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TRENDS IN MODERN INVESTING: TNCS

Abstract

The current trends in international flows of foreign direct investments and TNC participation in them are studied and singled out.

Key words:

Foreign direct investments, multinational companies, global and international flows of FDI, globalization strategy.

JEL: F21, F23.

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Topicality. The present global economy can be characterized by such categories as «globalization», «transformation», «integration», and «regionalization». These categories can be applied to all countries, only in some of them these processes are more obvious, and in others they are minor; some of these categories directly take part in economic processes, while others are effected by the latter, and their participation is passive.

With the active development of world economy, especially in recent decades, the international mobility of production factors has been also increasing. In its turn, the mobility of capital as a factor of production is an important one for economic growth. Thus, an important role in deepening the processes of globalization belongs to international flows of foreign direct investment (FDI) since they are directly related to a mechanism for putting the production process on supranational level.

Due to the fact, that the scale of modern production happened to step over national boundaries, the participation of countries in international multifaceted relationships also significantly grew. As a result, the development of national production in any country needs the following: (1) interaction with other countries, (2) participation in international division of labor and so. The internationalization of production and all economic life is intensifying, and that became the basis for the formation of world economy.

TNCs as the main subjects of international business are developing methods and strategies to ensure their positioning in the global market.

The Objective of the Paper is to define and single out the peculiarities of modern international FDI flows, and the strategies of TNCs participation in them.

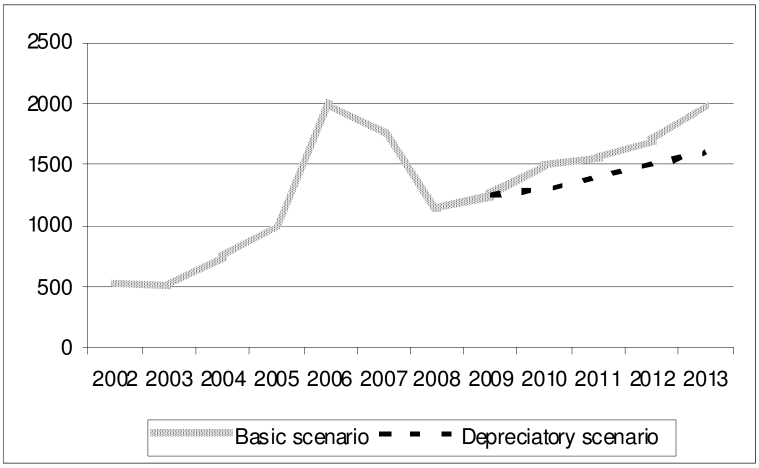
International FDI Flows. Though international flows of FDI slightly increased over the period of 2010-2011, but they still remain below pre-crisis level (see Fig. 1, 2). As seen in Figure 1, according to the UNCTAD forecast in late 2013 it is expected to achieve the 2007 level of FDI.

The trend is continuing to enhance the participation of developing countries in international flows of FDI (see Table 1).

The most important conclusion that can be drawn after studying the FDI practice in the developed countries is that in the context of technology transfer, nothing happens to occur automatically – even in the countries that do not have any unusual or ugly legacy in institutional or in psychological terms, which remained from the former communist systems. If we consider separately different levels of mastering technologies – from the least to the most successful ones, that is, from the operational application via replication up to further innovative utilization – then we can learn from the practice of the developed countries about the presence of «significant differences» in how long and how fast they moved within these categories of mastering,... or rather in what way they moved within these categories, particularly within the «operational application» [3].

Figure 1

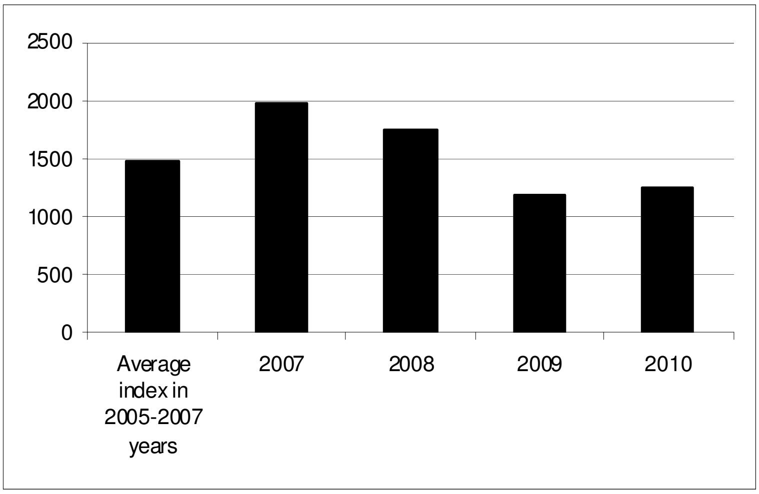
Global FDI flows in 2002–2010 and forecast for 2011–2013 (bln. dollars)



Source: [7].

