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METHODOLOGICAL APPROACHES TO INCREASE ECONOMIC ACTIVITY THROUGH FOREIGN DIRECT INVESTMENTS

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A B S T R A C T

This article examines the theoretical and methodological foundations for increasing economic activity through foreign direct investment. The study highlights the importance of attracting foreign direct investment in promoting economic growth, expanding production, creating new jobs, introducing modern technologies, and enhancing regional investment activity. It also analyzes a system of economic, financial, and institutional indicators used to assess the effectiveness of foreign investment. The impact of the investment climate, investment attractiveness, financial stability, infrastructure quality, and institutional conditions on foreign capital inflows is substantiated. Within the framework of the study, comprehensive methodological approaches are proposed for assessing the impact of foreign direct investment on economic activity. In addition, scientific proposals are developed to ensure the efficient allocation of investments across sectors and regions, direct foreign capital toward high value-added projects, and improve the effectiveness of investment policy.

K E Y W O R D S

Foreign direct investment, economic activity, investment activity, investment attractiveness, investment climate, foreign capital, economic growth, investment efficiency, investment policy, financial resources, institutional factors.

Introduction

In the 21st century, the global economy is witnessing intensifying competition among countries and regions to attract flows of foreign direct investment (FDI). Research indicates that, driven by shifts in the global, regional, and national economic landscapes, new priorities are emerging that make specific countries attractive to investors.

In a published report, experts highlighted concerning signals regarding the state of the global economic system by the end of 2024, identifying key factors negatively impacting the global investment landscape—specifically deglobalization, political uncertainty, geopolitical discord, and trade tensions. The impact of these factors, combined with other geoeconomic influences, led to an 11 percent decline in the total volume of global FDI—dropping from \$1.67 trillion in 2023 to \$1.49 trillion in 2024. Furthermore, highlighting the digital economy as a "bright spot" in economic development can be seen as an acknowledgment of the role of technical and technological factors and the existence of the digital divide; bridging this gap requires increasing the volume of international investment in the digital

economy sectors of countries with emerging markets.
Latin American and Caribbean countries saw a 12 percent decline in foreign direct investment (FDI), while green investments increased by 2 percent compared to 2023. FDI inflows to all developing Asian countries fell by 3 percent, whereas the volume of green investments rose by 5 percent. This downward trend was driven by a sharp drop in FDI inflows to China, which decreased by 29 percent. In South America, FDI inflows in 2024 declined by 18 percent compared to 2023. In Africa, foreign investors increased the volume of FDI by 75 percent in 2024 compared to the previous year, yet the scale of FDI in "greenfield" projects fell by 5 percent. However, the investment success of this macro-region was largely driven by the UAE's implementation of a single mega-project in Egypt valued at $35 billion. In North America, FDI inflows rose by 23 percent, fueled by new projects; this growth was primarily attributed to a doubling in the volume of mergers and acquisitions, alongside major investments in the high-tech and green energy sectors. Overall, macro-regional FDI dynamics reveal a 22 percent decline in inflows to developed nations. Meanwhile, FDI flows to developing countries are stagnating sharply, largely due to the near-recessionary conditions in Europe. According to UNCTAD experts, this contraction in global investment volumes will inevitably lead to an economic slowdown and a deceleration in global GDP growth starting in 2025. Nevertheless, in-depth analysis indicates significant investment activity by US companies, which have channeled their capital into "greenfield" projects, with over 60 percent of the total value directed toward domestic investments. Despite the general downward trend in cross-border investment flows within the global economy, cross-border mergers and acquisitions saw a slight uptick in 2024; in terms of investment volume, foreign investors largely favored "greenfield" projects.

LITERATURE REVIEW

One of the fundamental theoretical approaches to explaining foreign direct investment was developed by John H. Dunning through the eclectic, or OLI, paradigm. According to Dunning (1988), international production and FDI decisions can be explained through three groups of advantages: ownership advantages, location advantages, and internalization advantages. In particular, location-related factors such as market size, resource availability, labor costs, infrastructure, institutional quality, and investment conditions determine the attractiveness of a host economy to foreign investors. This approach provides an important methodological foundation for evaluating the capacity of a country or region to attract FDI and use it as an instrument for increasing economic activity.
Borensztein, De Gregorio, and Lee (1998) examined the impact of FDI on economic growth using data from 69 developing countries. Their findings show that FDI can serve as an important mechanism for transferring advanced technologies and may contribute more to economic growth than domestic investment. However, the effectiveness of FDI depends significantly on the absorptive capacity of the host economy. In particular, the authors demonstrate that a sufficient level of human capital is required for foreign technologies to be effectively absorbed and transformed into higher productivity and economic growth. Thus, the methodological assessment of FDI effectiveness should include not only the volume of foreign capital inflows but also indicators of education, skills, human capital, and technological capacity.
Alfaro, Chanda, Kalemli-Ozcan, and Sayek (2004) expanded this approach by examining the role of domestic financial markets in determining the growth effects of FDI. Their empirical analysis indicates that the direct relationship between FDI and economic growth is not always unambiguous. However,

countries with more developed financial systems are better able to obtain economic benefits from foreign investment. Well-functioning financial institutions facilitate the allocation of investment resources, support domestic enterprises, and strengthen linkages between foreign investors and local firms. This suggests that financial market development should be regarded as one of the key methodological indicators when assessing the contribution of FDI to economic activity.

