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## FDI AND THEIR ROLE IN THE DEVELOPMENT OF INTERNATIONAL ECONOMICS

### ПРЯМЫЕ ИНОСТРАННЫЕ ИНВЕСТИЦИИ И ИХ РОЛЬ В РАЗВИТИИ МЕЖДУНАРОДНОЙ ЭКОНОМИКИ

**Abstract.** *Foreign investment as an important factor of the countries' international economic development has been considered in the article. The condition of foreign direct investment (FDI) and changes in national investment policies in the world and Ukraine for 2001-2016 years has been analyzed. The main advantages achieved by attracting foreign direct investments have been determined. Further research questions in the area of foreign investment are to improve the legislative framework and a mechanism of risk insurance for foreign investors.*

**Keywords:** *foreign investment, foreign direct investment (FDI), investment climate, economics, economic growth, development, foreign trade activity.*

**Аннотация.** *В статье рассмотрены иностранные инвестиции как один из важнейших факторов международного экономического развития стран. Проанализировано состояние прямых иностранных инвестиций (ПИИ) и изменения в национальной инвестиционной политике мира и Украины в частности за 2001-2016 годы. Определены основные преимущества, достигаемые за счет привлечения прямых иностранных инвестиций. Дальнейшие вопросы исследования в области иностранных инвестиций предполагают совершенствование законодательной базы, а также механизма страхования рисков для иностранных инвесторов.*

**Ключевые слова:** *иностранные инвестиции, прямые иностранные инвестиции (ПИИ), инвестиционный климат, экономика, экономический рост, развитие, внешнеторговой деятельности.*

**Formulation of the problem.** Foreign investments act as one of the most important factors of economic development of the state. In recent years, the role of

foreign investment in the economy is even more important because many countries passing through the stage of economic processes towards integration into the international economy. Under these conditions attraction of foreign investment is a major step to ensure the conditions of the exit from the economic crisis, growth of financial and economic indicators of the state, attracting new technologies and providing structural changes in the economy. In this way, there are some problems, particularly in the legislation that do not allow to fully ensure the effective conditions for foreign investment activity.

**Analysis of recent research and publications.** The issue of involvement foreign investment and some of the problems associated with it have been studied by many foreign and national scientists, such as: P. Lindert, T. Levitt, D. Bryson, E. Blakely, V. Fedorenko, T. Kublikova, O. Shapovalov, A. Boyko and others.

**The aim of the article** is to study and analyze attracting foreign investment in the world countries compared to previous years, formulating our own vision of the main factors affecting the investment climate in the state, as well as directions for their improvement.

**Presenting main material.** Investment activity is one of the driving forces of the state economic development. Attracting investments in certain sectors of economy is a priority task for the country, because the result of this investment activity has many positive effects, including social.

Improving the economic level of the state is largely dependent on attracting foreign investment, because their influence extends to the state of national production, the degree of technological development, the level and pace of structural adjustment of the economy.

Foreign investment is usually carried out in countries with open economies with the presence of a skilled workforce and an open space for growth.

According to the Law of Ukraine "On foreign investment" [1], foreign investment are interpreted as "all kinds of values invested by foreign investors in business and other activity for profit or achieving social effect. Foreign

investments may be made in the form of currency or property values, stocks, bonds and other securities, intellectual property rights".

Foreign investments are made not only in the form of money, they increasingly include advanced manufacturing and information technology, modern management techniques etc.

Government supports the attraction of foreign investment in the state economy, but anyway, there are many difficulties in this way for foreign investors.

Today the main problem in area of investing is reducing the demand for manufactured products. This is caused by a low paying capacity of the population at the internal markets of individual countries and the decline of export prices in world commodity markets. The main investment risks are concluded as certain institutional conditions, such as political and economic instability, corruption at the national and everyday level, imperfect governance and deficient organizational framework. This all affects the perspectives of attracting foreign investment to the countries.

