REGIONAL ECONOMY AND FOREIGN INVESTMENT AS CATALYSTS FOR GROWTH

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ABSTRACT

This article delves into the intricate relationship between regional economies and foreign investment, elucidating the catalytic role played by the latter in fostering robust growth. The exploration begins with an overview of foreign investment, emphasizing the dynamic nature of capital flows across borders, with a focus on Foreign Direct Investment (FDI). The discussion unfolds to highlight how foreign investment serves as a powerful stimulant for economic growth in regions, injecting capital that fuels infrastructure development, technological advancements, and human capital improvement.

Keywords: regional economy, foreign investment, foreign direct investment (FDI), economic development, innovation, job creation, human capital development, infrastructure development, globalization, sustainable development.

Foreign investment involves the allocation of capital across national borders, with the aim of acquiring assets or establishing a lasting interest in businesses. FDI, a subset of foreign investment, occurs when an investor from one country makes a substantial investment in physical assets, such as factories or offices, in another country. This transfer of capital can have profound effects on the host region's economic landscape.

Foreign investment acts as a catalyst for economic growth in various ways. Firstly, it brings in much-needed capital that can be used to finance infrastructure development, technological advancements, and human capital improvement. These injections of funds contribute to the expansion of regional industries, fostering innovation and productivity.

One of the notable benefits of foreign investment is the transfer of technology and knowledge from advanced economies to the host region. Multinational corporations often bring with them cutting-edge technologies, management practices, and research and development capabilities. This transfer enhances the host region's ability to innovate, leading to the development of new industries and the upgrading of existing ones.

Foreign investment is a potent job creator. As businesses expand or new enterprises are established, there is a surge in employment opportunities. This not only reduces unemployment rates but also contributes to skill development and capacity building in the local workforce. Additionally, exposure to international business practices enhances the skill set of the labor force, making them more competitive in the global market.

Regions attracting foreign investment often witness a significant improvement in infrastructure. Investors, seeking efficiency and connectivity, may contribute to the development of transportation networks, power supply, and communication systems. Improved infrastructure not only benefits the investing companies but also creates a conducive environment for the growth of local businesses.

Foreign direct investment is often seen as a key catalyst for economic transformation in the ECE transition countries. Its importance lies not only in providing financing for the acquisition of new plant and equipment, but also in the transfer of technology and organizational forms from the relatively technologically advanced economies. Foreign direct investment can also have positive spillover effects on local economies through linkages, competition, replication, and training with local suppliers. However, there could also be negative spillover effects as domestic companies are forced to close due to their inability to raise the necessary funds to modernize their technology. Furthermore, if there are institutional barriers or deficiencies in the absorptive capacity of domestic firms, there may be no spillover effects to other parts of the economy at all.

As a source of finance, foreign direct investment represents an influx of foreign resources, which can increase the domestic savings rate of beneficiary countries. This financing may include the purchase of the foreign invested enterprise's (FIE's) equity capital (including additional paid-in capital) by the foreign direct investor, the reinvestment of profits by the FIE, and loans from the parent company to the FIE. There are FIEs can also borrow from abroad on their own account (although such funds are not classified as foreign direct investment). When FIEs use these funds to build new facilities or modernize existing facilities, domestic fixed investment increases. Usually this is a mixture of domestic and imported inputs, especially foreign machinery and equipment. However, foreign direct investment also includes the acquisition of existing factories and equipment. In this case, there will be a transfer of ownership of existing assets and no new factory will be created. [3]

The potential for foreign direct investment (FDI) to contribute to the well-being of host countries is of great interest to both academics and policy makers, as this increases the demand for foreign direct investment in both developing and developed economies. This is the reason why it is increasing. Indeed, foreign direct investment is now the most important source of external finance for many countries.

The importance of foreign direct investment for the absorption of countries is demonstrated by the literature examining the relationship between economic development and the level of foreign investment at the economic level. Much of the research in this area focuses on FDI-led development in less developed and emerging countries rather than developed countries.

