

Impact of Foreign Direct Investment on Developing Nations: An Analysis of Opportunities and Challenges for the Construction Industry

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Abstract

A construction company's choice to enter foreign markets must be supported by a thorough grasp of the advantages and disadvantages of doing business internationally as well as the development of company strengths with regard to such endeavors. In current economic conditions, the development of international activity acquires great importance for agro-industrial enterprises, along with the production process. Foreign investment in such conditions can ensure the stability of development process. Problems of improvement and efficiency of international activity of enterprises are reflected in the scientific works of many economists. International of investment and conditions of their attracting were the subject of research. Despite the results achieved, a number of theoretical and methodological problems associated, in particular, with the development of international activity of the enterprises on the basis of foreign investment require further research. The growth of international activity, along with the production process, becomes very important for agro-industrial firms in the current economic climate. In these circumstances, foreign investment can guarantee the stability of the development process. The scientific writings of numerous economist's address issues with improving and maximizing the effectiveness of businesses' international operations. These scientists conducted research on the topic of international investment and the factors that attract it. Despite the successes, additional study is necessary to address a number of theoretical and methodological issues, particularly those related to the expansion of international business operations of firms supported by foreign investment.

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INTRODUCTION

Developing nations who have made an effort to free their economies from the choke point urgently want capital resources. The fact that these nations, especially the impoverished ones, began the transition with generally inefficient industries, agriculture, and service sectors that needed to be modernized in order to become internationally competitive, has contributed to the need for foreign capital. However, economic modernization has required vast sums of money, which have largely been lacking in these economies. One of the most prominent aspects and most potent drivers of the social, economic, and political transformation in emerging nations is foreign direct investment (FDI) [1]. FDI both results from and contributes to social and economic change.

The growth of the host countries is impacted by FDI in both positive and negative ways. On the one side, foreign investors provide money, technology, expertise, and managerial methods. They serve to place local production on global markets and integrate national economies into global production and distribution networks by integrating the operation of local

businesses into the networks of foreign investors. FDI can significantly boost the host economy's export activities and economic growth.

one of the most important activities for economic and social development is a construction industry. It is being responsible for modifying the environment for the implementation of resources for the benefit of society such as: infrastructure for energy generation, basic sanitation, communications, transport and urban spaces. In addition to the execution of public and private buildings with the objective of providing housing, work, education, health and leisure in the city, state and nation. However, it causes major environmental impacts, either by consuming high amounts of natural resources or by generating large amounts of solid waste.

Foreign investments, on the other hand, can have somewhat debatable results as well. Foreign companies may undercut domestic producers, cut back on domestic manufacturing, lay off workers, shutter R&D facilities, sever long-standing subcontractor links and replace them with imports, repatriate earnings, and other actions that harm the host economy's balance

of payments. Additionally, by taking advantage of the host nation's state's limited autonomy and capacity, foreign corporations might trap the host nation. An excessive amount of foreign ownership can undermine local resources, disrupt the economic and social structure, and prohibit local social and economic actors from defending their interests.

FORMS OF ESTABLISHING INTERNATIONAL ACTIVITY

A. *Exporting*

Exports are the most basic way to carry out foreign business. They can be done directly or indirectly by using agents or other middlemen. Exports may be used for direct sales of a foreign company's goods or indirectly through middlemen like agents or commissions paid by trade or export companies. One of the oldest methods of entering and operating on international markets is through export. Exports are actions taken to sell goods made in the home country of the maker or in a third country in another country. Significant assets are needed to complete export business operations abroad. These monies should instead be used to develop appropriate information for the creation of detailed export strategy rather than providing domestic enterprises with specific information on the implementation of export activities.

Export management can be active or passive. A passive export is one where the exporter anticipates receiving orders for purchases as needed. Developing methods that paint an offensive and unmistakable picture of what the company's goals are for the international markets is known as aggressive export marketing.

The term "indirect export" refers to the export of goods through a subcontractor. They could be exporting agents or businesses. Agents act as brokers or create connections between producers and international customers. For most cases, the agent won't really conduct the sale on the international market but will instead make things easier and assist with the execution of export logistics, particularly in the areas of packaging, shipping, and the creation of product document.