In 2015, global flows of foreign direct investment rose by about 40 per cent, to \$1.8 trillion, the highest level since the global economic and financial crisis began in 2008. Inward FDI flows to developed economies almost doubled to \$962 billion. As a result, developed economies tipped the balance back in their favour with 55 per cent of global FDI, up from 41 per cent in 2014. Strong growth in inflows was reported in Europe. In the United States FDI almost quadrupled, albeit from a historically low level in 2014. Outward FDI flows from developed economies jumped by 33 per cent to \$1.1 trillion. With flows of \$576 billion, Europe became the world's largest investing region. [2]

Looking ahead, FDI flows are expected to decline by 10-15 per cent in 2016, reflecting the fragility of the global economy, persistent weakness of aggregate demand, sluggish growth in some commodity exporting countries, effective policy measures to curb tax inversion deals. Over the medium term, global FDI flows are projected to resume growth in 2017 and to surpass \$1.8 trillion in 2018, reflecting an expected pick up in global growth. [2]

FDI flows to transition economies declined further, to levels last seen almost 10 years ago owing to a combination of low commodity prices, weakening domestic markets and the impact of restrictive measures/geopolitical tensions. Outward FDI from these regions also slowed down, hindered by the reduced access to international capital markets. After the slump of 2015, FDI flows to transition economies are expected to increase modestly. FDI flows to structurally weak and vulnerable economies as a group increased moderately by 2 per cent to \$56 billion. Developing economies are now major sources of investments in all of these groupings. [2]

National investment policies continue to be geared towards investment liberalization and promotion. In 2015, 46 countries and economies adopted 96 policy measures affecting foreign investment. Of these measures, 71 related to liberalization, promotion and facilitation of investment, while 13 introduced new restrictions or regulations on investment (table 1). The share of liberalization and promotion reached 85 per cent, which is above the average between 2010 and 2014 (76 per cent) [2]

**Table 1**

**Changes in national investment policies, 2001–2015 [2]**

Item	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Number of countries</b>	51	43	59	79	77	70	49	40	46	54	51	57	60	41	46
<b>Number of regulatory</b>	97	94	125	164	144	126	79	68	89	116	86	92	88	72	96
<b>Liberalization promotion</b>	85	79	113	142	118	104	58	51	61	77	62	65	64	52	71
<b>Restriction regulation</b>	2	12	12	20	25	22	19	15	24	33	21	21	21	11	13
<b>Neutral indeterminate</b>	10	3	-	2	1	-	2	2	4	6	3	6	3	9	12

Another investment policy feature in 2015 was privatization. Developed countries were most active, in particular with regard to some infrastructure services, such as transportation and telecommunication. Ukraine developed a list of approximately 300 State-owned enterprises to be privatized, by adopting a resolution on conducting a transparent and competitive privatization process.

For potential investors a priority in the implementation of investment decisions is protection of their own interests, proper support from the state and minimizing of risks - financial, political, legal, environmental and others.

The objective of the investment policy is to regulate investment activities, including financial. The system of financial regulation includes the subjects of fiscal, social, tax, customs, foreign trade sector, i.e. state legal authorities, defining investment principles of foreign economic activities within the country.

Considerable role in attracting foreign capital into economy of the country also plays investment climate of the state - the set of factors (political, social, economic, institutional and legal, etc.) that are specific to that country and affect investment activity.

The main advantages achieved by attracting foreign direct investments are the following:

- Infusion of additional financial resources in the economy;
- Increasing revenues from taxes;
- Introduction of new methods of management;
- Modern production technologies;
- Increased competition in the internal markets;
- creating new jobs and upgrading qualifications on the basis of foreign experience.

The market transformation in Ukraine, which includes the area of foreign investment, is very slow, with the deepening of structural imbalances and increasing gap in technological development with the developed countries. Ukraine today is attractive to investment in terms of access to resources and outlet markets.

The availability of cheap labor and plenty of undeveloped local markets are helping to attract more foreign investment into our country.

**Conclusions.** Based on this research can be noted that the issue of attracting foreign investment occupies a special place in the system of factors of economic growth of the state. For optimal use of foreign capital it is necessary, first of all, to create the proper conditions for foreign investors. This applies to improving the legal framework and implementation of mechanism of risks insurance that in modern conditions is an extremely important issue. Investments, especially foreign ones, are the basis for the development of the state economy and improving quality of life for the population as a result. From the effective realization of the investment policy depends not only state and scale of production, innovation, scientific and technological progress, but also solving certain social and environmental problems.

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