

Article

Foreign Direct Investment's Impact on the Activity of Transnational Corporations

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Abstract. The purpose of this article is to analyse how FDI impacts transnational corporation, local firms' productivity and investment climate, and its influence on domestic enterprises. Positive and negative effects of foreign capital movement on the economy of the recipient country are examined. The evaluation of FDI flows, variations in global FDI by country, and net annual FDI flows are considered while determining global capital movement policies. Direct and indirect FDI spillover effects on domestic firms across countries are considered factors of production. The challenges faced by governments in creating policies to attract FDI practices in emerging economies are reflected. An attractive policy that encourages the expansion of foreign capital is proposed.

Keywords: foreign direct investment; investment climate; global capital movement; foreign capital; transnational corporation.

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Introduction

The study of foreign direct investment (FDI) effects on the productivity of local firms addresses a research effort to assess the impacts of enhanced FDI activity within emerging economies. To design a more effective policy to promote alluring FDI practices, it is important to study the consequences of FDI on the productivity of local businesses. The increase of foreign capital inflow in recent years demonstrates that workers in industries with greater foreign participation experience faster wage growth. The actual relationship between horizontal and vertical FDI spillover effects remains unclear, although the available research has identified some positive correlations.

Recent studies have highlighted the considerable research efforts in developing understanding about the investment motivation of FDI spillover effects, its impact on economic growth, competitive advantages inside the developed economies and draw attention to short-term adjustment problems rather than to the long-term possibilities. Empirical studies of FDI spillover effects on domestic firms reflect various factors, conditions, and characteristics of the firm, at industry and national levels. The reported results do not reproduce the ambiguous effects of economic sectors on labour productivity, or undervalued labour costs per worker, and do not consider the role of the shadow economy in the countries of Central, Eastern and South-east Europe. Inadequate skills and education of workers have been a major or severe obstacle for multinational firms' operations in many developing countries.

The government policy of FDI inflow liberalisation induces incentives for foreign companies to enter the local markets of other countries. Government support for education and training, and the realisation of benefits arising from FDI have prompted governments to encourage FDI inflow. This paper discusses the challenges faced by governments in creating policies to attract FDI practices in emerging economies.

The inflow of FDI stimulates the development of modern technologies, management, marketing, and the use of advanced methods of labour organisation. The FDI inflows affect and promote labour productivity changes. The higher wage rates lead to rising aggregate demand. The higher investment, along with total productivity improvements, could reinforce the current account posi-

tion. The increasing technological transparency of the information society emerging in European countries, as well as growing intra-European bilateral FDI links, have contributed to a greater incidence of technology spillovers and external scale economies.

Globalisation has affected the creation and enlargement of the world's supply of a relatively unskilled labour force. As a result of it, international trade for new products rises. It stimulates the redistribution of the labour force from high skilled sectors to unskilled sectors. There is a growing number of unskilled workers in East European countries. The increase in unemployment rates in market economies is combined with a large share of concealed unemployment in East European countries and this calls for government interventions in labour markets. It is important to mention the role of the government as the political institution that should correct market forces to provide adjustments in the institutional framework. The penetration of transnational corporations (TNCs) into the domestic market accelerates product development, creates new working places, brings in new management of the organisation and improves the welfare of workers. The problem of the relationship between labour quality and labour cost has been a subject to many scientific works.

Studies indicate that low wages in developing countries attract FDI. Nevertheless, there are surveys that reveal most FDI occurs between countries with similar wages [1, p. 123]. Many low wage countries have the lowest levels of FDI. The COVID-19 crisis negatively affected the movement of international capital. In the first half of 2020, global FDI flows fell by 50% compared with the last half of 2019, to \$364 billion, because of the pandemic and the resulting supply disruptions, demand contractions and pessimistic outlook of economic actors [2].

The physical closure of places and construction sites resulted in a reduction in international production, and disruption of supply and distribution chains. Delays of greenfield projects, and the reduction in mergers and acquisitions (M&A) have prevented FDI inflows rising, and this highlights the negative consequences of the pandemic's effects on international investment policies.

