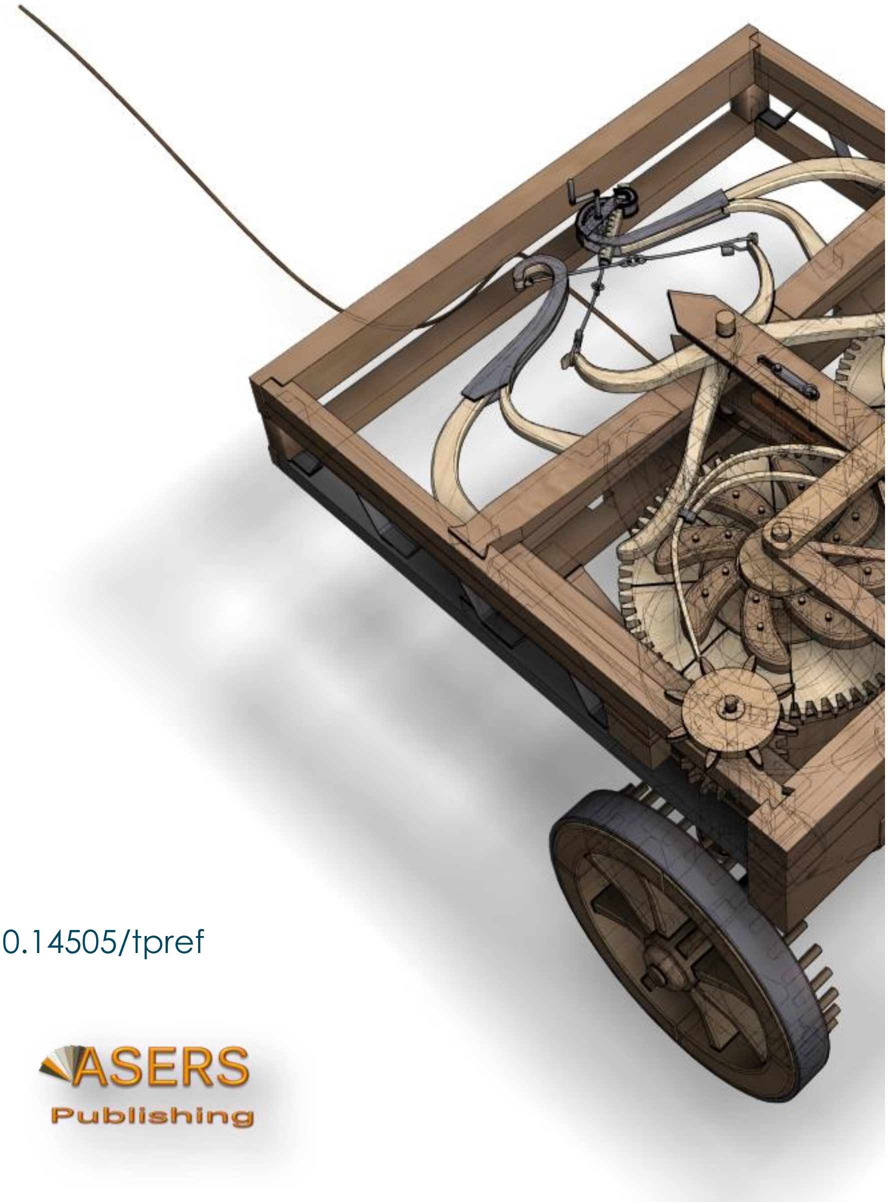
Theoretical and Practical Research in Economic Fields



Quarterly
Volume XV
Issue 4(32)
Winter 2024

ISSN: 2068 – 7710
Journal DOI: https://doi.org/10.14505/tpref

ASERS Publishing

Volume XV
Issue 4(32)
Fall 2024

ASERS Publishing
ISSN 2068 – 7710
Journal's Issue DOI:
https://doi.org/10.14505/tpref.v15.3(31).00

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Volume XV
Issue 3(31)
Fall 2024

ASERS Publishing
http://www.asers.eu/asers-publishing
ISSN 2068 – 7710
Journal's Issue DOI:
https://doi.org/10.14505/tpref.v15.3(31).00

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Theoretical and Practical Research in Economic Fields

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Volume XV, Issue 4(32), Winter 2024

DOI: https://doi.org/10.14505/tpref.v15.4(32).09

Investment Flows and Country Development in Emerging Markets: Analysing the Impact of Foreign Investment on Economic Growth

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Article info: Received 28 August 2024; Received in revised form 15 September 2024; Accepted 23 October 2024; Published 30 December 2024.

Abstract: The purpose of the article is to study the impact of investment flows on the economic development of Ukraine, Azerbaijan, and Uzbekistan, considering foreign investment, as well as to assess their contribution to the formation of sustainable economic growth. The methodology is represented by such methods of scientific knowledge as economic analysis, as well as SWOT analysis (Strengths, Weaknesses, Opportunities, Threats). The results of the study showed that foreign investment has a positive impact on the economic growth of developing countries, contributing to an increase in gross domestic product, reducing unemployment and stimulating technological progress. In addition, investment flows influence structural changes in the economy, facilitating the transition to more innovative and competitive arrangements. Additionally, successful attraction of foreign investment can improve the infrastructure and environmental situation in countries, which also favours their economic development. At the same time, the results of the study highlight the importance of creating a favourable investment climate to attract foreign investment and ensure sustainable economic growth, both now and in the future. However, it is important to understand the possible negative aspects of the impact of investment on the economy, including the issue of increased risks in the formation of dependence on foreign subsidies. The findings highlight the importance of seeking and attracting foreign investment to improve the economic performance of emerging market economies, as well as to stimulate sustainable economic growth and promote the integration of these economies into the global economic system, while minimizing negative impacts.

Keywords: financial sustainability; globalization; transformation; integration; unemployment rate; competitiveness.

JEL Classification: F21; O16; O11; G11.

