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THE MOTIVATION OF FOREIGN INVESTMENT

World experience shows that foreign investment has advantages over other forms of financing industries. For the efficiency of foreign investment necessary study their impact on the economies of resident countries-exporting and recipient countries-importers.

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International investment activity has a special place in the system modern business, due to changes in global economic processes. International investment activity is set of subjects for investment abroad and attracts foreign investment into the country. Problems of foreign investment related to current issues in the global economy require practical solutions. This is due to current trends of globalization and internationalization of economic relations in modern economies. Currently, international trade and foreign direct investments serve an important function in the economic development of states.

The volume of foreign investments is one of the indicators of the degree of country integration into the world community and depends on the attractiveness the investment object.

The state policy of attracting foreign investment, as part of foreign state policy including the following problems:

- development of strategy and tactics for attracting foreign investment;
- creating conditions for investment attractiveness of the country;
- practical guide investment activities foreign investors.

Foreign investment and the conditions of their involvement - is a factor that affects investment activity and further development of foreign economic relations.

Foreign operations include agreement on the import and export of assets or capital and to import and export of goods and services.

Each state has its own system of input prices, tax policy and legislative framework, different levels of development industries and hence there are differences in profitability and business targets. Import and export operations in the movement of capital also connected with political stability and the level of trade in the international market. In a broad sense of international investment is investment, implementation of which involves the interaction of the participants belonging to different states, residents and recipients. In the narrow sense of international investment is investment abroad and foreign investment.

Foreign investments represent long-term capital investment by foreign owners in industry, agriculture, transport and other sectors, the implementation of export business capital in the host country. The subject directs investment abroad and investment object receives foreign investment. International experience suggests that effective use of foreign investment is major factor in the development of many countries have shifted to a market economy. Making profit as the ultimate objective of the investment process is attracting foreign capital. Investors study the national economy of the country, its legal system, resources to determine the object of investments with higher return. Objects of foreign investment may be all the objects in which investment is prohibited by the laws of Ukraine.

Every country has the investment resources, which consist of personal or national and foreign investments. These resources can be used for both domestic and for foreign investment. The movement of investment resources is called net capital outflows from the country and a net inflow of capital. The main objective of the foreign investor is profitable investment of capital in other countries with more favorable investment climate. Conducted by the author studies the impact of foreign investment on the economies of exporting countries and importing countries allowed to determine the characteristics of foreign investment and has shown that foreign investment has positive and negative characteristics for recipient countries and countries residents (table 1).

Table 1. The influence of foreign investment on the economies of exporting and importing countries

Country-resident-exporter		Country-recipient-importer	
<i>Benefits</i>	<i>Deficiencies</i>	<i>Benefits</i>	<i>Deficiencies</i>
<ul style="list-style-type: none"> • Increasing investment income through the redeployment of capital within the country in more profitable overseas • Stimulates the development of export potential • Increased exports of goods, equipment, technologies, which should stimulate the production process • Stimulates innovation process 	<ul style="list-style-type: none"> • High degree of risk • Reduce the rate of domestic production • Migration of labor force • Reduce the rate of economic growth and development due to the movement of capital abroad 	<ul style="list-style-type: none"> • Increasing volumes of investments • Stimulates the growth of national economy • It is possible, based on revenues of modern technology to modernize material and technical base • Created new workplace • Growing competition within the country • Accelerate the pace of structural reorganization of economy • Upgrade the country's balance of payments • Created strategic alliances with foreign enterprises 	<ul style="list-style-type: none"> • Income investor - part of GDP - entering the country resident, reducing the rate of economic growth recipient country • Into older technical means, technology • Constrained innovation process • Cost of skilled labor below the world level • Lack of competitiveness leads to destruction of national producers • It reduces the role and importance in the world market • Exploited local commodity markets

Foreign investments in recipient countries contribute to the expansion of export opportunities, stimulate innovative activity and provide access to advanced technologies. In the domestic market enters a large number of quality goods and services.