From a broader methodological perspective, the impact of FDI should therefore be assessed through a combination of direct and indirect effects. Direct effects include an increase in fixed capital formation, production capacity, employment, exports, tax revenues, and labor productivity. Indirect effects arise through technology spillovers, competition, development of local suppliers, improvement in managerial practices, expansion of value chains, and increased innovation activity. Consequently, an integrated methodological approach requires the simultaneous evaluation of FDI inflows and their qualitative contribution to structural and economic transformation.

The OECD has further developed this approach through the concept of **FDI Qualities Indicators**. Rather than assessing foreign investment exclusively on the basis of its monetary volume, the OECD framework evaluates its contribution to sustainable development in such areas as productivity and innovation, employment and job quality, skills development, gender equality, and environmental performance. This approach demonstrates that the effectiveness of foreign investment policies should be measured not only by the amount of FDI attracted but also by the socioeconomic results generated by foreign-owned enterprises and their interaction with the domestic economy.

The OECD FDI Qualities Policy Toolkit also emphasizes the importance of institutional and regulatory reforms in maximizing the benefits of foreign investment. According to this framework, investment policy should be coordinated with policies concerning competition, innovation, skills, labor markets, infrastructure, decarbonization, and business development. Such an approach implies that attracting FDI alone cannot guarantee an increase in economic activity; the host country must establish mechanisms that encourage foreign investors to create local value added, generate quality employment, transfer knowledge, and strengthen domestic production networks.

Contemporary studies increasingly emphasize the role of digitalization in changing the structure and determinants of FDI. The UNCTAD World Investment Report 2025 focuses specifically on international investment in the digital economy and shows that digital sectors have become an increasingly important destination for cross-border investment. At the same time, international investment in digital activities remains highly concentrated among a relatively small group of economies. This highlights the growing importance of digital infrastructure, technological capability, skilled labor, regulatory quality, and digital connectivity as new determinants of investment attractiveness.

UNCTAD also emphasizes that developing economies face significant challenges in attracting FDI into strategically important areas such as digital infrastructure, technology, energy, and other sectors capable of generating long-term productivity effects. Consequently, contemporary methodological approaches increasingly distinguish between the **quantity of FDI** and its **quality, sectoral structure, technological intensity, and developmental impact**. This distinction is especially important when foreign investment is used as an instrument for stimulating sustainable economic activity rather than merely increasing capital inflows.

ANALYSIS AND RESULTS

Driven by the investment and innovation activities of leaders in the global digital economy, the number of "greenfield" investment projects across all its segments is growing rapidly. In 2024, their value reached $360 billion, representing 28 percent of all global investments in new projects. Furthermore, between 2020 and 2024, American multinational companies accounted for 36 percent of all investments in the digital economies of developing regions.

By this metric, American multinationals competed with companies from China (including the PRC, Hong Kong, and Taiwan)—which accounted for 22 percent of digital projects despite US sanctions—a situation that could be viewed as a manifestation of unfair competition. However, these investment projects spanned various segments of the global digital economy. The objective of attracting TNC investments is to ensure competitiveness for investors by creating a favorable economic environment—specifically, by enhancing investment attractiveness and mitigating investment risks. In current practice, the distinction between market-seeking and resource-seeking TNC investments is blurring; this is because securing the factors necessary to boost foreign direct investment (FDI) flows is integral to a country's—particularly a developing nation's—broader investment strategy aimed at ensuring competitiveness in the global capital market. Consequently, this strategy.

...is not limited to highlighting a single contributing factor. On the contrary, it requires a combination of local factors that meet the requirements of FDI providers.

Studies show that, despite the growing role of developing nations in the distribution of FDI—and even with the potential for high returns—the bulk of FDI flows still tends to gravitate toward developed countries during periods of global economic instability. Consequently, additional factors that ensure a stable investment environment—beneficial to the investor—become decisive. As previously noted, even though developing countries may offer high returns, FDI is often directed toward developed nations during times of global economic instability; the reason for this is the lower investment risk associated with those countries. In our view, the existence of minimal investment risk for providers depends on institutional factors and the ability to ensure stable profit levels. The institutional factor is traditionally interpreted as a group of indicators that collectively characterize a country's institutional environment. In turn, the institutional environment has long been a determinant of a country's competitiveness in the global capital market, and its development forms the foundation of the country's economic performance. The institutional environment, its evolution, and its impact on economic growth were first studied in the 1970s within the framework of New Institutionalism.