Foreign competitors stimulate local firms to compete for more efficient production in the industry. Furthermore, after the period MNCs running their business in the country, they bring positive impacts on downstream markets.

The paper devoted to analysis of FDI effects on the productivity and local firms, government policy for an attractive investment climate, and FDI spillover effects on domestic firms across countries. The world data on capital movement demonstrate fluctuations and unpredictability in the global economy aggravated by wars in Ukraine and Israel and by the environmental crisis. The goal of the article is to analyse the relationship of transnational corporations (TNCs) and FDI, determine the effects of FDI on productivity and local firms, to analyse inflow, outflow, and net flow FDI, impact FDI inflows on TNCs activity, FDI in startups, examine national investment policies.

1. Literature review

Scientists consider capital movement in the form of FDI may increase opportunities for investment attraction and creates challenges for economies. The impact of FDI on economic growth was investigated empirically by Hassouba et al [3] and they found that FDI and cross-border capital inflows had a positive impact on growth. According to Ariyani and Firmansyah [4], FDI is positively correlated by market size, anti-corruption measures, and telecommunications infrastructure, and negatively affected in selected Asian Emerging Market countries. As a result, it causes low wages for labour and this is still the target of foreign investors, compared to skilled workers with better levels of education but higher wages. Bardesi [5] assesses how FDI affects job growth in domestic businesses involved in related industries and considers the increase in employment.

The effects of FDI on host countries' economies are related to increasing labour productivity through technological transfers, and management and marketing proficiency that enables long-term technological progress and economic growth. Estrin et al [6] have presented that the development of performing management skills according to the standards imposed by the major leading corporate systems and increasing the population's training level and its capacity to adapt to the technological developments can contribute to increasing the quality of labour resources.

Projects attract bank credits for fixed capital investments. An examination of the range of opinions leads to a conclusion on the prevalence of capital formation as one of the financial sources of fixed capital formation abroad, namely debt financing, capital market financing and subsidies. Krkoska [7] argues that capital formation is positively associated with FDI, along with domestic debt and capital market financing, but negatively correlated with stock market liquidity.

The data of contribution to global growth depict that in the forecast of world growth in 2024 will decrease to 2.4% related to 3.1% in 2010-2019, in the USA the growth contribution will make up 0.2%. The statistics in the Euro area will be without changes and will make up 0.2%, and 0.7% in emerging market and developing economies [8]. This slowdown reflects the current trend of falling global potential production growth as well as cyclical dynamics.

Cieslik and Ryan [9] found that corruption hinders a country's ability to draw investment and that poor countries are more severely affected than industrialized ones. They also observe that corruption has different effects in different businesses. In developing and transitioning economies, corruption has a bigger impact on manufacturing than on services, and within manufacturing, it has a bigger impact on investments in companies that make electrical equipment and machinery.

Empirical research of Sanusi and Eita [10] illustrates that trade openness and human capital have a favourable and significant impact on economic growth. FDI, however, could be detrimental to

economic expansion. Munene [11] applied an autoregressive distributed lag (ARDL) model and discovered that FDI and trade openness have a long-term favourable impact on economic growth. In the short-term findings, trade openness had a favourable and significant effect on FDI [11]. However, the effect of FDI on economic growth in the medium term is not statistically significant. Like FDI effects, economic growth had a minor short-term influence but a positive long-term effect. In the context of global instability, Stefaniuc and Biloocala [12] pinpoint the contemporary tendencies of FDI flows. The global economy's increased uncertainty and crisis caused by financial issues are the cause of fluctuations in FDI flows. Financial globalization and its intensification have led to an increase in global FDI volumes. The global FDI market is becoming unstable and cyclical due to international investment cooperation and growing instability. Nguyen [13] assesses how monetary policy affects FDI attraction. The study's findings support the idea that while contractionary monetary policy has helped Southeast Asian nations attract more foreign direct investment, expansionary monetary policy has the opposite impact [13]. The study also supports the beneficial effects of trade liberalization and high human resource standards on a country's capacity to draw in foreign direct investment.

