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IMPROVING MECHANISMS FOR ATTRACTING FOREIGN INVESTMENTS

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Abstract

This article examines the mechanisms for attracting foreign investments and analyzes ways to improve them under conditions of economic globalization. The study focuses on institutional, legal, and economic instruments that influence foreign direct investment (FDI) inflows. Based on international experience and empirical data, the article evaluates the effectiveness of investment policies, the role of state regulation, and investment climate factors. The findings demonstrate that improving legal guarantees, reducing administrative barriers, and enhancing transparency are key determinants in increasing foreign investment flows.

Keywords

foreign investment, foreign direct investment, investment climate, investment policy, economic development, institutional mechanisms

Introduction

Foreign investments play a crucial role in ensuring sustainable economic growth, technological modernization, and integration into the global economy. In many developing and transition economies, foreign direct investment serves as a key source of capital accumulation, innovation transfer, and employment creation. According to the World Bank, countries that effectively attract foreign investments tend to demonstrate higher productivity growth and export diversification [1].

In recent decades, global competition for foreign capital has intensified. Investors increasingly consider not only macroeconomic stability but also institutional quality, legal protection, and governance efficiency. Therefore, improving mechanisms for attracting foreign investments has become a strategic priority for national economic policy [2].

Methodology

The research is based on a qualitative and comparative methodological approach. Analytical methods were applied to examine official statistics, international reports, and academic studies on foreign investment mechanisms. Comparative analysis was used to evaluate different national investment policies and identify best practices. Secondary data from international organizations such as the World Bank, UNCTAD, and OECD were systematically analyzed to ensure objectivity and reliability [3], [4].

Results

The analysis shows that countries with improved investment mechanisms demonstrate stable growth in foreign direct investment inflows. UNCTAD reports that economies with simplified regulatory frameworks and strong investor protection laws attract significantly higher volumes of FDI [5]. Empirical evidence indicates that legal certainty and institutional efficiency reduce investment risks and transaction costs.

Another key result is the importance of investment promotion agencies. Countries that actively support investors through information services, aftercare programs, and public–private

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dialogue show better investment performance [6]. Furthermore, tax incentives alone are insufficient if not supported by transparent administration and predictable policies.

Analysis and Discussion

The effectiveness of mechanisms for attracting foreign investments is determined by the interaction of institutional quality, regulatory efficiency, macroeconomic stability, and strategic policy coherence. Contemporary empirical research emphasizes that foreign direct investment (FDI) decisions are increasingly influenced by qualitative factors rather than short-term financial incentives alone [1]. Therefore, improving investment attraction mechanisms requires a multidimensional and evidence-based policy framework.

One of the central analytical dimensions is the role of legal and institutional stability. Secure property rights, effective contract enforcement, and an independent judiciary significantly reduce investment risk. OECD studies demonstrate that countries with stronger rule-of-law indicators consistently attract higher volumes of long-term FDI, particularly in capital-intensive sectors such as manufacturing and infrastructure [2]. Investors assess not only the existence of laws but also their practical implementation, predictability, and impartial enforcement. Weak legal institutions increase transaction costs and uncertainty, discouraging foreign investors despite favorable macroeconomic indicators.

Administrative and regulatory efficiency represents another critical factor in investment decision-making. Excessive bureaucracy, complex licensing procedures, and opaque regulatory requirements act as structural barriers to foreign investment. World Bank data indicate that reducing the number of administrative procedures and time required to start and operate a business has a statistically significant positive impact on FDI inflows [3]. Countries that implemented regulatory simplification reforms experienced sustained investment growth, particularly among small and medium-sized foreign enterprises. The digitalization of public administration further enhances regulatory transparency, reduces discretionary decision-making, and limits corruption risks, which are among the most cited deterrents to foreign investment [4].