Introduction

Due to globalization and increasing international economic integration, foreign investment is playing an increasingly significant role in shaping the economic dynamics of Ukraine, Azerbaijan, and Uzbekistan. However, the issue of the impact of foreign investment on economic growth and development of emerging markets remains relevant and requires detailed analysis and study. Due to certain specifics and peculiarities, such countries often face limited resources and financial capacity to ensure sustainable economic development. All this emphasizes the need to understand how exactly the inflow of foreign investment can affect key economic indicators, such as gross domestic product (GDP), infrastructure projects, and unemployment rates. At the same time, despite the considerable amount of previous research, the issue of the impact of investment flows on economic growth remains quite complex and multifaceted. It is important not only to assess the actual contribution of foreign investment to the country's economic growth, but also to identify the key factors determining the efficiency of the use of these investments.

Theoretical analysis of this issue allows us to distinguish several main concepts. On the one hand, there is a view of the positive impact of foreign investment on economic growth through technology transfer, increased production, and job creation (Lazaj *et al.* 2024). For example, within the framework of this concept researcher. Yeboua (2021) believes that foreign direct investment (FDI) has a positive impact on economic growth in emerging economies. Such influence is due to technology transfer, investment in production facilities, creation of new jobs. A similar position is held by Kondrat and Antoshchuk (2022). Hobbs *et al.* (2021) support the view of high efficiency of foreign investment, emphasizing that the effect of FDI on economic growth may be more significant than the impact of international trade. The researchers believe that this may be due to the fact that direct investment provides a more direct flow of capital and technology into the economies of developing countries.

At the same time, Nguyen (2020) emphasized in his article that the effect of foreign direct investment can be more noticeable in certain sectors, such as manufacturing, export-oriented sector, and services, which contributes to improving the competitiveness of the economy of the country receiving the investment. In addition, the scholar believes that the impact of foreign direct investment on economic growth also depends on the effectiveness of national institutions and government policies in attracting and utilizing foreign investment. Hussain *et al.* (2021) also insist on the need for a favourable institutional environment in the context of enhancing the impact of FDI on economic growth. Alfaro and Chauvin (2020) discuss the impact of FDI on economic growth, noting higher efficiency in countries with developed financial systems. This finding indicates the importance of interaction between foreign investment and the financial sector to stimulate economic development. The authors argue that a more developed financial system can ensure efficient allocation of capital, provide access to financial services, facilitate the process of financing innovation and investment.

On the other hand, some studies point to possible negative effects such as destabilization of financial markets, exploitation of natural resources and increased social inequalities. Appiah *et al.* (2023), in their research work, point out that financial development and economic growth have a positive impact on industrial development, while foreign direct investment has a negative impact on the industrial sector. Researchers Bouchoucha and Bakari (2021) also emphasize the negative impact of foreign investment in the context of economic development. In the results of the study, the authors put an emphasis on the negative impact on economic growth of both domestic and foreign direct investment in the long term, noting that in the short term only domestic investment can contribute to economic growth. In turn, Ukrainian scientists Abramov and Nasypayko (2024) highlight another significant factor that can have a negative impact of FDI on economic development – the dynamics of investment involved in the country's economy can be stochastic and unpredictable. The negative impact of foreign investment associated with unpredictability and instability is also described by Choi *et al.* (2021), noting that, in addition, the instability of public policy also negatively affects FDI, reducing the number of investments and increasing possible risks. It is in the light of these contradictions and the need for a deeper understanding of the mechanisms of the impact of investment flows on economic growth that the relevance of conducting a scientific study on this topic becomes clear. Such an analysis will not only expand theoretical knowledge in the field of economics and finance, but also offer practical recommendations for the formation of effective investment policies in developing countries.

In general, the available research base is quite broad and detailed on the impact of FDI on the economic performance of developing countries, noting both positive and negative factors. However, most of the existing studies focus on emerging markets in Africa and Asia. Therefore, the aim of the current research work is to broaden the knowledge base on the issue of the impact of foreign investment on the economic performance of developing countries, with a focus on emerging markets in Europe. In particular, the aim of the work is to analyse the impact of investment flows on the economic development of countries such as Ukraine, Azerbaijan, and Uzbekistan, taking into account their specific characteristics, and to assess the contribution of investment to the formation of sustainable economic growth. The main objectives of the paper include:

- study of different types of foreign investments, their peculiarities, and impact on economic dynamics in Ukraine, Azerbaijan, and Uzbekistan;
- analysing the advantages and disadvantages of investing in order to identify key factors affecting the attractiveness of the countries under consideration for foreign investors;
- identifying the most attractive sectors of the economy for investment by analysing the growth and development potential of the sectors in Ukraine, Azerbaijan, and Uzbekistan;
- conducting a comparative analysis of foreign investment legislation in Ukraine, Azerbaijan, and Uzbekistan in order to identify differences and similarities in approaches to regulating investment activities;
- assessing the impact of foreign investment on the economies of the countries under consideration, taking into account their specific features and potential for sustainable development.

1. Materials and Methods

Theoretical materials developed on the basis of existing concepts in the field of economic theory, as well as official statistical information and legislative documents, including the Law of the Republic of Azerbaijan "On investment activity" (2022), Law of Ukraine No. 1560-XII "On investment activities" (1991) and Law of the Republic of Uzbekistan No. LRU-598 "On investments and investment activities" (2019).

In order to achieve the research objective, economic analysis was used to conduct an in-depth study of the impact of investment flows on the economic development of emerging market countries. This method of analysis was selected and applied in order to assess the effectiveness of using foreign investment to stimulate economic growth in the selected countries (Ukraine, Azerbaijan, and Uzbekistan). The current method allowed identifying the main economic mechanisms and factors influencing the attraction of foreign investments and their contribution to economic development. In addition, economic analysis was used to identify the main problems and possible challenges faced by developing countries in using foreign investment as a tool to stimulate economic growth, allowing to determine the real prospects of development and effectiveness of investment strategies.