Figure 2

Global inflow of FDI in 2005–2007 and indices for 2007–2010 (bln. dol.)



Source: [7].

Table 1

FDI flows by regions, 2007–2009 (in US $bln. and in %)

Region	FDI inflow				FDI outflow			
	2007	2008	2009	2010	2007	2008	2009	2010
All world countries	2100	1771	1114	1244	2268	1929	1101	1323
Industrial countries	1444	1018	566	602	1924	1572	821	935
Developing countries	565	630	478	574	292	296	229	328
Africa	63	72	59	55	11	10	5	7
Latin America and Caribbean Basin	164	183	117	159	56	82	47	76
Western Asia	78	90	68	58	47	38	23	13
Southern, Eastern and South-Eastern Asia	259	282	233	300	178	166	153	232
South-Eastern Asia and CIS	91	123	70	68	52	61	51	61
Countries with weak in structural respect, , vulnerable and small economies (without re-calculation, because some countries be-long to two out of the three mentioned groups	42,5	62,1	50,5	48,3	5,3	5,8	4,2	10,1
Least developed countries	26	32	28	26,4	2	3	1	1,8
Developing countries with no access to the sea	16	26	22	23,0	4	2	3	8,4
Small island coun-tries	5	8	5	4,2	0	1	0	0,2
Reference: share in % of world FDI flows								
Developed countries	68,8	57,5	50,8	48,4	84,8	81,5	74,5	70,7
Developing countries	26,9	35,6	42,9	46,1	12,9	15,4	20,8	24,8
Africa	3,0	4,1	5,3	4,4	0,5	0,5	0,5	0,5
Latin America and Caribbean Basin	7,8	10,3	10,5	12,8	2,5	4,3	4,3	5,8
Western Asia	3,7	5,1	6,1	4,7	2,1	2,0	2,1	1,0
Southern, Eastern and South-Eastern	12,3	15,9	20,9	24,1	7,9	8,6	13,9	17,5

Region	FDI inflow				FDI outflow			
	2007	2008	2009	2010	2007	2008	2009	2010
Asia								
South-Eastern Asia and CIS	4,3	6,9	6,3	5,5	2,3	3,1	4,6	4,6
Countries with weak in structural respect, vulnerable and small economies (without re-calculation, because some countries belong to two out of the three mentioned groups	2,0	3,5	4,5	3,9	0,2	0,3	0,4	0,8
Least developed countries	1,2	1,8	2,5	2,1	0,1	0,2	0,1	0,1
Developing countries with no access to the sea	0,7	1,5	2,0	1,9	0,2	0,1	0,3	0,6
Small island countries	0,3	0,4	0,4	0,3	0,0	0,0	0,0	0,0

Source: [6; 7].

Despite the presence of any factors that lead to restrictions or unfair redistribution of income, the impact of foreign investment in the countries with the economies in transition through the general improvement in management, as well as individual (more concrete, specific) improvement in management of technological change is essential.

The statement is widely observed in the professional literature, which is difficult to disagree with that the main initiators of globalization processes are the developed countries. But although they are initiators, the developing countries get more benefits through the advantages that have been generated in the course of globalization, in particular the access to and participation in global FDI inflows, global labor market, information and so. Two prominent examples are the BRIC countries, particularly China and India, whose development can not but affect the economies of the world. Thus, modern range of products in China significantly effects the specialization of other countries for whom such alternatives are possible as: first, these countries are gradually losing respective industries; second, their companies are transforming their productions, focusing on higher quality products; third, these countries begin to specialize either in the manufacture of certain specific components or in specific business processes [1].

The most controversial aspect is that the growing inequality in rates of economic development and welfare of the population depends not only on the production function of their national economies, but also on the degree of centrality of financial and trade links (both optimal use of production, resource, labor, scientific and innovation capacities, that is one more condition for the successful positioning of the country in the world market. That is, existing disparities in regional development at the national level greatly increase in terms of «national economy – regional integration – global economy» [2].

Nevertheless, it should be noted that the integration of capital markets is of minor use for the countries with dysfunctional systems. The opposite trend occurs in the countries that are able to develop economically, and as a result, the amount of involved real capital gain more important value as far as these countries are able to fund.

TNCs and International Flows of FDI. Significant impact on the growth of FDI was made by TNCs. Thus, implementing the rule of «three M»: capital mobility, management mobility, and mobility of human resources (in this respect it is connected, primarily, with the formation of personnel staff of international companies and delegating workers into the structure of international businesses, etc.).

Internationalization of production is characterized by manifestations of breaking productions into an increasing number of stages on a global scale (depending on available in a particular country factors of production), and so-called geographical dispersion of production processes. This leads to the fact that the countries were specialized not in producing certain goods, but in certain industrial processes. These phenomena contribute to the growth of intrasectoral trade and trade in certain components, parts, aggregates and more.