To ensure the sustainable development of a country, it is necessary to ensure the growth of FDI inflow. Foreign affiliates influence the export opportunities of domestic firms through trade, which helps to reduce the costs of domestic firms in penetrating foreign markets. FDI and products of foreign affiliates are substitutes for exports, as well as complements to them.

2. Methodology

The article applies a comparison of economic methods, defining the object of the study in relation to other approaches and methodological tools. It is an analytical technique used in social sciences to define, categorize, and interpret data by looking for patterns of similarity and difference among the numerous things being studied. The article analyses the beneficial effects of trade liberalization and human resource inflows on a country's capacity to draw in FDI. The study evaluates the application of comparative studies, explores their use and interpretation, and then introduces the analysis of comparative data.

Fig. 1 illustrates Foreign Direct Investment Flows in US Millions of Dollars in the period from 1990 to 2020 [14]. Fig. 2 displays Changes of Global Foreign Direct Investment by Countries in 2022 compared to 2021 [14]. Fig. 3 illustrates changes in national investment policies from 2013 to 2022 [14]. Table 1 represents the data of Net annual Foreign Direct Investment flows [15].

3. Discussions

Empirical surveys of the international organisations United Nations Conference on Trade and Development (UNCTAD), World Bank, International Monetary Fund (IMF) and WIFO (Austrian Institute of Economic Research) have pointed out that the basic volume of the cross-sectional movement of capital flows is carried out in the form of FDI. Positive effects of this on the economy of the recipient country include: an increase in the volume of real capital investments, an acceleration in the pace of economic development, an improvement of the country's balance of payments, receipt of advanced foreign technology, organisational and managerial experience, and the results embodied in new technology, patents, licences, and know-how. Foreign capital inflow increases the level of employment and qualifications of the local labour force, raising the produc-

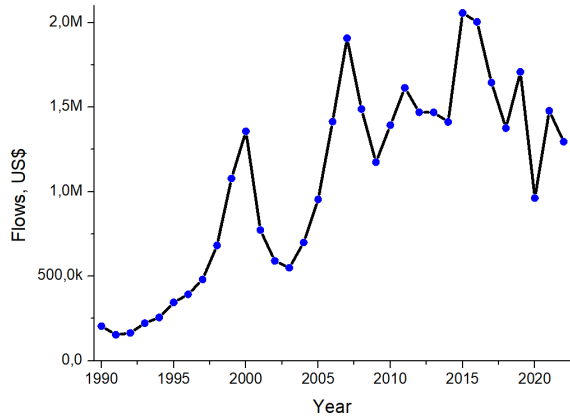


Fig. 1. Foreign Direct Investment Flows (US Million\$). Adapted according data of Ref. [14].

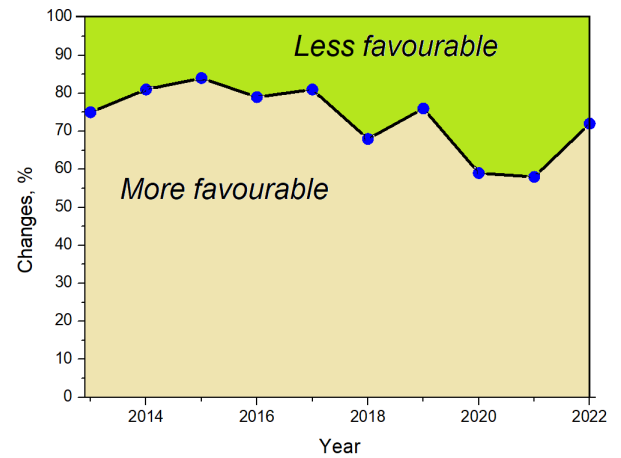


Fig. 3. Changes in national investment policies, in %. Adapted according data of Ref. [14].

tivity of the labour, and improves the standard of living and purchasing power of the population. Changes in skill structures and job characteristics demonstrate a cautious upturn in economic activities in East European countries. This region has maintained its cost competitiveness, despite surging wages and occasional labour shortages, by benefiting from considerable productivity improvements an upturn over the last decade [16]. Negative consequences of foreign capital inflow include suppressing local producers and limiting competition, repatriation of capital and transfers of profits in various forms (dividends, interest, royalties) which worsens the balance of payments, increasing dependence of the national economy on foreign states which threatens the economic and political security of the recipient country, and ignoring local conditions and peculiarities by foreign investors.

