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International Experience in Attracting Foreign Direct Investment

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A B S T R A C T

The article substantiates the need for an effective policy of attracting foreign direct investment, identifies external and internal factors influencing the ability and volumes of attracting foreign investment in the economy. Based on studying the global experience in attracting foreign investments, the main directions for increasing the investment attractiveness of the economy have been identified.

A R T I C L E I N F O

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INTRODUCTION

In recent years, the investment component has taken a dominant position in the economic policy of almost all developed countries that implement the strategy of industrial leadership based on innovation activity [1].

In the context of an increase in the technical and technological level of production on the basis of the advanced development of science-intensive, high-tech industries, it is necessary to conduct an effective investment policy aimed at stimulating the development of the real sector of the state economy. Foreign investment inflows can promote efficient resource allocation, which in turn will stimulate economic growth. Foreign direct investment from developed countries to developing countries can be considered as the basis for innovative development.

A number of scientific works are devoted to the problems of attracting foreign investment, among which one should single out M. Fridman [2], P. Fisher [3], S.Yu. Glazieva [4], D.N. Samusenko [5], G.V. Skripnikov, [6], B Ruzmetov, S. Gulyamov, T.Shodiyev.

The creation of an effective mechanism for activating all potential investment sources, including foreign investment, should provide economic, organizational, legislative, informational conditions for

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the effective development of the economy. Due to the relevance and complexity of the problem of attracting foreign direct investment in modern conditions, it is expedient to study the world experience in stimulating the attraction of foreign direct investment in the economy, to determine external and internal factors of influence on the possibility of attracting foreign investment, to increase the investment attractiveness of the economy, which is the purpose of this article.

Main part

One of the defining indicators of the level of welfare of the state is the volume and structure of investments in the economy. In the face of tough competition in domestic and foreign markets, it is becoming more and more important not only to mobilize internal financial sources of investment, but also to attract external investment resources. Transformations in the sphere of production and circulation, changes in the economic conditions of management against the background of a constant lack of investment resources necessitate an effective policy of attracting foreign direct investment, which contributes to the development of the economy, promotes the introduction of high technologies, and the creation of new jobs.

Foreign direct investment (FDI) is an integral part of an open and well-functioning economic system and a major catalyst for development. At the same time, however, the receipt of an increasing number of benefits from FDI by different countries, sectors of the economy and groups of the population, united on a territorial basis, does not occur automatically, and these benefits are not evenly distributed among them. The ability to attract FDI to an increasing number of developing countries and maximize the benefits from them in the name of achieving development goals is determined by the policies of these countries and the so-called international investment architecture. First of all, acute problems are faced by those countries receiving investments, which have not yet developed and implemented an information transparent, effective policy covering the most diverse spheres of the economy, which would create favorable conditions for investment, and which have not yet formed the necessary human and institutional resources to meet the objectives of this policy.

According to UNCTAD experts, the global volume of foreign direct investment (FDI) flows declined slightly, from $ 1.41 billion in 2018 to $ 1.39 billion in 2019. Flows to industrialized countries decreased by 6 percent, while flows to developing countries remained at the same level.

The United States remained the largest recipient of foreign investment. This country received $ 258 billion in FDI. Investors directed $ 203 billion to China and $ 88 billion to Singapore. The inflow of foreign investment into the Russian Federation more than doubled to $ 33 billion.

Foreign direct investment plays an important role in Uzbekistan, determining the dynamics of economic growth, the depth and scale, as well as the speed of the transformation of the economic system at the national level.

Uzbekistan is implementing large-scale reforms in all spheres of society, in particular, the course of economic reforms in the country has become consistent and stable, when, against the general background of an increase in domestic production and high investment activity, the strengthening of market processes continues.

From January to September 2020, the total volume of utilized foreign investment in Uzbekistan amounted to $ 7.2 billion (of which $ 5.7 billion in fixed assets), including $ 4.9 billion in foreign direct investment, and $ 2.3 billion. billion dollars - funds of international financial institutions and foreign government financial organizations.

Many governments are promoting FDI in their countries as a means of creating new jobs, enhancing local technical knowledge and raising general economic standards. For decades, Asian countries (India, China, Pakistan, the Philippines, and Indonesia) have restricted or controlled FDI in