The global crisis, in addition to its impact produced on FDI flows did not block the increased internationalization of production. The scales of reduced sales volumes and value added of foreign affiliates of transnational companies (TNCs) in 2008 and 2009 did not reach the size of the world recession. As a result, the share of foreign affiliates in a worldwide gross domestic product (GDP) reached a record high 11 % in 2009 (see Table 1) [6]. In 2010 the TNCs added value within the world production made approximately 16 trillion dollars, which constituted about a quarter of global GDP [7]. More than 10 % of global GDP and one third of world exports account for the share of foreign branches.

The number of TNCs workers abroad slightly increased in 2009, amounting to 80 million people. In the international structures of production also there is observed evident increase of the share of the developing countries and the countries with economies in transition. Today, the majority of their labor force is employed in foreign branches. Also in 2008, they accounted for 28 % out of the world's existing 82,000 TNCs, which is two percentage points higher than in 2006. By way of comparison this figure did not reach 10 % in 1992, and that reflects the growing importance of these countries and as of based ones [6, 7].

Table 2

Certain indices of FDI and international production, 1990–2010

Indices	The value amount in current prices (in billion dol.)					Annual growth (in percent)				
	1990	2005	2008	2009	2010	1991-1995	1996-2000	2001-2005	2009	2010
FDI inflow	207	1472	1744	1185	1244	22,5	40,1	5,3	-32,1	4,9
FDI outflow	241	1487	1911	1171	1323	16,9	36,3	9,1	-38,7	13,1
Volume of FDI inflows	2081	14407	15295	17950	19141	9,4	18,8	13,4	17,4	6,6
Volume of FDI outflows	2094	15705	15988	19197	20408	11,9	18,3	14,7	20,1	6,3
Earnings on FDI inflows	75	990	1066	945	1137	35,1	13,1	32,0	-11,3	20,3
Rate of return of imported FDII	*6,6*	*5,9*	*7,3*	*7,0*	*7,3*	*-0,5*	*0,0*	*0,1*	*-0,3*	*0,3*
Earnings from exported FDI	122	1083	1113	1037	1251	19,9	10,1	31,3	-6,8	20,6
Yield of exported FDII	*7,3*	*6,2*	*7,0*	*6,9*	*7,2*	*-0,4*	*0,0*	*0,0*	*-0,2*	*0,3*
Cross-border M & A	99	703	707	250	339	49,1	64,0	0,6	-64,7	35,7
Volume of sales in foreign branches	5105	21293	33300	30213	32960	8,2	7,1	14,9	-9,3	9,1
Value-added (production) in foreign affiliated branches	1019	3570	6261	6129	6636	3,6	7,9	10,9	-1,4	8,3
Total assets of foreign affiliated branches	4602	43324	64423	53601	56998	13,1	19,6	15,5	-16,8	6,3
Exports of foreign affiliated branches	1498	5003	6599	5262	6239	8,6	3,6	14,7	-20,3	18,6

Indices	The value amount in current prices (in billion dol.)					Annual growth (in percent)				
	1990	2005	2008	2009	2010	1991-1995	1996-2000	2001-2005	2009	2010
Employment in foreign branches (thous. people)	21470	55001	64484	66688	68218	2,9	11,8	4,1	3,4	2,3
GDP	22206	50338	61147	57920	62909	6,0	1,4	9,9	-5,3	8,6
Gross fixed capital	5109	11208	13999	12735	13940	5,1	1,3	10,7	-9,0	9,5
Revenue in the form of royalties and license fees	29	155	191	187	191	14,6	10,0	13,6	-1,9	1,7
Exports of goods and services	4382	15008	19794	15783	18713	8,1	3,7	14,7	-20,3	18,6

Source: [7]

With the development and implementation of new methods and forms of doing business, TNCs formed a massive base of technologies and techniques for entering foreign markets, which we can systematize under three main criteria:

- the scale of investment (from the formation of sales section to the formation of the full cycle of production);
- type of partnership (including the partnership with local authorities and complete ownership of the investee);
- ownership (from the minor share in the capital of the investee to 100 % possession).

Depending on the planned degree of activity internationalization (coordination of the creation and continuation of the value added chain) and the number of countries where the company will carry out its activities (large / small) , and certain approach to international business will be applied.

At present, all corporate FDI agreements can be characterized by such criteria as: a form of cooperation, participation in equity / non-participation in equity; frames of the contract; conditions of resources and rights; methods of transfer; and typical methods of compensation / remuneration.

