ГРОШІ, ФІНАНСИ І КРЕДИТ

УДК 336.012.23

Abdulla Alrashdi, Postgraduate Student
at Department of Finance and credit
Taras Shevchenko National University of Kyiv

THEORETICAL AND METHODOLOGICAL BASIS OF FOREIGN DIRECT INVESTMENT RESEARCH.

Alrashdi A. Theoretical and methodological basis of foreign direct investment research. This paper deals with theoretical basis for the research of foreign direct investment. The author investigated the current situation of foreign direct investment in the UAE. Determined exogenous and endogenous factors of foreign direct investment increasing. Analyzed the correlation of FDI with the processes of economic growth. Reasoned their direct and indirect impact.

Keywords: foreign direct investment, economic growth, determinants of economic growth, direct relationship, indirect relationship.

Альрашді А. Теоретико-методологічні основи досліджень прямих іноземних інвестицій. В статті розглянуті теоретико-методологічні аспекти дослідження прямих іноземних інвестицій. Автор дослідив поточну ситуацію з прямими іноземними інвестиціями в ОАЕ. Визначив екзогенні та ендогенні фактори зростання прямих іноземних інвестицій. Проаналізував взаємозв'язок прямих іноземних інвестицій з процесами економічного зростання. Обґрунтував прямий та опосередкований їх вплив.

Ключові слова: прямі іноземні інвестиції, економічне зростання, детермінанти економічного зростання, прямий взаємозв'язок, опосередкований взаємозв'язок.

Альрашди А. Теоретико-методологические основы исследования прямих иностранных инвестиций. В статье рассмотрены теоретико-методологические аспекты исследования прямых иностранных инвестиций. Автор исследовал текущую ситуацию с прямыми иностранными инвестициями в ОАЭ. Определил экзогенные и эндогенные факторы роста прямых иностранных инвестиций. Проанализировал взаимосвязь прямых иностранных инвестиций с процессами экономического роста. Обосновал прямое и опосредованное их влияние.

Ключевые слова: прямые иностранные инвестиции, экономический рост, детерминанты экономического роста, прямая взаимосвязь, опосредованная взаимосвязь.

Introduction. Foreign direct investments play a critical role in the economic openness, and also facilitate the commercial transactions between countries. This type of investment has emerged in recent times and is increasingly due to many factors such as the globalization, which has contributed to open new horizons for nations to cooperate and improve their financial and economic conditions. And this was a big motivation for the developed countries to encourage the foreign direct investment, and they have conducted several studies to measure the effect of the FDI in the economic growth and development and its role in creating links between the local firms, Albert Hirschman (1958). And from the results they have found that not all of the sectors are influenced by the same level of the FDI. That is why many countries are paying attention these days to know and discover more about the FDI, so the researchers focus on FDI and deal with it as an important issue to be discussed and to know its long term effects.

The research. FDI is different from the traditional investment as it is about someone, which is the investor who investing in a foreign country, enabling him to get the power to manage and control that business or investment; moreover the FDI is popular in the multinational corporations in which the investors can make this type of investment by acquiring a foreign company or by starting a new foreign project. From the most important characteristics of the FDI is giving the opportunity for the investors to have a control and make decisions that affect these foreign companies, Zekos [20]. FDI are commonly used in regions that enjoying an open economy as it gives the investors many advantages such as improve the using of technology and having qualified workers. There are many ways in which FDI can be made or established such as by engaging in joint venture or by acquiring an existing company, Hennart [12]. Moreover, the FDI has more than one type in terms of the operations that are performed. Firstly, the horizontal FDI, which means that the investors are investing in a businesses that are similar to businesses they perform in their home country. Secondly, the vertical FDI, which means that the business in the home country is somehow related or linked to the new business in the foreign country. Thirdly, the conglomerate FDI, which means that the investors businesses in their country are totally different than the businesses they are establishing in the foreign country, like investing in a new sector that is new for them and they have no experience or enough knowledge about it such as, a beverage company who acquire or make a joint venture with a perfume company, Wei and Liu [19].