Transaction costs associated with operating within the legal framework—specifically, the cost of strict regulatory compliance—constitute a key element of the institutional environment. To characterize these transaction costs, we utilize the "total tax and contribution rate" indicator, which is calculated as part of the "Doing Business" ranking—a measure of the ease of doing business in a given country. This indicator accounts for the taxes and mandatory contributions that a medium-sized enterprise is required to pay in a given year. Economists have yet to reach a consensus regarding the impact of taxation on attracting FDI to host countries. In developed nations—such as those in the European Union—the primary investors in private equity funds include pension funds, funds of funds, insurance companies, and sovereign wealth funds.

Table 1 EU private investors

№	Types of investors	**Share %**
1.	Pension fund	29
2.	Savings funds	13
3.	Insurance companies	11
4.	Sovereign wealth funds	9
5.	Private investors	7
6.	State organizations	6
7.	Other asset managers	6
8.	Family offices	6
9.	Banks	5
10.	University Funds	5
11.	Corporate funds	2
12.	Stock market	1

Some studies have shown that taxes in the host country have a significant negative impact on the flow of FDI. Conversely, taxes do not have a significant impact on FDI. Therefore, it is difficult to say with full confidence whether the impact of tax rates on the volume of FDI exceeds the global average.

In this regard, the regional or integration factor is considered an important lever in the distribution of foreign direct investment across countries, since the level of development of regional mechanisms significantly facilitates the pace of export-oriented investments. In other words, transnational companies prefer to invest in more open regional economies in order to reduce the transaction costs of regional trade. This factor is especially relevant in integration blocs and contributes to the growth of intra-regional and extra-regional investments, including foreign direct investment. As distance increases as they move out of the region, multinational companies often prefer to regionalize rather than globalize their operations.

The indicator of this factor is the level of mutual trade, taking into account the size of the economy, which is calculated using the following formula:

$$Reg = Tr / Ti / GDPi \ \text{x} \ D / GDPr$$

Here, Ti is the country's trade turnover; Tr is the region's trade turnover; GDPi is the country's GDP; and GDPr is the region's GDP.

This indicator studies the country's participation in regional trade and allows assessing the effectiveness of trade cooperation with other bloc members, taking into account its share of GDP in the regional bloc. In his research, economist J. Dunn focuses mainly on the macroeconomic components of the country's investment attractiveness. A number of indicators serve as indicators of macroeconomic stability and stable rates of return for investors. According to experts, such indicators include the level of demand in the country, the consumer price index, and the market capacity, which is determined by the national currency exchange rate and its stability. According to J. Dunn, the level of skills and wages of the workforce are also important. However, due to structural changes in the economy and the dominance of knowledge-based sectors, such human capital characteristics as education, literacy, and living standards play an important role in realizing the country's investment attractiveness. From a theoretical perspective, there is a direct relationship between the development of human capital, its quality, and TDI. This suggests that models of economic growth based on TTXIs will be effective if a country focuses on developing human capital by increasing spending on education and training.

To assess the impact of social factors on the flow of foreign direct investment (FDI), we utilize the composite Human Development Index (HDI)—calculated annually by UN Development Programme specialists in collaboration with an independent group of international experts based on three indicators:

– life expectancy at birth (as a measure of population health);
– adult literacy rates and combined gross enrollment ratios in education;
– GDP per capita (adjusted for purchasing power parity).

Collectively, the factors and indicators studied reflect the ease of doing business; based on them, it is possible to evaluate the investment attractiveness and investment climate of a specific country or an integration bloc as a whole. Each factor characterizing a country's investment potential—particularly institutional factors—serves to minimize investment risks and enhance the investment attractiveness of the country or region. It is appropriate to characterize the investment climate and its specific features in order to identify the environment that fosters an increased inflow of FDI into the national economy.

CONCLUSION

Based on the above, the following conclusions can be drawn:

Firstly, the geographical advantages of countries are of great importance in becoming host countries for FDI. By expanding such geographical advantages, the country's investment attractiveness becomes more flexible and can be changed over time under the influence of an effective investment policy pursued by the state. The host country can independently determine its competitiveness to a certain extent and can position itself as an investment-friendly country.

Secondly, along with the traditional factors important for the topic under study, the institutional factor that reduces investment risks and the costs of strict compliance with the law, the social factor that provides investors with a high level of labor force, the macroeconomic factor that can create a favorable economic environment, and the integration factor that facilitates regional interaction by reducing barriers within the region become influencing factors in this activity.

Thirdly, in the current global situation, it is rather difficult to recognize that these are the main factors influencing the flow of FDI from countries. In any situation, it is important to stimulate the flow of FDI. For example, institutional, macroeconomic, and integration factors strengthen investment potential and catalyze investment activity both within the country and within the integration bloc, creating a favorable investment climate.

Fourthly, our research shows that the outflow of FDI is becoming increasingly relevant in the current period of global instability. In modern practice, investment risks and investment potential are mainly influenced by the factors we have identified, including macroeconomic, social, institutional, and integration factors.

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