FOREIGN DIRECT INVESTMENT AND ITS IMPACT ON ECONOMIC GROWTH

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Abstract. This article talks about the impact of FDI on economic growth, capital inflow, technology transfer, meanly, FDI facilitates the spread of advanced technologies and management experience from developed to developing countries. FDI helps to increase the productivity of labor and capital, which leads to an increase in production efficiency. FDI can be directed towards the development of infrastructure, which is an important condition for economic growth. FDI helps to create new jobs and reduce unemployment. It can contribute to the development of export-oriented industries and increase foreign exchange earnings.

Key words. Foreign direct investment (FDI), economic growth, capital inflow, technology transfer, productivity gains, infrastructure development, job creation, export enhancement, environmental damage.

Introduction. Among the variety of forms of economic activity in modern conditions, the implementation of foreign investments is becoming increasingly important, becoming one of the most important elements of the investment component in the economy of various countries. The total volume of these investments in the world is growing annually at a much higher rate than the volume of the total gross product of the countries of the world[1].

Today, without investment, it is impossible to create modern capital and the competitiveness of producers in foreign and domestic markets. The processes of structural and qualitative renewal of world commodity production and market infrastructure occur exclusively at the expense of investments. The more intensively it is carried out, the faster the process of reproduction occurs, the more active are the effective market transformations.

In the era of globalization, the development of a small open economy largely depends on the intensity of the use of various forms of international economic relations, among which foreign direct investment (FDI) plays a special role. This is due to the fact that FDI helps to involve the potential of the recipient country in the

[1]World Investment Report, 2008

international production of goods and services, which affects its economic growth, changes in international specialization and its place in the international division of labor. In contrast to other forms of international capital flows, foreign direct investment has a positive impact on the stability of the current account and the capital account of the balance of payments of developing countries and countries with economies in transition[2].

The most important direction of the state economic policy of our country is the creation of a favorable investment climate for attracting and effective use of foreign investments.

In order to consider this issue in more detail, it is necessary to distinguish several concepts.

Main body. The international movement of capital is based on its international division as one of the factors of production, the historically formed or acquired concentration of capital in different countries, which is a prerequisite for the production of certain goods that are more economically efficient than in other countries countries of accumulated stocks of material resources necessary for the production of goods and services, as well as in differences in historical traditions and production experience, levels of development of commodity production (technological mode), market mechanisms, financial and other resources. Accumulated savings (capital in the form of money) are the most important prerequisite for investment and expansion of production[3].

Investments (from the Latin investire – region) are all types of property and intellectual value invested in objects of entrepreneurial and other activities, the result of which is the receipt of profit (income) or social effect.

Investment is the direct process of investing in investment objects.

Investment activity is a process that includes both the investment itself and the subsequent implementation of other actions in order to obtain profit or other positive effect from the invested funds.

Share of reinvested profits in the economy. This indicator is important for characterizing the investment attractiveness of the country. Reinvested income is the share of a direct investor in the retained earnings of the enterprise, which it received from production activities and returned into circulation. According to the IMF definition, reinvested earnings include:[4]

- ✓ The difference between the cost of issuing and repurchasing shares;
- ✓ Increase or decrease in the cost of capital;

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[2] J.H. Dunning, Integrating TNCs into the World Economy, 2003

[3] J. Eaton, 2001, pp. 742-755

[4] O.V. Nosova, The Problem of Macroeconomic Equilibrium in the Post-Crisis Economy. Post-Crisis Prospects for the Modernization of the Russian Economy: Coll. monograph; ed. by O.S. Belokrylova. – Rostov-on-Don: Publishing House "Assistance XXI Century" 2011, pp. 135-145

- ✓ Change in the provision for revaluation of assets;
- ✓ Retained earnings

As world practice shows, the profit received by investors is often not exported outside the country, but again sent to the economy in the form of FDI. Reinvested profits are one of the most important sources of direct investment today: 30% of total FDI inflows come from global countries and 50% from developing countries.

The analyzed indicator also serves as a kind of indicator that makes it possible to determine the direction of the flow of international financial capital, the degree of its confidence in the national economic policy of the recipient country.