Foreign direct investment in UAE. The UAE considered one of the most Arab countries and even in the world that have an open economy, and this was the result of many factors such as the great development in all fields, political and financial stability, purchasing power in which individuals have the ability to purchase more goods and services compared to other countries and the economic prosperity that it is enjoyed. The UAE has attracted lots of FDI because of the tremendous economic growth that they achieved compared to other countries in the world, as well as it contributed significantly to ease the ban and restrictions on business transactions which have made it easier for the investors and gave them an opportunity to invest there. As the great benefits that the FDI provides and achieved, many countries have become seriously considering the importance of attracting such investments to improve and revitalize their economic condition, Kurtishi [14]. And from the most countries that pay attention to this issue is the UAE. The FDI could help in improving and developing the level of performance and productivity for the local firms, in which it bring new technologies and techniques that were not used or existed in their firms. In addition, it brings skilled and experienced labours, in which they have, teach other workers some important skills and techniques, which have contributed to improve the business process and the job practices. Moreover, the FDI are in a lot of times started to manufacture a new and unique products and services, which provides an opportunity for diversity in the market, as it also gives the local companies a chance to apply these ideas or even develop them in a better way. Furthermore, it will create new job opportunities, which will help to reduce unemployment rate and thus improving the social and economic condition in the country. However, it is possible that these new and modern technologies can eliminate the number of employees who have a limited experience and can be replaced by these technologies, or make local firm lose against the foreign firms because of the competition principle. The FDI in UAE has achieved a high amount of profits that reached 38200 million in 2015 and it is still in a continuous improvement, as it have been ranked 11th in the world as it attracts a huge number of FDI, and this is because of the facilities that the UAE provided such as the low tax rate in which foreign investors feel satisfied about investing in this country. Also it has worked in providing a suitable environment for the investors to establish their businesses and thus increase the productivity and economic conditions. UAE have enacted special laws to regulate the FDI, which can protect the owners right, and because of the global trade agreements that they have engaged in. There are many examples of the FDI that have been established in the UAE such as, the large clothes and accessories shops that have a well-known brands like Mango, also the foreign restaurants that have applying franchising from different countries such as Chillies restaurant. Moreover, putting future foreign investment plans such as the Abu Dhabi economic vision in 2030, which aims to reduce dependence on oil as a main source of income and focus on how to use the knowledge and investments as an alternative source of income and to encourage the companies in the private sector to have a controlling role in the economy. In addition, Dubai is considered among the most cities that attract investors around the world, because of the huge development in all aspects, the good infrastructure and the diversity, in which people from different backgrounds and cultures living there [10]. Expo 2020 that will be held in Dubai is expected to significantly improve the economic situation, in which many companies and investors bring their unique investments and products from different parts of the world to promote and market these products in one exhibition. Added to that, Dubai has created a responsible party about regulating the foreign investments there. Dubai FDI contains specialists' people in the investment field, and its aims to create a good environment for establishing the investments, also to remove constraints and restrictions and to facilitate the business operations, in which it provides the necessary support for the foreign investors and it gives them needed information that helps them in their businesses. All the previous factors have attracted the owners and investors around the world to join and make a good experience there.

As the report of the Ministry of Economy in UAE (2015), the FDI inflow and accumulation was as the bellow table, which gives an indication that FDI inflows stable, and the UAE still attractive to the FDI.

Exogenous and endogenous growth theories. FDI have significantly affected the host countries of these investments, and from the most important effects it is the effect on their economic growth. They have made a studies and experiments in order to find out the main factors that are playing a major role in affecting the growth, which will help them to determine the difference between the developed and underdeveloped countries in order to create a chance for them to be developed [8].

There are several types of growth that explains the development of the economic growth.