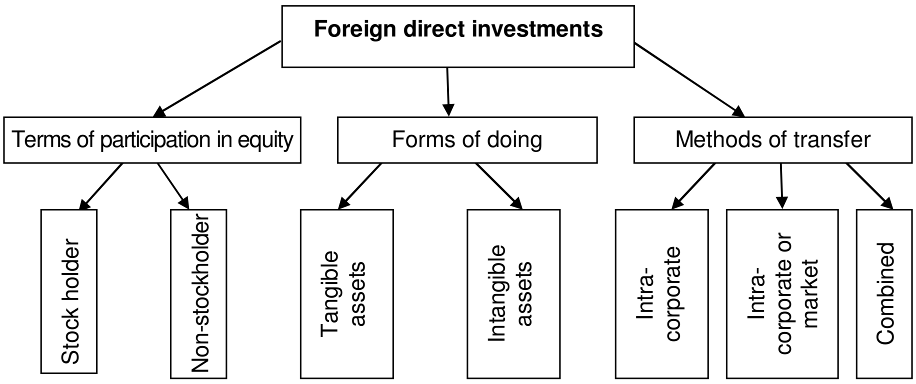
In most cases the FDIs are primarily related, as has already been noted, to technology transfers, which today are done through the following:

- patent and license trade rights to industrial property;
- organization of joint ventures, strategic alliances;
- leasing (usually financial leasing);
- export – import of equipment, goods that embody the technology for their manufacture;
- creation of businesses that are accompanied by the supply with equipment and technologies.

Summarizing all forms, types, etc. of FDI they can be systematized as shown in Fig. 3.

Figure 3

FDI Classification



The introduction of investment-oriented state policy contributes to the obvious positive effects as a result of activity of international companies (maximizing of profits, transfer of specific corporate benefits, etc.). Public policy can also significantly influence the FDI distribution.

The corporate model of integration – «Integration from the bottom,» which is highlighted in the works of S. Heimer, P. Barnett, S. Rolf, and W. Rostow, and are dedicated to traditional researching of TNCs, view the corporate integration as a system of relationships within the framework of interstate intra-corporate space, where goods, capital, labor force move free. Thus, multinational companies are structures that create trade, and due to this the benefits of intraregional trade improve and regional integration expand.

Nevertheless, the «regional orientation» of business can become a kind of self-supporting balance: corporate investments contribute to the evolution of CSA so that the economic orders of the countries in the region are approaching, and in many cases (especially when relatively more advanced countries are implied, where the leading role belongs to intrasectoral trade), and growth of complementarity of economic systems. For example, local businesses adapt to the interaction with specific corporate networks. On the one hand, international business often follows the patterns of behavior that emerged in the country of TNCs base. Therefore, alongside with the investment they also export a certain economic model, which the company prefers. On the other hand, the companies often take advantage of local varieties of institutional environment and therefore, in their turn, accumulate specific experience and create specific FSA, which provide them advantages in certain regions. Thus, CSA and FSA co-evolution, generating functional regions combined with corporate investments and mutual trade.

A. Liebman and B. Heifetz identified three models of interaction between corporate models of integration and formal integration processes that in real economies are intervened:

- first, the formation of a functional region may serve a prerequisite and a driving force for the creation of a formal integration association. On the one hand, corporate structures are rather interested in the minimization or complete removal of restrictions and trade barriers and, accordingly, they support the policy of regional integration. On the other hand, the countries themselves may seek to implement the mechanisms of stricter control over private business, enabling them to overcome the contradictions that previously seemed intractable. In addition, corporate integration may indirectly promote the creation of formal integration groups in other regions of the world. For the regional specialization of business, which is enhancing, makes its location in other countries and regions difficult. Accordingly, there is a need in the formation of more receptive markets and implementation of integration projects as tools for attraction of foreign direct investment;
- second, the corporate integration may become a surrogate of formal integration groups, if in the near future a formal integration groupings is inappropriate. In other words, corporate integration enables to «spring over « the barriers that arise in the global economy not only between countries but also between certain integration groups, described with stringent restrictive regime. Under these conditions, the corporations can rather support the liberalization of foreign policy than

formal integration, which they view as a factor of strengthening the state control;

- third, the intensification of corporate integration can be the result of a formal regional economic integration. At that, there can operate two different mechanisms. On the one hand, integration initiatives can be interpreted as hypotheses of specific economic impact of certain specified institutions and regimes which are tested by the governments. Under such conditions, if the hypothesis is correct, the corporations are provided the opportunity of intensive interaction with other economies that were previously closed to them. On the other hand, according to the theory of Joseph Schumpeter, the essence of any business, including a political one is not in adapting to demand, but in creating the demand. Therefore, regional integration can stimulate the interaction of corporate structures.

One of the examples to corroborate the above mentioned can be an investment expansion of transnational corporations of the United States, which has become a key factor in the emergence of a formal integration grouping and deepening of economic cooperation in the region of NAFTA. The NAFTA as a regional economic integration was not so much an example of multilateral cooperation, as the union of the bilateral US-Mexican and US-Canadian relations.

Thus, due to the US participation in this regional economic alliance the U.S. TNCs could save money through the establishment of labor-intensive production processes in Mexico. Even in 1965 the Mexican government passed the so-called program of «maquiladoras», which allowed duty-free import of raw materials and semifinished products for foreign investors in the borderline regions of Mexico to the United States.

