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Original Research

Emerging Markets and Foreign Investment

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Abstract

As of 2025, emerging markets remain both a magnet for global foreign investment and a frontier fraught with unique risks. Shifting macroeconomic currents, geopolitical realignments, and digital transformation shape the flows of capital into Asia, Africa, Latin America, and Eastern Europe. This research article analyzes current foreign direct investment (FDI) trends, highlights top recipient nations, investigates sectoral opportunities and threats, and offers data-driven guidance for investors poised to profit from or weather the volatility of the world's fastest-growing economies.

Keywords: Emerging markets | Foreign direct investment (FDI) | Investment risks | Sector opportunities | Market entry strategies | Economic growth | Sustainability investments | Digital transformation | Geopolitical risks | Infrastructure challenges

INTRODUCTION

Emerging markets have long promised rapid growth, new consumer bases, and access to natural resources. The confluence of recovering from the COVID-19 pandemic, supply chain reconfigurations, and rising climate/technology investment makes these regions especially dynamic in 2025. Yet growing protectionism, policy uncertainty, and infrastructure deficits present pronounced risks that demand careful navigation by foreign investors.

2. Trends in Foreign Direct Investment (FDI) in Emerging Markets

2.1 FDI Flows and Patterns

- **Global FDI** decreased by 11% to \$1.5 trillion in 2024—continuing a trend of contraction amid heightened uncertainty.
- **Emerging Market and Developing Economies (EMDEs)** received \$435 billion in FDI in 2023, the lowest inflow since 2005.
- Relative to GDP, FDI inflows to EMDEs have dropped from nearly 5% in 2008 to around 2% in 2023.

Table 1. FDI Inflows to EMDEs (2008–2024)

| Year | FDI/GDP (%) | Total FDI (US\$ Billion) |
|------|-------------|--------------------------|
| 2008 | 5.0 | ~950 |
| 2015 | 3.5 | 700 |
| 2023 | 2.0 | 435 |

2.2 Top Destinations and Investor Sentiment

- **China (including Hong Kong)** remains the leading emerging market for FDI confidence, though actual inflows have slowed considerably.
- **UAE and Saudi Arabia** are now top FDI destinations, with Brazil, India, Vietnam, and South Africa also ranking high.
- Key factors attracting FDI: regulatory efficiency, macroeconomic stability, and robust technology and infrastructure.

3. Key Drivers of Foreign Investment in Emerging Markets

3.1 Demographics and Urbanization

- Fast-growing populations and accelerating urbanization (especially in Asia and Africa) drive demand for infrastructure, housing, and consumer goods.
- **Africa's urbanization rate is projected to reach 60% by 2050**, catalyzing significant investment opportunities.

3.2 Economic Reform and Digitalization

- Structural reforms—such as tax incentives, regulatory streamlining, and FDI-friendly legislation—are making several emerging markets more attractive.
- Digital economies (especially fintech, e-commerce, and data infrastructure) have become central FDI targets, notably in India and Southeast Asia.

3.3 Green and Resource Investment

- The global energy transition is sending record FDI into renewables, critical minerals, and green infrastructure.
- Greenfield* FDI in clean tech is a priority in regions like Latin America and Sub-Saharan Africa, where renewable projects could create 650,000 jobs by 2030.

4. Risks and Challenges for Foreign Investment

Emerging markets offer high-reward opportunities but also heightened risk profiles:

4.1 Macroeconomic and Currency Volatility

- Currency depreciation and inflation can erode foreign investors' returns.
- Inflation in EMDEs is forecast to average 5% in 2025, with some countries facing double digits, complicating capital repatriation.

4.2 Political and Regulatory Uncertainty

- Unpredictable policy shifts, governance barriers, and sudden reforms can disrupt investments.
- High-profile expropriations and sanctions over the past two years have fueled caution.

4.3 Infrastructure and Market Complexity

- Underdeveloped logistics and financial markets hamper scalability. Investors must account for opaque reporting standards and variable rule of law.