Firstly, the exogenous growth which was first applied and used in 1956 by Solow. And it relies on the assumption that the economic growth is achieved and increased by external factors such as, capital situation like the accumulation of capital, in which they investigate that there is a positive relationship between the accumulation of capital and economic growth, Barro and Sala-I-Martin [5]. they have found that the economic growth is affected in the short term, because they discover that investment accumulation have affected the economic growth by increasing it while other factors such as technology stayed the same. However, in the long run the economic growth is being affected by the development of technology, in which introducing new technologies will play an important role in increasing and boosting the performance of workers [8]. And this will lead to improve and increase the economic growth and income of the countries. But this theory, which is the Exogenous Growth Theory, have some constraints, in which its focus on providing information and details about the expected short run effects, while its not providing that for the long run effect. In addition, it did not give an explanation of how these technologies will be spreading more widely [13].

Secondly, the endogenous growth theory, which was discovered in 1986 by Romer as a result that the first growth theory failed to provide enough information about economic growth in the long run, and it means that growth of an internal cause and origin, which is opposite to the first theory. This theory has focused on two different factors which are the labour or human resource factor and the technological development factor. They have found that increasing the labour will be a result of increasing the percentage of population; however, the economic growth in this situation is determined by how these labours increase or add benefits to the new technological changes [8]. And it is considered as one of the important theories, because it clarifies the return on investments on their capital and investments in the long term. It considers that research and development has increase the level of knowledge and innovation that a countries will have, which will lead to achieve high growth rate and improve their economic situation. Added to that, the FDI is working on offering new technologies and techniques, establish useful training programs for the staff and improve the ways of doing job by the organization. It also leads to create a spirit of competition in the market, which contribute to increased productivity and performance level. However, there is a limitation to this theory in which it cannot predict how multiple and different economies will grow on the same level [13]. That is why they reach to a result which shows that the FDI can affect the economic growth in more than the way. Firstly, by providing and entering new types of products to the market, this is considered as an exogenous factor. Secondly, by bringing new technologies and knowledge to the countries that are hosting the FDI and this is considered as an endogenous factor.

Direct impact of the FDI on economic growth. The researchers have found in their studies that FDI and multinational corporations have a positive impact in boosting economic growth for the host countries. And they have done that by increasing saving of the countries and their amount of capital. So, the FDI improve the economic condition of the country by their capital accumulation, and this can be done by several ways such as bringing new and unique products to the market that can attract a large number of customers, hiring of new and developed technologies that are imported from foreign countries, which has improved their production technologies and process. They also have benefited from using and accessing to low cost raw material and labour. Moreover, they have noticed that the accumulation of capital affected the level of the economic growth in the short term by the exogenous factors, while in the long run they have noticed that the advanced technology provided by the FDI is the main important factor that affected the economic growth. The FDI is considered as a very important factor in strengthening the host

Table No. (8) Foreign Direct Investment Inflows in the United Arab Emirates for the period 2010-2014 (in billion dollars)

Year	Annual Foreign Direct Investment Inflows	Total Cumulative Foreign Direct Investment Inflows
2010	5.5	77.7
2011	7.7	85.4
2012	9.6	95.0
2013	10.5	105.5
2014	10.1	115.6
Growth %	16.4%	10.4%

countries abilities in various fields, especially their economic situation compared to the domestic investments, and this is because of the unique and new skills they have got, resources they have accessed and the knowledge they have improved. That is why the host countries should encourage and attract the FDI, because it will help them significantly to develop and improve their economy more than their traditional investments as it have a wider knowledge, more efficient and effective techniques and many special skills. However, some researchers have done a hypothesis which shows that it is not necessary that the foreign investments have a higher performance than the domestic firms. In which they assumed that not only the skills and knowledge makes the foreign investment better than the domestic ones, but there are other factors that can make them to perform better such as their financial situation. And this is the reason that attracts them to invest in other countries to enjoy lower cost of resources and entering a new market [7]. Some researchers claim that the real impact of the FDI on the economic growth is not defined in accurate way. Therefore, they have designed two different studies to measure that effect on the economic growth. The first one is by focusing on issues such as the GDP, which is the macro level. And the second one is by focusing on the relationship between FDI and level of productivity.