Questions about the size of FDI's role in the process of capital formation and total investment escalation have received ambiguous consideration in the economic literature. FDI inflows did not provide the creation and return of fixed capital. The purchase of a company by a foreign investor leads to a change in property relations.

With the help of FDI, countries encourage resource spending and inflow of finished goods. Domestic companies import technologies from MNCs through the purchase of production equipment, indus-

trial capacity, and differentiated products. The impact of FDI on host country economy varies by distinguishing between the growth effects of horizontal (market-seeking) FDI and vertical (efficiency-seeking) FDI inflows. Beugelsdijk et al [17] argue that horizontal and vertical FDI have positive and significant growth effects in developed countries. The authors indicate a superior growth effect of horizontal FDI inflows over vertical FDI inflows in transition economies. They estimate the absence of any significant effects of horizontal or vertical FDI inflows in developing countries. FDI flows in transition economies in South-east Europe and CIS declined by 27% in 2017, to \$47 billion, the second lowest level since 2005. Outflows from transition economies rose by 59% to \$40 billion [16].

The UNCTAD data for global FDI flows in 2020 demonstrate a decrease by up to 40%, from a value of \$1.54 trillion, and projects a further decline by 5–10% in 2021 [14], [18, p. 8] as presented in Fig.1. This figure indicates the data of direct investment inflow from 1990 to 2021. FDI inflow curve shows wave-like jumps in investment volumes with downturn tendency in 2020. The graph confirms the decreasing tendency for global FDI flows in 2020.

The unstable situation with the COVID-19 pandemic in the world, ineffective measures to curb the development of the virus, disruptions in the supply-chain, the introduction of tough conditions in financial markets, and changes in human needs and behaviour at the markets have forced investors to delay the implementation of international projects. The reduction in production caused by the emergency in the health care system has led to greater losses of human lives. The unpredictability has affected the global economy in the acceleration of instability of international investors' economic behaviour. Uncertainty also reduces demand in the private sector, increases households' savings and reduces their expenditures [19, p.76]. Economic policy plays an active role in stimulating aggregate demand. The adoption of support measures for the economic development of the most vulnerable sectors in the pandemic, such as services (tourism), restaurants, entertainment, and construction, provides the basis for protecting workers in affected sectors.

On average, the top five thousand multinational enterprises (MNEs), which account for a significant share of global FDI, have seen downward revisions of 2020 earnings estimates of 9% due to COVID-19. Hardest hit is the automotive industry (≈44%), airlines (≈42%), and energy and basic materials industries (≈13%). Profits of MNEs based in emerging economies are more at risk than those

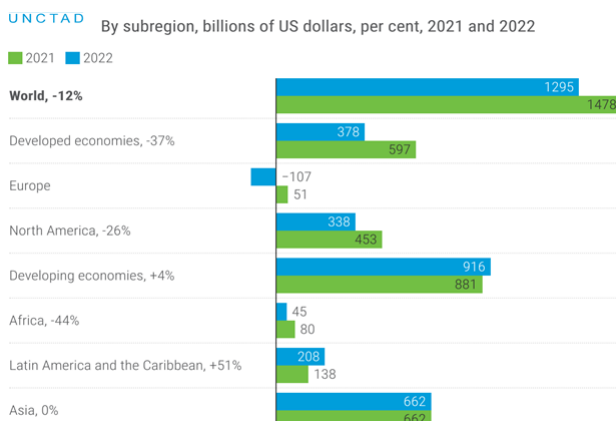


Fig. 2. Changes of Global Foreign Direct Investment by Countries in 2022 compared to 2021, in %. Adapted according to Ref. [14].