The objects of foreign investment are:

- ✓ any enterprises and organizations engaged in activities not prohibited in the republic;
- ✓ Buildings and structures, property of legal entities and individuals;
- ✓ Shares, bank deposits, insurance policies and other securities and funds;
- ✓ Scientific and technical products;
- ✓ Intellectual property rights;
- ✓ Other property and acquired property rights, including the right to use land and other natural resources of the republic to carry out its activities. Investments can be divided into three categories:[5]
- ✓ Foreign direct investments (FDI) - real, in which a foreign investor gains control over an enterprise in the country or actively participates in its management (placement of capital in industry, trade, services, directly in enterprises);
- ✓ Portfolio (financial), in which a foreign investor does not actively participate in the management of the enterprise, being content with receiving dividends (in most cases, such investments are made in the market of freely traded securities). The portfolio also includes investments of foreign investors in the state and municipal securities market. In the post-war period, the volume of such investments has been growing, which indicates an increase in the number of private investors. Intermediaries for foreign portfolio investments are mainly investment banks (intermediary organizations in the securities market engaged in financing long-term investments)

Their exclusion from the analysis is primarily due to the heterogeneity of the group, as well as the difficulty of obtaining reliable statistical information about many of them. The boundary between the first two types of investments is rather conditional (it is usually assumed that investments at the level of 10-20 percent or more of the authorized capital of the enterprise are direct, less than 10-20 percent are portfolio). Such a division seems quite appropriate, since the goals pursued by direct investors are somewhat different.

Foreign direct investment differs from other forms of international capital flows

[5] Radosevic, 1995, pp. 459-478

in two main criteria. First, FDI is not simply made outside the country of residence, but within the investor company. An investor company that expands its presence abroad is nothing more than a transnational company (TNC). Since FDI is invested within a single company, it is therefore its property and implies the investor's control over the use factors of production. The concept of control by the investor company over a private equity enterprise is key to the concept of FDI[6].

The second difference between FDI and other forms of international capital flows is that the FDI process involves the transfer of not only financial resources across borders, but also other assets. These include, first of all, technology, equipment, management experience, training and development, skills of employees, access to an established supply network of raw materials and resources, as well as to an international distribution network of TNCs, trademarks, brands, advertising networks and products.

At the same time, as they say, greenfield FDI is distinguished by "investment in a green meadow", when production activities based on FDI in the recipient country start from scratch, with the creation of new enterprises and industries, and brownfield FDI – "investments in the fallow field",[7] when FDI flows into the assets of existing and existing capacities.

In the modern world economy, foreign direct investment flows from donor countries to recipient countries for reasons that serve the interests of:[8]

- ✓ TNCs (which are subject to FDI offerings);
- ✓ Donor countries regulating FDI;
- ✓ Recipient countries that regulate FDI imports speak on the demand side of FDI.

The export of foreign direct investment is carried out by TNCs due to their ownership of valuable assets: capital, technology, information, skilled personnel, access to commodity markets, access to markets, management and organizational experience, research and development base, optimal size and sustainability, brand creation, economies of scale, geographical and production diversification, etc.

With these assets, companies are interested in opening branches abroad in order to involve new resources and sales markets in their own production, reduce the cost of production of goods and services, as well as gain leadership positions in a particular industry on an international scale. Based on the listed main motives for TNCs to invest abroad, FDI can be resource-oriented, market-oriented, effective, and focused on strategic assets.

[6] Klein M. Rosengren, 1994, p. 373-389
[7] P.Welfens, 1994
[8] O.V. Nosova, The Problem of Macroeconomic Equilibrium in the Post-Crisis Economy. Post-Crisis Prospects for the Modernization of the Russian Economy: Coll. monograph; ed. by O.S. Belokrylova. – Rostov-on-Don: Publishing House "Assistance XXI Century", 2011

In modern conditions, foreign direct investment (FDI) is becoming one of the most important elements of economic activity in various countries.

