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THE CONCEPT OF FOREIGN INVESTMENT AND ITS THEORETICAL BASICS

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Abstract:

Foreign investment, also known as foreign direct investment (FDI), is the investment of capital and resources by a company or individual from one country into a company or asset in another country. The theoretical foundations of foreign investment stem from various economic theories.

Key words: Neoclassical Theory, investment, tax policies

Introduction

Neoclassical Theory. According to neoclassical theory, foreign investment occurs when investors seek higher returns on their capital by investing in countries with lower costs of production, favorable tax policies, or access to new markets.

Dependency Theory. Dependency theory argues that foreign investment can lead to economic dependence of developing countries on developed countries. It suggests that foreign companies may exploit local resources and labor, repatriate profits, and hinder the development of domestic industries.

International Product Life Cycle Theory. This theory proposes that products and industries evolve through different stages of development, from introduction to growth, maturity, and decline. Foreign investment follows this cycle, with companies seeking new markets for their products in different stages of development.

Foreign investment, also known as foreign direct investment (FDI), occurs when a company or individual from one country invests capital and resources in a company or asset in another country. This investment can take various forms, such as establishing new subsidiaries, acquiring existing businesses, or investing in real estate or infrastructure.

The International Product Life Cycle Theory (IPLCT), developed by Raymond Vernon in the 1960s, is one of the key theoretical foundations of foreign investment. According to the IPLCT, products and industries evolve through different stages of development: New products are introduced in the home country, where they are first developed and marketed. Growth. As demand for the product grows, production is expanded and exports to other countries begin. Maturity: The product reaches its peak of popularity and production becomes more standardized. Competition increases, leading to lower profit margins. Decline: Sales of the product decline as newer and more innovative products emerge. Production may shift to low-cost countries to maintain profitability. Foreign Investment and the IPLCT

The IPLCT suggests that foreign investment follows the product life cycle:

• Introduction: Companies invest in foreign markets to introduce new products and establish a presence.

• Growth: As demand grows, companies expand their foreign operations through subsidiaries or acquisitions.

• Maturity: Foreign investment continues to increase as companies seek to maintain market share and compete with local producers.

• Decline: Foreign investment may decline as production shifts to low-cost countries or as the product becomes obsolete.

Implications for Foreign Investment

The IPLCT has several implications for foreign investment

• Timing: Companies should consider the stage of the product life cycle when making foreign investment decisions.

• Market Selection: The choice of foreign markets should be based on the product's stage of development and the competitive landscape.

• Investment Strategy: Companies can adjust their investment strategies, such as establishing subsidiaries or acquiring local companies, based on the stage of the product life cycle.

• Exit Strategy: Companies should plan for the eventual decline of products and consider appropriate exit strategies, such as divestment or joint ventures.

The International Product Life Cycle Theory provides a valuable framework for understanding the patterns and motivations of foreign investment. By considering the stage of the product life cycle, companies can make more informed decisions about when, where, and how to invest in foreign markets.

Market Imperfection Theory. Market imperfections, such as information asymmetries or institutional barriers, can lead to foreign investment. Foreign companies may have access to superior technology, management expertise, or market knowledge that gives them an advantage in foreign markets.

Dunning's OLI Framework. This framework suggests that foreign investment occurs when a company possesses three advantages: ownership (O) advantages such as proprietary technology or brand recognition, location (L) advantages such as access to resources or markets, and internalization (I) advantages such as the ability to coordinate operations across borders.

Resource-Based View. This theory emphasizes the importance of a firm's unique resources and capabilities in determining its competitive advantage. Foreign investment occurs when a company has resources or capabilities that are valuable, rare, inimitable, and non-substitutable in foreign markets.

Institutional Theory. Institutional theory examines the role of institutions, such as legal frameworks, regulations, and cultural norms, in shaping foreign investment patterns. Favorable institutions can attract foreign investment, while unfavorable institutions can deter it.

The theoretical foundations of foreign investment provide a framework for understanding the motivations, patterns, and implications of foreign investment. These theories highlight the complex interplay of economic, political, and institutional factors that influence foreign investment decisions and their impact on both investing and host countries.

Main part

If we continue to express our opinion, investment is the introduction and direction of financial, property and intellectual wealth in various forms of ownership in order to achieve economic and social efficiency.

In economic theory, investments can be characterized as an economic category as follows:

- attracting, directing and introducing funds to almost all objects of business for capital enrichment;

- it can also be seen as economic relations between the participants of investment activities during the implementation of projects. Investments in the fixed fund can be made mainly in the form of capital investment, and it is the sum of costs for new construction, expansion, reconstruction and technical re-equipment of operating enterprises, equipment, and the purchase of raw materials necessary for the project. In economic sciences and practice, it is often emphasized that the terms "investment" and "capital investment" are not synonymous. It has been proven that investment is a much broader concept than capital investment. When talking about the term investment in Western literature, the first attention is focused on stock markets and exchanges, because in the leading developed countries, investments are made mainly in this form, mainly in the form of securities. It is quite difficult to give a single and complete definition of the concept of investment. In economic sciences and in various aspects of practical activity, the content of investments and their specific characteristics have been found. Investments in the economy consist of expenses for new equipment and technologies in production and service provision, as well as for the increase of material and intangible reserves, and may appear as a part of total expenses.

Investments are a part of the gross domestic product that is not consumed in a specific period and helps to increase capital investments in the economy that will be consumed in the future. In the theory of production and macroeconomics, investments are the process of creating, forming and increasing existing capital. The economic essence of the investment is to spend fixed and working capital on the establishment, reconstruction or technical re-equipment of the enterprise; on financial investment - in order to increase the investor's financial capital, using his instruments, placing funds in shares, bonds, bank deposits and other securities. Investment is carried out in a broad sense, and this investment process is explained by the current state of the evolution of the financial system in the territory, region or country. The word "investment" in developed European countries (USA, Canada, Great Britain, Japan) is more focused on stock markets, and there are concepts that investments are made with the help of securities. In other words, portfolio investing is word-of-mouth.

The rate of inflation also has a serious effect on the volume of investments. If this indicator is high, the future income of the investor will be depreciated and the factors stimulating investments will also decrease. Investments are made in different forms, and it is possible to divide them into directions, taking into account the special features of analysis and planning. First, we will divide the investments into real and financial investments according to the investment object. Real investments are financial funds directed to tangible and intangible assets on the account of the enterprise. Material investment is the purchase of certain parts of the main fund, and participates in investment projects and innovative investments.

Depending on the types of financial resources, investments are in the following forms:

— personal funds, deposits, shares, stocks, bonds and other valuable securities;

— movable (equipment and other material assets) and immovable (buildings, structures, communication and other assets);

— copyrights, know-how and other (intellectual) assets;

— rights to use land, natural resources and other assets (value of intangible assets)

As a result of these approaches, summarizing the thoughts and opinions about the concept of investment attraction and management, it should be said that each conceptual approach must serve to improve the country's economy and create a basis for its further development.

Conclusion

The theoretical foundations of foreign investment provide a framework for understanding the motivations, patterns, and implications of foreign investment. These theories highlight the complex interplay of economic, political, and institutional factors that influence foreign investment decisions and their impact on both investing and host countries. The theoretical foundations of foreign investment provide a framework for understanding the motivations, patterns, and implications of foreign investment. These theories highlight the complex interplay of economic, political, and institutional factors that influence foreign investment decisions and their impact on both investing and host countries.

If we continue to express our opinion, investment is the introduction and direction of financial, property and intellectual wealth in various forms of ownership in order to achieve economic and social efficiency.

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