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THEORETICAL ASPECTS OF INFLUENCE OF DIRECT FOREIGN INVESTMENTS ON ECONOMY

The main reason of attracting foreign direct investment (FDI) for developing countries is intention of reducing resource gaps, technology gap, unemployment and trade deficits. However, unlike classical growth theories, the idea of empirical studies sought is measurement of inconclusive effect of FDI on growth. The research confirms that FDI has positive effect on economic growth, the rate of economic conditional convergence, absence of significant crowding out effect moving from FDI to domestic investment, interdependence of domestic investment and trade openness in the sub-region. Thus, authors conclude that FDI is a key deliver of economic growth and a catalyst to economic conditional convergence in developing countries; so, they need to attract more FDI by improving investment environment, strengthening regional integration, developing human capital and basic infrastructure, and promoting export-oriented investment.

This article analyses theory of economic growth, globalization, internalization and investment behavior in general. In particular article is devoted to studying of Impacts of FDI on Economic Growth in the Host Country, Direct Impact of FDI on Economic Growth, Indirect Impact of FDI on Economic Growth, Key factors of successful FDI process, FDI in transition economies.

Key words: foreign direct investment, development, economic growth, effectiveness.

Introduction. For developing countries foreign direct investment (FDI) is considered to be a way to transfer technology and capital from other developing and especially developed countries. A reason in theoretical literature is as following: when FDI comes to a domestic country (in specific business) that firm receives competitive advantage due to the usage of new knowledge, experience, ways of production and management. Current successful economic growth of developing countries is explained by "catch up effect" in technological development with developed countries. In recent years, inflows of FDI to the euro area have exhibited muted development. This has led to calls to improve incentives for direct investment in order to contribute to an increase in economic growth. Although it is empirically difficult to establish an independent causal effect of direct investment on economic growth, the results of many studies indicate that direct investment not only provides financing capital for capital investment but can also stimulate economic growth indirectly through the transfer of management knowledge or technology. Overall, the results of the existing literature indicate that direct investment primarily functions as a catalyst and that growth-enhancing effects are higher where there is a high quality infrastructure or high level of education in the population.

Concept of FDI. FDI are one of the key subjects of research in the modern world economy, just as multinational companies (Multinational corporations (enterprises), MNC (MNE)), is the main subject of international investment processes. As a rule, in modern economic literature, these two concepts are used to describe the same range of phenomena. However, the company can be actual transnational (so, having assets of more than one country), and without the involvement of foreign investments – for example, by absorption of other multinationals [1]. Methodologically more correct it would mean by it TNK companies with assets of more than one country, but further study of the subject will be considered in the main it is a company engaged in foreign direct investment. Under home country (donor) shall mean the country in which the headquarters of multinationals. Under the host countries (acceptors) – the country in which the property is available of the TNC [2].

The interpretation of the concept of foreign direct investment also raises a number of methodological difficulties. Most of the studies and statistics reports, The FDI opposed FPI (foreign portfolio investment) constitute the acquisition of shares owned by the company. At the same time, relative to the size of this share, after which the investment is already straight, not portfolio, as there is no consensus [3].

The influence of foreign investment in developing countries in recent years has become one of the central problems in the world economy. The explosive growth of international investment flows, accompanied by a growth in the share of developing countries in these flows has been made possible thanks to a modern communication technologies, and because of the significant evolution of international trade cooperation and overall growth of the openness of regional economies.

Economists often object of analysis is foreign direct investment in the new production. In the case of portfolio investment, or mergers and acquisitions, as a rule, there is no capital inflow into the economy does not change radically the structure of industry and the labor market. Therefore, their impact on development can be judged only by circumstantial manifestations [4].

Subject attracting foreign investment will always be relevant, as the demand for investment in the tens, hundreds and even thousands of times greater than their supply. Perhaps it is because of that this aspect of economic relations so closely studied, reviewed and analyzed. Research investment processes involved in a huge number of economists and analysts.

Formation of a competitive economic structure of society requires the mobilization of all national resources, the absolute use of national benefits. However, no attention can not remain sources of investment, which are outside the country and are able to enhance the pace of its economic growth. For the individual national economies of scale Diversification is, the international investment activity, in other words, the receipt and use of foreign investment, defines the basic long-term and, as a rule, irreversible mechanisms of economic development.

