# ATTRACTING FOREIGN DIRECT INVESTMENT IN THE CONTEXT OF GLOBAL ECONOMIC

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***Abstract****. The article reveals the distinctive features and trends in the regulation of foreign direct investment (FDI) at the international and national levels. The advantages and disadvantages of foreign models for stimulating foreign investment ("American", "Japanese", "Taiwanese") are highlighted. Based on the generalization and analysis of the determinants of FDI, the specifics of the use of modern methods and tools of state stimulation and attraction of foreign direct investment in foreign countries at the present stage of economic integration, a brief analysis of the problems of state regulation of FDI in the Ukraine, directions and measures have been developed to improve the Ukrainian model of their stimulation and attraction. Investments, including foreign ones, are not only a mechanism for development, but also a way to regulate the economy through the transfer of capital. At the present stage of market development, foreign investment is the main source of the latest competitive technologies. The purchase of Ukrainian enterprises or their shares, i.e. the implementation of mergers (acquisitions), foreign investors see as an attractive way to invest from those positions that reduce the risk due to ineffective management. At the same time, the chances of applying best practices in the field of new technologies and the circulation of funds during the protracted crisis are increasing. Thus, among the problems that need to be solved immediately, one of the first places is the problem of lack of investment resources in the economy of Ukraine and the creation of favorable conditions for their accumulation. It should be noted that the processes of economic growth are determined by the volume and growth rate of investment, their structure and quality characteristics.*

***Keywords****: foreign direct investment, investment environment, organizational and economic mechanism of FDI attraction, investment policy, investment activity, investment attractiveness, state regulation.*

***JEL Classification: E22, F30, G11***
***Formulas: 0; tabl.: 2; fig.: 1; bibl.: 19***

**Introduction**. In today's minds, investments act as an important intellectual development of the structural and re-budding of the national economy, the provision of technical progress, and the promotion of showcases of state activity on the macro- and micro-levels. The very term "capital" no longer refers to negative associations, step by step slandering not only the main assets and commodity and material reserves, but also, we see assets, including intellectual capital, corporate rights (including the right to buy or sell your share of power).

The development of the mechanism for obtaining direct foreign investment in any country may come from the peculiarities of the globalization of the economy. The creation in Ukraine of the mechanism for obtaining foreign investments is to blame for the mother of the obvious advantages of equal powers, the signs of stench are already coming, and with other potential recipient powers. Adopting a solution of an investment nature, as if it were another type of management activity, is guilty of being based on a victorious organizational and economic mechanism for managing financial resources.

**Literature review**. In the modern system of international economic relations, the role of interstate investment cooperation is growing, due to the objective need to strengthen globalization at all levels. Globalization, which was originally predominantly political in nature, now covers mainly the economic and financial spheres.

The integration of the national economy into the world economy is based on various forms of foreign economic activity. According to economist Sh.-A. Mishale, such integration is carried out on a multilateral basis [1].

The development of the modern world economy is determined by the growth of innovation and investment activity in emerging markets and relatively weak economic growth in developed countries in the context of continuing globalization processes combined with strengthening regional integration processes [2].

In the classification of international capital flows there are several main forms, which are identified in the following sources [3-5].

Informal restrictions, which may have the same negative impact on the activities of foreign investors as direct restrictions, include [6-7]:

- delaying the licensing procedure,
- corruption and bureaucratization of licensing procedures.

The "practice of benefits" of certain types of foreign investment and methods of their regulation largely depends on a number of factors (determinants in foreign sources), which are classified by the following reinforcements [8-11].

State regulation of foreign investment in market economies is reflected in three models, set out in [15]. The dynamics of capital investment by type of assets in Ukraine in 2017-2020 is set out in [19].

In order to avoid the impact of such factors on the national economy, the entry into the system of global economic relations creates an objective need to increase its competitiveness.

The analysis of international investment processes and the author's research indicate that in the modern world there was practically no country left that was not involved in the processes of international investment cooperation.

**Aims**. Study the methods influencing the structure of changes in the global investment of foreign direct investment, ensuring the maximum net cash flow.

**Methods**. The main research methods were scientific abstraction, logical generalization and cognitive modeling to identify the impact of economic indicators, the impact on the future benefit of capital investment.