It is worth noting, that corporate integration significantly accelerates the development process of economic convergence of the countries participating in it. Using their lobbying capabilities, the corporate structures contribute to the implementation acceleration of a number of important integration projects. This is especially important in the conditions of authoritariarism in the decision-making and state protectionism, which is enhanced with respect to raw materials and other strategic industries.

Globalization of markets and formation of global TNCs stimulate transnational technology transfer and know-how and the caused by these processes retraining of the personnel in firms-recipients, allowing them to save on their own research and design work and acquisition of licenses. This form of relationship was called the «externalities» and is reflected in P. Romero growth model, as an important factor of economic development in modern conditions [3].

At present, when the economic growth has a strong base, it is time for further structural reforms aimed at supporting the potential growth rates. The critically urgent task is to create adequate employment opportunities for people throughout the global economy and to ensure that less well-to-do groups could benefit from the wealth that will be created through the growth of trade and the introduction of new technologies.

Today, when dealing with the operation of TNCs the term is used of «the market of global company» → monopoly.

Modern researchers of the competition problems jointly determine that in the conditions of post-industrialism and post-economism the growing (if not decisive) role in shaping the level of international competitiveness is played by culture and socio-economic factors. Today the wisdom is corroborated once again that the only product that the mankind leaves is the culture. It is a complex phenomenon of civilization, organically related to human intellectual creativity. Culture opens the way for new, subtle human technologies, based on the formal-logical principles. In an era of globalization the more acute question is faced regarding organizational culture and organizational civilization. There is, as M. Delyahin rightly said, that «increasing of hierarchical level of competition, starting with the competition between people and finishing with the global competition between big organizations is becoming an objective regularity and law» [9].

Recent competition originates a new social conflict – between the motivated interests of the dominant (intelligent) and non-dominant (non-intelligent) class. The motivation of the first one is self-realization, while that of the second is profit, wealth, and material prosperity. It is similar to the competitive conflict between civilizations and could become a basic contradiction between eras of globalization. The competition between the «information class» intellectual elite and «class of ordinary consumers' will soon incredibly worsen, that will occur because of the total reduction in the cost of unskilled labor. Even in the developed Western countries with their social engineering and compromise approaches there comes the universal awareness of the new social stratification irreversibility. Under the influence of power globalization processes and global competition the tough and irreversible separation of people, social groups, and national societies occurs in the creation and use of high (information) technologies and the level of wealth, independence and competitiveness [9].

Today we can say that as a result of monopolization processes of the global companies development there were created new forms of TNC neocolonialism with respect to the countries of their business locations.

In general, the economic science usually distinguishes the following approaches to the study of foreign direct investments and their effectiveness:

- from the position of the country. The main criteria of efficiency on this level is the correspondence of the results of foreign investment to those tasks and objectives that the host country outlines, as well as the ratio of the cost for FDI attraction related with the activities aimed at creation of the country's image to attract FDI, counseling, support and more;

- from the perspective of the industry. V. Starodubskyi proposed division of the industries from the view of the dependence between investment and economic growth He identified four types, namely: extensive type of economic growth based primarily on increasing the production capacity utilization and weakly related to investments; investment-dependent- type of growth, where investments begin to effect the increase in production, but at the beginning they may be insufficient in their volume, and therefore ineffective; investment type of growth: investments become the main factor of production, although they do not always provide the most advanced high-tech production level; effective investment type of growth that involves the production improvement based on high-technologies;
- from the position of the enterpriseswhich are the members of the investment process [10].

Dynamic forms of mastering technologies usually provide for much more than simply implementing technical and organizational transformations in individual companies (see Table. 3). They also often require adjustment of such interrelation between enterprises linked by «supply chains», «networks» and «systems» that are conducive to changes.

Table 3

Advantages of TNCs providing FDI (after Loll and Streaten)

Advantages	Description
Capital	Higher or lower capital costs as against these of local or small foreign competitors
Management	The best management in the form of improved efficiency of operations or a better ability for a business risk, either determination of profitability.
Technology	The best technology to transform scientific knowledge into commercial use. This includes identifying functions of new processes and products, commodity differentiation and various other support activities.
Marketing	The functions of market research, advertising and promotion and distribution.
Access to raw materials	Privileged access to raw materials, resulting from the control over end-markets, transportation of goods, processing or production of materials for their own consumption.

Advantages	Description
Economies of scale	Save money for existing business.
Economies of scope	Formation of competitive advantages as a result of acquired skills and knowledge.
Political power and ability to negotiate	The ability to obtain concessions and a variety of conditions for favorable business climate from the host government.

Source: Moosa, Imad A. Foreign Direct Investment. New York, NY, USA: Palgrave Macmillan. 2002. – P. 31.

An important new source of FDI is the public TNCs. As of early 2011 in the world there were at least 650 public multinationals with 8,500 foreign subsidiaries worldwide. Although their number is less than 1 % of all TNCs, their overseas investment in 2010 accounted for 11 % of global GDP [7].