Motivation of recipient - country stems from the need to attract additional resources for economic development in a lack of domestic capital for investment.

Member investors receive a higher average return on investment because they invest in more profitable industries abroad, there is used a cheaper skilled labor export there products work, slowing economic growth and development of their country. Foreign investment and labor migration is modern forms of movement of labor resources and capital.

For Ukraine, the most important for the development of national economy is attracting foreign investment based on the formation of favorable investment policies.

In countries with developed market economies is the rule: foreign investment funds can not be used for current expenses.

Law of Ukraine "On Foreign Investments" (March 1996) provides that the relations associated with foreign investment shall be regulated by domestic law and international treaties of Ukraine. It should be noted that in some western countries there are no special laws on foreign investment, they are regulated as well as domestic investment, based on regulatory legislation or some of the rules of currency legislation. The most stringent foreign investment in France and in Germany is most liberal.

According to the Law of Ukraine "On foreign investment regime" (Article 2) foreign investment may take the form:

- foreign currency recognized convertible by the National Bank of Ukraine, Ukraine's currency - by reinvesting in the object initial investment or any other items of investment under the legislation of Ukraine subject to of payment of tax on income (income) (when buying shares of publicly traded companies during the privatization is the only possible form of investment under the Law "On

privatization of State Property") of any movable and immovable property and related property rights with it;

- shares, bonds, other securities and corporate rights - rights to part (share) in the authorized capital of legal entity set up under the legislation of Ukraine or other countries expressed in convertible currency;

- receivables and rights claims under contracts that guaranteed first-class banks and have value in convertible currency confirmed according to laws (procedures) of the investor's country or international trade rules;

- any intellectual property rights, whose value in convertible currency is confirmed according to laws (procedures) of the investor's country or international trade rules, and confirmed by expert estimation in Ukraine, including legalized in Ukraine copyright law for inventions, utility models, industrial designs, trademarks and service, "know-how" and the like;

- rights of economic activities, including the right to use subsoil and natural resources provided under the legislation or agreements whose value in convertible currency is confirmed according to laws (procedures) of the investor's country or international trade rules;

- other values according to the laws of Ukraine.

The Law of Ukraine "On Regime of Foreign investments" Foreign investments are defined as values that are invested by foreign investors in objects of investment in accordance with legislation of Ukraine for profit or achieving social effect. Foreign investments are made in various forms (Fig. 1). Foreign investments can be considered as a realization of export business capital in the host country.

The main forms of obtaining investment: public and private investment. They are made in accordance with state and private corporations, firms and banks, investment companies. State foreign investment made in the national interest, because making profit is not the main purpose of their. Private investments are made by owners of capital, making long-term capital investment in the economy.

The basis of business - private capital as a form of international capital flows

are foreign direct and portfolio investment. Direct private investment - is capital investment in foreign companies, due to long-term economic interest. Unlike the portfolio they give the right the investor to control the activity of enterprises with foreign capital, including joint.

