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The Theoretical Bases of International Capital Flows and FDI and the Possibilities of their Application in Practice

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Abstract: FDI's deep theoretical foundations were formed in the 20th century and the late 50th-early 60s. The article reviewed the main theories of foreign investment, international technology corporations theory, the theory of international production cycle of the product, the market imperfection theory, oligopoly and FDI theory, internalization theory, through geese theory, etc. Analysis revealed the main theories explaining FDI trends in transition and developing countries.

Keywords: Foreign investment, FDI, technology, capital movement, transnational corporations

Introduction

Four main factors of production are usually distinguished in economics books: labor (the amount received in return is called wages), capital (the amount received in return is called interest), land or natural resources (the amount received in return is called rent) and the institutional capacity (the amount received in return is called profit) [1, 2]. In the framework of this issue, this study addresses the second factor. Some capital market partners have a "surplus" of capital (savings) and others have a "deficit" (demand for investments) [3, 4]. Therefore, the main function of the capital market is to transfer "surplus" free monetary facilities to people who need them.

The motivations for foreign investments below are briefly presented by studying the views in specialized books[1].[5-7]

1. Disproportionation of supply and demand regarding capital in the world market. The non-equivalent accumulation of capital is the reason for the inequality in the level of economic development in countries, as a result of which a "relative surplus" of capital is created in some countries, and other countries always need large investments. Therefore, economic units direct foreign investments to some countries with the expectation of obtaining additional profits.

2. The attractiveness of finding a way to the commodity markets in a country can help the inflow of foreign investments towards that country and especially towards the attractive commodity fields. This issue mainly

[1] Mishkin F., International capitalmovements, financial volatility and financial instability, NBER working paper, Cambridge, 1998 /https://www0.gsb.columbia.edu/faculty/fmishkin/PDFpapers/w6390.pdf/
M. D.D.Evana, V. Hnatkovaka, International capital flows, returns and world financial integration, september 2005 /https://www.ecb.europa.eu/events/pdf/conferences/fgi/Hnatkovska_Evans.pdf/
Committee on thn global financial system, Capital flows and emerging market economies, January 2009 /http://www.bis.org/publ/cgfs33.pdf/

reduces export costs and brings export markets closer and access to neighboring markets. This situation is more specific to countries with a large consumer market or countries that are members of one of the convergence units because they provide an opportunity for countries that are not members of these units to enter the market of that unit without obstacles by investing in that country.

3. The labor force and cheap raw materials in the country can also direct the flows of foreign investments from several countries to the mentioned country. Due to the hot competition that is always going on in the global economy, transnational companies are trying to obtain cheap labor and raw material resources to not only reduce the costs of exporting goods but also to bypass customs barriers and other trade barriers in the host country.

4. Sometimes the guarantees of achieving some supervision regarding the economic unit of a country also help to realize foreign investments, during which the foreign investor invests in a company that is active and owns a part of that company's shares and sometimes its supervisory package. Thus, it can influence its management decisions.

5. Weak environmental standards in developing countries make it possible to exploit the mines and ecology of that country for small compensation amounts or without paying such amounts in general because most of the environmental bans imposed by the governments of developed countries force transnational companies to transfer their harmful products to countries with weaker supervision in this field. In this way, they should change their preferred direction to realize FDI.

6. The stable political situation and the favorable investment environment in the host country are also important components of attracting FDI.

7. The country can grant concessions to foreign investors and such issues to attract foreign investments. In this case, the discussion is about attracting foreign investments by guaranteeing savings in various tax payments through registration in neutral zones (offshore) or free trade zones, or in other possible ways.

Subject

Capital is considered international that are managed by international intergovernmental organizations (economic programs of the International Trade Fund, World Bank, and United Nations).

Mixed capital is the participation of public and private capital with a specific ratio.

The capital is in the following forms in terms of the nature of its use

1. Institutional capital: As a result of the international transfer of this capital, two types of companies are basically formed:

• A company created with 100% foreign capital.

• Companies formed with domestic and foreign joint capital.

2. Lending capital: These are facilities that are used in the form of loans to receive interest. At the international level, official capital is basically used in the form of lending capital, although international lending from private sources today reaches considerable amounts. The international capital market of the lending type includes two groups of transactions:

• International loan

• Transactions in the form of securities

Dividing capital based on investment dates is as follows:

• Long-term large investments for more than 5 years. Large institutional investments as well as government and international capitals are long-term lending.