The idea of a specific sale guides the actions of representative agents. They locate consumers for the company's export-oriented goods. Agents are allowed to bargain on behalf of the exporting business that engaged them. Foreign distributors are frequently street vendors. They purchase goods from the exporter so that clients can reach them more quickly. Distributors frequently offer after-sales support for clients in overseas markets.

Through trade, chambers of commerce, or other economic associations in the nation whose market is to be served, foreign agents or distributors can be located. They can also use various publications of commercial operations.

Additionally, some export activities or potential export prospects may be realized using foreign government agents or foreign government agencies. Foreign economic attaches, who serve as representatives of foreign embassies, may also be used for these objectives.

Foreign merchants may be used to sell consumer goods in international markets. With the aid of sales personnel, they can

be located for purchase or to fly to a foreign market with product samples and brochures, call the merchant on the phone, or have products advertised via direct mail campaigns. The cost of mediators and international travel can be decreased with the use of direct marketing.

The direct selling of consumer goods might be a possibility for direct export of goods to other countries. Depending on the goods, this form of sale may be conducted. Manufacturers of healthcare equipment, for instance, may sell their products directly to hospitals or, in the case of educational equipment, to schools, universities, or specific small-business clients

B. *Licensing*

A license is permission or authorization granted so that someone else may utilize intellectual property rights [2]. Patents, product trademarks, a product's production technology, and a product's selling strategy are all examples of intellectual property rights.

Even for technical or business know-how, or so-called know-how, a license may be granted. The license and the authority are two different things. Transferring IPR in order to work or produce something is known as authorization. The intellectual property right with a license typically stays with the owner identified as the licensors and is not taken from the licensee. Both exclusive and non-exclusive licenses are possible.

A non-exclusive license is one that permits no more than one user to use the intellectual property. An exclusive license is a single user's sole use of the intellectual property rights. This could imply that the licensee or licensees have access to those who work in a particular region or nation.

A patent license is agreement or authorization to create, use, or sell products using a certain design or procedure that is protected by a patent.

The owner of a brand or goods grants permission or consent through a license for that product to be manufactured or sold by another party. Because the licensor still has some control over the character and caliber of the good or service, this kind of license stands apart from others. With this kind of license, the licensor has the power to ensure that goods made by parties to whom the license was granted are of the same caliber as those produced by the licensor

C. *Franchising*

It is one of the business tactics used to make sure that there are more customers. By using franchising as a marketing strategy, businesses can better understand their present and potential clients and how their goods and services can suit their needs. A strategy for distributing goods and providing services to consumers is franchising [3][4]. A network of autonomous business ties known as franchising enables

The ability to recognize a product's brand, The ability to recognize a product's brand, a successful operating approach, and an effective marketing strategy.

In a nutshell, franchising can be described as a strategic agreement between two businesses or commercial entities that establishes particular relationships and responsibilities in order to realize shared goals. These goals can be expressed as a desire

for market conquest and dominance, i.e., to draw in and keep more customers or consumers than their rivals.

A marketing system known as franchising is one that is developed between two nations or two businesses on the basis of a contract. A specific business or organization enters into an agreement with another to sell its goods or services in a certain market or region.

Franchising is a method of doing business, not an actual business. By entering into a contract with a different firm or companies—franchisees—and realizing certain business similarities, one company—the franchisor—allows its products to be sold directly to the market and use the brand of the company for a predetermined amount of time.

In order to benefit the firm, the franchisee's interaction with the organization of work in sales and management must be ongoing. This is what is meant by franchising in the global market.

D. Joint ventures

The word "joint ventures" or "business activities" refers to organizations founded by two or more people or organizations in order to collaborate and generate revenue. Joint ventures are a type of business organization in which two or more companies collaborate to carry out specific tasks and make money. Each participant makes financial and risky investments.

Joint ventures or other activities are often bilateral. They are regarded as bilateral relationships since they involve two business entities working together to create specific strategic advantages [5]. The major driver behind completing such tasks could be, for instance, gaining access to new technologies that will provide businesses a competitive edge, obtaining the requisite human resources and knowledge to enter closed channels for product distribution in particular parts of the world, etc. Additionally, by doing this, the challenges of integrating the organizational cultures can be overcome.

Total ownership of the firm, which entails completely independent capital management and commercial operations with the company, is the greatest option to fully compete on international markets. By doing this, the owner retains complete control and the ability to communicate.