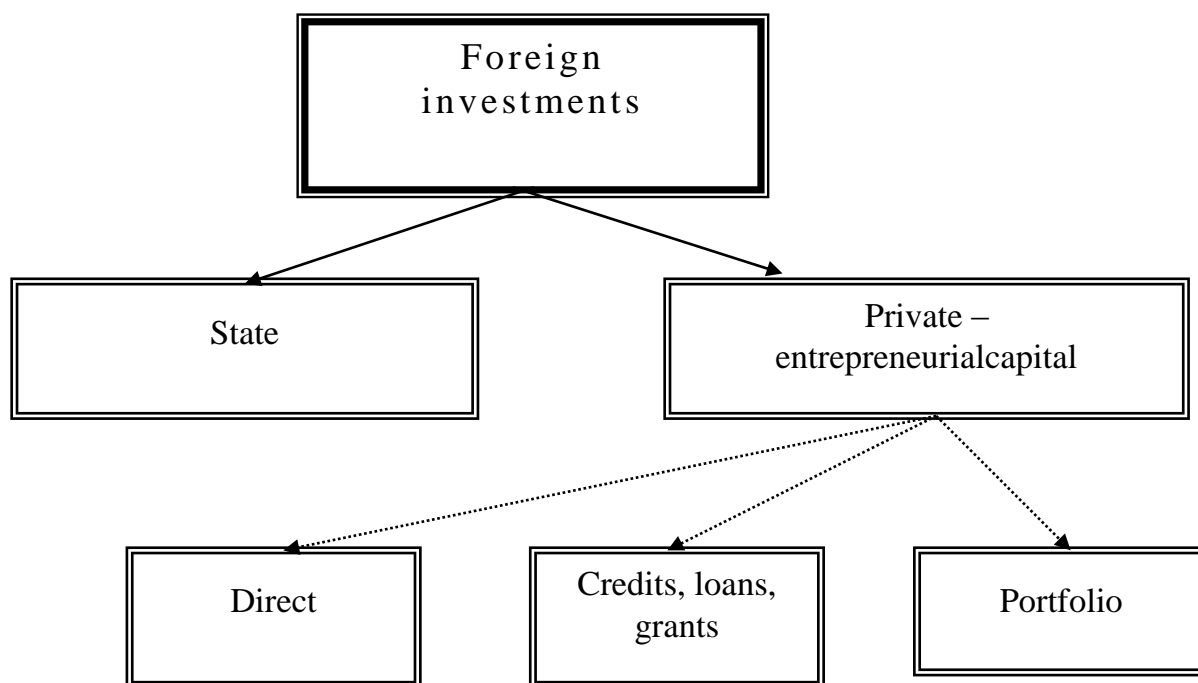


Fig. 1 Forms of Foreign Investment

Portfolio investment coming into the country by selling securities through international financial institutions, funds, export agencies, banks. In the recipient entrepreneurial capital comes in the form of loans, credits and grants. Grant can be seen, firstly, whether paid or subsidized, the state order for implementation of research and development and, secondly, as the cash allocated in the order of charity for the financial support of research scientists, author's literary works and art.

The ratio of direct and portfolio investment defines the role and importance of foreign capital in the economy. Quantitative criteria separation of direct and portfolio investment in developed market economies is 10% cost of the invested. However, direct investments are investments with a lower specific gravity, but which provide a real influence on decision-making subject to investment, and,

conversely, if an investor of investment exceeds 10%, but it has no real control over the object, according investments are not are direct.

Government policy to attract foreign investment carried out Cabinet of Ministers and National Bank of Ukraine is regulated by Parliament.

Factors affecting foreign investment can be divided into two groups by highlighting their positive and negative sides, or the advantages and disadvantages of investment for foreign investors (table 2). If "deficiencies" excess "benefits", it explains the volatility of the investment process in a country that depends on many subjective factors.

Table 2. Factors influencing foreign direct investment

<u><i>Benefits of foreign direct investment</i></u>	<u><i>Barriers to foreign investors</i></u>
<ul style="list-style-type: none"> • The geographical position in Europe • Population • Favorable natural conditions • Capacious market • Undeveloped industrial and social infrastructure • High level of education • Level of the workforce, including engineers and technicians • Low wages • Social vulnerability of workers • Low level of competition in the country 	<ul style="list-style-type: none"> • International ranking countries • Not enough high political responsibility of state and government guarantees for foreign investors • Low level of economic security • High level of investment risk • Economic instability • Bureaucratic apparatus low-income • Difficulties in obtaining a work permit • Long term review of documents for registration of joint ventures • Low rates of privatization • The complex procedure to obtain entry visas and border control • Violation of procedure of negotiating with investors • Not enough developed domestic financial market

Geographic location and natural conditions in Ukraine, a large population and high level of education is favorable rates for investors. Certain part of the population has no permanent work and stable income. Low salaries may have a negative value, because it promotes interest in the results. Social is not protected, not claimed the state qualified work force used by foreign businessmen because

professionals need to work. In Ukraine pay significantly lower than in other economically stable countries, is an advantage for foreign direct investment.