An additional method of scientific knowledge used in the current research was SWOT analysis (Strengths, Weaknesses, Opportunities, Threats). SWOT analysis was applied as a methodological tool to systematically assess the strengths, weaknesses, opportunities, and threats related to the impact of investment flows on the economic development of countries. In addition, SWOT analysis allowed systematizing the findings and highlighting the main areas for further research and practical recommendations to improve the use of foreign investment to stimulate sustainable economic growth in emerging market countries. The current research began with a thorough study of theoretical materials and analysis of existing concepts in the field of economic theory. This stage allowed for the formation of a theoretical framework for the subsequent analysis. In addition, as part of determining the theoretical basis of the study, work was done to collect official statistical information and study legislative documents, including the Laws of the Republic of Azerbaijan, the Republic of Uzbekistan and Ukraine, which provided a detailed understanding of the current situation of foreign investment in the selected countries.

The choice of the research methodology was based on the results of the previous stages. Economic analysis, including the assessment of the efficiency of using foreign investment to stimulate economic growth, was chosen as the main research method. The next stage of the work was the economic analysis of the impact of investment flows on the economic development of the countries under consideration. This analysis made it possible to identify the main economic mechanisms and factors affecting the attraction of foreign investment and its contribution to economic development. The final stage of the study was a SWOT analysis, which was applied to systematically assess the strengths, weaknesses, opportunities, and threats associated with the impact of investment flows on the economic development of emerging market countries. It helped to systematize the data and to identify the main directions for further research for practical recommendations.

The use of the selected methods provided a deep and comprehensive understanding of the relationship between foreign investment and economic growth in developing countries.

2. Results

2.1 Types and Characteristics of Foreign Investments

Foreign investment flows are capital flows between countries, where an investor from one country (or region) directs its funds to invest in assets or enterprises in another country (Haudi *et al.* 2020). These flows include both direct investments (acquisition of enterprises, creation of new production facilities) and portfolio investments (purchase of stocks, bonds, or other financial instruments). In addition, it is important to know that foreign investments can be made by both private companies and public entities through various mechanisms, including direct transactions between companies, participation in joint venture projects, and the purchase of government bonds or other financial instruments (Ahamed 2022). Such investment flows play an important role in the global economy, as they contribute to technology transfer, job creation, production development and improved economic growth in both the source and recipient countries. However, foreign investment can also introduce some risks, such as dependence on foreign investment, the possibility of losing control over national assets, and negative impacts on the environment and social structures.

In order to understand the possible prospects and risks of a country receiving financial injections, it is necessary to understand what foreign investment is. Foreign investment is an important element of international economic activity, and its variety of forms reflects the different strategies and objectives of investors. Such investments include: direct and portfolio investment, international finance, as well as financial derivatives, venture capital financing, and technology transfers. Direct investment is one of the main forms in which foreign capital is invested in enterprises or assets in another country in order to establish control or influence their business processes and strategies (Ausr *et al.* 2020). This form of investment is usually associated with long-term plans and may involve the creation of new businesses or the acquisition of stakes in existing companies. In addition, direct investment may involve participation in joint projects or the development of new technologies and innovations in other countries, which contributes to the expansion of companies' activities abroad and strengthens their competitiveness in global markets. Portfolio investment, in turn, is the acquisition of securities, such as stocks or bonds, in international financial markets (Oke *et al.* 2020). This form of investment does not provide investors with control over the company's assets, but rather is a strategy aimed at generating income from changes in security prices or from dividend and interest payments. Portfolio investments are usually characterized by higher liquidity and can be quickly reallocated in order to diversify the investment portfolio and minimize risks.

International finance provides financial support from various actors, from national or international organizations (e.g. the International Monetary Fund or the World Bank), states and private companies (Braun and Koddenbrock 2022). The main instruments of this form of investment are loans and credits, which are used to finance a variety of projects and programmes. International financing can be directed to infrastructure projects, such as the construction of roads, bridges, airports, as well as the development of industrial complexes, agriculture, health care and education. One of the key features of international financing is its scale and global orientation. This form of investment makes it possible to attract significant amounts of capital from various sources and direct them to projects with high potential for socio-economic development. At the same time, international financing is often accompanied by a number of requirements and conditions set by lenders, including compliance with environmental, social and financial standards, as well as ensuring transparency and effective management of financial resources (Khalegi *et al.* 2024). Often, it is this form of foreign investment that helps to accelerate industrialization, modernization, and structural transformation processes, with an impact on improving the quality of life and well-being of the population of the countries supported.

Financial derivatives are special financial instruments based on the value of other assets (currencies, commodities, stocks, or interest rates) (Schwarcz 2020). They can include futures, options, swaps, and other contracts that are used for risk management or speculative operations in financial markets. One of the key characteristics of financial derivatives is high liquidity and flexibility, allowing investors to effectively manage risks and implement hedging or arbitrage strategies in financial markets. Venture capital financing is a special form of investment focused on financing start-ups and small companies with high growth potential (Lerner and Nanda 2020). Although such investments carry certain risks, in the case of successful development of companies, they can bring substantial profits to investors. This type of financing plays a key role in supporting innovative projects and stimulating economic growth by facilitating the emergence of new technologies, products, and services on the market. Technological transfers are a complex process based on the transfer of knowledge, advanced technologies and innovations between different countries or organizations (Skare and Riberio Soriano 2021).

One of the most important functions of this type of investment is the dissemination of advanced technologies and innovative techniques that contribute to the development of production, improve the quality of products, and increase competitiveness in global markets. Moreover, technology transfers play a key role in improving human capital and scientific and technological capabilities in recipient countries. Each of these forms of investment has different characteristics that need to be taken into account when designing policies and strategies to attract foreign investment. Despite their high potential, investment also has significant risks (Table 1).

Table 1. Analysing the advantages and disadvantages of investing

Type of investment	Advantages	Disadvantages
Direct investments	Gaining significant control or influence over the business processes and strategies of an enterprise in another country	The possibility of losing some control as a result of the long-term strategies of the enterprise
Portfolio investments	The ability to quickly access a variety of financial instruments on the world markets	Currency risks, fluctuations in securities and potential losses due to changes in market conditions
International financing	Providing large amounts of capital for the development of projects with high profitability potential	Risks of late loan repayment and interest payment
Financial derivatives	Ability to protect against risks and speculative operations in financial markets	High complexity of use, exposure to significant losses and unpredictable market fluctuations
Venture financing	Opportunity to earn significant profits from the successful development of innovative projects and start-ups	High level of risk, especially in case of unsuccessful investments in new and unknown projects
Technological transfers	Spreading advanced technologies and knowledge to new markets, which can lead to increased competitiveness and profitability	High costs of organizing and implementing the technology transfer process, as well as the possibility of unwanted dissemination of intellectual property

Note: the prospectivity of the investment from the investors' point of view.
Source: compiled by the authors.