The mixed results of these studies highlight the need to investigate the experiences of FDI-led development in different countries. However, there is limited research to date that has investigated the micro-level impact of foreign direct investment on export-dependent small-scale economies. In particular, little empirical research has been conducted to uncover the extent of mutually beneficial interactions and subsequent capacity building among local firms for such economies. Literature provides strong support for the idea that foreign direct investment can contribute to economic development, but questions the nature of the inter-firm interactions between foreign subsidiaries and local firms in host countries that can foster this development. It has not been elucidated. Although it is widely agreed that foreign direct investment affects local firms differently than local firms, the existing literature does not specifically examine the nature of resource transfers between foreign and domestic firms. This gap means we do not have a clear understanding of how different types of firm-specific resources transferred from a parent company to a subsidiary may affect local firm upgrading. [2]

“The papers in this special issue all point to a basic paradox: with weak local capabilities, industrialization has to be more dependent on FDI. However, FDI cannot drive industrial growth without local capabilities. The neoliberal approach favoured by the Washington consensus which leaves capability development to free market forces provides few realistic answers. It can result in slow and truncated technological development, with gaps between countries rising. Some upgrading does take place, but is slower and more limited than with the promotion of local capabilities. Given the speed at which technologies are changing and path-dependence and cumulativeness in capability building, it can lead to latecomers being mired in low growth traps. The policy needs of capability building have not changed much. They are direct – the infant industry case to provide ‘space’ for enterprises to master new technologies without incurring enormous and unpredictable losses – and indirect, to ensure that skill, capital, technology and infrastructure markets meet their needs. There is also a need to coordinate learning across enterprises and activities, when these are linked in the production chain and imports cannot substitute effectively for local inputs. At the same time, technical change makes it necessary to provide more access to international technology markets; it also makes it more difficult to anticipate which activities are likely to succeed. "[1]

What impact do special economic zones (SEZs) in emerging countries have on the economies of surrounding regions? Despite the popularity of SEZs as a policy tool in almost all developing countries around the world, there is little evidence to systematically analyze this issue. The analysis uses nightlight data as a proxy for SEZ performance and surrounding area economic performance to address the lack of reliable economic indicators when measuring SEZ performance. However, despite the popularity of SEZs as a policy tool in almost all developing countries, it is unclear to what extent SEZs contribute to the economic revitalization of surrounding regions, or whether their influence is limited to their own countries. Little is known about whether it is limited or not. Systematic analysis of this issue has been largely hampered by data limitations and has generally been limited to single country case studies. Regional economic spillovers can be defined and measured in terms of static and dynamic economic outcomes, as well as socio-economic outcomes. The first types of spillovers from SEZs to the local economy are static and economic in nature and can occur over a short period of time. Examples include his primary investments by companies located in special economic zones, local employment and export production, and additional government or foreign exchange earnings. [4]

Creating an investment environment for attracting foreign investments to the economy, increasing the investment attractiveness will allow the country to increase its FIC(Foreign investment company).

FIC Its role in the national economy is determined by:

- growth of the domestic product created in our country;
- attracting foreign investments to the national economy;
- providing the population with employment and new jobs;
- formation of population incomes:
- in the technical and technological updating of the means of production;
- introduction of modern management methods and culture;
- increase in the number of legal and individual tax payers;
- in supplementing the income of the state budget;
- in the production of export-oriented goods replacing imports;
- in providing services;
- in saving free currency;
- in increasing the income of free currency to the national economy;

[1] Lall, S., & Narula, R. (2004). Foreign direct investment and its role in economic development: do we need a new agenda?. *The european journal of development research*, *16*, 447-464.

• increasing the stability of the national currency; [5]

The main contribution of this study is to provide a complementary perspective on the issue of foreign direct investment and development. Our analysis departs from most previous studies by considering the firm-level effects of FDI in the context of small developed economies that rely heavily on FDI and resource-based exports. Although obvious caution must be expressed regarding the extent to which these results can be generalized to other countries (developed and developing countries), the results of this study are important for our understanding of FDI-driven development issues. In particular, this study provides useful insights into the interactions between foreign and local companies, with strong implications for local capacity development in developing countries wishing to increase their capacity beyond resource-based sectors.

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