

## МІЖНАРОДНА ЕКОНОМІКА І ЗМІНИ ГЕОЕКОНОМІЧНОГО ПРОСТОРУ

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### THE THEORETICAL BASIS OF THE FOREIGN INVESTMENTS ESSENCE RESEARCH IN THE WORLD ECONOMY SYSTEM

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The article presents the results of the research of theoretical basis for determining the foreign investment essence in the world economy. The purpose of the work is to generalize theoretical approaches to the research of the foreign investment essence in the world economy. The following scientific methods are used in the research: the dialectics of general, special and individual; historical and logical method (within the research of the evolution of theoretical approaches to the definition of the essence of investment); the method of scientific abstraction, analysis and synthesis (to justify the economic essence of foreign investment and determine its nature); method of analysis of regional and global dimension; the method of systematic generalization (in the research of the impact of foreign investment on host countries and on their economic growth). In the course of the research, it has been proven that at present, there is no consensus among economists about the definition of the foreign investment economic essence. In the paper, the theoretical approaches to the definition of the foreign investment essence in the world economy are systematized, as well as the distinctive features of the emerging market approach to the investments essence understanding are formulated, in particular: a) linking of investments and receiving income, acting as a reason for the implementation of investment activity; b) consideration of investments in the interconnection of two aspects: resources (capital values) and investments (expenses); c) analysis of investments in dynamics, which allows to combine resources, investments, on the one hand, and, on the other hand, the return on investment as a motive of this association; d) the inclusion of any investments objects that give an economic or other beneficial effect in the structure. Over the course of the research, the concept-categorical apparatus is improved by providing the author's interpretation of the term "foreign investment". The author defines the influence of foreign investments on the country's economic growth in the world economy system, the positive and negative consequences of the foreign capital presence in the national economy of the country are substantiated.

**Keywords:** foreign investments, "financization" of the world economy, globalization processes, international capital movement, financial assets

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**ТЕОРЕТИЧНІ ЗАСАДИ ДОСЛІДЖЕННЯ СУТНОСТІ ІНОЗЕМНИХ ІНВЕСТИЦІЙ У СИСТЕМІ СВІТОВОГО ГОСПОДАРСТВА**

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В статті наведено результати дослідження теоретичних засад визначення сутності іноземних інвестицій у світовій економіці. Метою роботи є узагальнення теоретичних підходів дослідження сутності іноземного інвестування у системі світового господарства. У ході дослідження використано загальнонаукові методи, такі як: діалектика загального та одиничного; історико-логічний метод (під час дослідження еволюції теоретичних підходів щодо визначення сутності інвестицій); метод наукової абстракції, аналізу і синтезу (для обґрунтування економічної природи іноземних інвестицій та визначення її характеру); метод аналізу регіонального та світового виміру; метод системного узагальнення (при дослідженні впливу іноземних інвестицій на приймаючі країни та на їх економічне зростання). У ході дослідження доведено, що на даний час не існує єдиної думки серед учених-економістів щодо визначення економічної сутності іноземних інвестицій. У роботі систематизовано теоретичні підходи до визначення сутності іноземних інвестицій у світовій економіці та сформульовано відмінні ознаки ринкового підходу, що формується, до розуміння сутності інвестицій, зокрема: а) пов'язування інвестицій і отримання доходу, який виступає в якості мотиву здійснення інвестиційної діяльності; б) розгляд інвестицій у взаємозв'язку двох аспектів: ресурсів (капітальних цінностей) і вкладень (витрат); в) аналіз інвестицій в динаміці, що дозволяє об'єднати в рамках категорії «інвестиції», з одного боку, ресурси, вкладення, а з іншого - віддачу від вкладених коштів як мотиву цього об'єднання; г) включення до складу об'єктів інвестування будь-яких вкладень, що дають економічний чи інший корисний ефект. У процесі дослідження удосконалено понятійно-категоріальний апарат шляхом надання авторського тлумачення терміну «іноземних інвестицій». Автором визначено вплив іноземних інвестицій на економічне зростання країн у системі світового господарства, обґрунтовано позитивні та негативні наслідки присутності іноземного капіталу в національній економіці країни.