Out-developed industrial and social infrastructure on the one hand, an obstacle for Western businesses, on the other - is beautiful object of capital investment. However, capital investment and development of any country is determined by its economic security. The process flow of investment affects economic security, which involves three levels: global, regional and national.

The first two levels - is level of international security, the state which determines the appearance compound financial security at the national level. Such factors greatly influence the internal development of the country, especially with inefficient financial and credit system, which is currently characterized by Ukraine.

National economy reacts to changes in the global market. Therefore, domestic economic development depends on the flow of foreign capital in the form of credits and investments, changes in world commodity prices, interest rates and foreign exchange rates, the level of achievements of scientific and technological progress.

Geographical structure of foreign investment in Ukraine formed under the influence two interrelated groups of factors. On the one hand, its development is determined by the depth of foreign economic relations with traditional partners - the Union of Independent States, with a predominance of Russia, on the other hand - the need for diversification, especially international investment activity.

For foreign investors is very important that a host country in a favorable climate for their activities.

Among the limits of a general nature to the primary are: stable political situation and government credibility, reliability of information, space for private business activities, adequate and predictable taxation, legal and other guarantees of performance contracts, reducing the role of bureaucracy, simplifying procedures for issuing permits, liberal trade mode, to use a low-cost services infrastructure such as electricity, water, telecommunications, transportation information etc, lack of contact with criminal organizations.

Important factor that affects foreign investment is a process of negotiations with investors. Necessary decide in advance what information is presented without any restrictions that will be transmitted when signing a confidentiality agreement and that only after the signing of investment agreements, and also for familiarized with information and copying documents should determine at what stage of the negotiation process may visit object investment and prepare the visit.

Order to ensure development of production with the use of investment resources is necessary that state policy aimed at attracting foreign capital in Ukraine. Foreign investors consider the investment process from two perspectives: the position of risk and profit.

In making strategic investment decisions investors first consider country risk and commercial risk. Based on the study of the role of foreign investments into economy of Ukraine and analysis conditions for attracting foreign investors developed a classification of methods of removing obstacles of foreign direct investment - the main form of real investment coming into the country (table 3).

Given the fact that of foreign direct investment, there are obstacles at various levels in the proposed classification are considered obstacles to the administrative and institutional arrangements, in which the state has an opportunity and should influence. Ways to remove obstacles to foreign direct investment are grouped in the following areas:

I - stabilization of political situation on the macro level and improve the macroeconomic environment;

II - removal of barriers that increase the risk of capital investment;

III - removal of barriers that increase the costs of implementing measures that increase the profitability of investments;

IV - improving conditions for the realization of strategic business objectives.

The level of investment attractiveness of Ukraine depends on the final decision of the investor: whether the country is a priority for investment of foreign capital or not. Given the importance of investment attractiveness of the country to foreign capital must constantly evaluate and monitor the investment climate, rating

of investment attractiveness of Ukraine. For activation of investment activity should gradually remove barriers for the inflow of foreign direct investment.

Table 3. Classification of methods of removing obstacles to foreign direct investment (FDI)

<i>I. <u>The stabilization of political situation and improve the macroeconomic environment</u></i>	
Reducing inflation	Assistance from the Government
Quality and reliability information ministries, agencies and other financial institutions	Create incentives from local government in the regions to receive FDI
Continued economic policy formation of the national economy of Ukraine, opened to the world market	Conducting a marketing company to enhance the image of Ukraine as a recipient country of FDI
<i>II. <u>Reducing degree of risk</u></i>	
Stabilization legislation	Equal treatment of domestic and foreign investors
Appointment of officer in charge of FDI	Ability to appeal to court in case of violation of the law governing bodies
Reducing corruption and crime	Reduce the minimum required to control
Closer management style in Ukraine with international standards	Cultural negotiating
<i>III. <u>Increasing profitability of investments</u></i>	
Simplifying bureaucratic procedures for the investment process	Financial incentives for investor interest
Improving the tax system, reduce tax pressure on businesses	Improved transportation and telecommunications infrastructure
Ensuring the legislation guarantees the return of profits to exporters of value added	
<i>IV. <u>Improving conditions for the realization of strategic objectives of enterprises</u></i>	
Liberalization of foreign trade	Competition for the regions receiving FDI
Long-term investments	Improving the social infrastructure

Improving the investment climate perpetuates the intergenerational financing investors realized projects, implementation of new large-scale programs.