Despite the existing risks, investors see high potential for investing in emerging economies. The opportunity to achieve significant returns associated with rapid economic growth and market opportunities makes these countries attractive for investment. Thus, investors are actively seeking opportunities to deploy capital in such countries, taking into account both potential benefits and risks, and seeking to diversify their portfolios and achieve high returns over the long term. At the same time, understanding the various forms of foreign investment becomes essential in order to assess the prospects and risks associated with attracting financial injections into a country. Therefore, it is important not only to understand the nature of each of them, but also to analyse their impact on the economic and social spheres. In developing countries, there are several main areas that attract investors because of their potential for growth and development.

2.2 Analysing the Most Attractive Sectors of the Economy for Investment

One of such areas is the sphere of infrastructure investments (Saidi *et al.* 2020). Infrastructure, which includes transport networks, energy, communications, and water supply, plays one of the key roles in the development of the economy, providing conditions for the growth of production, trade, and services. Investments in this area contribute to improving the living standards of the population, enhancing economic stability, and attracting additional investments in other sectors. Another important area, within the framework of foreign investment projects, is agriculture and food industry (Djokoto *et al.* 2023; Ogbanje and Salami 2022). In developing countries, there is often significant potential to increase agricultural production and improve the quality of agricultural products. Investments in this area often contribute to increasing food security, creating new jobs in rural areas, and increasing the incomes of local residents.

The energy and renewable energy sector is also a significant area for investment (Khan *et al.* 2021; Shahini *et al.* 2024). Due to the increasing demand for energy in developing countries and the desire to reduce greenhouse gas emissions, investors are increasingly paying attention to projects for the development of alternative energy sources, such as solar, wind and hydropower. These investments help to reduce dependence on energy imports and improve the environmental situation in the region. In addition, investments in education and health care also have a significant impact on the development of human capital and improving the quality of life of the population of countries receiving foreign investment (Miningou and Tapsoba 2020; Jumaniyazov and Mahmudov 2022). It is important to remember that it is education that is key to increasing labour productivity, stimulating innovation, and providing access to skilled workers. While investments in health care contribute to reducing morbidity, increasing life expectancy, and improving public welfare.

Additionally, the information technology (IT) sector acts as a catalyst for economic development in emerging markets as an attractive industry for investment (Asongu and Odhiambo 2020). In light of global challenges such as the COVID-19 pandemic, which has led to a shift towards working from home, distance learning and increased online shopping, the role of IT has become even more significant. In addition, IT is a key factor in the development of the digital economy, which is becoming increasingly integrated into the global economy (Trusova *et al.* 2021a). The adoption of digital technologies in various sectors such as finance, manufacturing, commerce, and services is helping to increase productivity, optimize business processes and improve the quality of life (Makedon *et al.* 2020). Innovative IT companies are becoming a driving force beyond the borders of the leading countries in this field, which opens up new opportunities for developing countries to participate in global technological revolutions and create their own centres of technological development. Finally, investment in tourism and hospitality also represents an important area of economic development for developing countries. The development of tourism infrastructure and the creation of new tourist destinations and offerings contribute to increasing the inflow of foreign tourists, expanding the market for services, and increasing employment (Chornyi 2013).

In general, the development of these industries is key to sustainable economic growth and social development in developing countries. Investors are increasingly looking at the potential and prospects of these industries, given their importance in building modern infrastructure and human capital development. However, in order to achieve positive results from foreign investment in developing countries, an open and favourable business climate on the part of the recipient countries itself is essential (Kalyuzhna *et al.* 2024). Inadequate government support, lack of public support and imperfect legislative regulation can be serious obstacles to successful investment. Without government assistance and support, investors may face unpredictable regulation and bureaucratic obstacles, which negatively affects the investment climate and encourages capital flight from the country (Hysi *et al.* 2024). Lack of public support can also lead to social and political instability, creating additional risks for investors. Moreover, unfavourable legislative regulation, including unclear and inconsistent laws and regulations, can create additional uncertainty and legal risks for investors. Inadequate protection of property rights and lack of transparency in the judicial system may also discourage potential investors and reduce confidence in the investment environment (Spytska 2022).

Thus, the positive results of foreign investment in developing countries depend not only on the potential of industries, but also on the willingness of recipient countries to create favourable conditions for investors. Only with appropriate government support, public loyalty and transparent legislative regulation can we expect a sustainable inflow of investment and the achievement of economic growth and social development goals.

2.3 Legislative Regulation of Foreign Investment in Ukraine, Azerbaijan, and Uzbekistan

The Law of the Republic of Azerbaijan “On investment activity” (2022) guarantees foreign investors equal rights with local investors and prohibits any kind of discrimination. It also grants foreign investors the right to free repatriation of profits and provides for various preferences, such as tax and customs privileges, as well as privileges on the lease of land plots. The bodies regulating foreign investment in Azerbaijan are the Ministry of Economy and the Export and Investment Promotion Agency.

Law of Ukraine No. 1560-XII “On investment activities” (1991) was adopted in 1991, having undergone amendments and additions. This law regulates the main aspects of investment activities in the country and provides a legal basis for attracting foreign investment. According to this law, foreign investors have equal rights and opportunities with Ukrainian investors when investing in various sectors of the economy. The Law ensures transparency of the investment climate, which favours the attraction of foreign investment to Ukraine. The main provisions of the law regarding foreign investment include guarantees of foreign investors’ rights, protection of their property and investments, as well as the right to free repatriation of profits and capital. In addition, the law establishes procedures and conditions for the registration of foreign investments and provides various forms of support and incentives for investors. The Law is aimed at creating favourable conditions for foreign investors and promotes the development of investment activity in Ukraine.