**Results**. The national economy in the context of globalization is one of the subjects of the global market. The integration of the national economy into the world economy takes place on the basis of various forms of foreign economic activity (FEA). According to the economist Sh.-A. Mishale, such integration is carried out on a multilateral basis and at various levels: export-import of goods, the movement of long-term capital, technology [1]. International movement and interweaving capital, expanding cross-border cooperation to the sphere of production and ownership structure, are the basis of modern globalization along with trade.

Globalization global processes significantly complicate financial markets and their segments; new financial products and services appear [10].

The development of the modern world economy is determined by an increase in innovation and investment activity in emerging markets and relatively weak economic growth in developed countries in the context of continued globalization processes, combined with the strengthening of processes regional integration [2]. The latter in the aspect of this study can be considered in two planes:

- a set of trade and political obligations, mutual on the liberalization of capital markets;
- creation of a more homogeneous investment environment through the harmonization of legislation.

Global instability is one of the negative features of globalization; however, it is followed by equally important problems, in particular: stratification of the society, rapid redistribution of resources; the growing influence of TNCs and other influential economic groups that can benefit from the crisis and change the permanent global competitive division. In order to avoid the influence of such factors on the national economy of the country, when entering the system of global economic relations, an objective necessity to increase its competitiveness is generated [17].

In the classification of international capital flows, there are several main forms [3-5]. Among them is foreign direct investment (FDI) – long-term capital investments that provide investor control over the object of capital allocation. Thus, FDI is capital (cash or fixed) provided by an investor – a legal entity – a foreign company, over which the investor's control is actually established for the long term.

It should be noted that in 2007-2010 the process of international capital migration was carried out in the context of the global financial and economic crisis, which led to a reduction in the volume of FDI in the world by 21% (compared to 2007) to $1.7 trillion in the world decreased by 39%, amounting to about $1 trillion. The inflow of foreign direct investment in developed countries in 2009 decreased by 41% – to $565 billion. FDI received by developing countries, in turn, decreased by 35% and amounted to 406 billion dollars [8].

At present, it seems an axiom that FDI as a source of capital, managerial skills and technical knowledge is a necessary factor in ensuring economic growth [11].

The "preference practice" of certain types of foreign investments and methods of their regulation largely depends on a number of factors (determinants in foreign sources), which can be classified as follows:

1) environmental factors or external factors (geographical location of the country, all types of resources, scientific and technical bases, volumes of markets for consumer and industrial goods, infrastructure). These factors can only be changed in the long term;

2) internal factors [12], which include the creation and management of representations, the effectiveness of processes, etc. (the interest of governments, managing investor expectations, the effectiveness of administrative procedures, the regulatory framework, financial and tax incentives [14].

The regime of privileges in the vast majority of cases is established for enterprises of priority economic sectors for the host country and requiring large amounts of capital investment (based on the use of natural resources and financial services) [15].

Informal restrictions, which can have the same negative impact on the activities of foreign investors as direct restrictions, include:

- delaying the licensing procedure,
- corruption and bureaucratization of licensing procedures, etc. [6-7; 12].

In the international competitiveness rankings, Ukraine is traditionally ranked among the developing countries. The predominance of FDI is aimed at agricultural development, the dynamics of capital investment by type of assets in Ukraine in 2017-2020, are shown in table 1.

**Table 1. Capital investments by types of assets, million UAH**

| Capital Investments | | | | |
|---|---|---|---|---|
| **Branch** | **2017** | **2018** | **2019** | **2020** |
| Total | **448462** | **578726** | **623979** | **508217** |
| Investments in tangible assets | 432040 | 542335 | 600568 | 483324 |
| - residential buildings | 53372 | 57396 | 58015 | 34886 |
| - non-residential buildings | 65605 | 88846 | 100468 | 78920 |
| -engineering structures | 78564 | 111315 | 149153 | 127995 |
| - machinery, equipment and inventory | 154722 | 187651 | 198455 | 161637 |
| - vehicles | 60124 | 73926 | 65871 | 50075 |
| - land | 1994 | 1673 | 2230 | 2298 |
| - long-term biological assets crop and livestock production | 3728 | 4528 | 6000 | 5247 |
| -other tangible assets | 13931 | 17000 | 20376 | 22266 |
| Investments in intangible assets | 16422 | 36391 | 23411 | 24893 |
| including:<br>- software and databases | 8196 | 9476 | 10215 | 12411 |
| - rights to commercial designations, industrial property objects, copyright and related rights (including entertainment and entertainment) | 6228 | 24382 | 8389 | 8389 |

*Source: created according to data [19]*

World agriculture is one of the most subsidized economic activities. Subsidies provide the population with a sufficient amount of food, prevent price instability, provide support for underdeveloped industries (infant industry argument) [9; 20], dynamics of capital investments by types of economic activity in Ukraine in 2017-2020, are shown in Table 2.