**Ключові слова:** іноземні інвестиції, фінансизація світової економіки, глобалізаційні процеси, міжнародний рух капіталу, фінансові активи

**Actuality of issue.** In conditions of “financization” the world economy, the research of the processes of the international capital movement is of great interest. Indeed, with the development of society, there is a growing connection between the economies of individual countries, both in terms of production and

its dependent capital movements in the form of foreign investment, which is gaining momentum. For the time being, industrial capital is actively developing the world economic space precisely through investments that express the immanent flexibility of capital, its ability to combine or consistently use various forms and methods of foreign economic financial expansion, its ability to adapt to changing economic, social, political and legal conditions in different countries and groups of the countries [1, p. 3].

Therefore, the sphere of social economy actually acts as the main field of human development in society. Taking into account the theoretical aspects and practical forms of “social economy”, it can be asserted that this term contains a broad methodological toolkit that is implemented at all managerial levels; it is mainly identified with the forms and conditions of ensuring the economic capacity of the subject of economy to realize his potential at a decent level [2].

Investments is a crucial resource source for the development of the country's socio-economic system, determine the process of economic development as a whole, affect profound basis of economic activity. Their scale, structure and efficiency determine the state, prospects and competitiveness of the country's economy in the world economy.

The development of market relations, the formation of a new ownership structure, the change in the management system, and the expansion of economic independence require the search and application of new methods and approaches to economic regulation. The investment process is one of the main aspects of the economic system functioning, which determines the level of technological support and the efficiency of material production. These circumstances determine the relevance and timeliness of the research.

**Analysis of the previous researches.** Fundamental research of the function features of the national and world financial market is highlighted in the scientific works of such economists as V. Anderson, O. Bilorus, M. Bordeaux, F. Brodual, S. Brus, M. Burmaka, D. Butenko, J. V. Vega, J. Williamson, V. Galanov, V. Gayets, R. Goldsmis, M. Gaponyuk, R. Ehrenberg, R. Cameron, D. Kaneman, D. Lukianenko, Z. Lutsyshyn, T. Mayorova, K. McConnell, I. Matyushenko, M. Melnychuk, Y. Mirkin, R. Mishi, S. Moshensky, T. Orehova, O. Peresada, P. Piatti, O. Plotnikov, O. Rogach, R. Silla, N. Stukalo, V. Shevchuk, T. Vakhnenko, S. Yakubovsky and others.

T. Braque, L. Gitman, P. Gurinhas, M. Joehnk, R. Langhamer, F. Lane, D. Milesi-Ferretti, D. Tobin, K. Forbes, W. Sharpe, M. Schmitz are considered to be the main researchers of the problems of identifying the foreign investment essence and the mechanisms of their influence.

However, recognizing the significant contribution of economists to the research of this problem, more thorough analysis and systematization, the theoretical principles for determining the essence of foreign investment and their impact on the country's economic growth in the world economy system are required.

**The purpose of this article** is to generalize theoretical approaches to the research of the essence of foreign investment in the world economy.

**Statement of the main research.** In order to consider the investment support for economic development, we should refer to the history of the issue. The classics who created the system of economic views of capitalism saw the accumulation of capital as the main factor in economic development. A. Smith proved that the path to wealth of the nation passes through accumulation, which inevitably leads to the formation of the capital market, where accumulation is transformed into industrial capital.

J.M. Keynes contributed greatly to the formation of the theory of investment, which introduced an important position on the pursuit of equality of investment and savings, separating purchases for consumption from purchases for investment purposes. He defined the nature of the relationship between investment and capital: the volume of investment depends on the ratio of the rate of interest and the marginal efficiency of capital. In his provisions there is a prerequisite for assigning capital to production factors, and investment - to a method of capital formation based on an assessment of its effectiveness [3].