The ownership plan and management strategy of a firm that operates on the global market must be defined because they are dependent on preserving competitive advantage. These choices are taken independently, depending on the size of the business, the prospects presented by the domestic market, the resources at hand, the size of the market, the labor force that is readily available, and the facilities that are available.

ECONOMIC AND SOCIAL DEVELOPMENT IN CONSTRUCTION INDUSTRY

In order to deploy resources for societal benefit, such as infrastructure for energy generation, basic sanitation, communications, transport, and urban spaces, the construction sector is one of the most significant activities for economic and social growth. Along with the construction of public and private structures with the aim of supplying housing, employment, education, health care, and recreation in the city, state, and

country. However, it has a significant negative influence on the environment because it consumes up a lot of natural resources or produces a lot of solid waste.

FOREIGN DIRECT INVESTMENTS

Foreign direct investment, according to some economists, is defined as "the amount invested by inhabitants of a country in a foreign firm over which they have effective control[4],[6].

According to some, DFI is defined as an equity investment made to affect management decisions made by the partner company. The OECD described foreign direct investment (FDI) as "any category of international investment made by a resident of one economy (direct investor) with the objective of establishing a lasting interest in an enterprise resident in an economy other than that of the investor (direct investment enterprise)" [7],[8]

National government's view FDI as one of the most crucial ways for obtaining resources for development as a result. The majority of nations have some natural resources or raw materials, but they may lack the means and technology to utilize those materials in projects to drive growth

Therefore, adopting criteria is necessary to arrive at a complete definition of foreign direct investment [9]. The International Monetary Fund (IMF) and the Organization for Economic Cooperation and Development (OECD) offer definition guidelines for FDI that highlight numerous FDI manifestations. The purpose of FDI definition guidelines is to provide concepts for clearer differentiation between direct investment and portfolio investment.

If an investment is deemed a direct investment, the investors are expected to have a long-term interest and have a considerable influence over the affiliate's management. On the other hand, an investment is categorized as a portfolio investment if the time horizon is short and the investors' primary interest is financial [10]. According to the IMF Balance of Payments Manual [5th edition], FDI refers to an investment that entails a long-term relationship that reflects a persistent interest of a resident entity in one country (the direct investor) in an entity resident in a different economy. The direct investor's goal is to significantly influence the administration of the company located in the other economy [11].

The United Nations Conference on Trade and Development [12] defined foreign direct investment (FDI) as an investment involving management control of a firm based in one economy by a company based in another. An investor's long-term interest in a foreign entity is reflected in FDI, which involves a long-term relationship.

After presenting the FDI definition for this thesis, some notions need to be introduced. Capital contributed (directly or through other linked firms) by a foreign direct investor to an enterprise based in the reporting economy is included in FDI inflows (called the FDI enterprise). Capital provided (directly or through other linked firms) by a company resident in the economy (direct investment enterprise) to an investor resident in

another nation (FDI investor) is included in FDI outflows in the reporting economy.

The investment aims to accomplish a number of goals, including: protecting money from losing purchasing power as a result of inflation. While the objective of investing is to generate capital gains and returns that preserve the purchasing power of the capital invested[13]. The objective of investing is to produce respectable financial returns along with an increase in the value of capital in order to maintain the ongoing development of financial riches. reaching the highest level of current income; Investors' attention is focused on the investments that bring in the highest financial returns for them, ignoring any other factors like the risk ratio.

Income protection from taxes is provided; but, if the investment is used in the wrong sector, it may expose investors to a high rate of taxation. The investment tries to benefit investors from the tax benefits coming from the relevant legislation. Financial market investment [14] speculators are motivated to choose high-risk investments and are engaged in reaching this aim. They are aware of the potential consequences of their decisions and are eager to make them.

They are investments related to those who have reached retirement age, and they serve to secure the future. The investment's goal is to safeguard the future; by making investments in assets that have the least amount of risk and average returns.

For some of these components, data collection varies by nation. especially in poor nations. As a result, reported FDI numbers are not entirely comparable between nations. In many nations, data on earnings that have been reinvested or where data gathering depends on a business survey are frequently not published.

There are numerous investment modes available for foreign direct investment. The types include joint ventures, mergers, and greenfield investments.

Since these three are the most common, they are covered in further detail below. Other forms are noted for your convenience.