Very relevant is this a problem for countries with economies in transition, in particular for Ukraine. Among the potential sources of resources for market transformation of the economies of these countries, foreign investment occupy a special place. They, as evidenced by international experience, able to provide the scale and pace of structural adjustment through the development of market relations, and then a more organic integration of national markets to international.

Impacts of FDI. Special attention should be research on the potential costs and benefits of foreign investment for the host countries. Positive effects from exposure to foreign investments in the economy of the host country can be into the next directions:

The impact on the financial sector: Restores missing domestic savings; Reinvestment of profits; The return of previously exported capital; The increase in tax revenues in the host country.

New methods of management. In addition to the traditional export of capital in the form of foreign investment, foreign investors engage in the export of "organizational technologies" developed in the whole fragments other host countries or corporations originated in the bowels TNK most informal institutions in the field of organization and management. Along with the improvement of management practices happening and changing attitudes to work at the level of the operating personnel, and the level employees.

There is also a qualitative change intraIndustrial climate, development of a new labor discipline (workers perform their duties more clearly). Empirical research confirms that companies with FDI work more efficiently than domestic, largely thanks to the new management, labor discipline.

The social and employment effects:

1. Increased productivity. Creation of companies with foreign investments contributes to the average level of labor productivity.

These companies have a higher level of capital investment per unit of labor, which directly impacts on productivity growth labor.

2. The increase in employment. FDI can directly affect the employment (employment in enterprises with foreign direct investment), indirectly (through employment in other companies at the expense of backward and forward linkages) and qualitatively (through changes in the policy and practice of employment).

3. The growth of per capita income in the host country. Residents of the country, engaged in enterprises with foreign investment, have higher incomes. It establishes a certain level, first of all, the income of employees of other enterprises, firms engaged in the same sector of the economy, and further indirect effects on the growth of wages in other sectors of the economy.

General economic effects:

1. Development of export. FDI can contribute to the development of exports in three main aspects: volume growth, since in most cases at least some of the products manufactured by the enterprises with foreign investment is realized outside the home country; improving the geographical structure by entering into new markets not previously available to domestic producers due to the low competitiveness of their products; improving commodity structure due to goods and services embodying new technologies.

2. Creating a multiplier effect. Foreign investments contribute to the development of related domestic industries and industries that provide the vital activity of direct investment enterprises.

3. Improved utilization of local resources. Out of foreign companies on the national market leads to the replacement or displacement of less efficient domestic firms, resulting in a redistribution of internal resources and capital between more and less profitable companies and promotes the growth of the average level of labor productivity. It can also

ensure the use of resources that would otherwise have not been applied by local firms, thus contributing to the local economy, to maxi-mize the benefit from the placement of its resources.

4. Promoting the synchronization of global growth in the business cycle. Since foreign direct investment is associated parts of the global companies in different parts of the world, then, accordingly, the importance of international trade in the direction of companies. For many TNCs FDI actually replaced the trade.

FDI can contribute to the growth of the host country economy through an increase in demand in other states based TNC units. Enhancing the competitive environment. Out of foreign companies in the local markets encourages domestic firms to operate more efficiently. The activities of foreign firms promotes more rapid transfer of new and advanced technologies and improved management practices to local firms on the basis of the so-called exponential (or demo) effect.

Technological impact primarily affects the attraction of advanced technologies. Foreign investors often have at their disposal vast resources to perform research and development in order to maintain the leading positions.

That organization with foreign investments are the most developed competitive firms that provide the largest share of the total costs of research and development work and able to implement into production the latest achievements of scientific and technical progress. The presence of companies with foreign investments stimulating competition and, in fact, encouraged local producers to copy the technology in order to more effectively fight for the receipt of orders. This not only leads to an overall increase in the level of technology of the time, but for the best use of limited resources.

It is possible for the development of relations where foreign investors are part of the research work was transferred to a country where the best conditions for their implementation, or where there is more “cheap” and sufficient qualified personnel, whereas before the innovative products created mainly in their State of origin, and then exported to branches.

As the world economic practice, the impact of foreign investment is not limited to a positive effect on the economic development of the host State. Foreign investment can also have a negative effect and likely to inhibit economic growth and development of the national economy than to promote both. Let us consider the negative effects of foreign investment which they have on the economy of the host country.

The negative financial impact:

1. The uneven distribution of income. One of the fundamental problems is the basis of many of the conflicts that arise between TNCs and host country, is that the imperfect international Markets associated with investments, systematically set against developing countries in the distribution of gains from trade and investment.