Macroeconomic stability remains a foundational condition for investment attractiveness. Stable inflation, predictable fiscal policy, and manageable public debt levels signal economic discipline and reduce financial risk for investors. Empirical studies show that macroeconomic volatility negatively affects foreign investment flows, especially in developing economies where capital markets are less resilient [5]. Exchange rate stability is particularly important for export-oriented investments, as high currency fluctuations increase uncertainty in revenue projections and profit repatriation. Thus, macroeconomic policy coherence is an indispensable component of effective investment attraction mechanisms.

Beyond general stability, the structure and orientation of investment policies significantly shape outcomes. Modern investment strategies increasingly emphasize sectoral targeting aligned with national development priorities. UNCTAD highlights that countries focusing on strategic sectors—such as renewable energy, advanced manufacturing, digital technologies, and logistics—achieve higher developmental returns from FDI [6]. Targeted investment policies enable governments to direct foreign capital toward sectors with strong spillover effects, including technology transfer, workforce skill development, and export diversification. However, sectoral targeting must be supported by adequate infrastructure, skilled labor availability, and research and development ecosystems to be effective.

Investment promotion institutions play a crucial intermediary role between the state and foreign investors. Empirical evidence suggests that well-functioning investment promotion agencies (IPAs) significantly increase both the quantity and quality of FDI inflows [7]. Effective IPAs provide information services, facilitate administrative procedures, support site

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selection, and offer aftercare services that encourage reinvestment. The presence of proactive investor support mechanisms reduces information asymmetry and enhances investor confidence, particularly in unfamiliar markets.

Fiscal incentives remain a widely used instrument in investment policy, yet their effectiveness is conditional. Studies by the OECD reveal that tax incentives alone rarely determine investment decisions unless combined with institutional reliability and market potential [8]. Excessive reliance on fiscal concessions can undermine public revenue without generating sustainable investment benefits. Therefore, improving investment mechanisms requires a balanced approach that integrates incentives within a broader framework of competitiveness, transparency, and governance quality.

Another important analytical dimension is the role of international investment agreements and regional integration. Bilateral investment treaties (BITs) and regional trade agreements provide legal safeguards, dispute settlement mechanisms, and policy predictability, which positively influence investor perceptions [9]. However, empirical findings suggest that the effectiveness of such agreements depends on domestic institutional capacity. Countries with weak governance structures derive limited benefits from investment treaties, indicating that international commitments must be complemented by domestic reforms to yield tangible investment gains.

Human capital development also plays an increasingly decisive role in foreign investment attraction. Multinational enterprises prioritize host countries with skilled labor, adaptable workforce structures, and strong education systems. Research indicates that improvements in human capital indicators significantly enhance a country's ability to attract high-value-added investments [10]. Consequently, investment policy must be coordinated with education, labor market, and innovation policies to ensure long-term competitiveness.

Infrastructure quality represents another determinant shaping foreign investment decisions. Reliable transport networks, energy supply, digital connectivity, and logistics infrastructure reduce operational costs and enhance productivity. World Bank analyses show that infrastructure deficiencies disproportionately deter foreign investors, particularly in manufacturing and services sectors [11]. Thus, public investment in infrastructure development functions as an indirect yet powerful mechanism for attracting foreign capital.

Finally, transparency and governance standards strongly influence investor confidence. Corruption, policy inconsistency, and lack of accountability increase perceived risk and discourage foreign investors. Empirical studies confirm a negative correlation between corruption indices and FDI inflows [12]. Strengthening transparency through institutional reforms, digital governance, and public accountability mechanisms is therefore essential for improving investment attraction frameworks.

Conclusion

The study concludes that improving mechanisms for attracting foreign investments requires coordinated reforms across legal, institutional, and economic dimensions. Effective investment policies are not limited to fiscal incentives but rely on transparent governance, legal certainty, and investor-oriented administration. International experience demonstrates that sustainable FDI growth is achieved through comprehensive and consistent policy implementation. Therefore, policymakers should focus on long-term institutional development to enhance national competitiveness in the global investment market.

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