescuing the country out of poverty and unemployment, FDI in that area of investment is a great source of job integration and improvement based on corporate social responsibility premises for host country addressing environmental protection, human rights, social change, and other activities that are of importance to the ecosystem and humanity (Clark, 2007, pp. 146-147) Importantly, FDI provides a platform for transferring technology and innovation from developed countries to under developed countries and it smooths the outstretch process for host country (Balasubramanyam et al., 1996, p. 9, De Mello, 1999, pp. 134-136, Xu, 2000, pp. 17-20). FDI is considered to be a unique sole way of integrations and linking the national and international economies.

Additionally, it has been observed in the past two decades that FDI by Multi National Enterprises (MNEs) have been recognized as main driver of businesses around the world (Pusterla & Resmini, 2007, p. 10). FDI involved the movement of human recourse and financial capital across the national boarder (Jigme 2006 p. 36).

An empirical study examined the importance of FDI to business and economic growth in 44 Asian countries between 1996-2006. The effect depends on the stage of development; their outcome shows that financial institution improvement enhances the contribution of FDI on the business and economical raise of the host country (Chee and Nair 2010, p. 13).

## **1.2 Research Questions and Significance of the Study**

FDI is often discussed as a major source of business and economic development in the region, and it spills over the capital to host country, experts, technology and management. It also accesses new employment opportunities considered to assist in economic and development progression. Researchers emphasized on benefit spillover of FDI to the host country. According to the policymakers attracting inward FDI, it is depended on policy of host country. FDI and MNEs are often supposed to be beneficial for the host country's development and business stimulation. They have also provoked

much controversy and social issues. For example, foreign firms often accused of taking unfair benefits and low wages advantages and poor labor standards in developing countries. Multinational enterprises also accused for violating the workforce and human rights in countries where the governments are weak to enforce laws and rights effectively.

The needs for this study were to determine the various spillover channels in the host country, and to encourage governments to attract inward FDI for business and economic growth of country in collaboration with the rest of the globe. Furthermore, overview on different sectors stimulated by inward FDI and their benefit for host country's growth and development, and a comparison of regional inward FDI included to highlight the most attracted country in the region. The positive spillover of FDI in underdeveloped countries is the main purpose of this study. It exposes the significant role of FDI in labor, educational attainment and economical raise and development of the host country. Basically, infrastructure has often said as an important component for attracting inward FDI, occasionally tax and tariffs underpin for study the higher restrictions are found to have negative impact on FDI inflows.

### **1.3 Study Methodology and Approaches**

This qualitative explanatory study has been collected from various secondary data, consisting of overall conceptual approach to FDI as a part of study of international trade. The main determination is to explain the desirable components of international trade among countries and its bilateral benefits. Further effort of the study is to highpoint the main benefits of international trade through FDI and getting deep familiarity with factor of interaction. This research highlights diverse categories, where the host country benefited from FDI which generally, the study included with spillovers of FDI to host country.

Specifically, this study contains the effects of foreign investments in host country, that the term comprised the variety of technology benefits which are used for communications, keeping, retrieving, processing, scrutinizing, communicating

information that are essential to do well in a globalized economy. The vast growth seen in the field of data and knowledge has led to a new rationale for the function of information and communications technologies (ICTs) in diverse cultures. These technologies are now standard as implementation of them is not only for training, but also for progressive community changes, strengthening of human rational capacity and defining modern lifestyles of society. Over the last two decades, a country's capability to adopt and gain from knowledge have become increasingly important to sustain its economical raise and improves living standards. Additionally, telecom can bring facilities and can improve life style, transfer of knowledge sharing that needs to respond to global change occurring in various areas which affect the normal life of human being.

Although, the nature of crises and conflicts are complex and different, complicated and vary due to differ in political and economic history of the regions, so the drivers and strategies to discourse and effectively support those problems are unique. If a strategy works for one country, it does not necessarily work for the other countries too. Every region must cope it based on its geographical and economic criteria to overcome. In addition, there is common value and beliefs as a key component that might be a barrier for sustainable and economic development that need for leadership commitment of strong government policies, attracting people trust throughout a mutual discussion (UNDESAD, 2007, p. 3).

Quantifying the impact of ICT is very difficult, though there is little doubt that ICTs act as catalysts for social and economic development. Evidence remains largely anecdotal, and the link between telecom placement and renovation of development remains to be quantitatively verified. Evidence from recent less developed states changes in the Balkans, Afghanistan, and Iraq have repeatedly confirmed that ICT activities supporting development stabilization, reconstruction, and development operations in an affected nation can be problematic. All those problems came from lack of understanding the culture, behavior and the ICT world, due deficiency of clear mapping of responding stakeholder organizations' roles and responsibilities. Program development, project coordination, information sharing, and ICT implementation are largely uncoordinated

and nonstandard activities. No agreed-upon architecture or plan is in place for the post-conflict nation's ICT reconstruction (Wentz et al, 2008)

Underdeveloped countries do not rank telecom as a main device of reconstruction and development priority equal to infrastructural projects like roads, power, and water; or even as an enabler of cross-sectorial reconstruction and development. As a result, there is no framework for making investment decisions and pursuing ICT-related reconstruction and development progress through the top leadership, the on-site situation also makes the challenges of error-specific interventions in all areas, including ICT, more difficult. Civilian and military responders generally encounter spoilers that interfere with the intervening forces, building requiring reconstruction, roads, power, water, telecommunications, healthcare, and education systems disrupted or dysfunctional, absence of a functioning government as well as laws, regulations, and enforcement mechanisms, refugees and internally displaced persons (IDPs) requiring humanitarian assistance, widespread unemployment and poverty; and a shortage of leaders, managers, administrators, and technical personnel with 21st century information and ICT management, operations, and technical skills. When we observe the real-world experience, we see that ICT can be used to generate social, economic, cultural and political change. But, as already mentioned, it is difficult to quantify the impact of ICT initiatives and the impact of ICT on other factors, Such as civilian security stability, governance or economic growth. (Wentz et al, 2008, )

#### **1.4 Limitation of Study**

This study encountered with several constraints and limitations such as, deficiency of study data, lack of updated reliable and adequate figures, lack of statistical data and source for underdeveloped countries. Since underdeveloped countries are running by international financial aids and donations, the ground for international trade and investments are challenging rare. Due to the lack of availability and reliable resources, infrastructure and other limited resources where the international investors are less likely

to invest in long term projects. One of the main limitations for the previous investigations were deficiency of out dated data and reliable resources.

The most constraint was to access in obtaining comprehensive primary data and accurate graphic data, such as complete graphical figures could not be recovered for under developing countries, like Afghanistan, where for the last three decades political conflicts harmed the infrastructures of the country. Therewith, time constrains also were abstract of data collections. In addition, with some sensitive and privacy information's that could not be shared in public.

### **1.5. Thesis Organization**

The study data encompassed in five explanatory chapters, including introductory, the second one is background of the study and scope of concepts. It also represents the significant of study in different categories for economic prosperity. In addition, this part supported with different FDI opportunities and constrains that can affect the flows of international trade, such as cultures and believes variance among countries, political and security constrains in the way foreign investors.

The third chapter contained an overview of intra-regional trade and international trade cooperation agreements in central Asian countries, presents the scope and economic activities among regional countries and role of international trade agreement facilitation, moreover, discusses the determinants of foreign investments in host country.

The fourth chapter represents the effect of FDI on host country economic wellbeing and spillover of foreign investment in domestic business and its rational factors also in this portion it includes the influence of telecom on different economic activities, which leads to development and economic prosperity.

The fifth chapter is presenting the overall conclusions and findings of study. Generally, this section sums-up the whole study of field, emphasized of importance of FDI and suggestions to attract more foreign inflows in different sectors, with the help of international trade organizations such as, Asia Regional Integration Center (ARIC),

Integration Indicators Asian Development Bank (ADB), the World Bank (WB), World Trade Organizations (WTO) and United Nations Economic and Social Commission for Asia and the Pacific.