• Medium-term large investments with a term of 1-5 years

• Short-term large investments with a deadline of 1 year

Dividing institutional capital based on the purpose of issuing capital is direct investments and portfolios.

The classification of capital transfer is presented in the form of diagram 1, where arrows with full lines show the main path of capital transfer and arrows with dotted lines show the path with relative lateral weight or less.

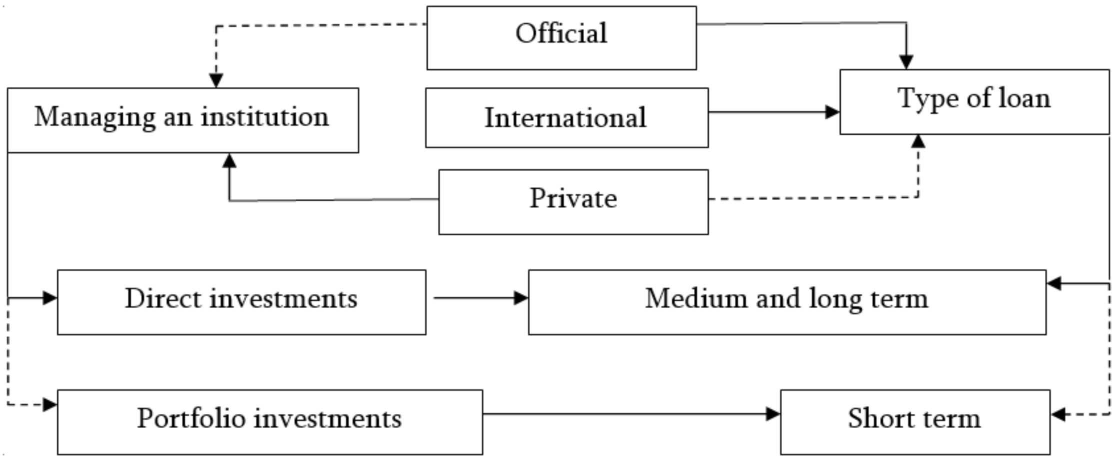

Chart 1. Methods of international capital transfer

There are different definitions of foreign investments in specialized sources. One of the famous dictionaries in the field of economic sciences defines it as follows: FDI is the acquisition of real assets abroad by the residents of the country, which can be in the form of acquiring land, buildings, mines, machinery, and equipment abroad or buying a foreign company[2].[8]

William Forsyth Sharpe, the winner of the Nobel Prize, has defined investments as follows: Investment is separating from today's money with the expectation of obtaining larger amounts in the future[3].[9] Sharp believed that there are usually two main factors that affect investment: time and risk.

According to the American economist L. Gitman, investment is a means that should provide an increase in the value of capital, leading to a positive value of income[4].[10]

Z. Budi believes that investments are spending money and other facilities in the present with the expectation of earning in the future[5].[11]

The International Monetary Fund and the Economic Development and Cooperation Organization have jointly provided the following definition[6][12]: FDI are investments that are made to have a share of the profits of a company operating in a foreign country, and the purpose of this investment is direct participation in the management of that company

A. Smith has shown in his studies that in the conditions of monetary capital outflow restrictions, the equivalent rate of the national currency has decreased, and prices have increased because the amount of money (gold and

John Black, NigarHashimzade and Gareth Myles, A Dictionary of Economics. Oxford [2] University Press,2009.

W. Sharp., Gordon J. Alexander, "Investments" Moscow 2001, p. 5[3]

J.Gitman,MichaelD. Jonk "Fundamentals of Investing-Business" Moscow (1997), p. 10[4]

Body A., Kane A., J. Marcus, Investment Principles, Moscow St. Petersburg-Kyiv: [5] Williams, 2008, 182 p.

OECD Benchmark Definition of Foreign Direct Investment, FOURTH EDITION 2008, page [6] 17 silver) is more than the real demand in the country. In this case, nothing can disturb the outflow of money from the country[7].[13]

The roots and theoretical basis of FDI began to form in the late 50s and early 60s of the 20th century. Earlier, economists suffered from limitations in analyzing the special situations of realizing FDI because such investments did not play a significant role in international economic relations. The theories of foreign direct investments began to evolve in the 60s of the 20th century due to the crisis and collapse of the colonial system and the development of foreign investments in third-world countries. So far, there is no convincing explanation or theory explaining the reasons behind the dynamics of FDI. Economics still does not have specific analytical tools that allow the behavior of economic units to be clearly predicted and influence international capital flows and technologies.