2. Lack of tax returns. Size of tax revenues to the state treasury much less potentially possible amount. This can be explained by the conclusion of agreements with the Government of grace taxation, transfer pricing practices, preferential treatment to foreign investment, the hidden state subsidies and the provision of TNK protectionist tariffs.

3. Transfer pricing. A great place to increase profitability TNC takes the manipulation of transfer prices which are established on the basis of commercial retail prices. Manipulation of prices has a number of related purposes. Firstly, it maintained a dominant position in the foreign markets and expansion into new markets. Secondly, the limited price controls established by corporations.

Thirdly, an attempt is made to reduce taxes and reduce other payments in developing countries. Fourth, there is evasion of exchange control and changing exchange rates used to increase the profitability of the operations of TNCs. Effective penetration of foreign markets and the elimination of competitors is achieved by means of TNK understating prices for raw materials and semi-finished products or services through the sale differently even within the same TNC.

The social and employment effects:

1. Worsening employment. To increase employment is the opening of a large number of small and medium-sized enterprises operating in the local market. The nature of the activities of TNCs fundamentally different in its scope and sales markets, the quality of production and technology: the pursuit of maximum efficiency, perfect forms of organization production – not those factors, which are designed to expand the scope of employment with excessive labor. Under certain circumstances, foreign companies acquiring existing businesses spend they reorganized, resulting in a large number of dismissed workers. Creating a new, specially constructed with the latest technology, enterprises can lead to ruin and closure earlier operating domestic. As a result, the total number of the unemployed do not reduced, on the contrary, it increases.

2. The increase in the income gap population and deepening inequality. Through FDI, TNCs have a very uneven impact on development.

These corporations operate for the benefit of a small group of highly paid workers in the modern sector of the economy against the interests of other groups of the population, increasing the wage gap. In addition, placing its production mainly in urban areas, they exacerbate the imbalance of production capacity between town and country and thus contribute to the strengthening of migration to the city [5].

Cultural impact:

1. The growth of advertising. TNC is also associated with the growing volume of advertising. As is known, the promotion of certain goods in the long run affect the choice of the consumer.

Firstly, an important advantage of the monopoly of many corporations is manifested in their marketing expertise, which is used to organize huge marketing campaigns. Second, an element in many different consumer products – a permanent change of their models and designs, although these changes virtually superfluous. Thirdly, many goods are produced for the mass market of the country from which "came" technology.

2. The deterioration of the structure of consumption. Local resources are often used for projects that do not meet the requirements of a fair social policy, which, in turn, enhances the existing significant inequalities between rich and poor.

Thus, a means of producing the necessary food forwarded to produce products which are not paramount importance – luxuries that meet the needs of the local elite. The result is a displacement of the necessary goods.

3. Management style. This advantage TNCs control, which is connected, first of all, to their internal organizational structure and the system of external contacts is essentially inalienable in nature and often can not be transferred to other companies because of the cultural differences in management styles, traditions and customs of the host country. Of course, joint activity enriches the business experience not only state employees receiving capital, and the country managers investing. However, cultural differences, as a rule, can not receive foreign culture management style in its purest form.

Transfer of environmentally hazardous industries in the host country. foreign investor Actions may include the transfer to the territory of the receiving State FDI environmentally hazardous industries.

The larger gap exists between the environmental standards, the scale of environmental activities, typical of the country – exporter of capital on the one hand, and the host State – the other, the greater the risk of such. It is important to bear in mind that the effects of pollution can be felt immediately, but gradually build up and eventually manifest itself in large sizes, up to ecological disasters, the effects of which require huge funds, and, and a long time to overcome. In addition, when the transfer of production, foreign investors can not seek to impose standards or does not adhere to the safety standards in the workplace [6].

Technological impact:

1. The import of outdated technologies. Investors who invest their money abroad, can carry out the transfer to the host country of capital, obsolete technology. This technology can be, not used previously in this state, but in relation to the global level scientific and technological progress, they are the embodiment of "yesterday". As a result of the technological gap, to which seeks to overcome the host country of FDI, is not only not declining, but rather preserved and even increased. Typically, TNCs are making every effort to avoid the transmission of new technologies, since it is the possession of technology is a major factor in their relationships. That this is largely due to painfully exaggerated importance attached to the TNC the issues of intellectual property protection, especially in recent times.