By their nature, they imply the creation of new enterprises or the fundamental restructuring and development of existing companies and, thus, contribute most to economic growth. In real life, especially in developing economies, most often they are investments in shares of export-oriented enterprises, which also brings certain benefits to recipient countries by increasing their foreign exchange earnings[9].

The advantage of FDI over other forms of investment is obvious. In addition to direct economic effects in the form of tax revenues, increased employment, incentives for domestic suppliers and expansion of the domestic market, foreign direct investment has a very beneficial effect in the field of technology transfer, dissemination of best practices in management, marketing, logistics, personnel development, etc.

The economic effects of foreign direct investment in the recipient country can be divided into three groups depending on the level of economic processes: microeconomic, sectoral, and macroeconomic. In addition, the effects of foreign direct investment can be direct, that is, have a direct impact on the development of the country as a whole, indirect or secondary.[10]

The microeconomic effects of foreign direct investment are associated with the direct transfer of the assets of the investor company to the direct investment enterprise. At the microeconomic level, the negative consequences of foreign direct investment can manifest themselves in the transfer of "dirty" technologies, non-compliance with sanitary and hygienic production standards and environmental requirements for the exploitation of resources.

Sectoral effects of foreign direct investment can be horizontal, or intra-sectoral, and vertical, or inter-sectoral. The horizontal sectoral impact of foreign direct investment on economic development is manifested in the dissemination of technologies and experience in managing investing companies through intra-industry labor migration and imitation of technologies.

The vertical effects of foreign direct investment arise through inter-sectoral relations with national companies of enterprises with foreign capital, which can play the role of both suppliers of raw materials and be buyers of goods and services. In order to establish production relations with local enterprises, foreign enterprises put forward certain requirements to improve the quality of products, thereby stimulating the need for modernization. The emergence of companies with foreign direct investment in infrastructure industries affects the development of most sectors of the host capital of the country. For example, foreign audit firms require clients to comply

[9] M. Haddad, 1993
[10] Yakubovsky, 2011, p. 472

with international reporting standards, which increases the level of accounting in local client companies, thereby ensuring transparency in business transactions.

The positive impact of foreign direct investment on the economy of the recipient country at the macroeconomic level includes:[11]

- ✓ increasing financial resources for the development of the real sector and investments in fixed assets;
- ✓ Increasing the competitiveness of the country's exports;
- ✓ Increasing employment and personnel development;
- ✓ Other direct and indirect effects.

The potential negative effects of foreign direct investment at the macroeconomic level are mainly related to the anti-competitive practices of the transnational company; tax evasion and abuse of transfer pricing practices of a multinational company; suppression of national producers and ousting of national products, technologies, trade networks and business activity.

Also of great concern is the fact that the volume of imports of a company with foreign investment significantly exceeds the volume of exports. The difference between exported and imported products can be explained as follows:[12]

- ✓ A significant part of the raw materials for production is imported in order to create high-quality products;
- ✓ A significant share of finished products remains in the domestic market. Thus, foreign direct investment performs the function of import substitution of consumer goods;
- ✓ The high share of imports of intermediate products with foreign investment indicates a low degree of their industrial integration into the economy and the lack of vertical links with local enterprises and firms.

The most important factor in socio-economic development is the attraction of foreign investment. They provide an additional inflow of funds that are missing in the economy and the arrival of the latest technologies, technologies, advanced management experience. In this regard, in the last two decades, there has been an increase in competition for global investment between states, which has prompted national governments to develop and implement comprehensive economic policies aimed at increasing the country's attractiveness to foreign investors.

The study of the impact of FDI on the economic growth of recipient countries in the economy is mainly empirical. The expansion of knowledge on this issue is associated with the study and analysis of world practice, in particular, the experience of countries that actively attract FDI to solve their problems of economic development. World experience shows that the behavior of FDI in the country, its

[11] World Economy, 2007
[12] Voznesenskaya, 2006

impact on economic growth, the conditions for the emergence of positive and negative effects are largely repeated and universal for most countries. In this regard, the accumulated international experience can be largely transferred to individual countries, adjusted to local socio-economic and economic-geographical conditions. In addition, on the basis of the analyzed data, it is possible to formulate general principles, conditions and factors that determine the place and role of FDI in the process of economic development, as well as methods for improving the effectiveness of FDI's participation in the economic development of the country.