In Uzbekistan, investment activities are regulated by the Law of the Republic of Uzbekistan No. LRU-598 “On investments and investment activities” (2019). The law provides guarantees of the rights of investors, both foreign and domestic, as well as establishes the principle of equality of rights of all investors before the law. According to the Law, discrimination of investors on various grounds is prohibited. One of the most important provisions of the law is the right of investors to freely repatriate profits from their investments. The Law also provides for various privileges for investors, including tax, customs, and land lease privileges. It is important to note, however, that the Law does not regulate relations related to centralized investments. The regulatory bodies are the Ministry of Investment and Foreign Trade and the Agency for Attracting Foreign Investment.

It should be emphasized that the effectiveness of legislative regulation of foreign investment in the countries under consideration depends on the transparency, stability, and predictability of the legal and institutional environment. Favourable investment conditions are created if there is an effective judicial and administrative apparatus, as well as transparency in the process of interaction between investors and authorities. After all, as noted earlier, openness and dialogue between recipient countries and investors play a key role in attracting foreign investment and ensuring its successful implementation. A comparative characterization of the legislative regulation of foreign investment in Azerbaijan, Ukraine, and Uzbekistan is presented in Table 2.

Table 2. Comparative analysis of legislative regulation of foreign investment in Ukraine, Azerbaijan, and Uzbekistan

Similarities	Differences
Both laws guarantee foreign investors equal rights with local investors. Both laws prohibit discrimination against foreign investors. Both legislations provide for various incentives and preferences for foreign investors.	Azerbaijan’s legislation is more detailed and elaborate than that of Ukraine. At the same time, Ukraine has a wider range of benefits and preferences for foreign investors. The Republic of Uzbekistan has a special body for attracting foreign investment (the Agency for Attracting Foreign Investment). In addition, the Republic also provides a special type of incentives for investors – for the lease of land plots.

Source: Law of the Republic of Azerbaijan “On investment activity”, 2022; Law of Ukraine No. 1560-XII “On investment activities”, 1991; Law of the Republic of Uzbekistan No. LRU-598 “On investments and investment activities”, 2019

According to the above data, it is possible to conclude that the legislative regulation of foreign investment in the countries under consideration is quite liberal and attractive for foreign investors. However, it should be noted that in addition to legislation, other factors (economic and political stability, level of corruption, quality of infrastructure, level of labour force qualification) also influence the attractiveness of a country for foreign investors.

2.4 Improving the Investment Climate of Ukraine, Azerbaijan, and Uzbekistan

In today’s globalized world context, emerging economies are actively competing to attract foreign investment in an effort to strengthen their economic performance and ensure sustainable growth. Ukraine, Azerbaijan, and Uzbekistan are no exception: both countries are making efforts to create a favourable investment environment, attract capital from abroad and stimulate economic development. Analysing the investment climate in Ukraine, Azerbaijan, and Uzbekistan is of particular interest as it reflects the strategic decisions of these countries and their ability to adapt to external and internal challenges.

Both countries are taking active steps to attract foreign investment, implement reforms and create a favourable investment environment. At the same time, this aspect becomes especially important in the context of geopolitical and economic instabilities, such as wars, pandemics, and other crisis situations. The beginning of a full-scale military invasion of Ukraine by Russia became an unprecedented case in the context of preserving investment attractiveness. The war led to a sharp aggravation of the situation in the region, causing instability in the economy, deterioration of the investment climate and significant risks for businesses and investors (Parkhomets *et al.* 2023). This situation has created serious challenges for attracting foreign investment and the development of Ukraine’s economy in recent years and has had an impact on the near-term outlook. The analysis of the investment climate in Ukraine, Azerbaijan, and Uzbekistan for the last 5 years (2019-2023) allowed systematizing the data, identifying key trends and changes in the investment sphere of these countries (Table 3).

A characteristic and distinctive feature of the Republic of Uzbekistan is the active development of economic relations with China. To date, the People’s Republic of China acts as a major investor in various sectors of the Uzbek economy, such as energy, transport, agriculture, and manufacturing. On the other hand, the onset of a full-scale military invasion has not only created instability and uncertainty in Ukraine’s business environment, but has also significantly affected the region’s economic prospects.

Table 3. Title of the Table

Period	Ukraine	Azerbaijan	Uzbekistan
2019-2020	Gradual improvement of the investment climate	Stable investment climate	
Impact of COVID-19	Decrease in investment activity; introduction of quarantine restrictions; decrease in economic growth rates		
2020-2022	Initiatives to stabilize economic performance; improving the investment climate		Stabilization of economic indicators, as well as decisive measures to liberalize the economy, abolish licensing for many activities and reduce administrative barriers for entrepreneurs. At the same time, there is an increasing dependence on Chinese investment flows.
2022-2023	Sharp deterioration of the investment climate; closure of markets; significant reduction in production; decline in the economy	The investment climate remains stable, with some growth in investment attractiveness	
Forecast	Total dependence on the course of the war	The investment climate depends on the development of the geopolitical situation, the level of corruption and political changes in the country. And also, increasing investments in renewable energy	

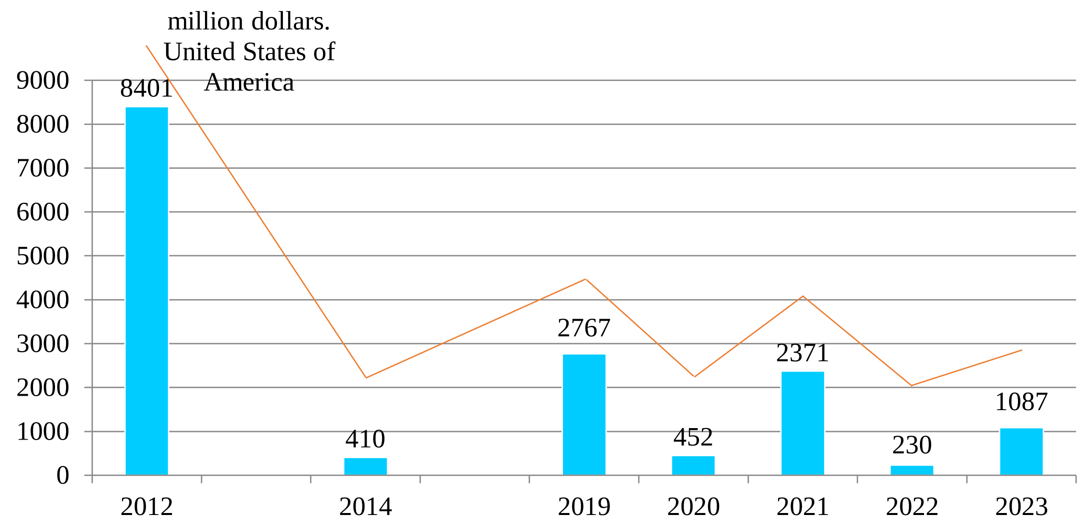
Source: Article by Mikayil Jabbarov, Minister of Economy of the Republic of Azerbaijan, in "Azerbaijan" newspaper, 2023; National Bank of Ukraine, 2024; Khitakhunov, 2022.