Table 1. Net annual Foreign Direct Investment flows (in million \$US). Constructed using data of Ref. [15].

	2014	2015	2016	2017	2018	2019	2020	2021	2022
Hungary	0.00	0.00	0.00		0.50	0.00	0.08	-0.20	0.02
Poland	0.05	0.13	0.36	0.14	0.22	0.65	0.22	0.05	0.29
Slovakia	0.00	0.00	0.32		0.01	0.01	-	0.03	-
Slovenia	0.00	0.00	2.40		0.23	0.22	0.01	0.00	0.14
Czech Republic	-	0.09	10.09	0.11	0.07	0.11	0.06	0.12	0.17
Russian Federation	0.00	0.05	0.01	0.00		0.11	0.11	0.21	25.43
Ukraine	0.00	0.00	0.00	0.00	0.00	0.01		0.01	0.00

of MNEs in developed countries; profit guidance for the latter has been revised downwards by 16% [18, p. 1].

For analysis Dingel and Neiman [20] consider non-standard forms of work and include part-time workers, the self-employed, and workers hired on fixed-term contracts. The authors provide estimates of the share of non-standard workers who are particularly vulnerable to the loss of income or jobs because of the impact of COVID-19. Their study relates labour market disruptions and discusses what policies can do and what policy actions governments have taken, to support vulnerable workers and promote an inclusive labour market recovery. Cavalleru and Cuasa [21] provide estimations of patterns and trends in socio-economic groups. In the sectors most directly affected, non-standard workers represent around 40% of total employment on average across European countries, ranging from about 20% in Latvia and Lithuania, to more than 50% in Italy, the Netherlands, Spain, and Greece.

After a decline of 37% in 2019 (to \$24 billion), outward FDI from economies in transition expected to continue to decline in 2020 and 2021, as economic recessions in home economies and low oil prices affect the capacities of MNEs from the region to invest abroad. FDI flows to the transition economies of South-east Europe, the Commonwealth of Independent States (CIS) and Georgia, hit hard by the economic downturn caused by COVID-19, declined by around 38% in 2020. These flows will not recover before 2022, according to UNCTAD data [22, p. 56].

Global FDI fell by 12% in 2022 to \$1.3 trillion after a sharp dip in 2020 and a robust recovery in 2021. The global poly crisis, which includes the conflict in Ukraine, rising prices for food and energy, and debt pressure, is what caused the slowdown. Greater financial constraints, rising interest rates, and uncertainty in the capital markets had a particularly negative impact on international project finance and cross-border mergers and acquisitions (M&As) [14]. Fig. 2 demonstrates fell of global FDI on 12% in 2022 compared to 2021 and decreases on 37% in the developed economies.

Greenfield investments are a type of FDI where a company starts its operation in other countries as its subsidiary and invests in the construction of offices, plants, sites, building products, etc., thereby managing its operations and achieving the highest level of the controls over it. In a green-field project, a company plant construction, for example, is done to its specifications, employees are trained to company standards, and fabrication processes can be tightly controlled. As the most widespread form of FDI inflow in less developed countries, "zero" investments (greenfield investments) act which made in the form of new enterprises establishment and promote expansion of a company's capacities in comparison with the acquisition process of existing companies. New investments accelerate economic growth by increasing supply both nationally and in terms of the companies that are controllable by foreign proprietors under liberalised trade condition in the country [23]. Based on the previously mentioned facts, it is necessary to note that growth of the international movement of capital scales is accompanied by amplification of international TNCs expansion in transition countries.

The source of savings growth is FDI, borrowing from international organisations, assistance from developed countries. The growth of the domestic savings affects inflow of foreign direct investment and stimulates the economic growth in the country.

The comparison of gross savings and savings rates emphasises differences between countries. Misztal [24] highlights a positive correlation between economic growth and savings rates. In the short run, a growth rate of savings leads to a quantitative rise in production. In the long run, this process is accompanied by increases in capital intensity and in the volume of produced output [24].