According to macro-economic level studies shows that FDI can impact and effect on the economic growth. FDI inflows effect the economic growth positively in the host economy, for example FDI is expected to be higher in export promoting than in import substituting countries. This is relying on many factors such as the level of income, financial development, human capital development, infrastructure development, the degree of openness, and institution development. They tested the hypothesis for 46 developing countries. They found out that since the openness is crucial for measuring the effect of FDI on the economic growth as the countries are more honest the benefit will increase. Countries that have excellently developed financial markets will be more favourable to be affected by the FDI [2].

FDI can positively affect the economic growth of the manufacturing sector while the primary sector is affected negatively and the service sector is unclearly affected. However, high-income developing countries used to have more beneficial FDI rather than low-income developing countries. Due to these studies the host country should have a certain level of development to reach higher level of benefit. There are different types of studies applied to determine the FDI, one of them is cross-country techniques that can result in different effects of FDI on economic growth between the studies, and this due to the different production function as technological techniques can vary from one country to another. However, traditional panel techniques are the other type of studies that was applied and used to solve the problems associated with cross-country studies. In addition to the studies noted that the economic growth has no direct effect by the FDI and the private investment, while state-owned investment has a direct effect on economic growth. The total factor productivity (TFP) can be increased significantly by the FDI, but this has no impact on the private or state-owned investment. FDI has indirect positive effect by affecting technological progress and DI on the economic growth not through direct effects. Moreover, panel integration techniques are used to avoid the criticisms of traditional panel data estimators [17].

At the microeconomic level the researchers have focused to analyze the data according to the industry level, which focused on testing the hypothesis of assuming that the foreign investments and companies have better characteristics such as the level of technology compared to the domestic or local firms. In a study that was conducted in Venezuela to test their plants, they have found that foreign investment in that field has increased the productivity [1]. In addition, some studies reached to results that considered the foreign direct investments firms more effective and efficient in performing their functions than the local firms and this is because of multiple reasons such as higher levels of technology, advanced managerial skills and their financial condition. Another study done by [18], it was conducted in Lithuania and shows that there is a positive relationship between the level of performance and productivity of the domestic companies and their dealing with diversified customers. However, they have found that there is no relationship between the existing of FDI companies in their sector and their level of productivity. Furthermore, Gorg and Greenaway [11] found that existence of FDI companies could have a negative impact on the domestic firms, in which creating a competition between domestic and FDI firms made some of the domestic firms to lose its capital and reduce its manufacturing and producing level as the FDI firms will have more superior elements and power over the domestic firms. Another study that has been done in Indonesia found that the foreign investments in host countries are having a high level of advanced technology that can help them to gain a competitive advantage over the domestic firms.

Indirect impact of FDI on economic growth. Different developing economies have been given specific treatment by conducting foreign projects. Understanding the desire to import technologies that are not manufactured by local firms is made by the countries; they try to attract Multinational Corporations MNC's, so they can earn new technologies and employees skills from the MNC's [6]. The characteristics of FDI differ between the sectors, so it is not earning and provides benefits at the same level to all sectors, organizations and domestic societies (OECD 2002). FDI in particular include a combination of tangible as well as intangible assets [9]. This package of asset will not only increase the output and development in the new entrants of

MNC's, in addition it may also overflow to other companies in the country that is hosting. The significant influencing force which attracts MNC's and associated FDI on the economy of the hosting country is the boost of the local company's productivity. Two people which are Blostorm and Kokko had an argument that when the affiliates set up by MNC's out of the home country it is distinct from those companies in the host economy for two mains reasons. First, MNC's gives to the host economy some total of their proprietary technology, which shape their company's specific feature allowing them to compete against other local companies. Second the MNC's entry and being present annoys the existing equilibrium in the market as well as this will enforce the local companies to protect their market shares by taking serious actions. Markusen argued that the horizontal FDI means the foreign manufacturing of goods and services approximately same to those the company manufacture for the local market. Also Soreide mentioned that the horizontal FDI is supposed to produce more positive spillovers than vertical FDI, especially when MNCs supply a domestic market in the host economy.