Table 2. Key Risks and Mitigation Strategies

| Risk | Description | Mitigation |
|---------------------------|--------------------------|----------------------------|
| Currency/FX Risk | Volatile exchange rates | Hedging, local finance |
| Policy/Regulatory Risk | Shifting legal landscape | Local partnerships |
| Political Instability | Social, governmental | Insurance, diversification |
| Infrastructure Shortfalls | Poor logistics, finance | PPPs, staged investment |
| Transparency Deficits | Fraud, weak regulation | Enhanced due diligence |

5. Sectoral and Regional Opportunities

5.1 Promising Sectors

- Technology:** Digital payments, e-commerce, and telecom infrastructure are surging, especially in Asia.
- Green Energy:** Solar, wind, EV infrastructure—especially hot in Latin America, India, and Africa.
- Healthcare and Life Sciences:** Expanded FDI in response to pandemic resilience needs.
- Consumer Goods & Retail:** Booming middle classes in India, Nigeria, Vietnam drive retail expansion.

5.2 Regional Patterns

- Asia:** China, India, Vietnam are tech and digital FDI magnets.
- Middle East:** UAE, Saudi Arabia—leaders in regulatory modernization and global logistics.
- Africa:** South Africa ascends in 2025 (up 4 spots in global FDI confidence), with Nigeria and Kenya also attracting capital to energy, fintech, and agritech.

- Latin America:** Brazil and Mexico remain primary FDI targets, especially for green and tech sectors.

6. Recent Developments and Strategies

6.1 South Africa: A Surging FDI Hotspot

- South Africa rose four places to 7th in the 2025 global FDI rankings, buoyed by reforms, resource depth, and digital expansion.
- FDI inflows in early 2025 climbed 56% over Q4 2024 levels.

6.2 Green Investment Boom

- Since 2021, over \$700 billion in greenfield FDI has been announced for the energy transition in emerging markets.
- Africa is capturing a growing share of renewable FDI, with the potential for more than 100,000 new jobs on the continent.

6.3 Strategic Recommendations for Investors

- Localization:** Deep adaptation of products/services to local context and consumer tastes is essential.
- Risk Management:** Proactive hedging, geographic/sector diversification, political risk insurance.
- Long-Term Outlook:** A 5–10 year horizon is recommended, alongside acute macro and political monitoring.

7. Outlook for 2025 and Beyond

FDI into emerging markets remains vital for global growth, innovation, and socioeconomic transformation. While FDI flows have declined in recent years, the fundamentals remain strong: rising digital adoption, green transition imperatives, and young, urbanizing populations. Investors who are agile, locally attuned, and risk-conscious are best positioned to capture upside and mitigate volatility in these dynamic economies.

VISUAL DATA

Figure 1. FDI Confidence Index—Top Emerging Markets (2025)

| Rank | Country/Region | Notable Sectors |
|------|-------------------|------------------------------|
| 1 | China (incl. HK) | Technology, Green Energy |
| 2 | UAE | Logistics, Fintech |
| 3 | Saudi Arabia | Infrastructure, Industry |
| 4 | Brazil | Agri-tech, Renewables |
| 5 | India | IT, Health, Digital Services |
| 7 | South Africa | Mining, Tech, Green Energy |
| 8-10 | Vietnam, Malaysia | E-commerce, Manufacturing |

Figure 2. FDI Drivers and Risks (2025)

| FDI Drivers | Key Risks |
|----------------------------|-------------------------------|
| Urbanization/demographics | Currency/inflation volatility |
| Digital transformation | Policy/political instability |
| Resource/green investments | Infrastructure/fraud risk |
| Policy reforms | Data transparency gaps |

8. CONCLUSION

Emerging markets in 2025 represent a compelling but complex opportunity for foreign investors. Delivering both outsize growth and heightened risk, these markets demand a carefully calibrated approach: deep due diligence, adaptive strategy, partnership with local stakeholders, and a long-term vision rooting agility in anticipation of change. With digital, green, and consumer sectors leading the way, the next wave of global investment success will be forged in the world's rising economies.

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