As a result of the war, there has been a decline in investor confidence in the Ukrainian economy, leading to capital outflow from the country, as well as freezing and delaying the implementation of investment projects (Shubalyi 2023). The war also increases the risk of investment and creates uncertainty about the future economic and political prospects of Ukraine. It emphasizes the unconventionality of the situation, drawing attention to the need to develop supportive and corrective methods to ensure economic stability.

2.5 Analysing the Impact of Foreign Investment on Recipient Countries' Economies

According to statistical indicators, geopolitical instability in Ukraine, caused primarily by Russia's military aggression, causes significant instability in the investment climate (Figure 1).

Figure 1. Direct investments in Ukraine without income reinvestment



Source: National Bank of Ukraine, 2024.

As can be seen in Figure 1, foreign investment in pre-crisis 2012 is significantly higher than in the next 10 years. The first significant drop in foreign investment was caused by Russia's occupation of parts of Ukraine's territories (Crimea and Sevastopol, parts of Donetsk and Lugansk regions) and the beginning of military aggression in eastern Ukraine in 2014. After the situation normalized and the investment climate improved, there was a second sharp drop caused by COVID-19. However, by 2021, foreign investment volumes had almost recovered. The third and most significant drop in investment volumes occurred in 2022, caused by the outbreak of a full-scale war. Also, it should be noted that Ukraine is characterized by receiving investments of the "round tripping" format. Round tripping is foreign direct investment, in which the controlling investor is a resident (Aykut *et al.* 2017). This type of investment is characterized by the return of foreign capital back to the country in the form of foreign direct investment, however, the controlling investor remains a resident of the country. This phenomenon often occurs in countries with unstable economic and political situations, as well as in countries with a high level of tax and regulatory pressure. In addition, it is important to know that round tripping investments can be used both as a way to circumvent tax laws and other legal restrictions and as a mechanism for legitimate return of funds to the country, ensuring control over the investment. Thus, this type of investment can have both positive and negative effects on the economy. On the one hand, round tripping favours the inflow of foreign capital and stimulates investment activity. On the other hand, this phenomenon can distort the statistics of foreign direct investment and create incomplete ideas about the real volume of foreign capital in the country, as well as lead to potential violations of tax laws and regulatory risks.

In general, foreign investment has a significant impact on the Ukrainian economy, forming both positive and negative consequences. Among the positive aspects are the creation of new jobs, GDP growth, transfer of advanced technologies, and infrastructure development (Trusova *et al.* 2021b). With the inflow of foreign investments, there is an opportunity to create additional jobs, which helps to reduce unemployment and improve the living standards of the population. In addition, investments stimulate the country's GDP growth, improving the overall economic situation and fostering the development of the business environment. Technological transfer of foreign companies often improves the production efficiency and competitiveness of Ukrainian enterprises and contributes to the modernization of economic sectors (Mytsenko *et al.* 2024). Infrastructure development financed by foreign investment improves the business environment and makes the country more attractive for further investment. However, there are also negative aspects of the impact of foreign investment on the Ukrainian economy. Withdrawal of profits abroad results in the loss of part of the economic potential created in the country and limits the accumulation of domestic resources. An increase in external debt, in turn, creates an additional financial burden for the country, increasing its vulnerability to external economic pressures. In turn, the restriction of control over national assets leads to the loss of strategic importance of some sectors of the economy and reduces national sovereignty (Dankevych *et al.* 2023).

Thus, it should be concluded that the impact of foreign investment on the Ukrainian economy is rather ambiguous. In the period from 2019 to 2023, the volume of foreign direct investment in Ukraine was unstable and highly dependent on the geopolitical situation, affecting the development of the economy. In turn, the war with Russia, which started in 2022, led to a significant drop in foreign investment inflows and dramatically affected the Ukrainian economy negatively, causing serious economic and social consequences, emphasizing the danger of the country's dependence on foreign investment. Overall, taking into account the research conducted, it was possible to identify the main positive and negative factors of foreign investment in emerging markets. The results are presented in the framework of SWOT analysis (Table 4).

Table 4. SWOT analysis in the context of the impact of foreign investment flows on emerging market countries

Strengths	Weaknesses	Prospects	Prospects
1. Comprehensive development of various sectors of the economy. 2. Stimulating economic growth. 3. Technology and know-how transfer. 4. Infrastructure development. 5. Creation of new jobs. 6. Capital Raising.	1. Dependence on external sources. 2. Risk of political instability. 3. Unequal distribution of benefits. 4. Poor performance in the long term. 5. The need for a well-developed legislative framework.	1. Development of new industries. 2. Expanding international trade and achieving a competitive position. 3. Establishment of infrastructure projects. 4. Attracting tourists. 5. Implementing and developing innovations. 6. Impact on educational attainment.	1. Economic crises. 2. Political instability. 3. Currency fluctuations. 4. Competition in the global market. 5. Negative environmental impact (in case of significant investment in hazardous production sectors).

Source: compiled by the authors.

