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THE ROLE OF DIRECT INVESTMENT IN DEVELOPING COUNTRIES

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Abstract

Foreign direct investment (FDI) is investment made by a company outside the country. They involve direct investment in foreign companies, where an investor acquires a controlling interest in a company, either through a merger or acquisition or by creating a new subsidiary. In developing countries, foreign direct investment is necessary to stimulate the growth of their economy, also foreign direct investment can create jobs, accelerate technological development in the host country and improve the economic condition of the country as a whole.

For a deeper and more specific study of this topic, a question is formulated to which we will find an answer in the course of our work: What is the role of foreign direct investment in developing countries and what benefits and challenges do they pose for the economic development and sustainability of such countries?

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Introduction.

The impact of foreign direct investment on the economies of developed and developing countries is different. Enhanced foreign direct investment flows will certainly benefit developed countries. Most transnational corporations (TNCs) that act as global agents of foreign direct investment are owned by developed countries and are an important source of wealth for them. Developed countries, using foreign direct investment, largely determine the development of more than a third of the world's countries, acting primarily in the interests of their own interests. Foreign direct investment helps developed countries grow their already very efficient economies. Developed countries receive the maximum benefit from attracting foreign direct investment due to a good regulatory framework, the development of banking institutions and the attractiveness of the economy for reinvesting profits earned by TNCs.

Thesis: Direct investment can help increase exports, promote trade and exchange experience, which has a positive impact on the living standards of people in developing countries.

Advantages and disadvantages of foreign direct investment in general.

Advantages:

1. International investment allows a company to gain access to local resources.

   As a result of high prices for importing and exporting materials, moving costs are passed on to consumers rather than to companies. When physical assets are created internationally, such as

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building a Toyota plant in the United States rather than Japan, it stimulates the local economies in both regions by increasing output and income. At the same time, it becomes easier and cheaper to obtain materials for production and marketing.

2. Direct foreign investment contributes to the development of the internal development of the investing party.

   Corporations focus their resources on development abroad, creating a vacuum in the system in their domestic economy. In this way, local businesses can create opportunities for profit in their own country.

3. Direct investment lowers prices for buyers.

   An organization can make the world economy $6 more efficient if a product costs $10 to produce in the United States, but similar work can be done for $4 elsewhere. If the difference of six dollars between producer and consumer is divided equally, the cost of the product is reduced by three dollars. The remaining three dollars go into the company's pocket. Both sides benefit.

4. There is a high probability of receiving a high income.

   Companies often invest in vertical projects to replace the purchase of components or machinery needed to manufacture their own products. For example, a door manufacturing company can build their own lock manufacturing plant, allowing them to make more money at each stage of door production, outpacing their competitors.

5. It reduces the cost-benefit ratio.

   Even with a constant level of goods produced, an organization can reduce production costs by owning local assets in foreign countries. This means that fewer sales are needed to make a profit. By reducing the cost-benefit ratio, continued investment in infrastructure FDI can yield long-term benefits as each subsequent investment can reduce costs further.

Disadvantages:

1. Despite the clear advantages of international activity in creating local resources, FDI changes the market structure for local enterprises. Any economy has a limited supply of resources such as capital, labor and purchasing power of the population, and foreign direct investment takes away some of these resources from local participants. As a result, less efficient local businesses may allow the international company to be more successful.

2. It is not always desirable that direct foreign investments developed strong price competition.

   Direct foreign investment cause prices to decrease due to higher competition. Companies can sometimes sharply reduce prices to critical levels beyond the reach of any business in order to drive competitors out of the market, resulting in higher prices and increased market share. Buyers benefit from exceptionally low prices in the short term, but when less patient companies leave, prices rise again and ultimately product quality suffers.

3. FDI increases the dependence of the local economy on the investor.

   As global foreign direct investment, local economies are increasingly dependent on foreign companies. As the corporation may begin to demand better working conditions in order to "stay" in the area, this can lead to an unhealthy relationship between the foreign company and the local government. Local government vulnerability increases when a foreign company becomes heavily integrated into the local economy.