It should be mentioned, that such countries are characterized by increased political and economic instability, unfavorable investment climate and high economic risks [16].

The following restrictive measures were used particularly frequently:

- limiting the attraction of foreign capital to the most important industries and sectors of the economy. Thus, the limits of the maximum admission of foreign capital to the national economy are legally established in order to protect it from the influence of foreign investors on the state of individual industries and on the economy of the republic as a whole;

– limiting the share of foreign investors in the capital of national enterprises, including a complete ban on foreign investors controlling national enterprises;

- measures to use a certain share of the profits of enterprises with foreign capital for the internal needs of the host state, for example, restrictions on the repatriation of profits, etc.

**Table 2. Capital investment by type of economic activity, million UAH**

| Capital investment by type of economic activity | | | | |
|---|---|---|---|---|
| **Activity** | **2017** | **2018** | **2019** | **2020** |
| Total | **448462** | **578726** | **623979** | **508217** |
| Agriculture, forestry and fisheries | 64243 | 66104 | 59130 | 50680 |
| Industry | 143300 | 199896 | 254196 | 180537 |
| Construction | 52176 | 55994 | 62347 | 39615 |
| Wholesale and retail trade; repair motor vehicles and motorcycles | 33665 | 51818 | 44174 | 41685 |
| Transport, warehousing, postal and courier activities | 37944 | 50078 | 43793 | 34885 |
| Temporary accommodation and organization food | 2134 | 2675 | 2832 | 1951 |
| Information and telecommunications | 18395 | 29885 | 21063 | 22382 |
| Financial and insurance activities | 8055 | 10652 | 11246 | 11979 |
| Real estate transactions | 22506 | 27557 | 28147 | 19940 |
| Professional, scientific and technical activities | 7965 | 10798 | 11912 | 11823 |
| Activities in the field of administrative and ancillary services | 12747 | 11838 | 11741 | 8624 |
| Compulsory social insurance | 32844 | 44598 | 54306 | 62303 |
| Education | 3493 | 4460 | 4789 | 3740 |
| Health and social care assistance | 6708 | 8139 | 9485 | 14836 |

*Source: created according to data [19]*

The legal framework governing FDI in developing countries has traditionally been very diverse. This is due to significant differences in the policies of these states in relation to foreign capital and the goals of the investment policy pursued in proportion to the national interests.

Depending on the degree of state regulation of investment activity, passive and active methods are distinguished. Types of tools impacts are divided into:

- macroeconomic;
- microeconomic;
- institutional [14].

The use of the passive method is based on:

- providing participants in economic activities with information related to the conditions of production and marketing activities, prospects for the socio-economic development of the state [8];

- identification of priorities and development of an indicative plan for economic recovery.

These parameters are determined by measures of budgetary, tax and monetary policy [14]. The implementation of a deflationary monetary policy by increasing the required reserves and the discount rate reduces the liquidity of the banking system and limits credit operations, which leads to a reduction in the sources of financing of investment processes. A decrease in the discount rate of interest leads to a reduction in the cost of credit resources, and hence to an increase in the possibilities of financing a greater number of investment projects.

Tax measures aimed at regulating and stimulating investment activity include:

- reduction of tax rates;
- tax credit;
- tax holidays;
- investment discounts;
- exemption from tax of a part of the profit, which is directed to finance capital investments;
- benefits of indirect taxation [21].

In addition, the need to stimulate business and investment activities in Ukraine to seriously conflict with the objectives of fiscal policy. But maintaining the current direction of credit policy for business monetary and exchange rate policy is still keeping the base to a constant sound for taxation. The same can be said about the effects of these remedies monetary policy. To date, there are no ready-made recipes these problems, however, we believe that these recipes are sure to appear if we can move to a positive attitude towards national capital, to put its development as a cornerstone of economic transformations [18].