## **2. THEORITICAL FRAMWORK OF STUDY**

### **2.1. Definition of Foreign Direct Investment and Determinants**

Since FDI has been determined one of the key driver for stable economic development across the countries, meaning FDI happens while a trade activity flows among two or more countries. Foreign investor's aspects for Right and ownership efficient protection of Assets and properties in Host County. Stable economic and political freedom, low practice of corruption has been shown positive response with higher prosperity and higher inflow FDI attraction cross-countries. Simultaneously, there has been a growing interest in the determinants of FDI in developing countries (IMF, 2003, Acemoglu et al., 2005, pp. 15-18). Authors investigated the link between institutions and FDI. Such an association could be observed as one inter-channel through which institutions push to promote productivity and development growth across the countries. Indeed, good institutions are supposed to utilize their positive influence on development through the promotion of investment in general, which faces less indecisiveness and higher expected rates of return (R&R). Because FDI is now forming a very large share of capital in poor countries (UNCTAD, 2004, pp. 7-8).

Foreign investment promotions effects local institutions to act more competitively, that might be an important influence on growth and development, institutional distance between the parent country and the host country has been so far, an issue, an early study the impact of institutions on FDI by Wheeler and Moody (1992, p. 6). Talking about the principal component of thirteen risk factors (including bureaucratic red tape, political instability, corruption and the quality of the legal system), they did not find a significant impact of good institutions on the location, latterly study by Wei (1997 and 2000)

pointed out corruption as a significant barrier and impediment inward FDI for host country. Emerging and transition countries, due to significant advantage of FDI have liberalized their FDI policy and promoting best policies economy policies to attract foreign investments. It has been observed that the benefit of attracting inward FDI is significant including, modern information technology spillover, Human and capital transformation, improving business environment and competition and enhancing business interactions worldwide. Moreover, apart from growth and well development benefits, foreign investment considered to better the social and environmental issue of host country. By offering standard Technology and supporting social well fare of the host country. And participating and protecting the social and environment, to contribute in economic and prosperity of operating country, which mainly effect the employment generation and decreasing the poverty.

The participation of FDI in social and economic are vary from country to country, depending on the investing firm that what kind of assets and resources they will allocate for host country. It's according to their capabilities and improvements, which they possess. FDI parent company made the decision how and what approaches can be used to target the unemployment and reduce the poverty. The other method is called quantitative analysis of various MTCs capabilities, the cost and benefits relationship. (UNCTAD, 2006, p. 15), to find the common characteristics of parent company and host country (Dunning, 1993, p. 8).

## **2.2. Opportunities of Foreign Direct Investment**

### **2.2.1. Transfer of resources**

Technology transmissions are the most significant factor of transfer through foreign investment may produce as a positive externality in the host operating country, such as facilitating more research and development activities (R&D). As high development countries possess standard technology capabilities their presence in under developing countries can be benefited, therefore host country can generate and benefited more technological spillovers However, how and to what magnitude MNEs provide and

facilitate such spillovers it differs according the nature of sector. (OECD 2002, pp. 12-15).

Study suggests, the degree of technology transfer need to be pertinent to the host country business capabilities, the technological capability of host operating economy is important. Data suggests, FDI have more positive influence over domestic firms on productivity, the technological break between foreign and domestic firms must be an obstacle. Where the technological capability of local economy is low and they are unable to absorb foreign technologies transformation through MNEs. Foreign firms possess modern technology and tools, Vijaya Ramachandran (1993, p. 292), found that technology transmission and the managerial and skills interchange between parent and subsidiary business were considerably higher for entire owned subsidiaries over joined venture subsidiary, long guoqiang (p. 292), found that wholly owned and majority owned foreign-affiliates in china and much more likely to use the most advanced technology available in the parent corporate then 50-50 ownership and domestic firms affiliates is mandatory requirement technology transfer mandates also counter-productive for bringing newest technology to the host country economy (Long Guoqiang 2006, p. 292).

### **2.2.2 Transfer of technology and intellectual properties**

The critical role of technology in business growth is widely accepted technology can play a crucial role in industrialization and in global trade activities. (i.e., many businesses opened the online shopping platform by using technology, the purpose of this offer is to enable customer to access in a new innovative financial services system via their hand phones) Many international researches shown the direct correlation between having fast and safe access to financial services stimulate the economics and business growth whiten countries. This innovative effort made by Etisalat leap to a major step toward social and economic integration (Romer, 1994, p. 27).

The vital important of modern technology in economic globalization are commonly accepted (Romer, 1994, p. 27-28). Technology has crucial impact on integration of

global industries and economic interaction among countries, thus the transfer of technology is a core component of globalization and country productivity. That can contribute in production and can be used as an indirect factor of production by using and utilizing technology as an accessory of production (Hill, 2000, p. 27). However, these possibilities had rare application in underdeveloped countries due to lack of proper technology capabilities. Foreign company can provide the modern technology facility to LDCs in order to compete and interact with global competitors.

MNEs taking risks and invest in long term projects, the inflow of capital tends to be desirable for host country. Its declared that FDI not only contribute to economic development of host country not only providing money but also generate and deploy technology to support the local market that increase the whole benefit of foreign investment in host country (Hill, 2000, p. 27).

Bosworth and Collins studied, the consequence of foreign inward on local venture for many countries they differentiate in three types of inflows: FDI, Greenfield investment and or assets acquisition. That an increase of 1 inflow associated with a 50-cent increase in domestic investment GDP. Once the country attracts FDI capital, it corresponds close one-to-one relationship between FDI and local investments (Borensztein et al, 1998, p. 27), Study found “crowding in” effect for example, that FDI is considered as complementary to national investment. A dollar increases in inflow cause to increase in total investment in operating country economy. Feldstein (2000, p. 27) argues advantage related to capital flows, such as international capital inflows can minimize the risks and allowing them to diversify their investments. Foreign inflow opens international integrations allowing and contributing to practice best corporate policies, rules and regulations. Therefore, global integration and capital diversity prevent the ability of government to bad policies.

### **2.2.3 Human capacity building enhancement**

The foreign owned enterprises could power education transfer of host country, by providing managerial, entrepreneurship and technical knowledge for the operating

country nationalities, meaning that host country will benefit from higher quality training and management experts and this will increase the ability and stock of knowledge in host country. Gaining training from a Multi-National Corporations (MNCs) tend to be more standard and modern than what is in local firms, gaining managerial and financial skills from a foreign can enable workers to establish their local firm such as, supplies, distributor and product agent. Lall and Streeten (1977, p. 6) argue on three benefits of host country. Better and higher training can improve operations efficiency in host country. Entrepreneurial capability finding out new investment opportunities. Superiority arises from training received by employees (such as accounting, executive, managerial) (Dunning, 1993, p. 28). FDI could transfer more updated and technical skills to the host country labors, particularly this transfer is more needed to underdeveloped country. As high development countries possess higher technology capabilities in their presence in less development countries, consequently host country can generate and be benefited more spill overs. However, how and to what magnitude MNEs provide and facilitate such spillovers it differs according the nature.

#### **2.2.4 Jobs opportunities, employment and wages**

The quantitative effect of inward FDI on employment opportunities are both direct and indirect considerable interest in host country, in underdeveloped countries where capital is relatively limit with high rate of unemployment, accordingly the creation of employment opportunities either direct or indirect tend to be one of the most considerable benefits of FDI. The direct effect arises when Foreign MNE train, employ and compensate several operating country citizens, and jobs arises because of local spending. For example, Toyota in France has created 2000 direct jobs and about 2000 jobs indirect in supporting industries. (Hill, 2000) Per Nzomo (1971, p. 27), in Kenya finding shows, foreign inward played important job in employment generation and creation and as well as in indirect job opportunities. FDI activities as directly facilitate round about 27 million works in all developing countries, in addition with a one sole job there were 1.6 automatically additional extra job opportunities (Aaron, 1999, pp. 27-28).