The development of privatisation and commercial activity opened and expanded access for foreign capital to the new markets and stimulated the creation of new manufacturing branches in countries that were recipients of foreign capital. In Table 1, data of the net annual FDI inflow/outflow in transition countries during the period from 2014 to 2022 is shown. Data show a significant increase in net annual FDI inflows in Russian Federation in 2022 that confirms the return of significant flows of Russian offshore capital back to the country.

Inbound FDI to economies in transition increased sharply in 2019 (by 59% to \$55 billion), due to higher inflows in large countries, especially the Russian Federation, Ukraine, and Uzbekistan. Flows to the rest of the region declined slightly (down 3% to \$19 billion). In Ukraine, FDI flows rose by 30%, to \$3.1 billion, after two years of decline [22, p.56]. Finance, ICT, mining, real estate, and electricity and gas attracted the bulk of FDI.

A significant share of FDI, at about one-third of the value in 2020, is estimated to be round-tripping of the Ukrainian capital through offshore centres. Market-seeking projects will also suffer in that country and in others in the region as the economic downturn deepens. Foreign affiliates are facing exceptionally challenging operational, market and financial conditions. Their profits are expected to plummet in 2020. FDI outflows from Ukraine reached 0.6 billion in 2019 [22, p.22, p.57]. Based on the above mentioned, we presume that international capital movement is accompanied by increasing international penetration and expansion of TNCs in transition countries. The internationalisation rate of companies from developing to transition economies increased by almost 2%, with foreign assets and sales growing faster. Employment by foreign affiliates increased from 27729 in 1990 to 82360 in 2019 [22, p.8, p.24]. The pandemic and low oil prices have affected FDI flows.

Estimation of the pandemic's impact on global capital movements has drawn the attention of scientists towards the consequences resulting in recession in economies, production or supply chain disruption, a reduction in employment and an increase in unemployment, and an increase in inequality.

Trade policies can stimulate exports and imports, especially of intermediate and capital goods, which can lead to gains in productivity. In addition, encouraging firms to innovate and conduct research and development activities through fiscal incentives and financial benefits that are aimed at making industry (in particular, manufacturing) and services more efficient, technologically up to date and

competitive, can also lead to growth in productivity [25].

Domestic companies import technologies from MNCs through the purchase of production equipment, industrial capacity and differentiated products. Defining the internal effect, Jude and Leveuge [26] investigated the impact of FDI on economic growth in developing countries and concluded that the institutional quality modulates the impact of FDI, while a favourable institutional environment induces a growth-enhancing effect. The external effect of the interaction of foreign branches and domestic firms on horizontal or vertical levels contributes to increased productivity in the country. Growing demand for intermediate products is forcing domestic firms to take advantage of economies of scale. Determining the impact of FDI on a country's economic development has made it possible to identify technology transfer through foreign affiliates as the main driver of economic growth. Competition development among domestic firms, productivity increases, the construction of new organisational and production structures, and the introduction of new technologies attract FDI inflow [27, p.20].

Authors have shown that the effect of privatization is mostly positive in Central Europe, but quantitatively smaller than that to foreign owners and greater in the later than earlier transition period. In the Commonwealth of Independent States, privatization to foreign owners yields a positive or insignificant effect while privatization to domestic owners generates a negative or insignificant effect. Through technology transfer and technology spillovers FDI can facilitate international collaboration on R&D.

MNCs try to place labour-intensive products in Eastern Europe and Asia, where wages and units of labour costs are cheaper than in Western Europe. Wage pressures are encouraged by increasing capital intensity and the need to increase the volume of R&D. These measures improve the quality of products and force companies to maintain higher prices in world markets. The introduction of modern technologies requires skilled workers, as they cope better with technological change.

This is true for diverse types of firms and various levels of technological development. Technology transfers by multinational firms and the application of technology by local firms require the use of a minimum of human capital and training of a skilled workforce. The use of modern technologies usually requires significant organisational changes of companies. MNCs are applied better strategies by the attraction of a skilled labour force. Lack of employees with higher education can be a more deterrent for firms in production and value-added services than for less complex production processes.