4. Policies can encourage investment or discourage foreign direct investment.

   The situation in Greece shows that foreign direct investment increases risk. The government may

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decide to disinvest and nationalize foreign assets in the interest of everyone. Assets can sometimes be seized to pay off debts owed to creditors on other investment projects that have failed. This risk is always present when a country is not careful about its spending.

5. Risk of losing control over the business.

Since the management of many enterprises does not know how to get out of this situation, they are looking for foreign investors. They want foreign investors to buy a majority stake to save the situation. Instead of making life more complicated, the goal of investing is to improve performance and simplicity. In addition, foreign investors usually rescue the local company at reduced prices. Therefore, direct investment is not always better.

Benefits and Challenges of Foreign Direct Investment in Developing Countries.

Benefits: The larger the volume foreign direct investment, is sent to the economies of developing countries, the higher the following indicators:

1. Higher than the GDP per capita of the host country. A higher level of GDP per capita indicates a higher ability to purchase industrial goods and consumer goods.
2. The growth rate of the total GDP of the host country is higher. This variable indicates the greater future market expansion potential for the foreign investing firm's product.
3. Greater level of participation of the host country in economic integration processes, such as customs unions, free trade zones, and the like. Participation in such projects implies a larger potential market size and encourages tariff factories
4. Greater opportunity to develop infrastructure sectors (for example, transport and communications systems) in the host country. These industries provide assistance to firms in serving the market and obtaining information.
5. Greater degree of urbanization in the host country. This variable captures the concentration of markets in a central location.
6. There is a higher degree of political stability in the host country. Political stability was measured by the number of government changes over a period of time, i.e. Fewer changes mean more stability. This stability provides greater assurance that the rules of the game that investors pay attention to will not change.

Challenges:

1. Risk of dependence on foreign companies: Direct investment can make developing countries vulnerable to external economic factors.
2. Issues of social responsibility and environmental impact: The need to balance economic growth with social and environmental sustainability.

Argument analysis:

Foreign direct investment helps developing countries to pursue economic and political reforms and is considered one of the most important factors in economic growth. These investments contribute to the international transfer of technology, skilled labor, increased exports and promotion of competition, but developing countries are not always able to receive foreign investment, and the benefits they bring to economic growth depend largely on the quality of environmental policies that limit developing countries' access to the international capital market. The flow of foreign direct investment has recently increased, leading to the liberalization of the economies of developing countries through increased international trade and production in the face of rapidly falling prices for transport and communications. Combined with effective macroeconomic policies and economic and political openness, foreign direct

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investment plays a key role in accelerating economic growth in developing countries.

Owing to the role of multinational enterprises in the global economy and developments that herald rapid changes in economic growth in the world, foreign direct investment is being attracted to the economic growth of developing countries. Developing countries are more dependent than developed countries on multinational enterprises for investment, technology, training and skills, access to foreign markets and other development incentives, although they receive only a quarter of foreign direct investment.

Through savings and investment, multinational enterprises play an important role in capital formation. They can also influence individual saving behavior by creating new jobs, raising wages relative to local businesses, and increasing the income of local suppliers through collaboration with international companies.

At the same time, multinational companies can influence the economy through various institutional instruments such as pension plans, direct deposits in savings accounts, wage incentives for insurance contracts, etc. Most of the profits returned by multinational companies are returned to investments, and not transferred abroad. Foreign direct investment also involves the return of financial or physical capital to the host country, which increases domestic savings and eliminates the financial constraints of development without causing external debt.

Multinational corporations increase the tax base and contribute to increased government revenue through direct and indirect taxes paid by employees and suppliers. In 1989, foreign subsidiaries of US multinational corporations paid taxes to foreign governments of more than US$100 billion, representing 10% of their total sales.

The methods used by each country to attract foreign direct investment do not coincide with the overall increase in capital inflows. Compared to any other type of external saving, foreign direct investment, which directly finances and promotes savings, has a significantly greater impact.

Most developing countries have established markets for bonds and stocks or opened markets to foreign participation. Larger developing countries have attracted significant amounts of foreign capital through stock trading and asset valuation capabilities.