Domestic private business can be benefited by entering business partnership such as subcontracting system with Foreign MNE for supplying raw materials or distribution of goods, entering through (backward linkage) or processing of direct raw supplies for foreign investor merchandise (forward linkage). By both integration forward and backward linkage connection with domestic industries and foreign investments, led to more jobs, sustainable growth and apparently stimulate further economics activities in host country. For instance, local firm supplying spare parts, components and semi-finished goods to foreign firm. Per Nzomo (1971, p. 27), finding from Blomström (1983, p. 32), from a Mexican firm that foreign owned manufacturing paid more wages in compare to local firms about 25 percent different in wages for their labors, data found that foreign companies have more wages level in compare to domestic firms around 25 till 30 percent, despite small manufacturing companies where the discrepancy is less. Several findings of wages and payments in FDI have been base on manufacturing survey information collected by a national survey of WB.

Several empirical findings suggest that, foreign enterprises sought to pay better wages to labors in compare to local firm counterpart, specifically for developed countries. A Survey found, that average wages difference between foreign owned and local owned companies are around 30%. Means multinational enterprises pay more than domestic owned manufacturing. Furthermore, finding from Mexico and Venezuela shows, that wages are better in foreign firms than domestic competitors. But the working conditions might be qualitatively different.

### **2.2.5 Integrate and stimulate international trade and investments**

The earlier economics literature on FDI, the general theory of capital movements from a country to another country, based on a region's geographically location while one country competitive advantage makes an investment in other country (B) is a direct movement to country (B), therefore this movement of capital crosses the border known as foreign investment in host country which two countries involved in. Country (B) is the host country and country (A) is known as a parent company or originated company.

This movement of capital positively affect the domestic productions where previously were note in place in host country. Investing direct to stimulate the local firm's productivity and economic progress (Robert E. Lipsey, pp. 21- 25).

Meantime, while a firm make their foreign investment decision in another market, the level of productivity in operation in both host and parent country remain static Que. Apart from physical benefits of FDI in host country could perceive a flexible advantage from FDI spill overs such as: technological benefits, human capacity building benefits, these benefits a significant important and underpin the economic and development growth of host country Blomstrom and Kokko (1996, p. 5). According to Balasubramanyam (1996, p. 16) findings, export oriented countries might attract more foreign investors and gain great efficiency from Foreign capital, using productivity function of FDI observed an extra input and additional spill overs to domestic resources, these are the necessity sources for skills and technology for economic and growth opportunities.

An economic benefit received from consequences of foreign investment activities is the most important policy for host government. Generally, there are three inward balances of payments in associate with FDI, when an MNE establish an abroad operation the host country benefited from inward capital flow. Second, if the FDI absorb in imports and exports that effect positively the remittance of host country, and the technical fees and taxes are imposed to foreign enterprise while making export for host country territory to other countries market. Foreign enterprise while making export for host country territory to other countries market.

FDI by other countries has strong and has influence in economic growth of host country as well as in economic policies, and stimulating trade between domestic investments and international arena. Blamestorm and Kokko (1996, p. 30) found host country effect of FDI, and Foreign investment played a crucial role in level of export growth in host country. Apart from monitory inflows of foreign, there are some other mentionable factors that affect the economy. Such as contributing in host country trade integrate policies, opening more close integration between foreign and local companies.

Supporting domestic firms by production partnership, supporting the technological and skill improvement of local firms.

The impact of FDI depends on strategic motivation of firm, whether the forms is efficiency oriented-market-seeking or recourse-seeking, FDI can have crucial impact on business and economic progress of host country by subsidiary exports, thus FDI can play an active factor to increase host country's exports productivity. According to OECD Report (2002, p. 16) foreign enterprise may be able to assist economic development by encouraging domestic competition and thereby ultimately leading to great efficiency, minor price and more capable service. More rivalry inclines to bring and stimulate more capital investment by enterprise in equipment's, R&D as well as in technical experts, as they competing to gain edge over their rivals. FDI's influence on competition in domestic markets, especially in the case of services and Telecommunications. OECD study, like trade, FDI act as motive to innovation and competition, encourage domestic enterprise to efficiency (OECD, 1998, p. 47).

Less developed countries (LDCs) cannot attract sufficient foreign capital (FDI) to enable them to achieve and participant in international businesses, which is significant for economic and development growth of a country. Once of the crucial feature of LDCs is their incapability to attract global FDI, the inflow of foreign assets remains insufficient in less developed countries (LDCs) where the country's economy inter dependency has strong influence on international trade of country.

After three decades of political and economic instability, technology has fastened growth since 2002 onward Telecommunication Sectors made perfect improvement and contribute to the GDP of country, become integral part of Social and business in Afghanistan. In early years' communication was difficult due to lack of investment in private communication sectors in country, gradually demand and needs increased over the period due to local and foreign firms exist. Telecommunication technology condition has improved in Afghanistan. Due to socially and economically strong demand for information and communication technology, Afghanistan has made tremendous improvements in past decade which considered a vast accomplishment, even with



problems and challenges. Existence of foreign and local telecom sector increase and improve government revenues, employment opportunities, education, social well fare and many more.

It is obvious, according to international trade empirical study that careful strategic planning

of MNCs is one of the crucial activity of management, it is reasonable to say making future profit is not only factor to accounted there is other factor which influence the MNCs decisions in foreign country, mainly divided into two factors, Country specifications and company specifications. Company specifications are varying among companies to companies of similar or identical, these factors are not limited.

By Demand factor: countries attract FDI whenever there is a strong demand for a product of a company, means company invests when foreign demand is stronger and profitable (de mello 1997), in addition, globalization processes enable companies to expand, invest, and operate across boarder. Cost of production factors: firm seeks to decrease the cost of product and increase profit, whenever for cost of production is comparatively low in foreign country, parent company is interested to transfer its part or whole of its company there (Carbaugh 2000, p. 15).

LDCs benefited countries interesting social and economic benefits, offering modern technology and knowledge, allowing them to switch their comparative advantage to competitive advantage in market. Due to lack of industrialization and infrastructure in the LDCs disable them to attract foreign investors in their tertiary. FDI brings job opportunities and provide capacity building training, in broader scale, FDI can boot local productions and incomes in LDCs, and play an essential in diversification of production. The challenge in front of LDCs and foreign investors is to reduce the obstacle unattractive elements in the business environment and to do business in according to global context. The adverse consequences of FDI on host country is tended to be important issue, as benefits may not be free of loss and some drawback and other adverse effects is according to country condition. Historically more than other capital inflow FDI is given more consideration because FDI controlled by major large

Multinational Enterprise MNEs, can have more power and influence on local industries. Technology transfer from FDI to host country is some positive externalities that host country hopes to gain benefit from modern technology. Blomström and Kokko (2003, p. 30.) argue the spillover of technology is underpinning for host country government toward encouraging FDI inflows. Spillover occur in two ways Voluntary and involuntary. Suggest backward linkage occur when an MNE allow domestic supplier to provide the inputs (Blomström et al., 2000, p. 36). Involuntary occur when domestic industries and MNEs linked to innovations via technology that transferred from developed countries to developing countries. It suggests that technology transfer from developed countries to developing countries can fill the technological gape and this process allowing for domestic industries more effective and higher quality productions. Many authors emphasized the potential benefit of FDI can bring to host country, including by improving pay and jobs conditions both direct and indirect. The productivity spillover tends a positive and more favorable to the host country as domestic industries. MNE productivity possibly is good because of well-paying wages and standard workplace for workers. Aside from productivity MNEs pay higher benefits only to maintain more skilled human resource and keep job security.

### **2.2.6 Foreign direct investment and environmental and social concerns**

FDI has the potential to bring positive effect and bring positive changes in host country through disseminating and initiating good social technology practices, before 20th, MNEs (Multinationals Enterprises) were not involved in political issues of the host country. In the 21st century big corporations gone beyond the economic activities they were deeply involved in political systems in their operating country, (Gabriel, 2006, pp. 19-20). Great MNEs seek influences in the legislative process of the host country, the goal of the investor is to rational profit and tend to force influence in the economic system to protect their investments.

The strategic behavior of MNEs in foreign countries is based on their interests and long-term goals; therefore, many countries have strong and strategic goals. Consequently, leader prefers presence of FDI to use trade to advance their country productivity and

economic – well (Eden, 2009, p. 8). Corporate Social Responsibility is the voluntarily responsibility and contribution of companies towards improvement of environmental protection, human social rights and other society's ecosystem importance (Clarke, 2007, pp. 63-64). CSR basically mentioned 1953 in the social responsibility of a businessman magazine by "William J. Bown".

