THE ROLE OF FOREIGN DIRECT INVESTMENT IN ACCELERATING BULGARIA'S ECONOMIC DEVELOPMENT

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Abstract: *One of the biggest challenges in developing countries is the shortage of accumulated capital, which must provide the necessary investment for economic growth. Developing countries are increasingly implementing policies targeting FDI to improve their international competitiveness and secure capital for economic development.*

Key words: *economy,financial markets, crisis, prosperity and digitalization.*

JEL Classification System: G 00 General

Introduction

FDI allows long-term control of production, distribution and other business activities by companies that have a subsidiary in the country in which they have invested. These investments are brought in by multinational enterprises through inflow of capital, technology, managerial knowledge, etc., which reflects on the economic growth of the countries. In the process of economic development of countries FDI increase the possibility of economic growth, improve the balance of payments, increase exports, by improving manufacturing activities and by introducing a new knowledge environment, creating more skilled labor and increases the employment rate. However, to contribute to economic growth, FDI needs to satisfy some economic or social criteria. Apart from education, level of technology use, trade and investment policies, FDI has an impact on inward investment, and it is necessary to induce a "compounding" effect through which multiple economic growth can be achieved. In the case of insufficient capital accumulation, FDI can increase productive capacity and employment. In addition, FDI increases the level of technology use and can introduce advanced technologies that will further improve the country's international competitiveness, leading to a reduction in imports and an increase in exports of manufactured goods. To attract FDI, a country must demonstrate economic stability and favourable business conditions. At the same time, another source of economic growth for inward investment. In general, FDI and inward investment complement each other. When FDI is directed to sectors with a high concentration of domestic investment, domestic investors are forced to increase their capital reserves in order not to be disadvantaged by greater competition in the sector, resulting in an overall increase in capital. On the other hand, if FDI is directed to sectors with lower concentration of domestic investment, domestic investors will be favourably affected by the competition that will be created in these sectors. Due to insufficient capital accumulation in a country, FDI increases productive capacity and employment opportunities. Moreover, with the introduction of high technology, FDI is gradually developing all sectors, improving manufacturing industries and reducing the country's dependence on imports. FDI is likely to increase domestic investment, mainly due to demand for materials and raw materials from domestic suppliers, which has a favourable impact on domestic investment. Despite the positive effects of FDI on inward investment listed above, negative ones can also be observed through the "crowding-out" effect mentioned above.

The crowding-out effect occurs when FDI negatively affects the growth and knowledge accumulation of domestic companies or causes a reduction in skilled labour and capital in industries. The positive effects of FDI on inward investment are not always guaranteed. Sometimes total investment (FDI and domestic investment) increases, yet FDI can adversely affect economic growth. In the domestic economy, sectors with export potential are open to competition and domestic investors may be potential competitors but may not yet have the capacity to compete with large multinationals. FDI severely restricts inward investment and activity for small and medium enterprises with high production factors. It is also important that multinationals only have the resources to employ skilled labour, so FDI may have a negative impact on domestic investment. Foreign direct investment has proven to be an important source of capital needed for economic development in both developed and emerging economies. As part of global integration, developing and emerging economies are increasingly relying on FDI capital, especially those that accept encourage any presence of foreign investment. The main reasons for encouraging FDI are due to the lack of capital in most countries to create jobs, increase productivity and achieve economic growth. Numerous studies have shown that FDI is an engine for enhancing economic growth, but the scale of the said relationship is highly variable and depends on the economic policies undertaken by countries, including with regard to attracting FDI. FDI can have an adverse impact in terms of limited development of domestic firms, hence the impact on economic growth can be negative due to capital returning to developed countries. Importantly, FDI can have a long-term positive impact on economic development but a negative impact in the short term. In addition, a country's economic growth is influenced by a number of other macroeconomic factors such as money supply, quality of labour force, inflation rate, level of use of technological innovations, etc. A reduction in FDI could lead to a significant reduction in domestic innovation, resulting in a reduction in economic growth.