State regulation of foreign investment should be based on the following principles:

- mutual responsibility of foreign investors and the state;
- legal responsibilities of foreign investors for violations of law;
- attract foreign investors to participate in priority public projects or programs;
- compliance and improve the regulatory framework in respect of attracting and using foreign investment.

In the regulation of foreign investment the state has a number of functions that can be defined as general and special. General functions not related to the specific subject of management and include the following activities: planning (forecasting), organization, coordination, control, monitoring, analysis and information functions.

Special functions related with state regulation obtaining and using foreign investment. They are:

- conclusion of international agreements in matters foreign investment;
- participation in international economic and financial institutions to obtain foreign investment;
- examination of investment projects;
- organization studying proposals for granting foreign investment;
- accounting subjects and objects of investment, and more.

Thus, the content of state regulation of foreign investment is determined by the nature of general and special functions that are implemented in the process of management.

With regard to foreign investments can be formulated the following objectives of state policy of Ukraine:

- creating effective business investment;
- stabilization of economic and financial situation of enterprises as a necessary condition of economic development;
- climbing industries important for life of the country;
- innovation process - development of new, technically advanced industries of production;

- formation of a competitive market environment;
- increase exports and reduce imports in the country.

Investment activity of foreign subjects is needed to determine the business system of laws, rules and realities of governing their business activities. The current law has provided to foreign subjects national treatment business, which is consistent with international standards. At the same time in practice, this means extending to foreign investors that performing their activity in very different business environment, the characteristics of institutional investors.

Institutional investor is a financial intermediary that accumulates means individual investors and provides specialized investment activities. By institutional investors include investment funds and companies, pension funds, insurance companies and banks. As separate subjects investing activities allocate corporate investors and government.

Investment, on the one hand, aimed at making profit from business abroad, and on the other - they provide a control (or ownership) in the foreign activities of firms. Foreign direct investment should be viewed as a process of transferring economic activity abroad. The reasons for this process varied. Chief among them is determined by the desire for the maximum implementation of objective function that includes specific goals set economic activity that can be achieved only at the international level.

Soon the country necessary resolves the following issues:

- target foreign investors at priority objects;
- explore and summarize the experience in implementing the first major projects and use it to work with foreign investors;
- continue preparation and conclusion of international agreements that provide support and protection of foreign investments in Ukraine abroad and domestic;
- explore potential investors;
- strengthen legislation protecting the stock market of Ukraine;
- strengthen the organizational and material and technical work to ensure

economic, scientific, technical, technological, environmental and information security of the country in the sphere of application of foreign investment.

To ensure the normal investment climate and attracting foreign investment required a stable legal framework for foreign investors. The nearest and long-term goals to attract foreign investors into the country determined by the state depending on the economy, its state, a strategic approach to economic development, international relations and the state of the world situation in general. State of the European Union (EU) with an integrated economy, foreign investment used primarily for the purpose of saving energy, creating new high technologies and information systems, the achievement of high quality products while ensuring ecological safety, for the modernization of medicine, education and more.

In countries with market economies priority given to economic methods, because states have multilateral economic leverage to attract investors needed for it sectors of economics. In countries with market economies priority given to economic methods, because states have multilateral economic leverage to attract investors needed for it economics. Attracting foreign investment in the country is objectively process necessary because of how well the economy of Ukraine will be integrated into the global community depends on the strategy and tactics of the state.