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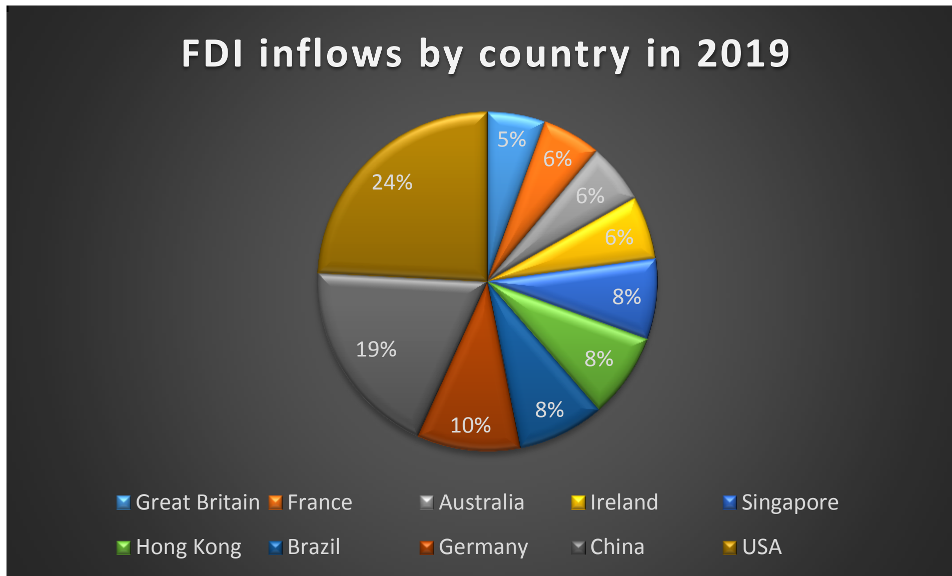
their countries, creating bureaucratic barriers, as well as requiring the mandatory involvement of local partners for any new foreign business. This policy has discouraged many companies - foreign investors.

According to the study, the USA tops the Foreign Direct Investment Confidence (FDI) Index for the sixth year in a row. The continued attractiveness of the United States to foreign investors is most likely a consequence of its large domestic market, improved economic performance and a new lower corporate tax rate. Protectionist rhetoric and government action may also encourage some companies to invest in the United States to maintain market access. (fig. 2)

Fig.2



Source: Compiled by the authors based on [9]

The top five countries in the index have remained the same over the past three years, but their positions have changed. Canada climbed to second place this year, while China finished fifth. Germany came in third and the United Kingdom came in fourth. Switzerland and Italy entered the top ten for the first time in ten years, displacing India and Singapore.

European markets have attracted significant investor attention in recent years and this year was no exception. Europe experienced some recovery in 2018 after slightly declining in the previous two years. Overall, European markets account for more than half of all positions in this year's index, as well as half of the top 10. Denmark (20th), Portugal (22nd) and Norway (23rd) are new members of the index.

Developed markets hit a new all-time high of 84% on the 2018 index. Investors are interested in developed markets in all regions, including Europe, North America, Asia and Australia. This growth is likely a result of stronger economic performance in developed market economies, their competitive advantage in technological innovation, and regulatory and competitive pressures to localize operations in major markets.

Developed countries are reaffirming their dominant position as FDI destinations. Investors are interested in investing in developed markets in all regions, including Europe, North America, Asia and Australia. This growth is the result of stronger economic performance in developed market economies, their competitive advantages in technological innovation, and regulatory and competitive pressures to localize operations in major markets [10]. The attractiveness of a country for foreign direct investment depends on a number of determining factors that must be taken into account when developing a policy for attracting foreign investment.

The purpose of using investment incentives as a government instrument is to influence the investor's decision-making and attract additional capital to the state's economy in the form of foreign direct investment. Tax and financial investment incentives have traditionally been allocated.