Formation and development of state-owned business within international business (the TNCs) on the one hand is described with positive features (i.e.business support, protection of national interests, etc), and on the other – with negatives (i.e. probability in inequality in the rights of doing business with respect to other forms of property, etc.)

It also can not but effect the current trend, which consists in the fact that the FDI policy is increasingly associated with industrial policy at both national and supranational levels.

Motives and strategies of TNCs in the FDI implementation. In practice, some TNCs while implementing the strategies of internationalization, based on certain motives (see Table 4) of their activities, can use the countries of their business localization as a resource market. Thus, the recepient country of that FDI form will be provided with a temporary growth, rather than qualitative changes. Prospects for qualitative growth in these countries remain disappointing. Therefore, the important here is the development of other factors, which in a holistic approach would contribute to the structural and qualitative growth.

In connection with the above-mentioned processes, the typology of FDI corporate transactions has expanded (see Table. 5).

It is important to note that through the efforts of TNCs (especially American) with respect to the development and organization of global production the changes occured in the methods of creation of foreign corporate subsidiaries. Thus, while in the 80-s the preference was mainly given to the creation of new branches, then from the second half of the 90 s up to 2008 a new trend was clearly identified, namely, to increase the role of foreign companies in international mergers and acquisitions. However, as against the above mentioned methods of the activity internationalization, in future prospects it is expected the transfer of intangible assets We will analyze in more details the methods for creating branches as the strategies of TNCs.

Table 4

Motives for internationalization of companies activities

Criteria	Components
Market factors	Size of local market
	Potential growth of local market
	Access to regional market
Resource factors	Qualified job
	Access to natural resources
	Access to capital markets
Efficiency search	Cheap labor
Quality of business environment	The effectiveness of government, incentives
	Stable investment environment
Other motives	Following the leader
	Others

Table 5

Typology of FDI corporate agreements

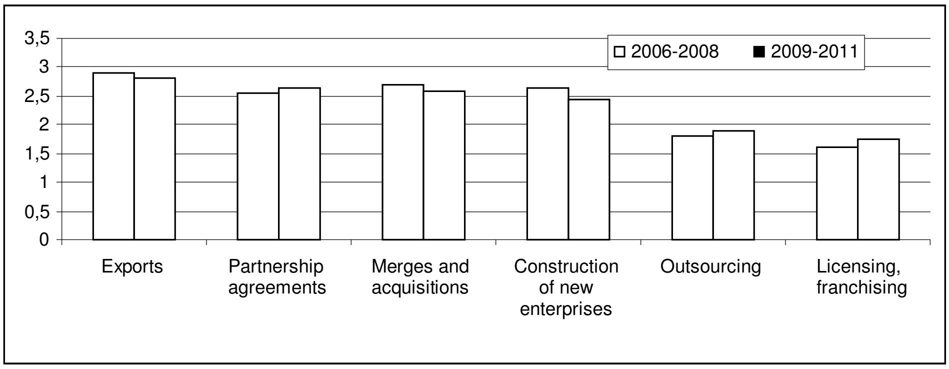
Forms of cooperation	Share in capital/non-equity participation	Contractual limits	Resource transfers and law	Transfer method	Typical method of compensation / remuneration
Wholly owned subsidiary	Share in capital	unlimited	without restrictions	internal corporate	income
Joint venture	Share in capital	unlimited	without restrictions	internal corporate	equity share/ quota of profits
Owning a small part of the holding	Share in capital	unlimited	without restrictions	internal corporate	equity share/ quota of profits
«Fade-out» contracts	Share in capital	limited	without restrictions (for a limited period)	internal corporate adapted to market	equity share/ quota of profits

Forms of coopera-tion	Share in capital/non-equity par-ticipation	Contractual limits	Resource transfers and law	Transfer method	Typical method of compensa-tion / remu-neration
Licensing	Non-equity participation	limited by contract	of restrictive dimensions / measures	combined	Royalties as a percentage of sales
Franchising	Non-equity participation	limited by contract	limited + support	market	royalties as a percentage of sales and allowance for components
Contract on management	Non-equity participation	limited by contract	limited	market	single pay-ment of the total amount
Technical training	Non-equity participation	limited	minor	market	single pay-ment of the total amount
Companies of «turnkey» contracts	Non-equity participation	limited	limited in time	market	single pay-ment of the total amount
Contracting / contractual joint ventures	Non-equity participation	limited	conditioned by agree-ment/ stipulated in contracti	combined	amount will depend on changes in costs and revenues of the firm, or a dominant partner
International subcontract-ing	Non-equity participation	limited	minor	market	mark- up
Strategic al-liance / coali-tion of buyer-supplier	Non-equity participation	limited by contract but long-term	limited + support	combined	margin (sub-ject to re-duce costs / increase revenues)

All the more expansion take the forms of non-stock FDI, which include interim contracts, subcontracts, contracts on management, franchising, licensing, and joint use of products, etc. Thus, according to a survey conducted by UNCTAD experts, in the years of 2009–2011 compared with 2006–2008 the benefits from exporting, mergers and acquisitions, and building of new enterprises decreased, while the advantages increased of using such methods of business internationalization as cooperation, contracts of partnership, outsourcing, licensing and franchising (see Fig. 4).

