Chapter 6

Foreign Direct Investments:
A Key Factor for Business Globalization

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ABSTRACT

Foreign direct investment is considered an effective way to enhance a country's comparative advantages. They are also a significant source of economic development, modernization, growth of production, exports, employment and income, and the main actors are multinational companies. Globalization of the market has increased the tendency for many companies to procure goods and services from different locations. The main goal of the paper is to present the structure and forms of FDI at the global level, as well as theories of FDI through the interconnectedness of multinational companies, their investments, and the economy of a country as an end user. The results of the research clearly indicate that it is in the interest of every country to attract as many FDI as possible, given that they are one of the success factors of the national economy in the global market. Therefore, the primary task of economic policy makers is to monitor world trends, harmonize domestic regulations and create an investment climate that will benefit foreign investors.

INTRODUCTION

Globalization represents the constitution and establishment of the guidelines of the single world market as well as the application of generally accepted principles for all participants, all with the aim of enabling the unhindered flow of capital and goods across national borders. The free movement of capital encourages the development of each national economy and thus increases their competitiveness. One of the main features of the process of globalization of the world economy is the internationalization of production, ie vertical and horizontal linking of economic entities from different countries. The faster

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movement and the volume of financial transactions are a consequence of the globalization of the world economy, which for most countries means a larger inflow of foreign capital, especially FDI. In the processes of globalization of the world economy, FDI has a significant role for economic growth and development of the national economy (Domazet, Marjanović, 2018), reducing the development gap of the national economy in relation to developed countries, as well as for faster inclusion in global economic flows. Globalization is considered a developmental force of modern society and is a reflection of concentration, centralization of capital and new forms of integration processes, with multinational companies considered as carriers.

FDI is a type of investment that aims to increase the efficiency of multinationals, as well as to support and encourage the development of a national community (Anken, Beasley, 2012). Neto and Veiga (2013) find that FDI is a consequence of modern processes taking place in the sphere of financial globalization, and at the same time they are the most important international source of financing. Therefore, foreign direct investment is a result of financial globalization, without which the significance of FDI would be imperceptible. Internationalization, as one of the outcomes of financial globalization, encompasses a number of interstate financial and economic processes. Internationalization creates the possibility that each entity can move from one market to another, looking for the best conditions for placement or fundraising. Through the development of international financial markets, the process of internationalization in the financial sector can be tracked, whereby the spillover of capital between individual markets is the result of the strength of multinational companies. Within the context of financial globalization, conglomeration is a very important process, especially through the expansion of multinational companies. This primarily refers to pooling (fusion or integration) of companies, or according to more recent terminology – mergers and acquisitions (M&A). If we look at it from a financial point of view, we can talk about merging financial institutions worth a billion dollars (megamergers), or even over several billion dollars ("super mega" mergers).

Foreign direct investment is a form of capital investment in which an investor acquires assets in another country with the intention of managing those assets. Therefore, these investments are directly related to multinational companies that aim to own and control production facilities that they establish outside their home (domicile) country. The volume and intensity of the distribution of foreign direct investments on a global level depends, above all, on the overall situation in the world economy.If a company opted for export, it would certainly have the lowest level of liabilities to the market in which it operates, with low risk, minimal control, but consequently lower profit potential. Since most companies are interested in making as much profit as possible, they decide to buy existing or establish completely new companies. Therefore, in addition to increasing profits, this way of entering the market, as a repercussion, brings more obligations and higher business risk for multinationals.

The accelerated process of globalization, liberalization of the foreign investment regime and deregulation of many activities, have enabled multinational companies an increasing choice of locations. As a result, multinational companies are becoming increasingly demanding in choosing a host country for investment. Countries that, through their overall policy, ensure an environment in which the conditions for unhindered and profitable operation are stable, will certainly attract FDI faster and easier than those countries where the investment environment is not sufficiently favorable (Domazet et al., 2018). The main goal that countries strive to accomplish is to achieve stable and long-term economic growth, which will be based on rise of investments, improving the technological base and increasing the competitiveness of their products in the international market. FDIs can play a significant role in fulfilling this objective. They can directly contribute to the transition process through capital inflows, but also indirectly