The reflection of the views of the classics can be seen in the current conditions of the world economy. Today, economic mechanisms of the formation of the world economy system are connected with a certain dynamics of various economic processes.

The central thesis of T. Piketty is that the concentration of wealth will increase, if the level of return on capital ( $r$ ) is higher than the level of economic growth ( $g$ ). T. Piketty argues that in the long term this will lead to a concentration of wealth and economic instability. In order to ensure conditions for equality and avoid falling of the largest share of wealth under the control

of an absolute minority, T. Piketty suggests creating a global system of progressive taxes on wealth [4].

In the thesis "Investments", prepared by the Nobel laureate in economics, W. Sharpe, along with other American scholars, it is stated: "In the widest sense, the term" invest "means to part with the money today in order to receive their larger sum in the future" [5; 6]. "Investing is a way of allocating capital that should ensure the preservation or growth of the amount of capital," American economists L. Gitman and M. Joehnk define in "Fundamentals of Investing" [7].

The complexity of the research of any issue in the field of financial and credit relations is connected with the existence of a number of discussion points and the absence of a unanimous opinion in the domestic science. Accordingly, the definition of the essence of economic categories is the most important scientific thought.

There is no agreement on the essence of investment as an economic category among scholars and economists.

In contemporary economic literature, both foreign and Ukrainian, as well as in legislative acts, different interpretations of the definition of investments are mentioned. However, the definitions do not provide a complete description, and characterize one of the facets of this complex and multi-faceted concept.

The most important feature of investment as an economic category is the productive use of capital, while the term "investment of capital" applies to the characteristics of financial transactions: money, deposits, short-term securities, etc. Productivity, as well as the long-term nature of spending funds, often allow authors to put a sign of equality between investments and capital investments [8], although this is not entirely correct. The international capital movement develops in various forms with the participation of economic actors from different countries. Intensive capital flows between countries and regions of the world cause the growth of foreign investment in the economy of almost all countries.

V. Shevchuk and P. Rogozhin point out that investments have a financial and economic definition. Financially, an investment is all types of assets (funds) invested in economic activity in order to generate income. By economic definition, investments are expenditures on the creation, expansion, reconstruction and technical re-equipment of fixed capital, as well as non-related changes in working capital since changes in inventories are largely

dependent on the movement of fixed capital expenditures [9]. However, the fact that investments can be directed to the purchase of profitable securities, shares of other enterprises or the purchase of a large batch of materials due to inflationary expectations. These operations are not related to fixed capital.

In addition, it should be emphasized that private investment capital can influence the determination of the tendentiousness of the stock market. Private capital flows seem to be one mechanism that sentiment spreads across markets and forms global sentiment [10].

T. Doroshenko points out that investments are all types of monetary, property and intellectual property that are invested in real and financial assets for the purpose of profit (income). Investments should be understood only those investments whose purpose is to generate profit (income). And for this purpose it is necessary to distinguish between investments and other cash deposits [11].

According to N. Tatarenko and A. Poruchnik, investments imply all kinds of property and intellectual property that are invested in objects of entrepreneurial and other activities for profit or achievement of certain social effects. In the first case, investments are considered as a means of increasing capital, in the second - as a means of providing social services that ultimately contribute to socio-economic development of society [12; 13].

The most comprehensive definition of investment is formulated by I. Blank: "Investments represent an investment of capital in all its forms in order to ensure its growth in the upcoming period, to obtain current income or to solve certain social problems" [3, p. 10].

According to Y. Bogatin and V. Schwander, "Investments is a necessary condition for the realization of any entrepreneurial project requiring significant resources." In broader terms, investments represent capital investments for the purpose of its subsequent increase. At the same time, the growth of capital should be sufficient to compensate the investor for the refusal to use available funds for consumption in the current period, reward for the risk and compensate for losses from inflation in the future period [14].