An important microeconomic tool for regulating investments is the depreciation policy of the state, through which not only the size of the own funds of organizations that are going to expand investment activities, but also the pace, as well as the nature of reproduction, the rate of renewal of fixed assets. Accelerated depreciation of assets should be carried out in accordance with international standards, reduce the risk of long-term investments and reduce losses associated with obsolescence of fixed assets [12].

According to the established experience of state regulation of foreign investment in market economies, there are three models, which are shown below in Figure 1:

These models are based on certain incentive measures [15].

Countries with an established "American" model (USA, Spain, Italy) assign the main stimulating role to tax incentives for private sector investment in the context of a consistent liberal macroeconomic policy using pricing mechanisms and interest rates. The main control mechanism for the effective distribution of investments in this model is the stock exchange (respectively, the developed securities market). The functions of the state include:

- coordination of directions of investment resources (taking into account priority directions);
- analysis of information on the state and development of the national economy and its dissemination;
- forecasting the economic situation;
- investing in infrastructure (primarily financial market infrastructure).

The disadvantages of the "American model" include:

- the absence of factors stimulating savings;
- the inability to quickly increase savings.

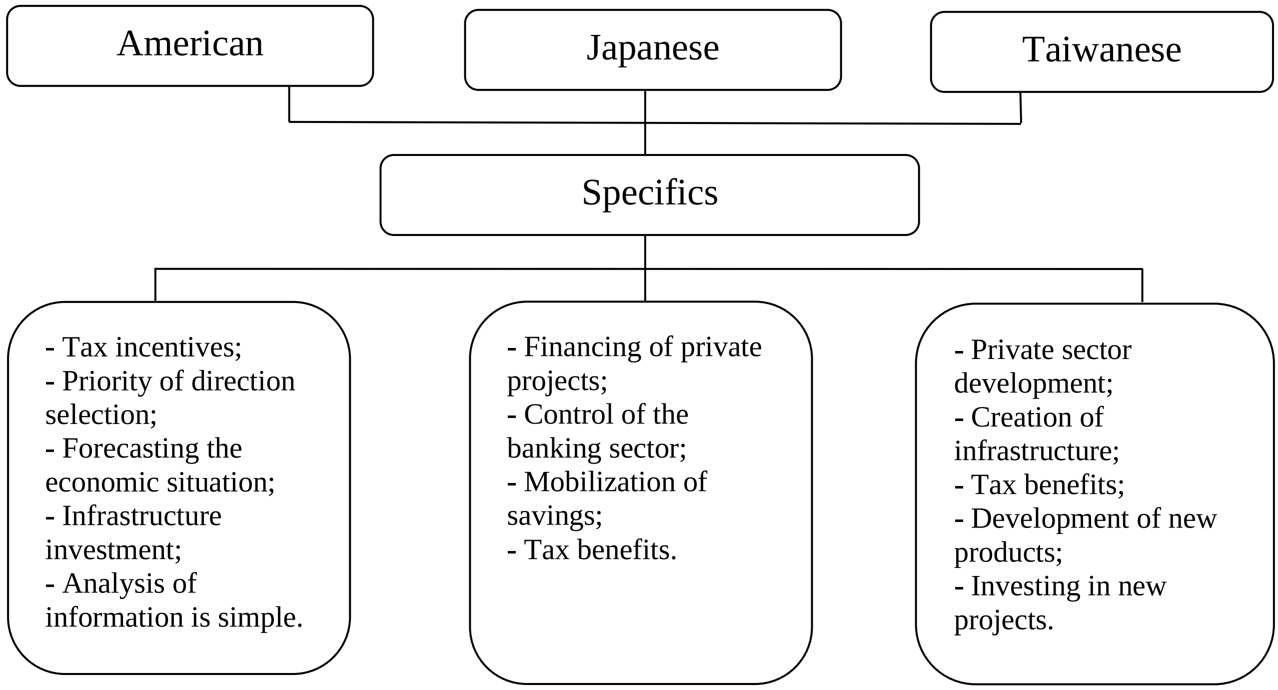


**Figure 1. Models of state regulation of FDI**

*Source: developed by the author on the basis [15]*

The "Japanese" model, used in Japan, Great Britain, Canada, Austria, is associated with state financing of private projects based on the interaction of state structures and private business. The state controls the banking sector and mobilizes the savings of the population, which it provides to corporations on favorable terms, taking into account cooperation and strict observance of their obligations. Investments in infrastructure are coordinated by government-created advisory boards according to the needs of the particular firm. A necessary condition for the implementation of this model is the presence of a strong private sector and effective public administration. Tax incentives in this model are a form of subsidies through which the state supports enterprises that are able to achieve an increase in the volume and improve the quality of their products, as well as to further increase budget revenues in a larger volume than the amount of state assistance provided. Stimulation of priority sectors through the tax mechanism is typical for economies in transition. It was used by countries such as Japan, Taiwan, the Republic of Korea.