Figure 4

Methods of TNCs' entry into foreign markets[1]



One of the key factors of real capital mobility, as stated in paragraph 1.1 is a formed infrastructure. The role and the participation of TNCs increase in the formation of an effective enabling infrastructure, especially in the developing countries. The most used forms of FDI include contracts on management, leasing privatization transactions; the creation of new enterprises; and concession.

Fairly reasonable is D. Daiker's hypothesis that FDIs would increase economic efficiency in the country where they are directed, in the following areas: they facilitate the integration of this country in the world economy; they would increase the total level of investment; they lead to the transfer of production (material) technologies, that is, the application of new technological processes and manufacturing of new products; they lead to intangible transfers of technologies, i.e, management, organization, resource supply and marketing; they contribute to the development and implementation of schemes of cooperation and subcontracting with other firms in the recipient country of FDI, conducive to the overall technological level and productivity, resulting in positive effect on export [8].

According to the statement of Academician T. Khachaturov (Russia), while assessing the investment attractiveness there two groups of factors should be

[1] Not used.

taken into account, namely: investment and non-investment ones. The latter include measures in scientific organization of labor, introduction of progressive forms of management and organization of production, improvement of staff professional training, etc., that is, precisely the factors that belong to the so-called Leibenstein X-efficiency. Their importance to foreign investment and FDI, in particular, is that the most important elements for the recipient country are non-tangible ones, as far as the key features of FDI is a management and production skills and technologies.

The results of research among TNCs top managers conducted by the United Nations Organization are worth of attention in the context of forecasting future trends of FDI in the world economy. One of the main objectives of the study-was the analysis of the attractiveness of world regions for international companies for placement of real capital in the world countries. Thus, the most popular in this ranking are China (52 % of respondents would agree to invest) and India (41), somewhat of lower interest for foreign investors is Russia (35) and USA (21) as a potential business location, even less attractive to investors is Brazil (13) United Kingdom (9) and Australia (9). Ukraine is in this rating only (7), although compared with other countries this figure is fairly high (compared to Japan (4) Czech Republic (2), Canada (4), and Germany (6).

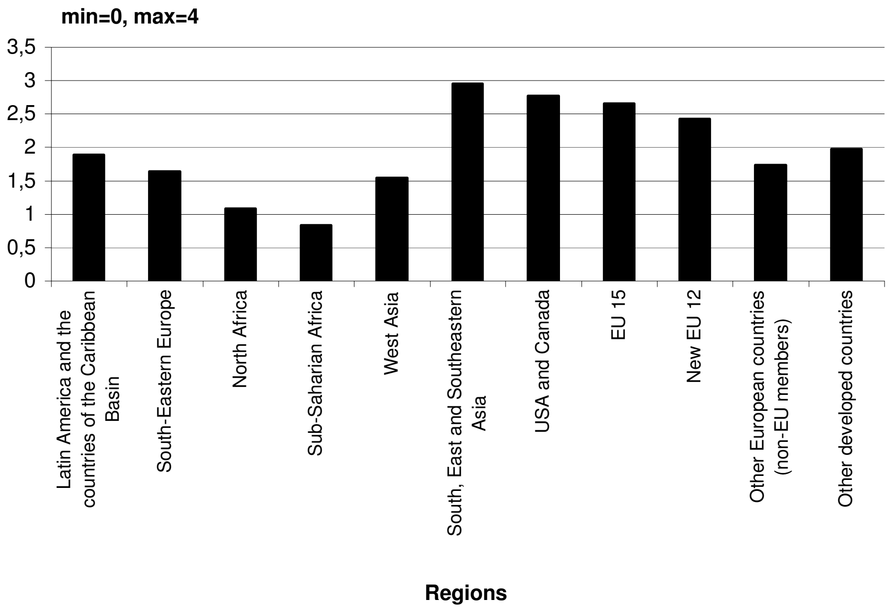
With respect to the regions in the context of TNCs business localization the most popular in perspective (see Fig. 5) is South, East and Southeast Asia (2.95 points), the USA and Canada (2.77), EU-15 (2.66), and the EU-12 (2.43). The least attractive to investors in this context are: Sub-Saharian Africa (0.83), and North Africa (1.08). Moreover, with regard to such a form of entering the foreign market as a new company establishment, it will be the priority for the Sub-Saharian Africa, South, East and Southeast Asia, European countries (excluding EU member states), and the less relevant for the EU-15, developed countries (except USA, Canada), new EU-12 (see Fig. 5).