From the point of view of M. Bohr and A. Denisov, investments in the broad sense must be understood as cash, bank deposits, shares, shares and other securities, technologies, machines, equipment, licenses, including trademarks, loans, any other property or property rights, intellectual property, investing in objects of entrepreneurial activity and other activities for the purpose of

obtaining income (profit), increasing the market value of the company or achieving a positive social effect [15, p. 60].

The general essence of investment is determined by two key factors:

1) time - profit (income) can be consistent, parallel or interval;

2) risk - the funds are invested in a certain amount, and the amount of future profits (income) is often unknown, moreover, it may not be at all and even lost all the funds invested. Low risk investments are safe to save on invested capital and generate income, while high risk investments (for example, speculative) have a relative uncertainty about the timing and size of income generation.

Thus, investments are multidimensional capital investments, which can be realized in different forms and characterized by different features [16].

Thus, on the basis of the analysis of theoretical approaches to the research of the economic nature of foreign investment, one can conclude that the distinctive features of the emerging market approach to understanding the essence of investment are:

- First, the linking of investment and income, acting as a motive for the implementation of investment activity;
- secondly, consideration of investments in the relationship between two aspects: resources (capital values) and investments (costs);
- Thirdly, the analysis of investment in dynamics, which allows us to combine resources, investments, on the one hand, and, on the other hand, the return on investment as a motive for this association;
- Fourth, the inclusion in the structure of investment objects of any investment, giving an economic or other beneficial effect.

Judging from the multifaceted nature of the investment, the economic and financial notion of investments is defined. According to the economic definition of an investment, "this is the aggregate of expenditures realized in the form of long-term capital investments in industry, agriculture, transport and other branches of the economy of the production and non-productive sphere" [16]. Part of the investments carried out by the state is aimed at stabilizing the general economic process, the environmental situation, social stability, or creating fundamentally new directions of technology and technology whose economic efficiency is not known in advance. However, the cost of technological breakthrough can afford both powerful firms and transnational corporations [17, p. 38].

In broader sense, investments are provided by the mechanism necessary to finance the growth and development of the country's economy.

Today we can say that the capital market serves as an investment mechanism. This tendency corresponds to the global trend of gradually increasing the role of the capital market in financing the real sector of the economy [18].

In terms of finances, i.e. in terms of profitability of the monetary economy, enterprises of all forms of ownership, investments are all kinds of resources invested in economic activity in order to generate income or benefits [16]. This definition corresponds to the main goal of any business - profit making. However, it requires clarification and consideration from the point of view of economists.

At present, the implementation of investments cannot be considered as an "arbitrary" form of the enterprise's operation in the sense that the enterprise can carry out or not similar operations. Failure to invest will inevitably lead to losses in competitive positions. Therefore, all possible investments can be divided into two groups:

- passive investments, i.e. those that ensure, at best, that the profitability indicators of investments in the operation of the enterprise are at a loss due to the replacement of obsolete equipment, the training of new staff in exchange for retired employees, etc.;

- active investments, i.e. those that ensure the competitiveness of the firm and its profitability in comparison with the previously achieved results (due to the introduction of new technology, the organization of the release of in-demand goods, the capture of new markets or the absorption of competing firms) [16].

Macro-level investment is the basis for implementing the policy of expanded reproduction, improving the competitiveness of domestic production, balanced development of all sectors of the national economy, development of health care, culture, higher and secondary schools, solving unemployment problems, protecting the natural environment, ensuring the defense capability of the state and solving many other problems [ 6, p. 32].

The international capital movement develops in various ways with the participation of economic actors from different countries. Intensive capital flows between countries and regions of the world cause the growth of foreign investment in the economy of almost all countries.