## **2.3 Constrains of Foreign Investment**

### **2.3.1 Cultural barriers**

Barriers defined to be in different mode broadly comes from government rule, regulations and policies over imports to protect and encourage local / internal productions and services, or to stimulate domestic export in order to gain competitive advantage of local productions. Non-economic and intellectual variance like culture that has strong affect upon international trade and economic development which are inevitable are the most far-reaching (Hazel 2009); it is a notion that has been pointed out in 20<sup>th</sup> century by German sociologist "Carl Weber" , who wrote the cultural and religious value affected economic production, contending that protestant were more productive than Catholics because of a work ethic rounded on the belief that pursuing wealth was a duty (Hazel, 2009, pp. 421-423).

As the mind ways, behaviors, beliefs, value, practices, and ideas characteristics of a race, culture is very abroad concept. Guiso, Sapienza and Zingales (2006, p. 421.) emphasize that the means it can be incorporated into economic discourse is ambiguous making it difficult to test. Nevertheless, they are able to narrow down the concept to show how it is linked to economic outcome by predicting on beliefs and norms. Later on, countryman influences economic integration between countries (Guise, Sapienza and Zingales 20019, p. 420) this is echoed in a study by Gokmen (2014, p. 421) wherein culture cause uncertainty and become an obstacle to bilateral trade relation between two countries wherein those countries are culturally–closer trade is more with other. His findings showed that two countries with distinct religious majority and different dominant ethnicities had lower bilateral import flow compared to those countries sharing the same

majority and ethnicity, being culturally closer implies near similarities in values and beliefs, traditions and ethics and other sharing cultural factors. Like countries in the same region tend to share more trade interchanges.

In the same way, A Study by (Elsass and veiga in 1994), showing that large cultural distinct increase trade cost and reduce bilateral trade because of difficulties in cultural and behavior understanding (Parkhe 1991: Neal 1998 Cited Molhamnn 2009, p. 20). For instance, a marketing strategy that works and is acceptable by belief, and values of American citizens might be acceptable and favorable by major citizens of Asian countries,

Therefore, there is a distinct difference in values, beliefs and religions.

### **2.3.2 Corruption and bureaucratic differences**

Overlapping corruption and Bureaucratic system and inefficiencies policies discourage foreign investment in Afghanistan. Over bureaucratic and administrative loop, procedure as well as lack transparency in administrative system can aggravate investors seeking to invest in long term projects, frequent changes in middle and top level in diverse Afghanistan directorates, ministries are disruptive and prevent appropriate work and strategic implementation and routine duties of different inter-departments. Corruption and over bureaucratic is impediment to investment in Afghanistan, although the government has established regulation and legislation to combat inducement, corruption, and, other forms of corruption, enforcement which are varying. Government struggle to address the culture combat of against corruption by increasing prosecutions bodies and organizations, executing and auditing systemic reforms, and strengthening transparency of government services.

### **2.3.3 Security and infrastructure**

A stable security and developed infrastructure have incredible positive impact on economic growth and in the Regine countries. Economic and development in Afghanistan strongly tightened with security condition. Unstable security situations are affecting the whole

Reign, security and development is like a two side of the same coin. Therefore, I do not think that accomplishing one is promising without contribution of the other. Dr. Humayoon Qayumi is an Afghan economic analyst Atlantic Council said, *‘the region is seeing that an unstable Afghanistan is not helpful for any of the countries either. A stable Afghanistan is to the benefit of the regional countries as a whole. In some ways, because of our location we play such a pivotal role in bringing more economic opportunities to the regional surrounded countries. So, hopefully, these nations will see that a stable Afghanistan really helps their economies.* (Humayoon Qayumi, 2017) He also emphasized that an unstable country is not beneficial in the reign, but a stable country can contribute to the world economic and development. Such as the TAPI (Turkmenistan-Afghanistan-Pakistan-India Gas pipeline) project is a good example of security and infrastructure in the reign. And also CASA 1000 electricity project, which is again a partnership of four countries Kyrgyzstan, Tajikistan, Afghanistan, and Pakistan. Thus, these energy projects can generate more economic and job opportunities for countries in the reign.

### **3. FOREIGN DIRECT INVESTMENT ACTIVITIES IN ASIAN COUNTRIES AND REGIONAL POLICIES**

#### **3.1 Framework of Globalization and Regional Cooperation**

The concept of globalism entails across the national borders. In the Post-Second World War period, the sense of ecological distance started to reduce concept of one global village" arose. Despite the fact that the meaning of globalization and regionalization are convolutedly related to each other, the earlier is a different phenomenon in the literature of social science. Thus, regionalism and globalism have been increasingly inspiring the concept, while globalism is a new phenomenon. Creating opportunities, smooth and competitive platform where large number of organization comes under the concept such as the European Union, North American Free Trade Area (NAFTA) and world trade organization (WTO) are originated to ensure and improve economic efficiency and political stability among countries, such as improving international trade rules and policies, organizing and administrating the global economic system, as economy cooperation agreements, economic integration and preferential trade agreements to administer the free trade and customs union to one economic union where to link and integrate various Regine to one focal point and procedure of economic, socio-political and cultural issues. Conflicting, regions are defined as a group of states that are connected by ecological relationship and many independences.

The dialog of regional integration in South Asia was not in 1980 when the states of the region for the first time realized that a viable block of their own is needed for economic and political cooperation. Later on, the South Asian Association for Regional

Cooperation (SAARC) was established in 1985. The major aim of SAARC was promoting well-being for all the countries of SAARC members (Md. Joynal Abdin, 2015, pp. 13-15).

Although the eventual objective was to improve superiority of life for all the nations in the regional countries, the objectives and aims of SAARC are more, from political prosperity to economic development and cultural integration. In order to stimulate trade and investment in the region, the leaders of those nations discovered the needs of a different and independent forum. Subsequently the SAARC Preferential Trading Arrangement (SAPTA) was established in 1995 by the member states. The SAPTA covenant is reflected as one of the key creativities to get the larger combination of the trade in the region through regional trade liberalization and economic collaborations. The main objective of this arrangement was to encourage intraregional cooperation and investment in the trade by dropping import tariffs on listed items. SAPTA was expected to give preferential treatment to a gradual reduction of tariff related trade barriers to its member countries especially those who are least developed. As a final step of the integration process, the South Asian Free Trade Area (SAFTA) was introduced in 2004 and was adopted in 2006 in order to further strengthen intraregional trade through economic cooperation. SAFTA became in force as an equivalent initiative to raise multilateral trade liberalization in the region. The principle objective of SAFTA is to realize more intraregional trade and investment by reducing tariffs from 0 to 5 percent over ten years period. The member States came to an agreement with SAFTA regime that the no least developed countries such as India, Pakistan, and Sri Lanka will set their custom tariff under 5 percent by 2013. The other members who are categorized as least developed nations namely Afghanistan, Bangladesh, Bhutan, Maldives, and Nepal are to reduce or eliminate tariffs by 2016.

The continuing integration of the world trade, which driven since the 1990s, has influenced to change in the host country with respect to FDI. Developed countries no more suspense FDI and no longer restriction and control over the FDI entity now FDI entities replaced with supporting policies by host country aimed to encourage foreign

inflows, along with supporting policies there is also bilateral and regional investment agreement network, aimed to link and gradually decrease the elimination of restrictions on FDI and open a positive treatment. Until early, MNCs invests mainly because of a strong economy, location, and size of a market. (Dunning 1993, Globerman and Shapiro 1999, Shapiro and Globerman 2001, np. Likewise, with more diversification and integration of FDI trade increase competition in host countries to attract FDI. However, the host country's economy and FDI trade essentials may not be enough for inward of FDI. Therefore, now it's important to study the new trends for attracting inward FDI. So, now the focus is on host country policies and bilateral trade agreement in attracting inward FDI (Shapiro and Globerman, 2001, p. 12)

### **3.1.1 Evaluating Foreign Direct Investments, in Asia Countries**

With the continued weak global economic recovery, trade growth in Asia and the Pacific decelerated in 2015, falling further behind the growth in gross domestic product. Asia attracted the huge number of foreign Investments, recorded the top destination for FDI in the world, with the record of 527 billion in 2015. The increment of 9 percent over 2014, in another hand, outward FDI has declined up 9.4 percent from 2014. East Asia attracted about 60 percent of intra-regional investments and, south Asia has received 24 percent of FDI. Asia countries are export oriented, smoothing trade along with technology and skill transfer. It is recognized, That FDI outputs stimulating new investment opportunities, facilities and increasing local productions in reign. Economic policies are also underpinning the firm's the decision whether or how to invest. FDI mode of entry can be through Greenfield (Investments in new assets) or Merger and Acquisition of Asset, of an, existed firm, data suggests investment on Greenfield is more common over merger and acquisition for multinational investing. Although Greenfield investment is more preferred for manufacturing as M&A is favored for services.