The advantage of this model is the possibility of accumulating significant resources for the implementation of large-scale investment projects. The main disadvantages are the politicization of the investment planning process and the likelihood of a change for the worse in the main monetary parameters [13].

The mixed "Taiwanese" model, used not only in Taiwan but also in China, includes instruments from both the "American" and "Japanese" models. It is based on the development and implementation of regulatory mechanisms aimed at coordinating private investment decisions.

At the same time, it is assumed that the private sector associated with the export of goods and services has information about the investment market and ongoing projects. The task of the state is to provide such firms with active support by creating the necessary infrastructure, providing tax incentives, ensuring the availability of participation in the development of new products and technologies, as well as investment plans by financing design activities, research laboratories (R&D).

In the context of the global crisis, a positive trend is that many financial institutions and independent institutions still consider Ukraine as the most attractive country for investment.

A feature of Ukraine as a host country can be considered that more than the capital entering the country is the reimport of domestic assets previously exported from the country and subsequently attracted under the guise of FDI.

An analysis of the advantages and disadvantages of foreign models for stimulating foreign investment shows that it is not necessary to limit the activity of public and private capital in stimulating and attracting FDI. In the context of globalization, this is basically impossible.

Nevertheless, it is necessary to take a more balanced approach to the problem of attracting and using foreign investment in Ukraine, and the country's participation in the international movement of capital. Here must be a clear position of the state, expressed in the following provisions:

- granting equal rights and opportunities (including in tax and customs regulation) to both national and foreign investors, while respecting national interests;
- protection of strategic resources (primarily natural) of Ukraine;
- restrictions on foreign investments in "closed", strategic sectors of the economy.

The analysis carried out made it possible to draw a conclusion about the dominant role of state institutions in the process of attracting foreign investment. This role is in the harmonization of national legislation with international legal norms and the provision of special preferences and tax incentives that encourage investment in production, innovation, and research activities.

**Discussion**. The sectoral composition of Ukraine’s economy provides evidence of a post-industrial type of development, consumer model of the economy, absence of changes in technological structure and restraint of investment activity, import dependence, raw materials-based type of economy due to the high exports share. Apart from that, prerequisites for structural modernization are being formed in Ukraine due to an increase in the accumulation rate to 33% in 2015-2019, in particular, in the secondary sector of the economy.

This indicates the necessity to take into account the features of the sectoral composition of Ukraine’s economy in the formation of state structural policy in order to ensure long-term economic growth. Taking into consideration the predominance of the secondary and tertiary sectors in Ukraine, it is advisable to stimulate the development of services, which will ensure the growth of the secondary sector through the development of innovations.

For instance, it is important to provide public funding for research institutions and the implementation of their technological developments by the private sector

(Veugelers & Schweiger, 2016). Ukraine is one of the countries where technologies are acquired and there is a small amount of companies purchasing technologies (Veugelers & Schweiger, 2016). Therefore, it is advisable to stimulate the production and acquisition of technologies, R&D and knowledge at the state level. Biscione, Caruso & de Felice (2021) have proven the influence of public administration on the implementation of innovations in transition economies in the case of high turnover. The basic management tool is tax rates, the reduction of which occurs with the introduction of technology and leads to the firm's growth.

**Conclusion.** The investment policy management mechanism is a system of key components that regulate the process development and implementation of investment decisions of the enterprise, which is the key to sustainable development of the country's economy. At the formation and implementation of investment policy must adhere to the principles of sustainable development in the context taking into account social, economic and environmental aspects both inside and outside the enterprise and take into account the stage of the life cycle of the investment policy of the enterprise. In general, the need to form and implementation of the advanced directions of Ukrainian investment policy is explained by the implementation of economic reforms and social sphere.

Further investigations should be directed on studying the most effective state instruments for regulation and management of the post-industrial economic type with a predominance of consumption in the tertiary sector, with an emphasis on technologies and innovations in the secondary and tertiary sectors.

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