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MARKET SIZE, HOUSEHOLD CONSUMPTION EXPENDITURE, AND FDI

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Abstract

There are several factors in determining FDI inflows, including market size and household consumption expenditure. Market size is consistently found to be a significant factor in determining FDI inflows. household spending decisions about food intake are influenced by time restrictions, income, and price. The purpose of this study is to determine the influence of market size and household consumption expenditure on foreign direct investment (FDI). This research uses theoretical literature review as a research method. Authors found that household consumption expenditure affect FDI..

Keywords : *Market Size, Household Consumption Expenditure, Foreign Direct Investment, Literature Review.*

1. INTRODUCTION

Across numerous research, market size is consistently found to be a significant factor in determining FDI inflows. According to research conducted on Western Balkan nations between 2007 and 2015, FDI inflows were significantly positively impacted by market size, population size, and market growth (Petrović-Ranđelović et al., 2017). The potential advantages of regionalization for developing nations were also highlighted by a study conducted on Pakistan using data from 1984 to 2008, which found that market size was the most significant factor influencing FDI inflows (Mughal & Akram, 2011). Evidence for horizontal FDI in both founding and more recent OECD member nations was provided by an analysis of OECD countries from 2010 to 2021, which further confirmed the beneficial impact of market size on outward FDI (Negem, 2022).

In both developed and developing nations, market size is regularly found to be a significant driver of foreign direct investment. Market size is cited by Shah and Khan (2016), Shan et al. (2018), and Canh et al. (2020) as a factor of foreign direct investment. Growth rate of per capita, telephone main lines and degree of openness have positive sign and are statistically significant to FDI, inflation rate and tax rate present negative sign and are statistically significant (Demirhan and Masca, 2008). Exports, investment, and human capital have a statistically positive impact on FDI inflows, while credit barriers and taxes have a negative effect, also, market size and resources foster FDI, whereas inflation and environmental emissions lower foreign investment levels (Cerdeira and Fortuna, 2025).

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Theoretically, household spending decisions about food intake are influenced by time restrictions, income, and price (Fan et al., 2007). However, geography affects costs (Ahmed, 2023). For example, customers in the same region are assumed to experience the same market pricing, while different locations may capture differences in food product prices (Binkley, 2006; Ma et al., 2006; Liu et al., 2015; Fan et al., 2007). However, price and income changes may alter consumer behavior due to the impact of substitution and income on individual demand (Ahmed, 2023). Price rises cause the substitution effect, but changes in income cause the income effect, which alters customer demand for a good (Perloff, 2018). Furthermore, price elasticity quantifies how much demand there is for a given good when prices of related goods change, income elasticity calculates how much demand there is for a given good when income changes, and cross-price elasticity determines how much demand there is for a particular good when the prices of related goods change (Perloff, 2018; Varian, 2014). Therefore, the consumption of one thing has an impact on the price, income, and pricing of related products (Binkley, 2006; Ma et al., 2006; Liu et al., 2015; Fan et al., 2007). Engel's law illustrates how income and the quantity needed of a given good are related, demonstrating that as income rises, the share of food expenditures falls (Perloff, 2018). But as people's incomes rise, so does the demand for food, both in terms of quantity and quality (Gale and Huang, 2007).

Based on the explanation above, the researcher will conduct in relation to foreign direct investment which focuses on determinants of it.

2. RESEACRH METHOD

A theoretical literature evaluation is conducted in order to achieve the research's goals and objectives, and a conceptual framework for future study is offered. We presented research method that uses by previous researchers (Vasiljeva et al., 2017; Torkayesh et al., 2023).

3. RESULT AND DISCUSSION

In the current research, the authors consider FDI as dependent variable that affected by market size and household consumption expenditure. The conceptual model of the research is given at the Figure 1.

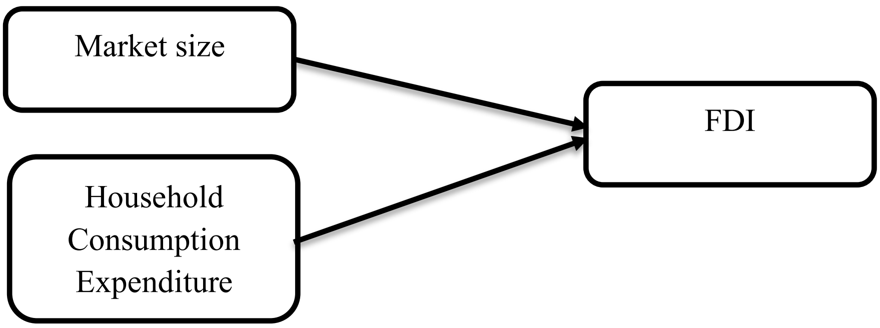

Figure 1. Research's conceptual model

4. CONCLUSION

Consumption Expenditure as a Proxy for Purchasing Power Household consumption expenditure per capita captures real purchasing power better than GDP alone. Empirical panel-data studies show that regions with rising per-capita consumption are more likely to receive new Greenfield FDI projects. For example, an analysis of Organization of Islamic

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Cooperation countries during 2018–2020 found that total consumption expenditure had a positive and significant effect on FDI inflows when labor-force factors were held constant (Albar and Ratnasari, 2022). Consumption-Led Growth Signals Policy Stability High and sustained household spending can reflect effective macroeconomic management (low inflation, stable exchange rates, predictable regulatory environment), which multinational investors prize. In the same OIC study, consumption remained significant even without labor-force moderation, suggesting that consumption itself carries information about country risk and institutional quality (Albar and Ratnasari, 2022).

Multinationals in fast-moving consumer goods (FMCG), retail chains, and consumer-service industries (e-commerce, hospitality) particularly chase markets where household spending on nondurables and services are expanding. Regions with growing urban middle classes often see these FDI sectors surge ahead of extractive or heavy-industry projects (Haya, 2022). FDI inflows themselves can lift household consumption by generating jobs and higher incomes. Thus, empirical models must use instrumental variables (e.g., lagged consumption, external demand shocks) to isolate the one-way effect from consumption to FDI (Rodriguez and Rodrik, 2001).

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