#### **3.1.1.1 Determinants of FDI in Asia**

Among all other associated factor for attracting inward FDI, institutional quality and business environment issues specifically for M&A are the most important component of



FDI in Asia because it sensitive and significant positive factor for greenfield FDI, FDI for high-income countries is more sensitive as to the level of governance economy. Targeting better trade situation can complement the governance service quality, the good business destination measured by the level of ease of doing indicators. Regional trade assist to connect different Regime's that improve the spillover of a high economy to under economy countries.

Indeed, regional trade agreement reduces extra trade costs and bring more prosperity among countries. That will affect to decrease the poverty and increase job and more productivity, by eliminating the extra charges and tariffs among all inter related trade Regime's leads to toward a long trade relationship and more standard trade procedure. The bilateral trade agreement is the most important mod the FDI that improve both the direct investment and merger with another portfolio. Finding suggest, regional trade facilitation agreement is the only effective mode for supporting and attracting more inward FDI. Strong economic and political well-being encourage more inward FDI developing economies where the country has standard procedures and quality assistance of host country that ensure more transparency and reliability important factor for the foreign company. The business environment is also another factor of support and encourages that attract either foreign industries or domestic investments, that will rapidly affect poverty reduction, specifically for the under developed countries.

### **3.1.2 Evaluating Global Trade Facilitation Cooperation's Effecting FDI in Regime**

Regional Trade and Bilateral agreements can reduce the international trade cost; trade cost tends to be an important priority for Asian countries and Pacific region. Two third of the Asia-Pacific ratified as a member of WTO which facilitate trade agreement and the way of implementation. Afghanistan recently joined WTO and has become the 164th member of WTO. In Addition, ESCAP countries, come on long years to dialogue on how to facilitate the cross trade electronic data exchange, in May 2016 they have finalized electronic data exchange in cross border trade. Exposed for indorsing at the UN Head office, September 2017 to all affiliate countries, this pioneering of the United Nations pact is probably to import the region to keep its trade more competitiveness and

gaining the benefits from the fast-developing digital economy of a country. Asia regions does not realize fully cross border paperless trade, effort has been made at the national and international regions levels toward the direction of trade facilitation reform overall, steady improvements have made to facilitate trade and reduce trade costs Vital factor of measuring the comfort of overseas trading and logistics performance show that good doers in the region (and the globe) are ongoing to make great progress in this regard. However, other country economies in the world, such as dry and landlocked countries or Small Island Developing States (SIDS), still, face numerous trials and thus have achieved more mixed results. To reduce this regional trade cost and facilitation gap, countries will need to implement more comprehensive trade facilitation reforms that address both “Hard” and “Soft” infrastructure Barriers, Asia-Pacific Trade and Investment Report 2016 including by: (A) establishing economic cooperation among trade agencies and with private trade regulatory sectors to facilitate trade performance. (B) Confirming better transparency and predictability of reign trade regulatory procedures; (C) growing efforts to complement and automate trade procedures across borders, and (D) effectively monitoring implementation of trade facilitation measures and their impact.

### **3.1.2.1 South Asian Association for Regional Cooperation**

The aim of this calibration and cooperation was to promote and increase economic and wellbeing of people and the region, further countries agreement on promotion and protection of investment officially entered on November 29/2012. With diverse and variety of natural resources in the landscape of SAARC, it has every economic and development potential to alleviate poverty and economic well-being. The significant objective of the SAARC is collective effort to collective progress for south Asia countries economy and trade services among SAARC members; currently, SAARC’s are Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. SAARC country leaders meet 18 times and signed a long list of agreement. Understanding, and declaration for so called SAARC countries inter-country economic and development integration.

To accomplish the objective SAARC leaders committed to further integration and promotion under the common and mutual benefits. Such as, for employment and job creation huge investment in needed Intra-SAARC countries investment as well as welcoming FDI that could be a great option of poverty alleviation. At the same time, a central institution must be established to promote FDI into the SAARC countries as per respective competitiveness, raw materials, skilled manpower etc. availability.

The significant achievement of the agreement is to negotiate, sign and activate the South Asia Free Agreement (SAFTA). It leads further cooperation with inter country transportation and water movements, visa free South Asia nationalities, south Asia customs union, South Asian Economic integration, investment forum and south Asian, beside all mentioned FDI attraction and achievement, SAARC countries faced few restrictions such as poor population in SAARC countries, Poor infrastructure, lack of trade integration and innovation is tended to be significant barriers in SAARC regions.

### **3.1.2.2 World Trade Organization**

WTO is a sole worldwide organization that seeks to smooth, predicts and oversees the world trade rule of WTO members, in order to increase well fare and prosperity of WTO nations. WTO as a trade and development Organization committed to developing and implementing countries in special and technical global trading system, WTO had 160 country members accounting almost 95 of the world trade. Overall for the sake of smooth and open trade services WTO enforcing world trade policies such as Trade Negotiation and liberalization of trade procedures in order to fewer tariffs and other trade barriers. Second, implementing and overseeing world trade policies and transparency of trade policies. The third objective of WTO is to settlement dispute if any right is being overstepped by any WTO members. The final objective of WTO committed to supporting and building trade capacity, like increasing trade opportunity, support in technical and standard of trade and other aid in order to enable WTO members to explore further their trades. The WTO Trade Facilitation Agreement (TFA) is about increasing trade coordination and positive integration, countries affording together to streamline practices, share data, and contribute on directing and policy goals.

In current open and interrelated global economy, efforts to rationalize rapidly to coordinate and smooth trade processes in the world, as much as struggles to further liberalize the trade procedures, will give the expansion of world trade and help countries

To tie to the globalized production system more Countries lowering tariff and non-tariff barriers accelerate more trade activities.

### **3.1.2.3 Economic Cooperation Organization Trade Agreement**

ECO TA signed on 2003 by ten countries, Islamic Republic of Afghanistan, the Republic of Azerbaijan, Iran, Kazakhstan, Pakistan, the Republic of Tajikistan, the Republic of Turkey, Turkmenistan and the Republic of Uzbekistan, committed to protect and promote intra-regional cooperation among ECO members, for economic and development stability and prosperity of the region. Further to sovereign equality and bring integrity in ECO region. The aim of the agreement was to liberalizing trade regime and reducing tariffs and withdrawing of non-tariff barriers in ECO TA Countries, seeking to encourage and strengthen trade and investments among ECO TA members.

The Objective of the contract is to make sustainable expansion and development in the ECO region. To facilitate the well and fair trade and investment conditions among the countries, to smooth up the export and import of commodities.

### **3.1.2.4 Central Asia Regional Economic Cooperation**

CAREC Initiated in 2011, among 11 countries Afghanistan, Azerbaijan, the People's Republic of China (PRC), Georgia, Kazakhstan, the Kyrgyz Republic, Mongolia, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan. This collaboration has a core role in promoting bilateral trade for development of CAREC nations. By withdrawing and decreasing tariffs, trade costs to rising economic and trade opportunities in region, further to open transport corridor and economic initiatives in order to make and improve the flow of trade among nations. Moreover, the main priority area of CAREC is to form a sustainable development, open friendly transport infrastructure and an efficient trade

system to enhance the CARES Regime more competitive. Such as working in energy and trade policies, investment in transport corridors projects, develop intra-border services facility.