In this paper, we will analyze the experience of two groups of countries: the countries of Southeast Asia and Latin America. Among the countries of Southeast Asia, we will focus on four "Asian tigers": Singapore, Taiwan, South Korea and

Hong Kong SAR. Among the countries of Latin America, we will consider the experience of Mexico, Brazil, Argentina, Chile, Colombia, and Venezuela.

The experience of these countries may not be fully transferred due to significant initial socio-economic and economic-geographical differences. However, the study of the experience of these countries in the context of determining the place of FDI in the process of economic development of the country, in our opinion, is most relevant for our country, which is due to the following reasons: over the past 40 years, these countries have demonstrated high rates of economic growth; There was general agreement that externalities, especially FDI, played a significant role in their economic success; they were the first developing countries to actively attract FDI and had accumulated a great deal of positive and negative experience with FDI over a period of more than 40 years; in these countries, for the first time, all the main strategies for the participation of FDI in the economic development of the recipient country were implemented.

The experience of developed Western countries, in our opinion, is less relevant for the modern economy due to a much higher level of development of their economies, significant differences in the goals and objectives of economic development, and the presence of a well-established structure, forms and directions of FDI in these countries.

In the 50s and 60s of the 20th century, the countries of Western Europe and Japan were actively recovering from the Second World War, developing their industry, increasing financial and investment resources. During this period, American corporations dominated the international arena, developing their business in Europe and Japan, including through foreign direct investment in these countries. At that time, American banks and corporations were the largest investors in the world, the main flows of these funds were directed to the countries of Western Europe and Japan.

Since the mid-1970s, the oil-producing countries of the Middle East, in connection with the sharp rise in oil prices, began to accumulate huge funds, a significant part of which they then invested in the banking sector of developed countries, so by the second half of the 1970s, the largest American and Western European banks were overwhelmed with free funds, which they lent to the governments of developing countries. hoping for their high reliability and profitability.

During the 1950s and the first half of the 1960s, 51 states gained state independence, and some other countries embarked on the path of accelerated economic development. Most developing countries of that period had a colonial raw material economy, largely dependent on the metropolises and international corporations operating on their territory. After gaining independence, these countries during the 1960s and 1970s nationalized enterprises owned by foreign corporations and established state control over their own natural resources and mining industries located on their territory. The governments of many of these countries, with the help of international organizations, have developed development programs aimed at industrializing the economy. For their successful implementation, these countries needed significant financial resources, which they sought to occupy in the foreign market. Given the absence of a large external debt, they were able to attract significant amounts of foreign loans.

Conclusion. Foreign direct investment (FDI) is an investment made by foreign investors in the capital of companies in other countries with the aim of gaining control over or significant influence over their activities.

✓ Positive impact of FDI on economic growth:

Capital inflow: FDI provides an inflow of capital needed to finance economic development, create jobs and improve the standard of living of the population.

Technology transfer: FDI facilitates the spread of advanced technologies and management experience from developed to developing countries.

Increased productivity: FDI helps to increase the productivity of labor and capital, which leads to an increase in production efficiency.

Infrastructure development: FDI can be directed towards the development of infrastructure, which is an important condition for economic growth.

Job creation: FDI helps to create new jobs and reduce unemployment.

Improved exports: FDI can contribute to the development of export-oriented industries and increase foreign exchange earnings.

✓ Negative impact of FDI on economic growth:

Displacement of local producers: FDI can create competition for local producers, which leads to their displacement from the market.

Dependence on foreign capital: Over-reliance on FDI may lead to loss of economic sovereignty.

Exacerbation of social problems: FDI may increase social inequality and lead to exploitation of labor.

Environmental damage: FDI may involve the use of harmful technologies, leading to environmental pollution.

Profit leakage: Profits earned from FDI may leak abroad, not contributing to the development of the local economy.

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