
THE ROLE OF FOREIGN INVESTMENT IN THE ECONOMY OF THE EUROPEAN UNION

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Abstract

Background. Based on the positions of considering geo-economics factors and processes of international economic integration, a conceptual model of attracting foreign direct investment (FDI) has been developed, which target is to ensure consistency of interests between a recipient and foreign investor in investing. Objectives. The goal of the article is to substantiate theoretical provisions and develop practical recommendations for improving the role of foreign investment in the economy of the European Union. Methods. Methodological basis of the article are fundamental provisions of economics, economic theory, the theory of foreign investment, as well as scientific results of leading domestic and foreign scientists and economists on foreign investment issues. Results. A system of principles for the implementation of the role of foreign investment in the economy of the European Union has been proposed. A system of coordinated goals of investment policy in the economy of the European Union has been formed.

Key words: foreign direct investment, European Union, investment activities, economic transformation, globalization, competition at global level.

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Introduction

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Structural economic transformation is one of the key aspects of the economic growth process, which is redistribution of resources (especially labor) from less productive to more productive activities, as well as changes in production and average productivity in the economy as a whole. Transformations caused by the transfer of resources to the secondary sector of the economy have been considered as a guarantee of economic development in low-income countries for a long time, as the sector offers more opportunities than agriculture or most services.

Foreign investments aimed at meeting its needs in products and/or raw materials and supporting promising export-oriented industries will have a positive effect on the Union's economy. Under these conditions, foreign direct investment acts as a springboard on the Union's path to international division of labor and international capital distribution.

Main headings

Growing importance of investment in the modern world is associated with the process of transition to a post-industrial society, high globalization degree and increased competition at regional and global levels. The process of such transition among developed countries, which originated in the early 50s of XX century in the United States and Europe, poses serious challenges that require continued economic development. Service sector development and strengthening interconnectedness in the world's economies require a similar share of value added from national economies of states. In production, the priority is given to high-tech enterprises, which contain the entire cycle of processing from raw materials to the final product. High globalization degree dictates its rules: competition occurs between all global companies and in all markets. The renewal rate of products and technologies, and with them – of production assets, has accelerated dramatically, making qualitatively higher demands on investment.

The world experience of recent years clearly shows that it is impossible to achieve stable and lasting economic growth without a complex set of measures aimed at increasing the investment attractiveness of a country and improving domestic investment climate. It is the attraction of domestic and foreign investments in economies of countries undergoing transformation that allows to modernize and develop the country's enterprises, creating a basis for the whole complex of further reforms.

The product life cycle consists of three main phases: innovation, maturity and standardization. Companies that bring innovative products to market can enjoy a temporary monopoly on the market when introducing a new product. When it enters the second and third phases, in order to successfully coexist with its competitors, the company is forced to apply an internationalization strategy. In the period of products loss on the market novelty the company looks for an opportunity of its export. At this stage, the competition becomes tougher. Finally, at the stage of standardization, companies must find the most profitable locations for production in other countries. At the stage of standardization, companies invest abroad, trying to maintain their leadership and get the prospect of re-exporting this product to the domestic market, where it first appeared.

As countries develop their industries and reach a level of development where they can be called industrial, FDI coming from outside, stimulating and actively supporting foreign trade flows of these countries, contribute to their further integration into the world economy. This is due to several factors, namely the development and strengthening of the international network of related companies, as well as growing importance of foreign subsidiaries. In both cases, this allows us to draw an important policy conclusion, namely that the ability of a developing country to attract FDI is strongly influenced by access to export-import activities [1]. This, in turn, leads to the conclusion that recipient country should consider the policy of openness in international trade as the main part of its strategy, and thus restricting imports from developing countries, countries investing, seriously reduce the ability of the former to attract foreign direct investment. Recipient countries could consider adopting a strategy to attract FDI based on the expansion of their respective markets through regional trade liberalization and integration policies.

FDI inflows help cover the shortfall in savings needed to finance national development and infrastructure projects. In addition, the presence of foreign firms in a country's market has a positive impact on technology transfer and know-how, development and restructuring of local companies through privatization, increased international trade, competition between firms, and human capital formation.

Although some authors argue that FDI has a positive effect on the overall productivity of enterprises, others believe that this effect is insignificant, especially in the manufacturing sector [2]. Some scientists argue that multinational corporations can help increase the efficiency of local firms by training workers who will work for a local firm in the future, but other studies do not support this view, arguing that effects of FDI are ambiguous and depend on whether the economy of a country is short-term or long-term.

Conclusion

Thus, FDI is important in the structural transformation of economies and facilitates technology transfer between developed and developing countries, which are present in the EU. In the same vein, the importance of FDI in developing countries remains undeniable. As the world's economies become increasingly interconnected, the role of FDI in today's economy has reached a qualitatively new level. Given the scarcity of domestic resources in developing countries, FDI can be justified by its impact on economic growth, poverty, financial inflows, openness to international markets, and improved local governance and technology transfer. Moreover, FDI can finance high value-added sectors and stimulate the redistribution of resources from the least productive to the most productive sectors to achieve effective structural transformation of the economy.

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