In this globalization century, the need for regional economic cooperation are mandatory open and interrelated global economy help to rapid the coordination and smooth trade processes among the world, as much as struggles to further liberalize the trade procedures, will give expansion of world trade and help countries to tie to globalized production system, while trade agreements in the past were about “negative” integration – countries lowering tariff and reduction of nontariff barriers

#### **4. ECONOMIC WELL-BEING AND PRODUCTIVITY WITH THE EFFECT OF FOREIGN DIRECT INVESTMENT IN HOST COUNTRY**

##### **4.1 Overview of Foreign Investments in Afghanistan on Telecommunication Sector**

The existence of human life needs for communication, in early decade's communication was problematic due to lack of proper communication, uncertainty and time consumption, resulting-in an efficient means of communication Innovation in new means of technology has facilitated communication. Today the use of various means of telecommunications became an integral part of society. The industrial revolution in Information Technology has jettisoned geographical limitations and objectivities and has transformed the world into a global village through fast and reasonable communication around the world. In today's world, human begin cannot be imagined without using telecommunication because it has become an integral part of each society in all sectors of the economy, telecommunications and ICT (Information and Communication Technology) play an important inevitable role. In the early stages of development, telecommunication facilities are considered too expensive and confined to the rich people but the revolution in this industry has provided all the cheap means for the lower and middle-class people who performance a vibrant role in economic growth.

ICT has improved the socio-economic situation in Afghanistan. Telecom has made progress over the past decade, notwithstanding the problems and challenges, but is still observed as a major achievement. The achievements of this sector are not limited to the development of information and communication technologies, the expansion of cable, the increase in government revenue, employment opportunities and so-on. Past decades of conflicts demolished the infrastructure of Afghanistan. The Afghan people were experiencing problems while communicating with each other, in making international calls, and the limited public telephone stands around the city were available for people to wait for a long time to use the phone in other side, others had to visit neighboring

countries to use international calls, Now the Afghan telecom and ICT solution industries has grown up dramatically. The telecom industries offer more job opportunities, earning income tax to the government in form of individual enterprises, creating high standards of employment and opportunities for economic and social advancement. Also, to mention that the increase of Revenue assurance annually through this sector has being increased the demand for Telecommunication products and services. Afghanistan telecom business has divided into basic business, mobile business, and Internet business. Postal, Television, Radio electronic identity card, digital Television, electronic-government introduction, etc., and plan for satellite lunch is under progress. Compared to other sectors, telecom is mainly driven by mobile Global Service for Mobile (GSM) and Internet Service Providers (ISPs). At present, there are five GSM operators in Afghanistan; almost everyone in the country, which indicates, more than 88 percent of the Afghan population is using the services are being provided. In addition, the number of Internet service providers have increased since 2002 and their facilities are available to limited population 20 percent. Afghanistan's major cities have 49 internet service providers (Baharustani, 2013, pp. 3-10).

Past years Telecommunication has been playing significant role in the development and economic growth in Afghanistan, especially in banking sectors. It has stimulated and opened a platform for faster, secure and convenient banking service as well as integrating other sectors for development and trade. Thus, the demand and importance of telecommunication are developing countries are remarkable, like Afghanistan Role of Telecommunications in the banking sector in Afghanistan, the effect it has had on banking services delivery, productivity and address the various banking service innovation and customer's perception such as Mobile banking, online banking, Automatic Teller Machine. These features affect banking service faster, convince and more productive. The main purpose was to serve customers in best secure and convenience way, where is process leads to productivity and standardization of service, all above economic and technology development were not possible whiteout FDI in Afghanistan. FDI on telecommunication affect infrastructure and economic

development; it can decrease the cost of production and could increase revenue. Ultimately, it can create employment both direct and indirect for the host country. However, it will affect both side revenue and cost indirect ways than another kind of infrastructure investment. Moreover, telecommunication increases efficiency in commercial and information technology connectivity. Based on evidence shows that investment in telecommunications drive to growth in the financial sector hence GDP growth; he argued transaction cost play an important role in economic development careful clearly. Founded on this perfect Norton developed a theoretical framework to estimation telecommunication impact in economic markets and growth. Many descriptions for the link between telephone penetration and GDP have been innovative. Mobile Telecom can be intoxicant of economic development; that is, usage of mobile service origins increases in total GDP of country. It is also imaginable that as economies become more advanced they need more communication channels relevant to less developed economies. Telecommunications can also reduce transaction's costs; reduce time and distance wasting, the scope of market and thereby increasing competition and efficiency.

Telecommunication made easier the banking services to reach to a greater number of clients within a short time and more secure, which it increases the overall effectiveness of bank in a very positive way. It opened the opportunity door for Customers to do their bank transaction from comfort home and office quickly as the term of (e-banking) used for, which saves both customers and bankers time.

Studies and observations indicates that new Business generation in Afghanistan, as well as rest of the world, is using ICT which is known to bring more comfort and efficiency in Internet browsing E-mail, Bulk SMS and other notification patterns, and we can state that communication tools to reach to market and customers it can increase efficiencies or explore new markets both for national and international businesses operations.

Since last ten years, there was a vast improvement in the banking system, the banking system has been equipped with digital facilities, these the telecommunication innovation has been spreading the facilitated the time base communication and playing a great role in global communications nearly all small and large businesses have access to the



internet, e-mail address and many have websites. In less than a decade dramatically opportunities has been opened the way for private firms in developed economies to opens the growth opportunities to enter to the world global trade market, in other hands, joining world business market need strong access to technology, the developing country needs use technology to compete in the international market, otherwise the company face competition from local or in international markets. Today, this globalization world international business cannot survive white out proper communication and technological equipment, in order to reach out to the customer and efficient marketing, to communicate through all electronic tools, are mandatory to any kind, particulate for international businesses.

Currently, Afghanistan formulates it's a strong support legislative framework for approximated multi-dollar mineral, natural resources and hydrocarbon sector for energy potential investment. Afghanistan become an exceedingly investment-friendly environment and recently ranked 2nd in the WB's business index types, 3rd on financial and debt resolving insolvency and ranked 4th on contract enforcement Meantime, Afghanistan sustained investment in past few decades, Afghan government forms many flexible and friendly business law, including 100 percent foreign ownership of enterprise with some friendly manner as local investors. All to gather cause to increase Productivity rate as a key economic indicator due to sustained investments over of the past decades.

#### **4.1.1 Effects of FDI Investment in Telecommunication to Other Service Industries across the Country**

##### **4.1.1.1 Electronic Commerce (E-Commerce)**

Electronic commerce (E-Commerce) is rapid growth in the world, it offers complete solutions and customers to business interactions, such as online shopping, e-payments. Electronic commerce also involved in the business to business electronic-commerce providing sales between business, supplier, buyers and manufacturer. It is particularly beneficial for developing countries it facilitates, stimulates the trade among countries,

such as export, offshoring, intra-regional commerce for a type of FDI. Telecom has a crucial effect on e-commerce businesses, which leads the worldwide customer and suppliers on time shopping and payments. Ultimately, technology plays a significant role in economic and development growth of a country.

#### **4.1.1.2 Banking Service**

Telephone banking is a banking service which enables its customers to make a transaction through their handset phone that is considered very convenient, fast and secure method to access your bank account from a distance at any time at any location. Per Leow (1999, pp. 3-5) Mobile banking service has several advantages for both banks and their customers. From one side to customers, it provides increased ease access, extended access and important time-saving. With regard to the banks, the cost of delivering telephone-based service is cost saving than those of branch based services.

With handset, mobile, customers can not make cash in hand and deposit but other transactions such as account balance inquiry, electricity bill payments, money transfer between customers' accounts the main objectives of these services are time-saving, offering the standard banking services to customer at their home, office as an alternative to going the bank hall a spend number of hours for banking activities.

Through this Internet banking service user can a user name and password, an individual can access their accounts online at anytime from anywhere. Internet banking services is the perfect option for customers to do their banking transaction from distance and time saving, customers can do their banking transaction from home/office or travel around because the services are open and available 24/ 7 hours a day to seven days a week. Banking through the internet gives rights to customer to have control over their bank account and transaction like, view banking transaction, view available balance, find, and print bank statement.