The lack of skilled workers is a widespread problem for MNCs in developing countries. This is especially so for companies that plan to innovate and expand their scale of production. World Bank data show that firms that consider the shortage of skilled workers to be a "major" or "very serious" constraint are those that improve their production processes. These firms are also more likely to invest in training their workforce. Smaller companies often do not offer internal training programs to their employees, although larger companies do. [28, p.136-137].

Startups that embrace innovation and have the potential to upend established industries tend to draw investors. Startups encourage their staff to think creatively and come up with ground-breaking solutions by fostering an innovative culture within the company. When a startup demonstrates that it is committed to keeping ahead of the curve and improving continuously, it might attract overseas investors looking for innovative firms. FDI attraction creates new opportunities for firms trying to grow and seize new markets. Startups can greatly increase their chances of attracting FDI by creating a compelling value proposition, demonstrating market poten-

tial, establishing a track record of success, utilizing networking and connections, participating in government initiatives, creating a thorough business plan, and encouraging an innovative culture. The example of successful startups could be analysed in India. Significant foreign ownership is present in the well-known Indian startups *Flipkart*, *Snapdeal*, *Ola*, *Zomato*, *Swiggy*, and *Paytm*, which is not a positive sign. These businesses, each founded by a different person, are estimated to be worth over \$1 billion. Indian startups attract the interest of foreign investors due to their immense potential to yield substantial returns and rapid expansion. All startups have a different model and various structures, invest significant expenditures in marketing and human resources.

Global venture capital (VC) investment in 2021 totalled a record \$687bn, up from \$353.3bn the previous year, marking a growth rate of almost 95%, according to US Venture Capital Outlook data [29]. Global VC in 2021 was ten times higher than a decade earlier [30].

Fig. 3 illustrates changes in national investment policies from 2013 to 2022 and proves that after COVID-19 there were some improvements in policies for favourable investment in the world. A healthy investment climate increases the incentive for people to attain a higher level of education. The investment in human capital is the indication of the large increase in income from education in the former centrally planned economies during their transition to market systems. Similar patterns have emerged in other countries. A high level of formal education is not required for all firms or activities. A lack of employees with higher education can be more of a deterrent for firms in manufacturing and value-added services than for less complex production processes.

The allocation of a large stock of MNC's foreign investment abroad may lead to its relocation in the event of political and economic threats. The parent company will stimulate FDI outflows and capital transfers to new locations. Multinational firms use a model of negotiation abroad that they are familiar with in terms of international relations (IR) and international business (IB) and reconstituting intellectual boundaries. Highlighting two approaches, Jarvis [31] suggests that the construction of new interdisciplinary rubrics jointly created from IR and IB offers a better means of appreciating the changing character of the global political economy, and some of its most important actors and emerging processes [31, p.220].

The further study FDI spillover effects consider the assessment of an increase in the productivity level of local firms and competition in Eastern Europe. The actual relationship between horizontal and vertical FDI spillover effects remains unclear, although the available research has identified positive correlations. The use of the comparative analysis method for the practice of attracting foreign capital provides a sound policy and an appropriate analysis of crucial challenges to encourage FDI inflow.

Spillover effects comprise technology transfer, labour, and management training. Two indirect effects of the presence of foreign capital take places externally, to other firms in the host economy. Direct effects of FDI result in economic growth. Indirect effects of FDI within the host economy take the form of horizontal or vertical spillovers of capital flows. In this case, domestic firms occupy adequate positions in the production chain with foreign affiliates, competing with them. They force less efficient firms to close. The average productivity of the industry in the host economy will rise, which in turn stimulates productivity growth within firms.

An evaluation of various empirical studies of FDI spillover effects on domestic firms reflect various factors, conditions, technologies, products and characteristics at the firm, industry and national levels based on econometric assessments is discussed in further research.