Impact of foreign direct investment on host economies

Due to these positive effects, many governments, especially those of developed countries, are beginning to focus their policies on promoting FDI, due to the fact that it can lead to the development of the national economy, with a particular impact on the activities of small and medium-sized enterprises, allowing them to be competitive and actively participate in international markets. At the same time, the impact of FDI on national economies is also the subject of opinions on the entry of foreign conglomerates, which can acquire monopoly power over small, and not very developed economies, and restrict the activities of enterprises, thereby damaging the local economy and preventing the effective operation of competition to develop markets. On the other hand, the possibility of exchanging capital between countries can bring a number of benefits, both for the host country and for the country from which the investment originates. FDI affects not only the receiving country but also the sending country. In terms of the host country, the impact is expressed in terms of a reduction in employment of the population, a reduction in tax revenues, a deterioration in the competitiveness of local production and a restructuring of the overall economy of the country. The direct effects of FDI have been studied by many authors. Suchacek et al. investigate the significant impact of transnational companies on employment, technological level, value chains, competition and overall increase in economic growth. Other authors have argued that FDI is a factor in lowering production costs and opening up the economy to international markets, as well as reducing the informal economy and corruption levels.

FDI "with increasing globalization, is a key driver of global economic growth and development, and governments view attracting it as a top priority and a measure of success". Together with imported capital, FDI has a positive impact on the provision of managerial and technological knowledge in the countries it targets. The positive and negative effects of FDI show that investors are guided in their decision to invest solely by their corporate interests, which may not, however, coincide with those of the host countries. The direct effects of foreign investment are initially manifested by the inward investment in the form of capital, and subsequently through the activities of the targeted enterprise in the form of management and marketing practices, knowledge transfer on the use of new technologies, entrepreneurial skills, etc. Evaluating the direct effects of foreign investment is usually done by analyzing employment levels, tax increases, hiring of new technology, use of materials and resources from local producers, etc., and the prevailing view is that the increase in the above direct effects of FDI is a prerequisite for increasing the economic development of the country. FDI also contributes to increased domestic investment and capital flows from investment allow for "diversification of risk, knowledge transfer, with lower volatility of capital flows contributing more to economic development". Multinational corporations bring new capital into the economy and thus contribute directly by increasing the inputs into the production function of firms partly or wholly owned by foreign shareholders. FDI also leads to increased productivity of domestic firms by providing managerial expertise and knowledge on the use of new technologies, which reflects on increased economic growth of countries. The direct effects of foreign direct investment have an impact both at the national level (macro level) and at the firm level (micro level). At the national level, the effects are manifested in terms of:

- the science and technology base;
- the environment;
- the level of taxes and charges;
- the country's balance of payments;
- national revenue;
- competition in the national market.

At the firm level, the effects are characterised in terms of:

- Technological parameters - through technology transfer and the creation and implementation of innovations in the technologies used;

- personnel - depending on the form and size of the investment, the impact can be on the wage rates of the staff (most foreign companies offer higher wages than domestic ones), the creation of new jobs, and on the qualification and motivation of the staff, due to the fact that transnational corporations offer multiple training options for their workers;

- technology transfer - importing new technologies and providing knowledge on how to use them, as well as bringing improvements to the technologies used in the country;

- local sourcing - in cases where the local economy does not offer the necessary products and raw materials for production or they are not at the required international companies can import them from other countries;

FDI generates many direct effects in the host countries in terms of job creation, increased wages in certain sectors, increased tax revenues for the government budget, technology transfer, management expertise, etc. The direct effects of FDI are also expected to bring indirect incentives, mainly related to productivity gains and job creation, which in turn should lead to economic welfare and prosperity. Governments of FDI host countries often use investment incentives as a tool targeting foreign investors to compensate for disadvantages such as the existence of a high employment cost burden and/or insufficient labour productivity in the host country. At the same time, governments that are successful in attracting FDI should provide, in addition to various forms of investment incentives, a stable policy environment with predictable and credible public institutions that allow foreign investors to reap country-specific benefits. Therefore, investment incentives can only be considered effective where the business environment in the host country is considered satisfactory for foreign investors. Most developing and transition countries lack the necessary national savings to support their economic development, so governments use foreign resources to cover deficits. FDI is the major among foreign resources having a positive effect on a country's economic variables such as national income, balance of payments, inflation, productivity and poverty levels. An indirect effect of FDI is to reduce unemployment. In economies with higher unemployment rates national production lags behind due to the inability of efficient use of available resources including human capital. At the same time, unemployment is a risk factor for poverty among the population. In open economies, the solution to the unemployment problem can be implemented through FDI, due to the fact that FDI creates employment opportunities for the population. FDI has both positive and negative impacts on the quantity, quality and location of employment.