The presence of multinational enterprises in various activities makes it easier to attract financing from global banks, establish linkages in the economy in which they are located, facilitating access to local or foreign markets, providing resources that can be used in other production sectors in the host country. At the same time, multinational enterprises provide knowledge, training and technical and financial assistance. Overall, it is clear that enterprises and investment performance in a host country are influenced by the presence of multinational companies.

The development, acquisition and use of technology may have additional effects. Multinational companies have traditionally conducted research in their home countries, and their subsidiaries abroad have made further improvements to the technologies acquired from the parent companies. Although this process is still dominant, we are seeing an increasingly pronounced internationalization of scientific and technological research.

Foreign direct investment is critical for technology transfer to developing countries. These investments may provide many developing countries with the only opportunity to gain access to the latest technologies.

Foreign direct investment can contribute to technological progress in developing countries in a variety of ways. The immediate effect is achieved through increased factor productivity, research activities carried out by their subsidiaries, introduction of organizational innovations, training and hiring of local personnel, changes in the structure of goods for domestic and export markets. Collaboration with local research institutions, technology transfer, employee turnover and the influence of subsidiaries of

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multinational companies stimulate and compete.

International companies have recently allocated more research and development resources to their subsidiaries abroad than in the past. Although most of these outbreaks occurred in developed countries, subsidiaries of multinational enterprises contributed more than 15% of total R&D expenditures in some developing countries (China, India, Korea and Singapore). Local advantages, such as the availability of research and work environments for scientists and engineers, as well as the global strategies of multinational corporations, may explain why research is conducted in developing countries.

Creating new jobs is one of the most important elements of human resource development. International trade helps developing countries enter the world economy, and then they are stimulated to develop to combine foreign direct investment with imports.

Developing countries are realizing the benefits of foreign direct investment in economic development and technology transfer with open borders. This helps to attract as many investors as possible.

Conclusion.

Foreign direct investment is one of the key drivers of economic growth in developing countries. These investments promote technology transfer, skilled workforce development, export growth and competition. However, access to foreign investment and its benefits depend on the effectiveness of environmental policies. Despite this, there has been an increase in foreign direct investment recently. This leads to the liberalization of the economies of developing countries and contributes to their economic growth, subject to effective macroeconomic policies and openness to foreign investment.

Multinational enterprises play an important role in the economic growth of developing countries, especially in the areas of investment, technology and skills. Although developing countries receive only a small share of foreign direct investment, they rely heavily on multinational enterprises for their development. Investment from multinational companies helps create new jobs, raise wages and increase income for local suppliers.

Multinational companies influence the economy through various instruments such as pension plans and wage incentives. Most of the profits of multinational companies are returned to investment, which contributes to increased domestic savings and economic growth in developing countries. In addition, multinational corporations increase the tax base and contribute to increased budget revenues.

Developing countries actively attract foreign direct investment by creating markets for foreign participation and trading in shares. Large developing countries receive significant amounts of foreign capital, which contributes to their economic growth. The presence of multinational enterprises in various sectors of the economy makes it easier to attract financing and create links with the international community.

Foreign direct investment is important for technology transfer to developing countries. These investments provide the opportunity to access the latest technologies, which can become the basis for further economic growth.

Overall, foreign direct investment plays an important role in the economic development and sustainability of developing countries. They ensure technology transfer, skilled workforce development, export growth and competition. However, to achieve the benefits of these investments, it is necessary to ensure the effectiveness of environmental policies and the creation of a favorable economic and political environment. Multinational enterprises are key players in this process, contributing to the creation of new jobs, higher wages and increased income for local suppliers. They also increase the tax base and help increase budget revenues. By creating markets for foreign participation and attracting foreign capital, developing countries receive significant amounts of foreign direct investment, which contributes to their economic growth. Foreign direct investment also plays an important role in technology transfer, which can be the basis for further development. In general, for the effective use of

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foreign direct investment, it is necessary to create a favorable economic and political environment and develop international cooperation. Ultimately, foreign direct investment can play an important role in achieving economic growth and sustainable development in developing countries.

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