Thus, it is determined that foreign investment plays a significant role in stimulating the economic growth of developing countries. One of the strengths of investment is the comprehensive development of various sectors of the economy. By channelling capital into different sectors, foreign investors contribute to more sustainable and diverse economic growth. In addition, foreign investment inflows stimulate economic growth through job creation, infrastructure development, and technology and innovation transfer. However, there are also weaknesses that should be considered when analysing the impact of foreign investment. Dependence on external sources of investment can make a country vulnerable to external economic crises and currency fluctuations. The risk of political instability is also a significant threat, as instability in a country can alienate potential investors and reduce the country's attractiveness for investment.

Despite the weaknesses and threats, the prospects for the impact of foreign investment on the economic growth of developing countries remain encouraging. The development of new industries, the expansion of international trade, the creation of infrastructure projects and the attraction of tourists can all contribute to sustained and accelerated economic growth. However, in order to successfully realize the potential of foreign investment, it is necessary to develop a well-developed legal framework that protects the rights and interests of investors and takes into account the unique characteristics of developing economies.

3. Discussion

There is an active debate in the academic community regarding the impact of foreign investment on the development of emerging market countries. Some scholars argue that foreign investment inflows help to stimulate economic growth, job creation and technology transfer, which ultimately have an impact on improving the overall standard of living of the population. Other scholars, however, highlight negative aspects of the impact of foreign investment, such as the possibility of losing control over national assets, uneven distribution of benefits, and the risk of violating the sovereignty of the recipient country. These conflicting views emphasize the complexity and multidimensionality of the issue of the impact of foreign investment on the development of developing economies.

For example, researchers Shabbir *et al.* (2021), as well as Osei and Kim (2017) had a common goal – to assess the impact of investment on economic growth. In their research works, they came to similar conclusions, indicating the positive impact of both domestic and foreign investment on the economic growth of developing countries. Both studies highlighted the importance of investment in job creation, GDP growth, technology transfer, infrastructure development, productivity growth, export growth and economic diversification. The main differences between these studies are evident in the approach to analysis and the internal content of the findings. The article by Shabbir *et al.* focused on the characteristics of domestic and foreign private investment and their impact on economic growth. Meanwhile, the study by Osei and Kim examined the impact of foreign investment on economic growth under financial market development. The researchers believed that a more developed financial market can enhance the positive impact of foreign investment on economic growth.

However, the results of the current study also highlight the attraction of foreign investment, noting the importance of properly channelling investment across different sectors of the economy, as well as the need for effective governance to maximize the positive impact of investment on economic growth. While highlighting the possible positive impact on the development of recipient economies, the study also draws attention to the possible negative impact of such investments on developing countries. The results draw attention to the high level of risks associated with the formation of dependence on investment by the recipient country. The research work emphasizes that in the event of such a situation, the recipient country risks much more negative consequences for the economy, in case of a decrease in the volume or complete loss of foreign investment associated with the emergence of unstable situations (geopolitical, social, economic).

In this regard, it is important to note that a more detailed consideration of the impact of foreign investment on the development of the Ukrainian economy, within the framework of the current research work, is due to its unique situation in the context of significant instability of geopolitical factors. Also, Ukraine is one of the emerging economies, which makes it particularly vulnerable and dependent on external influences, including foreign investment (Oklander *et al.* 2024). Ukraine's economic dynamics and stability are closely linked to its political situation, making it a representative case study for analysing the impact of foreign investment under conditions of uncertainty and conflict. With war and geopolitical tensions, Ukraine has faced serious challenges, including capital outflows, falling investment activity, and growing economic instability, making it a unique case study that demonstrates the impact of foreign investment on emerging economies under unstable geopolitical conditions (Berdar *et al.* 2024). The analysis has confirmed the concept of the possible negative impact of foreign investment on the development of emerging market economies.

A study by Bayar *et al.* (2020) described the factors of formation of a favourable investment environment. The results of their work showed that both the shadow economy and the level of human development are significant determinants of the inflow of foreign direct investment. The analysis in the long run showed that the shadow economy has a negative impact on FDI inflows, while the level of human development has a positive impact. Countries with a higher level of human development may be more attractive to investors, as they tend to offer a more stable and reliable business and investment environment (Chornyi and Chorna 2017). That said, the results of the current study highlight that despite the risks, investors see significant prospects for investing in emerging economies. Rapid economic growth and access to market opportunities make these countries attractive for investment. Investors are therefore actively seeking opportunities to deploy capital in them, assessing both the potential rewards and risks, and seeking to diversify their investment portfolios to achieve high returns over the long term (Mehdiyev 2024).

Turning to the concept of the negative impact of foreign investment, it should be noted the scientific work of Wartini (2016), which investigated the impact of foreign direct investment on the environment. The author analysed various aspects of the impact of foreign direct investment on the environment, including water and air pollution, soil degradation, deforestation, as well as effects on biodiversity and climate. The article looked at case studies from Indonesia to illustrate how these issues manifest themselves in practice and the implications for the environment and human health. While the research work also recognized the importance of considering the negative environmental impacts of foreign investment in developing countries, the focus was on investigating various aspects of the impact of foreign investment on economic development, including social and economic aspects, without much delving into the analysis of environmental impacts.

The scientific work of Islam (2014) highlighted a number of negative factors associated with the penetration of foreign capital into the economy, including the withdrawal of profits abroad, limitation of control over national assets, increase in foreign debt, deterioration of labour conditions and negative impact on the environment. However, the author emphasized that these negative aspects can be mitigated through the implementation of effective government policies aimed at attracting foreign investment. To maximize the positive impact of FDI, it is necessary to develop and implement policies that promote a balance between economic benefits and social and environmental aspects of development. In turn, the current study, unlike the work of Islam, has concentrated on a broader analysis of the impact of foreign investment on developing economies without giving much emphasis to certain negative aspects. In the framework of this work, the importance of considering the specifics of each recipient country in the context of attracting foreign investment, without linking it to specific negative aspects, was emphasized.