The positive direct effect on employment is due to the creation of new jobs by FDI, while the positive indirect effect is due to the creation of jobs in certain regions, which allows for a reduction in regional disparities within the country. The indirect positive effect on employment also influences the migration of the population to large cities. On the other hand, FDI through acquisitions can lead to rationalisation and job losses (negative direct effect) and import dependency or displacement of existing firms (negative indirect effect). FDI also reflects on an increase in the wages on offer, which puts local firms in an inability to compete in wages and attract labour (negative indirect effect). In terms of employment location, FDI creates new jobs in regions with high unemployment (positive direct effect) and encourages migration of supplier firms to other regions, which also creates new jobs (positive indirect effect). However, FDI can also be directed to economically developed regions, leading to population migration and worsening regional imbalances (negative direct effect). In order for the indirect effects of FDI to manifest, various factors are required, which can be classified into three main categories - common factors, domestic economy factors and foreign investor factors. The common factors for the manifestation of indirect effects of FDI occur when the interests of the domestic economy and the investor are the same. Factors related to the local economy are based on the opportunities for investors to acquire different knowledge, including those related to the use of new technologies, managerial experience, know-how, etc. The factors related to the foreign investor are based on his willingness to develop the local economy through FDI. FDI has an indirect impact on labour productivity due to the acceleration of "technology transfer, managerial and organisational knowledge and experience. FDI from highly industrialised countries can have a positive impact on economy-wide efficiency as a result of increased competition and diffusion of innovation - technological and organisational".

In each economy, FDI is directed to different sectors, which affects its sectoral distribution and gives rise to inequality in labour income. Investors are interested in economically developed cities where much of the production capacity they need is concentrated and the skilled personnel they need are available. The potential benefits to countries from foreign capital in terms of technology transfer, productivity gains and job creation are concentrated mainly in economically developed centres and to a very small extent in less developed areas. The lack of balance of FDI across the country is a prerequisite for differences in employment and income generation of the population in different regions, which leads to widening regional disparities. When entering a foreign market, investors are forced to compete with local firms to recruit skilled workers, which is a prerequisite for increasing the wages offered by transnational corporations.

Conclusion

The impact of FDI on economic development is a consequence of the absorptive capacity of the country in absorbing skills from foreign capital inflows and the impact of these skills on increasing the competitiveness of domestic firms and the use of technology. Although the benefits of FDI are real, they do not accrue automatically. The magnitude of the benefits of FDI is determined by the enabling investment environment created by the host country. Factors that prevent the full benefits of FDI from manifesting in some developing countries are related to the educational attainment of the population, health status, technology development and use by firms, insufficient openness to trade, weak competition and inadequate regulatory frameworks. Conversely, the level of technological, educational and infrastructural advances in developing countries allows for more efficient use of the benefits of FDI. At the same time, despite the real benefits of FDI, there are a number of drawbacks affecting the economies of the countries receiving the investment. Threats from FDI to the host economy arise from the possibility of balance of payments deterioration due to limited profits remaining in the country (although often offset by FDI inflows), potentially damaging environmental impacts, social disruption due to increased commercialisation in less developed countries, and reaching unfair competition in some markets. In our country, the most intensive increase in the inflow of foreign investment was observed in the period 2000-2007, when the growth of the national economy was also observed, which favoured investment activity. In the period after 2007, there has been an increase in foreign direct investment in our country, with the greatest interest in the real estate sector. The second sector in which foreign investors are interested is manufacturing, despite a period of decline from 2000 to 2009. Investment in the sector is mainly concentrated in the production of food products, beverages, textiles, clothing, footwear, metals and metal products, rubber products and other intangible mineral raw materials. The dynamics of FDI flows follow an uneven geographical distribution, with the largest investments in the non-financial sector in the capital city, resulting in an uneven distribution of its effects across the country. Over the last ten years, foreign investment has been the mainstay of economic growth in the less developed economic regions of the country. Almost half of foreign investment is concentrated in Sofia, with investment mainly in the services sector and a significantly smaller share in the manufacturing sector. Investor interest is mainly focused on outsourcing services, trade and information and communication technology.

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