A. Greenfield Investment

This denotes the first time that fresh equity capital investment comes from outside the country. Typically, this kind of FDI is more desirable than other kinds. It gives such nations the financial resources they require while also generating jobs in the host nation. A greenfield investment is one made by establishing a new foreign affiliate [15][16][17].

B. Reinvested earning

This type of investment increases the capital stock, assets, and productive capability of the host country even though it does not represent a new entry of foreign capital (and possibly technology)[18].

C. Intra-Company Loans

Capital is transferred from the parent firm (located abroad) to the subsidiary (located in the investment locale), but eventually it must be repaid, and the interest payments make up greater capital outflows. This kind of investment enables the foreign investor to continue to contribute to the local national economy by assisting with financing local businesses.

D. Non-equity forms of FDI

Subcontracting, licensing, or franchising agreements, which do not always include financial inflows from overseas but may nevertheless have a positive impact on the growth of the local economy

ORGANIZATIONAL AND ECONOMIC TOOLS FOR THE DEVELOPMENT OF THE ENTERPRISE'S INTERNATIONAL ACTIVITY PRODUCT

The ability of managers to follow trends, react quickly to changes, and make wise decisions that would aid in adapting to constantly changing environmental requirements is just as important as the material, resource, production, and technological potential for the successful development of the enterprise's international activity. Any modern organization, in P. Drucker's opinion, should be designed so that change is the norm for it, that it initiates change rather than simply seeking for new forms and answers once they occur [19].

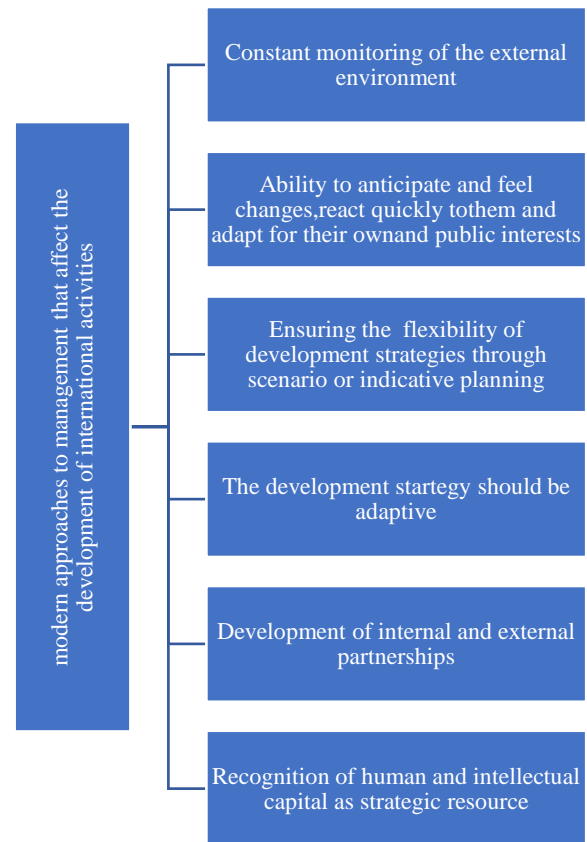


Fig. 1. Modern approaches to managing the development of international activities of the enterprise

Therefore, the success of foreign activities nowadays heavily depends on how quickly a company reacts to potential changes based on "market feeling." International development strategies need to be flexible to enable an organization to engage in this fashion. The use of scenario planning, which enables the organization to identify important internal and external aspects that will influence the development of the business and design strategies for each scenario in the future, is a surefire answer to this issue [20]. Other contemporary management strategies that have a direct impact on how successfully an organization develops its international operations in unpredictable business environments are shown in (fig.291.3).

CONCLUSION

Development of international activity in current economic conditions, when borders of the countries are closed and mobility of people is limited, becomes a big challenge for the enterprises. All types of investments are quite risky. But from the other hand, this situation can become an impact for developing new opportunities. There are many different forms of international activity of the enterprise: exporting, licensing, franchising, joint ventures, management contracts, turnkey projects, strategic international alliances, foreign direct investments. Which of them to choose - depends on the situation. The business model of the firm is one of the key tools for developing new strategies for the efficient management of the organization in the future, according to the findings of the study on the theory development of international activity. Assuring a link between investors and business owners, including an active involvement in management as part of their investment or an ownership holding sizable enough to allow the foreign investor to influence corporate strategy, is the core task of foreign investment. Globalization is a contemporary trend, with international corporations investing across numerous nations.

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