Short Message Services (SMS) technology allow the customer to send and receive text messages, it's an instant message service, types of text communication and it allows users to write and exchange text with another one at anytime, anywhere for various purpose. Recently banking sectors lunch their account transaction notification services,

where the bank sends a message to a customer their account recent transaction. Such a salary received to a customer account or any other withdrawals. All mobile phones available now can support SMS. SMS has become a global word, where billion of SMS text sent worldwide weekly. SMS may be based on social new, entertainment, weather, traveling info, sport, and education news, it has more usage with pre-paid services.

Another mode of communication is Video calling, its face to face conversation through a phone call from same to different phone networks, mobile phone users keep in touch with family members, business and with other contacts, and this video call service allows them to talk face to face in real time base. The user must have compatible phones to use video calling services. Availability of telecommunication infrastructure is very significant requirement for any developing economy desiring to compete in today's global market place. Telecommunication infrastructure systems open the opportunity to keep up with the new trends in information and communication technologies while having vital access to information systems worldwide.

Internet paly a very great role in the economic sector of Afghanistan, many business and industries advertise their products on the internet. Many companies in Afghanistan has international partners, which they must communicate and exchange information through the internet. Banks in Afghanistan using the internet to communicate and offer internet banking to customers and for interconnecting of branches around the country that make facility and faster banking services, time and money as well. The Internet in Afghanistan has shifted businesses to a standard way and to an open competition as companies now use the internet for advertisements and online marketing. Online marketing is the process where companies market and communicate their product and services through the internet for customer awareness & to attract potential customers. As the internet marketing, has brought various benefits to marketing area, such as low cost to pass information, and media your products globally. Internet marketing tends to have broader coverage, like mobile phone, online ads, digital media, and e-mail. Internet marketing inside the country has recently increased, opened the opportunity who wants to order goods and services online in Afghanistan.

#### **4.1.1.3 Tourism and Vacation**

Tourism industries are fast economic growing sector, for many developed economies tourism is considered as the main source of generating international revenue which has a huge income for country's economy, which effects GDP and on jobs, opportunities deeply needed and reliant on information and communication technology and an efficient communication channel to support distance customers. Tourism Remittances is international receipt, especially for developed countries and considered one of steady inward revenue for the well economy reigns in various Asia countries. Tourism remittance has great contribution in GDO of developing and also in developed countries, where it makes around 29 up to 31.1 percent increment of GDP is Asian developing countries The World Tourism Organization stated that developing countries account for nearly 30 percent of world tourism receipts, and that tourism is the only, some developed economies have consistently gained from tourism, positive remittance from tourism improved since 1996 in developed countries. Furthermore, tourism remittance considered a main revenue sector for developed countries the lead to economic prosperity

#### **4.1.1.4 Small and Medium Enterprises**

SMEs are those small and medium group of business initiatives that arise from a sole person, producing goods for a small number of consumers or in the small town. According to findings number of SMEs workers varies, such as in transition countries number of SMEs are between 200 – 250, in Japan number of SMEs, are around 300 and in the USA this figure can reach out up to 500 employees. These changes depend on sales and number of productions.

SME's has crucial effect in the prosperity of economic development, particularly in job creation and social well-being in less developed countries are mostly depend on small and medium activities, SMEs considered as a significant key for change over economies,

these the SMEs initiatives mostly accounted for agriculture activities in less developed countries and transition. SMEs are a great source of job generations and economic gain from exports. Moreover, SMEs are one of the main key tools for scarcity and poverty reduction. New studies found, that SMEs have good contribution in economy GDP about over 55 percent and around over 70 percent of whole employment in under developed countries (Halberg (2001, p. 5)

In other hand SMEs are providing around 70 percent of GDP in middle-income economies, SMEs has great influence in employment generation and income and export revenue. In order to address poverty reduction, the local SMEs has to expand and stand on technology innovation to increase their competitiveness and productivity. Adopting and dealing with these challenges need strong connectivity and demanding globalization touch. Globalization provides access to modern technologies, skills to economic integrations.

#### **4.1.2 Access to Distance Learning and Job Opportunities**

Open learning application throughout the use of communication technology that facilitates open and unlimited source of information. The technology brings learning community to gather in a real-time base. In recent years, the internet has become an important tool in the education system in worldwide, now many students use the internet service as an essential tool for their educations and research. Especially in private institutions and universities both teacher and students use internet to enhance their understanding and learning, where this application seems less in government universities. Almost all major education institutions of country have their computer labs with internet connection, which gives access to students and teacher to brows and open new research, ideas, Articles from worldwide. In the past one decade, only hard books and magazines are used as academic source of education assistance, this service was not available. In the past students met their colleagues in other institutions only during sporting time, musical festivals, educational forums and other activities, but with the emergence of internet students frequently meet and hear from each other.

The Internet provides a great opportunity and unlimited access to information, which allow attending in the open learning process with other student, scholars and can increase both local and international students – teacher interactions in a real-time idea sharing around the world. The improvement in the level of education and the increased profitability of telecommunications services, the telecom and ICT become an important part of everyone’s life, because of this industry has been growing in recent years because.



## 5. CONCLUSIONS

The study shows, FDI as a core component of economic growth and business development. Most countries favor attracting it as an important policy and others in developing and transitional economic stages. It is given such emphasis not just for capital inflow but also it increases the amount of stock of capital in host country. The reasons that multinational enterprises bring more business practice, technology, and management. Moreover, it is possible that MNEs may afraid of its intellectual property and superior assets for being imitated by another domestic firm. FDI provides external benefits to operating country, therefore governments hoping to attract and offer good incentive for foreign firms.

Base on survey findings, foreign owned industries paying higher wages and benefits such as insurance and annual allowance in another hand domestically owned industries does not. But workers also account for their performance quality; meaning that higher pay reflect labors performance. (i.e., Etisalat Telecommunication a foreign owed industry based UAE in Afghanistan paying round about 10-15 percent higher wages plus benefits in compare to local companies. Telecommunication has been one the main source of revenue to government in 2009 the government enjoys good revenue of telecommunication it's around 130 Million USD and 16 Million USD in 2010 this figure has been increased to 200 million, the Internet effect the life style of individuals paying around 1250 Afghani currency equal to 19 USD monthly for personal internet usage (Baharustani 2003, pp. 6-7).

Telecom sectors have been considered one of the promptest area of afghan government in last decades, which adds up more revenue to Government budget as well as create more than 100,000 jobs in Afghanistan. According to MICT recent report, currently there are around 23.21 million mobile users in Afghanistan which made 70 percent of the total population of the country, with annual revenue of 200 million to government. Additionally, Telecommunication and ICT sector has created 204,000 professional and nonprofessional job opportunities and business opportunities for domestic firms.

FDI determinants differ from developed and developing countries; it's based on economic infrastructure, transportation and fundamentals significance in attracting FDI from developed countries and developing countries. FDI from developed countries are interested to large market size, well infrastructure, startup costs, advanced labor technology, while startup cost play a more substantial role in attracting FDI from developing countries. The determinants found significant are large market size, potential market size, lower labor cost. The effect of FDI policies also vary according to the country status of economic development, lower tariff rate, economic and political stabilities are the important determinants of FDI from developed economically to less developed countries. Also, better incentives are significant in attracting FDI from developed countries. The above outcomes from study, high point the importance of good government policies in attracting inward FDI into developing countries; it states despite from economic and infrastructure development FDI policies of host government play a significant role regarding to FDI. Elimination of constraint on the operations of the foreign firm in the operating country that matters the most important issue, typically when an FDI come from a developed country; also regarding FDI investment protections and general regulation provision for settlement dispute.

In general, less developed countries face a shortage of FDI due to lack and inefficient business practice, and FDI determinants remain the significant matter in LDCs. Less Developed countries cannot support foreign firm because of a number of reasons such as lack of economic and political instability and poor FDI policies. Inward FDI has helped to integrate the economic and business growth opportunities worldwide among countries, and is a great factor of economic and development growth as it creates job



opportunities. The main factor of government revenue and it also transferred intellectual knowledge to host country. Nowadays, a lot of online businesses have been lunched with help of technology; FDI could facilitate to connect local and international partners and customers around the world. This way a local firm can support and reach out to their international market.