The Law of Ukraine "On Investment Activity" (Art. 1) defines investment as all types of property and intellectual property that are invested in objects of entrepreneurial and other activities which result in gaining profit (income) or social effect [19].

In the financial and lending encyclopedic dictionary A. Gryaznov suggests the following interpretation of foreign investments: "long-term investment of property and intellectual property by foreign investors, as well as foreign branches of resident legal entities in the economy of the recipient country, as well as the acquisition of corporate or government securities for the purpose receiving profits or assets "[20, p. 356].

In terms of profitability, foreign investment is the investment of capital in various types of entrepreneurial activities abroad in order to extract business profits, control over property to some extent or earning interest.

In terms of legality, foreign investment is a foreign property with the appropriate status, both in international law and in national law.

World experience has shown that foreign investment has several advantages over other forms of financing of economic development. Regardless of the level of economic development, any country seeks to attract foreign capital, to obtain direct or indirect effects from these investments. The macroeconomic factors play a major role in attracting funds, including domestic market capacity, political stability of the currency, as well as the level of infrastructure development and qualifications of the workforce. In addition, the investment policy of the receiving country which provides guarantees to foreign investors and has a stable legal system is important [21].

As any other complex economic phenomenon, the investment of foreign capital can have both positive and negative consequences for the national economy.

The advantages of foreign investment include:

- increase of real capital investment, acceleration of economic development and improvement of the balance of payments state of the country;
- Use of local savings for the implementation of effective projects;
- attracting local capital and strengthening the local financial market through the use of its resources for productive purposes;
- raising the level of employment, qualifications of the workforce;
- expansion of assortment of let out production;
- reduction of foreign exchange costs for import payment;

- expansion of export and receipt of foreign currency;
- raising the standard of living and purchasing power of the population;
- development of infrastructure and services;
- strengthening competition in the national economy and reducing the level of its monopolization;
- raising confidence in the country which would attract new foreign investors.

The shortcomings or negative consequences of foreign investment include the following:

- repatriation of capital;
- deterioration of current account balance of payments [22, p.66];
- the strengthening of the dependence of the national economy threatening its economic and political security;
- foreign investors ignoring local conditions and peculiarities;
- possible deformation of the structure of the national economy [23];
- increase of social tensions, in particular due to higher wages at foreign enterprises;
- deterioration of the environment as a result of the transfer of "dirty" production to the country and the inappropriate use of local resources [24].

The indicated advantages and disadvantages of foreign investment in the economy of the receiving countries are not automatically realized but only theoretically exist. Any receiving country intends to develop joint ventures with foreign partners in accordance with the interests of the national economy and should carefully assess the current situation with regard to attracting foreign capital, pursue a reasonable policy on foreign investment regulation which would allow to make full use of all positive aspects and minimize the shortcomings of the investment process.

The receiving country guarantees a foreign investor protection of their rights and interests reflected in national constitutions, foreign investment laws and many other legislative and regulatory documents. Accordingly, the following forms of government guarantees can be distinguished:

- non-discriminatory regime for foreign investors (as a rule, the national regime);
- protection against possible expropriation and nationalization of property;
- free transfer of profits and other types of income abroad;
- protection of the rights of shareholders and creditors;

- determination of the procedure for resolving investment disputes.

**Conclusions.** Thus, the role of foreign investment in the development of the economy of any country is: 1) internationalization and globalization of world economic relations; 2) stabilization and growth of the national economy; 3) organization of the main forms of international economic relations, creation of strategic partnership, inter-firm merger; 4) the diversification of investments into new areas of economy and business.

To recapitulate, a detailed analysis showed that there is no consensus on the definition of the economic essence of foreign investment which made it possible to improve the concept-categorical research of the author's refinement of the term "foreign investment" which is proposed to be understood as investing capital in all its forms in the ' business and other activities in order to generate income in the future. The flow of cash is largely determined by the investment climate that has been created in the national economy as well as the faith the investor has in the state.

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