Out of the eight listed risk factors at taking decision on investment according to the analysis of UNCTAD for the period of 2007-2009, the least important are global terrorism, price volantility, and exchange rate changes. The most risky factors of companies' internationalization are the following: first, financial instability; second, war and political instability; third, changes in the investment environment of the host market. Economic decline and corruption in decision making respectively real capital mobility into any country plays an undistinguished role (see Table 6) [5].

Continuing to consider the results of the study, we conclude that TNKs while placing their assets outside their countries of origin make decisions on investment taking into account first of all, the size and potential of local markets. From the view of the first criterion, the markets of West Asia, North America, South, East and Southeast Asia, the countries of South-Eastern Europe and the CIS are the most attractive for investors. With respect to the criterion regarding the potential development of local markets, there are attractive countries of Southeastern Europe and the CIS, South, East and Southeast Asia, West Asia and North Africa.

Figure 5

Attractiveness of the region of TNCs localization



The strategy of «following the leader» and access to capital markets are-the criteria that are not playing an important role from the view of the selection process of potential market for business localization.

While comparing the regions listed in Table 7 with the world average indices, it is possible to predict future growth in real capital flows to North Africa, Latin America, the new EU member states-12 and the countries of South, East and Southeast Asian region.

In recent years, foreign direct investment (FDI) is an integral part of the global economy and the result of factors allocation, making the international economic system more open and efficient, which is manifested by the data of table 8.

The main policy selected by the governments for world development is the liberalization of the domestic and international economies. Here is a link available between the privatization, reduced public sector activity and increasing of the private sector activity. Globalization of economy and production is increasing. This is due to the behavior of TNCs, their organization, changes in the technologies of production and distribution, control and finance on the account of scale production and a certain level of standardization. And partly it is the result of changes in consumer behavior (reduced loyalty to domestic producers and a number of domestic goods) and liberalization of national and international economies with respect to trade, production and finance.

Table 7

Factors of investment attractiveness of the world regions

Criteria / Region	Following the leader	Qualified job	Cheap labor	Size of local market	Access to capital market	Access to natural resources	Access to regional market	Growth of local market	Effectiveness of government, motives	Stability of investment environment	Other factors	All factors
Developed countries												
North America	2	11	-	24	7	6	10	12	7	20	2	100
EU-15 and other European countries	3	11	-	20	6	4	11	12	11	19	4	100
New EU-12	3	12	12	12	2	8	13	19	6	12	1	100
Other developed countries	2	9	-	17	2	15	7	13	7	22	6	100
Developing countries												
North Africa	-	4	17	17	-	25	13	21	-	4	-	100
Sub-Saharian Africa	6	-	6	15	-	23	9	18	12	12	-	100
West Asia	3	3	3	27	7	15	5	25	5	7	-	100
South, East and South-Eastern Asia	6	4	8	25	1	5	12	31	1	3	4	100
Latin America	4	12	6	16	1	10	11	21	7	7	5	100
South-Eastern Europe and CIS	6	4	8	25	1	5	12	31	1	3	4	100
Average world index	4	9	9	21	2	6	10	20	5	10	3	100

Source: UNCTAD survey.

Table 8

Changes in the countries' capital flow regulation, 1992–2010

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Number of countries that introduced changes	43	56	49	63	66	76	60	65	70	71	72	82	103	92	91	58	54	50	74
Number of regulating changes	77	100	110	112	114	150	145	139	150	207	246	242	270	203	177	98	106	102	149
out of them:																			
more conducive	77	99	108	106	98	134	136	130	147	193	234	218	234	162	142	74	83	71	101
less conducive	0	1	2	6	16	16	9	9	3	14	12	24	36	41	35	24	23	31	48

Source: UNCTAD.

Conclusions

Unfortunately, the researches and managers have no clear vision of how the benefits of globalization could be used and at the same time how to avoid its negative consequences. Thus, one of the latter is unprecedented and rigid competition. Naturally, powerful multinationals' fight for maintaining positions in the global market can be regarded as a positive process to improve the quality of goods and services, lower prices and rationalization of the structure of production in global scale. The downside of the problem consists in the price the producers and consumers have to pay for international competition, which is taking a more rigid shape. In fact, reduction of costs and improvement of quality, not to mention advertising and market development, require significant costs.

The changes that take place in the economic system of either a particular country or the world as a whole, influence the investment policies of TNCs. New challenges of our time demand and also contribute to the formation of a new paradigm of «investment-development» that is, the basis of which is the relationship between the investment and the development [10].

Thus, the investing activity (policy) is facing new challenges, in particular, including the following:

- search for harmonized balance of policy measures (liberalization and regulation; rights and obligations of governments and investors). In other words, search for so-called «golden mean» of national production protection and willingness to use foreign capital through FDI;
- expansion of ways to solve problems related to investment and development, for example, at the edge of the issues of attracting foreign investment, poverty reduction and national development objectives;
- ensuring consistency of national and international investment policies and public policy in other areas.

All this mentioned above requires the need for the formation of a new paradigm of prudent and efficient investment regime, which would contribute to sustainable development of both individual countries and the world economy as a whole.

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