Arif-Ur-Rahman and Inaba [32] assessed FDI spillover on firms' productivity in Bangladesh in comparison to Vietnam. The authors consider that Vietnamese firms benefit from backward linkages while Bangladeshi firms receive profit from intra-industry or horizontal links. They considered that increases in foreign presence in downstream industries for Vietnam and Bangladesh are associated to rises in domestic firms' output [32].

Estrin believes that the inflow of FDI is associated with rising GDP and declining unemployment in general, as well as over time in most regions [33, p.2]. The effects were most noticeable and marked earlier in the EU, and least in the former Soviet republics and Russia. Earlier in the EU's history FDI affected natural resources in Russia and some Central Asian republics, and the impact on employment was less determined. The author emphasises that the indirect impact of FDI on the restructuring of a company, its productivity and employment were very significant in the EU member states. Insufficient development of institutions, and the gap between investment needs and domestic capabilities of companies hinder the attraction of foreign capital.

Fillat and Woerz [34] argue that FDI depends on additional factors in order to exert a significant effect on growth, i.e. a significant level of domestic investment or export orientation is necessary [34, p.320]. Using a comparable database at the industry level for 35 countries in the OECD and Eastern Europe from 1987 to 2002, the authors test for the influence of both the stage of development and sectoral FDI patterns in the relationship between FDI and productivity growth. The authors argue that a significant and positive relationship emerges when FDI coincides with high investment or the export orientation of a country.

The study of the previously mentioned approaches allows to identify the main factors stimulating economic growth and technology transfer through the placement of branches of foreign firms, the development of competition with domestic firms and increasing productivity by attracting FDI [35, p. 124].

Empirical studies of FDI spillover effects on domestic firms across countries confirm the existence of direct and indirect effects, and reflect various technologies, factors of production. The reported results do not reproduce different effects of economic sectors, labour productivity, or undervalued labour costs per worker. Moreover, if internal and external effects act in the same direction, reducing labour costs per unit of output. They perform as a factor stimulating the efficiency rise, output increase, and product's quality and competitiveness improvement.

Conclusions

FDI effects on the productivity and local firms show ambiguous trends that depend on the country's economic development, invest-

ment in R&D and reduction of production costs. The decision to invest FDI depends on the assessment of macroeconomic factors and the investment attractiveness of the country.

Economic growth will boost by a policy to draw in foreign capital to stimulate both internal and external benefits of FDI on labour productivity. Improvement of the investment climate goes hand in hand with enlargement and development of human capital. A skilled workforce is important for firms using new and productive technologies. An attractive investment climate increases returns on investment in human capital.

FDI attraction creates new opportunities for innovative firms trying to grow and seize new markets. Startups can greatly increase their chances of attracting FDI by creating a compelling value proposition, demonstrating market potential, establishing a track record of success, utilizing networking and connections, participating in government initiatives, creating a thorough business plan, and encouraging an innovative culture. The example of successful startups in India is analysed. Governments need to take the initiative to enhance the development of education, to make it more comprehensive and responsive to the needs of business.

Wage growth at overseas affiliates is stimulated by the expansion of foreign capital. Compared to domestic companies, workers in industries with higher foreign participation receive faster wage increases. Rising productivity and raising the standard of life of the populace in nations that receive foreign investment are the goals of creating an attractive investment climate, adjusting legislation, and incentive programs to create new jobs.

Abbreviations

CIS	-	Commonwealth of Independent States
EBRD	-	European Bank for Reconstruction and Development
FDI	-	Foreign Direct Investment
GDP	-	Gross Domestic Product
ICT	-	Information and Communication Technology
IMF	-	International Monetary Fund
IB	-	International Business
IR	-	International Relations
M&A	-	Mergers and Acquisitions
MNCs	-	Multinational companies
MNEs	-	Multinational Enterprises
OECD	-	Organization for Economic Cooperation and Development
R&D	-	Research and Development
TNCs	-	Transnational companies
UNCTAD	-	United Nations Conference on Trade and Development
USA	-	United States of America
WIFO	-	Austrian Institute of Economic Research

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