Results

Thus, after summarizing the main ideas in the field of FDI, their final results are presented in Table 1.

Table 1. A view of the main ideas in the field of FDI [14-18]

Theory	**The founder**	Conclusion
Technology theory of international companies	J. Galbraith, 1969	Executive FDI by large companies and the technological progress of the country are mutually related.
The theory of the international production cycle of goods	R. Vernon, 1966	The life cycle of goods and FDI are mutually related.
The theory of transnational corporations and market imperfections	S. Heimer, 1960, C. Kindleberg, 1969	The success of multinational companies depends on the lack of evolution (imperfectness) of the market.
Oligopoly theory and foreign direct investments	Knickerbocker, 1973. Vernon, 1974. Graham, 1978	Domestic producers are the market leaders in oligopoly fields.
Theory of internationalization	Buckley, 1976, Casson, 1981, Rothman, 1985	Big companies achieve success by internationalizing their innovations and not by transferring them to another company.
The Theory of flying geese	Kojima, 1978, Ozawa, 1995	The next step after the import is domestic production and then export.
Theory of foreign direct investments and competitive advantage	Porter, 1990	The competitive advantage of the country and FDI from multinational companies have a mutual relationship in that direction.
Eclectic theory	Dunning, 1981	Their competitive advantages, the market situation, and the possibility of internationalization of the company affect FDI by multinational companies abroad.

[7] Smith, A. (1776), An Inquiry into the Nature and Causes of the Wealth of Nations, edited by E. Cannan (1961) and reprinted by Methuen, London

Theory	**The founder**	Conclusion
The investment development of path theory	Dunning, 1981, Narolo, 1994	The outflows and inflows of FDI are directly related to the country's level of development compared to other countries.

Based on the study of the contents and results of theories related to FDI and considering the characteristics of each of the theories, it is possible to determine the applicability of theories of FDI for the economy of the country in question. All theories of FDI are useful, especially in countries in the transition stage and with developing economies. It should be noted that countries in the transition and developing stage do not have the possibility of applying global innovations in the field of technologies in the beginning, and they should benefit through attracting FDI (Technology theory of international companies). In addition, the market for foreign investors is usually attractive if the investment is to be made in the field of production of goods that are in the maturity stage. It will be more beneficial if the country provides a favorable environment for investment at the same time (the theory of the international production cycle of goods). In transition and developing countries, market defects, low level of competitiveness of domestic producers, and low level of development of technologies draw the transnational companies' attention because they can be leaders by entering the market. and dictate market conditions (The Theory of transnational corporations and market imperfection) . The last idea can be reconciled with the fact that in transition and developing countries, the anti-oligopoly policy is still implemented at a very weak level . Therefore, the market situation can be justified based on the theory of oligopoly and FDI. The following case is a continuation of the same idea that transnational companies can achieve significant success while benefiting from the use of their innovations abroad (internationalization theory). This theory is especially important and necessary for countries with a large economy and at the same time have adopted a relatively closed policy, including Iran. In this case, it is completely cost-effective for large transnational companies to establish a production unit inside that country and meet domestic needs. The theory of "flying geese" always justifies the normal development of any transition and developing economy. The country firstly has almost no production area and meets the domestic demand through imports. Then, domestic production units are established from a certain level of development, which can meet not only domestic demand but also a part of foreign demand. The theory of competitive advantages justifies that developing countries in the transition stage have cheap raw materials and labor, weak internal competition, and low levels of government regulations, especially in terms of charging money for environmental pollution, which allow the foreign investor to quickly gain a competitive advantage in that country. The state of the country is also added to this competitive advantage, including the tendency to liberalize the field of foreign trade, and a transparent financial system, which allows those foreign investors who are inclined to internationalize and have this possibility to be present in the market of the country in question (eclectic theory). The investment development of path theory explains the path of attracting foreign direct investments from the country to the existence of a level of development where that country can allow itself to export direct foreign investments to other countries

Suggestion

In this way, the basic theories of foreign direct investment can explain even today's changes in the field of foreign direct investment in developing countries with transitional economies in each of the stages of development.

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