Rodriguez said that MNCs has a great influence on the host economy through three different ways, which are transferring technology, training given to workers and generation of linkages.

Many researchers were interested in studying the indirect effects of the FDI to the local businesses through the use of horizontal productivity. For example, Gorg and Greenway [8] have done a study to test some factors like salaries and productivity, and they have collected their information based on 40 studies that was conducted and focused on the horizontal indirect effect over productivity. And they have found that a half of these studies confirmed that the FDI has a positive impact on the domestic companies. An example of a study that have emphasize the accuracy of this theory, is the one that was done by Caves, in which he collect data from multiple companies in Canada and Australia, and he found that foreign direct investments brings new and unique technologies, resources and techniques that have increase the level of competency of the domestic firms. Moreover, the researchers have found that using panel data in their studies is providing more accurate information and results than using the cross sectional data. However, some studies in multiple countries like Morocco, Haddad and Harrison, found that the FDI do not have a positive indirect impact on the domestic companies, because they discover that high level of performance enjoyed by the foreign investors will reduce the opportunities of the local firms to increase their productivity and thus increase their profits. Furthermore, a study that was done by Smarzynska [18], in which he collects information from some companies in Lithuania, he have found that there is a vertical positive impact from FDI on the domestic firms, in which it was observed that the FDI helps the local companies to adapt with new techniques and skills that can helped them to be more developed and improve their performance and reputation in the market.

Economic growth and attracting FDI. Stability, economic growth and development have played a major role in attracting foreign investments to host countries, as investors aspire to maximize the level of return on their investment, in which the FDI can help them access lower cost material and labour. Also, it gives them a chance to enter new markets. The multinational corporations can make a foreign direct investment in other countries by different ways such as, the vertical foreign direct investment, which primary goal is to get an access to excellent quality raw materials at lower prices, as well as hiring of low-cost labour compared to another regions in the world, which can contribute to increased productivity, which will allow them to reduce their cost of manufacturing and therefore increase their profits and return on investment. The second one is the horizontal foreign direct investment, which aims to get the opportunity to enter new markets and compete with new rivals. And this has given them chances to diversify and access to large number of consumers in different places [17]. Moreover, researchers like Lean [16] discuss the relationship between the amount that the GDP is growing and the attraction of the host countries to FDI, in which GDP affect can influence on the decisions of the foreign investors to establish their business in other host countries. In addition, their economic growth will result in increasing the demand of foreign direct investments because they will be requiring more capital, so this will give opportunities for foreign investors to achieve their goal to reach a maximum amount of customers to serve and make the things they are producing accessible globally.

Factors affecting FDI. There are many factors that show how the FDI is affecting the economic growth; perhaps one of the most important factors is the technology. Many of countries think that attracting and facilitating FDI will help them to develop and improve their technological knowledge, in which they may gain a useful experience in applying new technologies and techniques and being more strong in term of development, and this will help them also to reduce the gap of the technology level between them and the more developed nations (UNCTAD 2006). Some researchers show the important role of introducing new goods and services and using the new technologies in affecting the long term economic growth of the countries. They have observed that copying of these new technologies will be easier and cheaper than inventing new ideas for improving productivity and economic growth, and this will lead the developing countries in the future to compete with the developed and innovative countries. However, there is another important factor that is greatly affecting the relationship between FDI and economic growth, which is the culture differences. Culture differences mean how foreign and hosting countries are different in many terms that are related to culture. Some researchers have found that the more culture differences are between the foreign investors and the host countries, the more difficulties they will have in managing and controlling their businesses, which mean that there is a negative relationship between them, that is why they have to be more aware of these differences because they will be dealing with local employees and firms. And this will help to reduce the negative impact, but it will help them to adjust with it.