2. Technical and economic and technological binding to the host state, which "exports" investment.

TNK used by developing countries to integrate the licensees companies in its distribution network to link them to certain sources of supply. To do this, use the patenting of the transferred technology. A distinctive feature of TNCs is that they disperse their enterprises and companies into smaller units worldwide (thus achieving cost savings), in fact, on the "assembly lines". For the parent company, in this case, as a rule, the continuing role of the innovation center, and for its affiliate – the role of the periphery of the assembly.

Such a system of international division of labor between individual companies leads to the fact that virtually none of the state is not fully complete production cycle. This creates a dependency of one country's industry from another production cycle. Consequently, the reproduction range of the host state quite firmly bound to the world's industrial centers. This, in turn, makes the national economy of the host country more vulnerable to world market fluctuations.

The loss of economic sovereignty and territorial integrity of the state. The historical experience of the massive penetration of foreign capital shows that foreign investment and external debt may in certain circumstances be a serious threat to economic independence and territorial integrity of the country. This finds its concrete expression in the scope, nature and direction of investment, employment, foreign trade, strengthening inflationary phenomena in the economies of those countries in which TNCs operate [7].

General economic impact:

1. Promoting the synchronization of global downturns in business cycles. FDI increased importance of international trade in the direction of companies, as multinational companies have their offices in different countries to use their comparative and competitive benefits (such as "cheap" or highly skilled labor). Foreign direct investment can contribute to a decline in the economy of the

receiving State through the breach in the structure of demand in one country, which is another "echo" at a higher than it was earlier international level. For example, responding to the downturn in the home country, TNK reduce the level of business activity in its overseas departments. In addition, the reduction in income data units companies provokes a reduction in economic activity in the country of their placement.

2. Ineffective integration of host country investment in the structure of the international division of labor. FDI may change the terms of trade the host State through a structural transformation that has occurred as a result of capital inflows. Because direct investors mainly – exporters, respectively, contribute to the balance of payments in is higher than non-exporters, and their actions could lead to a deterioration in the terms of trade in the host country, which will greatly reduce her benefit from trade. This is especially true in the case of raw operation, where the benefit of the host State, which should include substantial compensation for the depletion of mineral wealth depends in general on the terms dictated by the foreign company.

3. Impact on the quality of the development path. The way in which the economy grow, in contrast to the growth rate in itself has an impact on the sovereignty of the national economy and the distribution of income by the host country and the state-investor. However, the effect of foreign direct investment on the economic development of the receiving State may not only be positive as expected, in most cases, but also have a negative impact on the micro- and macro-economic indicators, which is associated with different functional properties of capital, technology, resource allocation issues wealth [8].

The deterioration of the competitive environment. Practice has shown that transnational corporations engaged in foreign direct investment in the markets developing countries and countries with economies in transition, are able to concentrate capital "in their hands", thereby contributing to the deterioration of the competitive environment. Usually, local firms are not able to compete with the technologically more powerful TNCs, offering the best organizational structure and modern management techniques, access to huge financial resources, a high level of knowledge, advertising experience, a network of international contacts and has a number of competitive advantages. Such firms of scale, product differentiation displace national enterprises, have a monopoly position, create barriers for new firms, eliminate competition among local companies.

Despite the negative factors, developing countries can not do without foreign direct investment. FDI – most likely way the participation of developing countries in the international division of labor. It encourages countries to the need to participate in resolving the "failures" of the market order, to enhance the positive effects and minimize the negative effects of foreign direct investment on economic development, to provide adequate protection or the necessary level of economic security of their own economies in terms of FDI openness.

Conclusion. The most important issue to attract substantial foreign investment is their high production and non-production costs. The high cost of production in individual countries in the construction of production facilities and the creation of appropriate infrastructure, environmental, geographic and climatic conditions make the state unattractive to investors, encouraging them to move their capital to countries with lower production costs, and consequently, a lower investment risk.

Therefore, from the point of view of national security should be considered and the question of attracting foreign investments into the Belarusian economy.

But by taking action in a significant increase of foreign investments, it is important to take into account other aspects of economic security.

Firstly, taking into account the economic interests of the various countries should be determined not only to industry, the priority for foreign investment, but also the industry, closed to them, or areas where foreign investments are limited and regulated through licensing.

Secondly, foreign investment attraction mechanism should promote real investment by foreign business entities financial and material resources in the economy, and not to create conditions for buying them for a song of those or other objects that make up the national wealth.

Thirdly, you should always look for ways to select the most effective option.

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