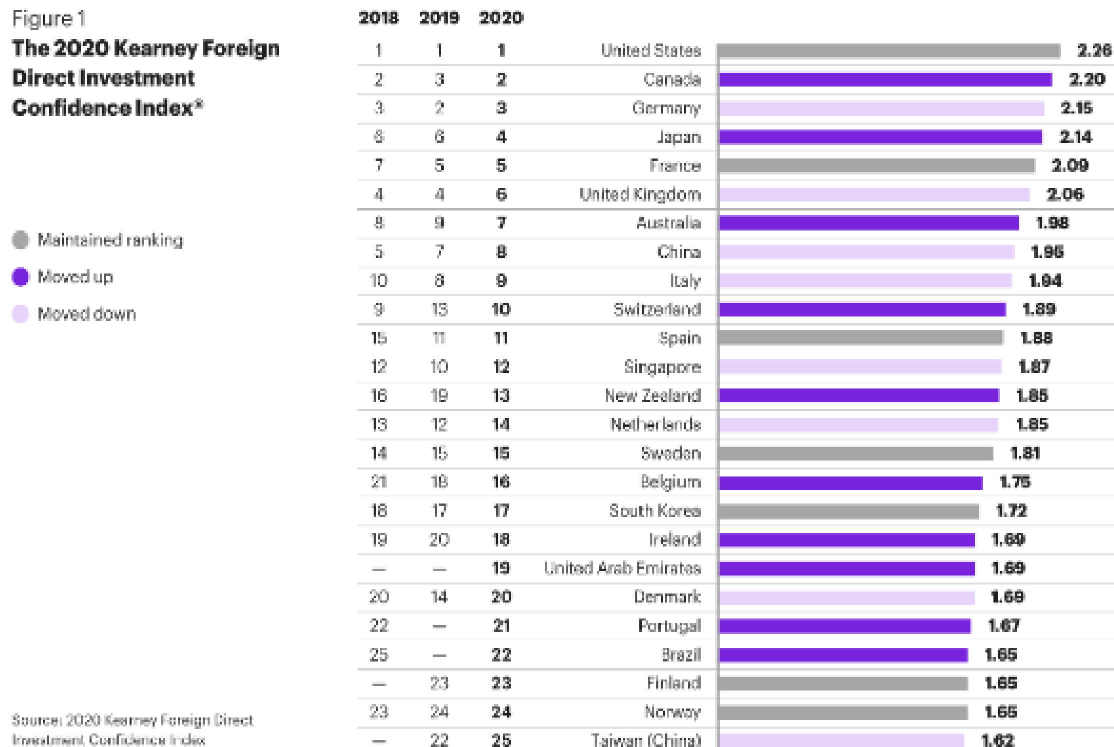


Figure 2 Index of Confidence in Foreign Direct Investment
A source: https://www.atkearney.com/foreign-direct-investment-confidence-index/full-report

Tax incentives include tax holidays, investment tax credits, and preferential indirect tax rates. Germany, France and Hong Kong use a territorial taxation system (there is no tax on the profits of non-resident companies). The United States, Japan and the United Kingdom provide tax credits for resident companies (as they tax companies' profits earned from overseas activities). Brazil, China, India, Singapore provide tax incentives for investment in R&D. Financial incentives include government subsidies, infrastructure subsidies. Countries that provide loans for the technical development of companies to stimulate R&D are Denmark, Ireland, the Netherlands.

In order to attract foreign investment, developing countries create export production zones, in which duty-free imports of materials for the production of goods for export are allowed. In some cases, these zones apply only to a few factories, in others, such as in Singapore, to the entire country.

Investment incentives increasingly include investor service programs, which involve additional spending by the government to increase the reinvestment of investor returns. These costs include subsidies to finance further expansion, the cost of supply chain development policies and the labor market. In many countries that successfully attract foreign investment, the share of reinvested profits is quite high. For example, in the UK, reinvested earnings account for about one third of total FDI. This creates a benchmark for other countries where reinvestment is less common. Therefore, some

developing countries, notably China, have also developed tax incentives to encourage the reinvestment of profits. The active implementation of investor service programs helps assess the effectiveness of the use of resources spent on investment promotion policies and identify areas for change.

Many states actively compete to attract FDI using tax breaks and subsidies. In developed countries (Great Britain) tax holidays last no more than two years [11]. However, at the state level, building a model of taxation of foreign investments on a non-discriminatory basis is recognized as the main goal of investment policy. In a number of regions of India and China, the legislation provides for tax holidays (for up to 10 years) and duty-free import of equipment for enterprises with foreign investment operating in high-tech industries with a high share of exports. However, for such areas as food and light industry, such benefits have been canceled [12, 13].

Conclusion

Research shows that the most effective way to attract foreign investment into the economy of the state should be associated not only with tax benefits and preferences, but also with a stable political, legal and socio-economic situation in the country.

Small and developing countries face particular difficulties in attracting FDI and reaping the associated benefits, the main factors driving this are:

• small domestic market and limited purchasing power;

• possible pressure on domestic resources (labor market, infrastructure) associated with a significant inflow of foreign investment;

• inadequate development of policies that will maximize the contribution of foreign investment to economic growth.

To address these problems, UNCTAD experts [14] developed the following recommendations for small countries:

✓ the need for a policy aimed at eliminating cross-border barriers to capital movement and increasing access to foreign markets;

✓ initial success in attracting FDI may face limited supply in small countries, especially in terms of infrastructure and professional labor. This will lead to limited economic benefits and will discourage further investment attraction if governments do not take early action;

✓ successfully attracting FDI to small countries provides the most visible direct benefits in terms of capital formation, exports and employment;

✓ investment policies that promote indirect benefits through new linkages, modernization and externalities can help the development of national companies, as well as the creation of new investment flows.

As a rule, countries that pursue an active policy of attracting foreign capital and using it for economic development create an appropriate legal framework for regulating foreign investment. Each state individually determines the procedure and conditions for admitting foreign capital into the economy. The “practice of preference” for certain types of foreign investment and methods of their regulation largely depends on a number of factors, which can be classified as follows:

1) external factors (geographic location of the country, all types of resources, scientific and technical base, the volume of markets for consumer and industrial goods, infrastructure). These factors can only be changed in the long term;

2) internal factors, which include government interest, management of investor expectations, efficiency of administrative procedures, regulatory framework, financial and tax incentives.

An analysis of the world experience in attracting foreign direct investment showed that the set of

incentives and the criteria for their provision in different countries differ significantly, since there is no universal set of tools that would ensure an increase in capital inflows. Justification of the policy of investment activity in each specific country should be the result of a thoughtful and purposeful choice, taking into account the characteristics of potential investors and the specifics of specific economic conditions.

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