FDI for less developed countries tend to be more productive in a way to stimulate and encourage local productions, and a positive effect on the macro level of country such increase in household income, government income and increase overall employment in long term; it will affect positively stability of country business and economic performance. In some more extensive foreign investment considered a great source of government revenue. Also, domestic can participant in intermediate goods process with foreign corporations. Attracting inward FDI depends on good policy of host country how it could attract FDI what incentive they do offer for FDI initiatives, the foreign investor looking their capital safety and overall their right over their assets. Research shows the more flexibility and security on FDI policies cause to attract more inward FDI for the host country.

Further study shows, FDI benefits local industries and provide opportunities for modernization and up-gradation, influence host country productivity, making domestic industries internationally competitive by providing backward and forward partnership and access to international experience. Despite it, FDI as one of the cores and faster component of globalization, that bring some certain advantages to the national country by making a contribution to national economy GDP and Gross Fixed Capital Formation (GFCF). Afghanistan is one of the country where hosts a few number of Foreign investment specifically on telecommunication sector. The growth of telecom is one of the core features of economic and development of a country. To be mentioned, Telecommunications considered as one of the most dynamic factors of economic and development factor. Specifically, Contribution of telecommunicating on the development and economic is an assessment of productivity that how a host country benefits from spills over of telecommunication. More economic integration and

cooperation can encourage new opportunities and lead to larger markets for traditional products and contribute to varying the domestic economic structures. UNCTAD (2008, p. 6) argued that increased economic integration within the South Asia region may benefit mutually intraregional trade in goods and services and bilateral investment.



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## APPENDIX

**Table A.1:** FDI Attraction by Country in SAARC Region

Countries	2009	2010	2011	2012	2013
Afghanistan	75.73	211.25	83.41	938	69.29
Bangladesh	700.16	913.32	1136.38	1292.56	1599.13
Bhutan	71.65	30.80	25.92	21.83	21.28
Maldives	157.96	216.46	256.46	283.97	325.25
Nepal	38.55	86.73	95.48	91.97	73.63
Pakistan	2338	2022	1326	859	1307
Sri Lanka	404	477.6	981.1	941.12	915.57
India	35657.25	27431.23	36190.4	24195.77	28199.44

Source: UNCTAD (2013, p. 25)

**Table: A.2** Regional Trade by Each Member of South Asian Countries (in million USD)

Year	Afghanistan	Bangladesh	India	Maldives	Nepal	Pakistan	Sri Lanka
2000	60.20	1018.46	2015.33	102.09	892.20	534.67	795.16
2001	47.25	1279.97	2324.24	108.66	978.80	559.77	771.51
2002	79.04	1207.89	2836.01	115.50	951.00	456.86	1094.82
2003	176.61	1579.0	4100.4	128.13	1262.40	655.97	1417.79
2004	216.28	1846.64	4571.66	149.8	1500.90	1045.1	1933.91
2005	220.04	2109.14	5612.02	143.61	1778.20	1444.50	2475.36
2006	230.63	2273.8	6038.57	131.87	2049.93	1998.85	2745.85
2007	344.1	2940.8	8375.8	166.4	2560.64	2750.86	3225.75
2008	521.8	3956.69	8228.7	190.24	2804.9	2925.7	3963.1

2009	635.7	3117.50	6680.94	173.8	2011.3	2027.0	2239.32
2010	576.2	4299.8	10107.26	200.30	2625.0	3557.2	3146.4
2011	694.7	5511.57	1366	227.5	3497.92	3290.3	5097.47
2012	676.4	5366.5	14245.	217.0	3870.01	3360.62	4552.0

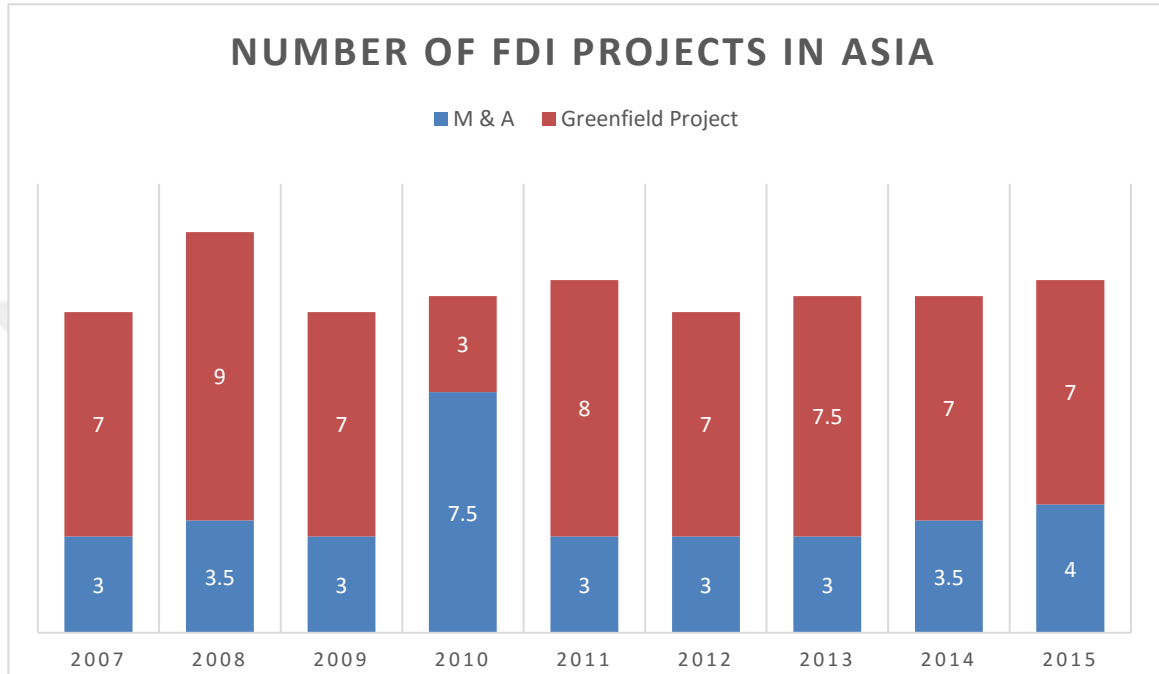
**Source:** Asia Regional Integration Center (ARIC) Integration Indicators Database, (ADB), Available at <http://aric.adb.org/indicator.php>, data was accessed on October 2016

**Table A.3** Ranking SAARC Countries in FDI Inflow Attraction

Country	Total FDI Inflow (2004 - 2013)	Share in Percentage	FDI Ranking Position
India	257890.05	84.86 %	1 <sup>st</sup>
Pakistan	26472	8.71 %	2 <sup>nd</sup>
Bangladesh	9492.36	3.12 %	3 <sup>rd</sup>
Sri Lanka	6059.99	1.99 %	4 <sup>th</sup>
Maldives	1775.21	0.58 %	5 <sup>th</sup>
Afghanistan	1512.46	0.49 %	6 <sup>th</sup>
Nepal	388.67	0.12%	7 <sup>th</sup>
Bhutan	281.65	0.09 %	8 <sup>th</sup>

**Source:** UNCTAD (2013, p. 16)

**Figure A.1:** Number of FDI Project in Asia (M &A, Greenfield Projects)



**Source:** ADB, Asian Economic Integration Report, (2016, pp. 155-157)



**Table: A.4** Economic Growth Indicator, (CAREC)

Population (million)	Population (million)	Nominal GDP (billion USD)	GDP Growth (%, 2011–15 average)	Trade Openness (total trade % as of GDP)
Afghanistan	32.5	19.2	4.7	44.7
Azerbaijan	9.7	53.0	2.8	79.3
People's Republic of China	1,370.0	10,900.0	7.4	48.7
Kazakhstan	17.5	184.0	3.9	71.2
Turkmenistan	5.4	37.3	9.5	117.6
Mongolia	3.0	11.8	8.5	109.6
Pakistan	189.0	270.0	4.6	32.7
Tajikistan	8.5	7.8	6.4	90.6
Uzbekistan	31.3	66.7	8.1	60.5

**Source:** Asian Economic Integration Report, 2016.

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