Conclusions and further research perspective. At the end we can conclude that many countries are greatly affected by foreign direct investment. Host countries have effectively taken part in the process by giving a great environment to business and outside venture. They additionally have widened their imports and fare market with an expansion in the quantity of nations. This additionally helped them being developed of framework of the nation. Some monetary methods like outsourcing, insourcing and offshoring helped them to grow great business relations with different nations which by implication are impacted by the FDI. Foreign direct investment likewise prompts openness of nation which can have a negative effect as far as society and custom. Governments need to deal with the stream of remote interest to have a financial steadiness (Impact of Globalization on Joined Middle Easterner Emirates Market).From 1990 to 2003 the volume of exchange has been expanded and high and centre wage nations had made their offer in world exchange, this got to be conceivable simply because of the globalization. The low pay nations need a worldwide help and backing to partake in FDI. It requests the aggregate activity of the considerable number of nations on the planet. As should be obvious FDI has had an extraordinary effect on the host countries particularly on the training framework. In spite of the fact that FDI has enhanced the norms of instruction and in addition built up all the more extensive variety of colleges, it has however brought down its quality and hyper-aggressiveness in the HE advertise has driven high-class colleges to shut down.

References:

1. Aitken, B., & Harrison, A. (1999). Do domestic firms benefit from direct foreign investment? Evidence from Venezuela. American Economic Review, 89, 605-618.
2. Alfaro, L. (2003). Foreign Direct Investment and Growth: Does the Sector Matter? Harvard Business School Working Papers.
3. Barro R. (1990), «Government Spending in a Simple Model of Endogenous Growth, Journal of Political Economy 98, S103-S125
4. Barro R. (1991), «Economic Growth in a Cross Section of Countries.» Quarterly Journal of Economics, 106(2), 407-43.
5. Barro R. and Sala-i-Martin X. (1995), «Economic Growth», New York, McGraw-Hill.
6. Blomstrom, M. and Kokko, A. (1998). «Multinational Corporations and Spillovers.» Journal of Economic Surveys 12(2): 1-31.
7. Borensztein, E., De Gregorio, J. and Lee, J-W. (1998). «How does foreign direct investment affect economic growth?» Journal of International Economics 45: 115-135.
8. De Jager, J. (2004). Exogenous and Endogenous Growth, University of Pretoria ETD.
9. De Mello, J. (1997). «Foreign direct investment in developing countries and growth:
10. DeNICOLA, C. (2005). Dubai's Political and Economic Development. An Oasis in the Desert?
11. Görg, H., & Greenaway, D. (2001). Foreign direct investment and intra-industry spillovers: A review of the literature. (Research Paper Series No. 37). University of Nottingham.
12. Hennart, J. F. (1991). The transaction costs theory of joint ventures: An empirical study of Japanese subsidiaries in the United States. Management science, 37(4), 483-497.
13. Ho, S., Kauffman, R. and Liang, T. (2007). «A growth theory perspective on B2C e-commerce growth in Europe: An Exploratory study.» Electronic Commerce Research
14. Kurtishi-Kastrati, S. (2013). Impact of FDI on economic growth: An overview of the main theories of FDI and empirical research. European Scientific Journal,9(7).
15. Kurtishi-Kastrati, S. (2013). The effects of foreign direct investments for host country's economy. European Journal of Interdisciplinary Studies, 5(1), 26.
16. Lean, H. (2008). «The Impact of Foreign Direct Investment on the Growth of the Manufacturing Sector in Malaysia.» International Applied Economics and Management Letters 1(1): 41-45.
17. Maddala, G. S. (1999). On the use of panel data methods with cross-country data. Annales d'Economie et de Statistique, 429-448.
18. Smarzynska, B. J. (2004). «Does foreign direct Investment Increase the Productivity of Domestic Firms? In Search of Spillovers through Backward Linkages.» The American Economic Review 94(3): 605-627.
19. Wei, Y., & Liu, X. (2001). Foreign direct investment in China: Determinants and impact. Edward Elgar Publishing.
20. Zekos, G. (2005). Foreign direct investment in a digital economy. European Business Review, 17(1), 52-68.