Thus, as a result of a comprehensive analysis of various aspects of foreign investment in the context of economic development, taking into account the scope of its types, its impact on sectors of the economy, as well as legislative regulation, it was determined that foreign investment can play a key role in stimulating economic growth and development. However, it should be borne in mind that successful attraction of foreign investment requires effective legislation, political stability, and the creation of a favourable investment climate. In addition, special attention, within the framework of the current article, was paid to analysing the situation with foreign investment in countries with unstable geopolitical environment, thus emphasizing the importance of a comprehensive approach to studying the impact of foreign investment on the economies of developing countries.

Conclusions

As a result of the research, considering the multifactor analysis of the impact of foreign investment on the economies of recipient countries, focusing on the examples of Ukraine, Azerbaijan and Uzbekistan, important conclusions were formulated. The research work included the study of types and features of foreign investment, analysis of the most attractive sectors of the economy for investment, as well as consideration of the legislative regulation of foreign investment in these countries. An important stage of the work was the analysis of the impact of foreign investments on the economies of Ukraine and Azerbaijan, including the assessment of positive and negative aspects of this impact. In particular, they contribute to the expansion of production, creation of new jobs, GDP growth and transfer of advanced technologies, which helps to increase labour productivity and boost economic growth. In addition, investments can attract additional resources, capital, innovation, knowledge, and expertise, which contributes to the improvement of a country's competitiveness.

Thus, the findings confirmed the importance of foreign investment, which has the potential to have a significant impact on improving economic development, but they also highlighted the need to comply with legislation and create a favourable environment to attract such investment. The study revealed the importance of political and economic stability as well as infrastructure development for the successful attraction of foreign investment. The negative impact of foreign investment on the economies of developing countries is also noteworthy. In some cases, investment can lead to environmental degradation, inequitable income distribution and increased social inequalities. In addition, dependence on foreign investment can make economies vulnerable to external shocks, such as changes in world markets or changes in the policies of investor countries.

In the context of the above-mentioned aspect, it has also been found that the high level of dependence of emerging economies on foreign investment can significantly exacerbate the negative impact of crisis situations on their economies. This is because of the loss of investments that become critical for sustained economic growth and development. When crisis situations arise, such as geopolitical conflicts or domestic economic and social problems, countries that are highly dependent on foreign investment may face even greater challenges in maintaining economic stability and managing the crisis. This, in turn, emphasizes the importance of a multifaceted approach to economic development and resilience building, including diversifying sources of income and improving the domestic investment climate.

The findings of this study emphasize the need for a systematic approach to the study of foreign investment and its impact on the economies of recipient countries. At the same time, it should be noted that studying the impact of foreign investment on developing countries in Europe is a complex task, requiring in-depth analysis of multiple factors. However, in order to fully understand this impact, a deeper analysis is needed, taking into account a variety of factors (political stability, institutional and social aspects, environmental impacts) of the impact. In order to further investigate the impact of foreign investment on the development of countries in emerging markets, including European countries, it is necessary to complement the research database and broaden the methodological approach. It is also crucial to extend the analysis to countries with different levels of economic development in order to further develop the study.

Credit Authorship Contribution Statement

Authors have contributed equally to this research.

Declaration of Competing Interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

Declaration of Use of Generative AI and AI-Assisted Technologies

The authors declare that they have not used generative AI and AI-assisted technologies in the writing process.

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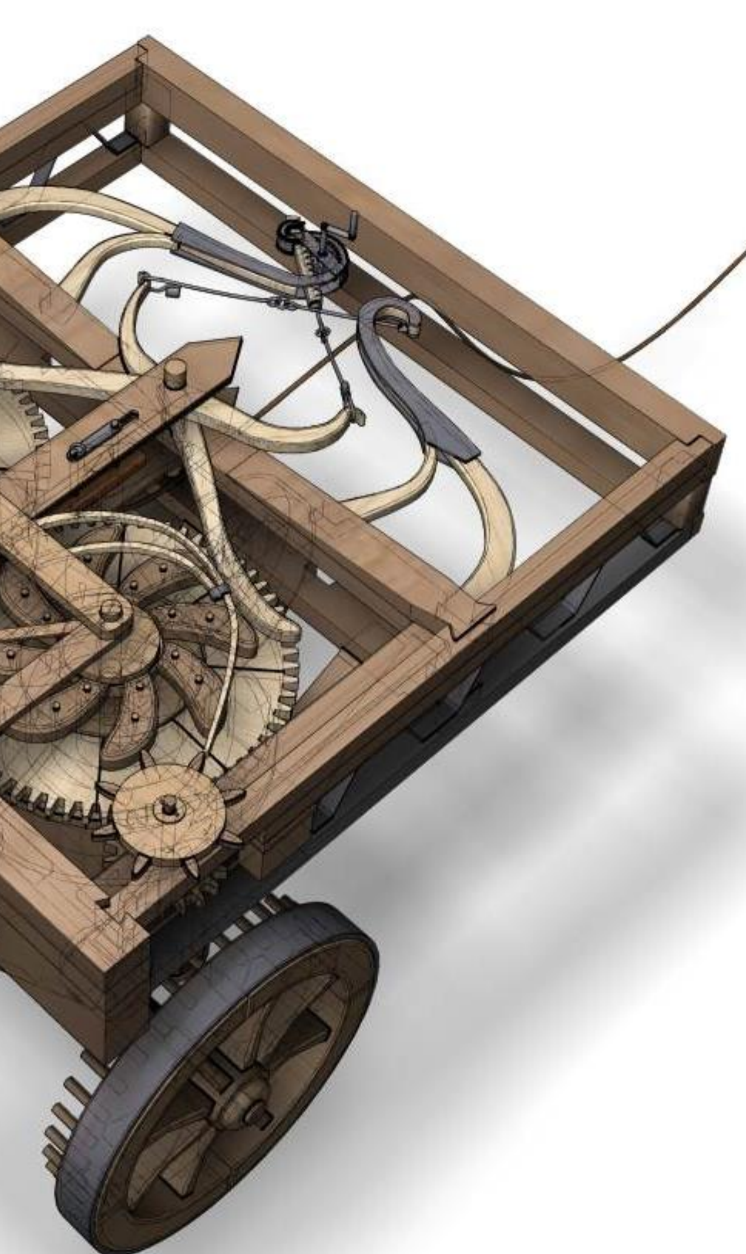

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