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FOREIGN DIRECT INVESTMENT AND ITS IMPACT ON MACROECONOMIC VARIABLES, INVESTMENT POLICY IN FRANCE: IMPLEMENTING INVESTMENT FRAMEWORK OF FRANCE IN UZBEKISTAN

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ABSTRACT

This research is conducted to describe the impact of Foreign Direct Investment (FDI) on several macroeconomic variables such as sustainable economic growth (GDP growth), unemployment rate(U), export (EXP) and trade openness (TO) in France and studying investment policy in order to use some effective methods in Uzbekistan.

KEYWORDS: *Foreign Direct Investment, Economic Growth, Sustainable Development, Unemployment, Inflation, Export, Trade Openness, Globalization, Empirical Data, Coefficient Of Determination, T-Statistics, F-Statistics, Ordinary Least-Squares Method, Regression Model, Response Variable, Explanatory Variable.*

INTRODUCTION

Foreign Direct Investments play a significant role in the sustainable development of every country's economy because it is crucial for the much-needed industrialization in the country. FDI not only accelerates the path of industrialization, fosters and maintains economic growth but also reduces unemployment rate. Globalization is making countries to become integrated and to open up free trade. In this context, globalization provides an unparalleled opportunity for developing countries to foster and achieve economic growth through trade and investment (Arndt 1999). Hence, many countries—especially the least developed countries—are implementing liberal economic policies to encourage more capital inflows from developed countries (Bengoa and Sanchez-Robles 2003). Numerous scientists assert that the role of transnational corporations in the development of Foreign Direct Investments and globalization has valid grounds for being considered (Muminov 2020).On top of that according to a study conducted by EY, France was in 2020 the largest Foreign Direct Investment recipient in Europe, ahead of the UK and Germany. EY attributed this as a direct result of reforms of labour laws and corporate taxation, which were well received by domestic and international investors like".[1]

Today, the importance of FDI has increased in the form of technology transfer and market networks that can result in efficient production and sales globally (Lipsey and Sjöholm 2010; Urata 1998). Foreign investors benefit by utilizing their assets and resources efficiently through FDI, while the recipients are expected to benefit by securing technologies and becoming involved in international trade networks (Louzi and Abadi 2011). Analyzing the investment and innovations separating them into extensive and intensive investment and innovations has not only great theoretical but also practical importance (Rasulev 2017).

FDI is often considered to be an important vehicle for economic growth (Vu Le and Suruga 2005a, b). A vast majority of empirical studies have focused on the effect that FDI may exert on economic growth along with the causal link from FDI to growth. As noted by Chakraborty and Basu (2006), however, the causal link from economic growth to FDI and the feedback relationship deserve further attention. Therefore, the direction of this relationship between FDI and economic growth needs to be stressed because the FDI-related spillover effect of knowledge encourages economic growth, which, in turn, attracts more FDI (Chakraborty and Basu 2006).

Empirical studies, such as Vu Le and Suruga (2005a, b), Durham (2004), Borensztein et al. (1998), and Balasubramanyam et al. (1996), have investigated the FDI-growth nexus. They have stressed that the possibility of a positive impact of FDI on economic growth depends on such mechanisms as the technology-upgrading progress, human capital investment, absorptive capacity, and trade policy adopted by the host country (Gönel and Aksoy 2016; Katircioglu2009; Silajdzic and Mehic 2016). These studies generally considered a panel of countries, suggesting that FDI can have a positive effect on economic growth.

I. Foreign Direct Investments: a theoretical overview: A foreign direct investment (FDI) is an investment in the form of a controlling ownership in a business in one country by an entity based in another country.[2] Foreign direct investments are commonly made in open economies that offer a skilled workforce and above-average growth prospects for the investor, as opposed to tightly regulated economies. Foreign direct investment frequently involves more than just a capital investment. It may include provisions of management or technology as well. The key feature of

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foreign direct investment is that it establishes either effective control of or at least substantial influence over the decision-making of a foreign business.

Foreign direct investments can be made in a variety of ways, including the opening of a subsidiaryor associate company in a foreign country, acquiring a controlling interest in an existing foreign company, or by means of a merger or joint venture with a foreign company.

The threshold for a foreign direct investment that establishes a controlling interest, per guidelines established by the Organisation of Economic Co-operation and Development (OECD), is a minimum 10% ownership stake in a foreign-based company. However, that definition is flexible, as there are instances where effective controlling interest in a firm can be established with less than 10% of the company's voting shares.[3]

FDI represent an international strategy to grasp an opportunity outside the country; the choice to undertake an investment into a foreign country through FDI is determined by several determinants. One of the main reasons for undertaking this kind of investment is represented by the acquisition of particular resources not available at home or feasible at higher prices; this category is the so-called resource seeking. Moreover, a firm may want to invest abroad to gain market access in order to locate near to the customer base or to avoid the costs of serving a market on distance.

Furthermore, FDI allows taking advantage of differences in the availability and costs of factor endowments, the so-called market seeking motive. Hence FDI, especially in case of broad participation, provides extensive access to management policies, strategies, resources. Firms also choose FDI when the business is related to complex technology or when there is a risk of leakages of technology. As illustrated by the table among the economic determinants, the efficiency-seeking can be another driver of FDI; indeed, there also other input costs as communication and transport costs, that may affect and determine foreign direct investments.

TABLE 1.1 HOST COUNTRY DETERMINANTS OF FDI

Host country determinants		Types of FDI classified by motives of TNCs	Principal economic determinants in host countries
I. Policy framework for FDI • economic, political and social stability • rules regarding entry and operations • standards of treatment of foreign affiliates • policies of functioning and structure of markets (especially competition and M&A policies)		A.Market-Seeking	• market-size and per capita income • market growth • access to regional and global markets • country–specific consumer preferences • structure of markets
		B.Resource/asset-seeking	• raw materials • low-cost unskilled labour • skilled labour • technologica, innovatory and other created assets

• International agreements on FDI • privatization policy • trade policy (tariffs and NIBs) and coherence of FDI and trade policies • tax policy II. Economic determinants III. Business facilitation • investment promotion (including image-building and investment-generating activities and investment-facilitation services) • investment incentives • hassle costs (related to corruption, administrative efficiency, etc.) • after-investment services			(e.g. brand names), including as embodied in individuals, firms and clusters • physical infrastructure (ports, roads, power, telecommunication)
		C. efficiency-seeking	• cost of resources and assets listed under B, adjusted for productivity for labour resources • other input costs, e.g. transport and communication costs to/from and within host economy and costs of other intermediate products • membership of a regional integration agreement conducive to the establishment of regional corporate networks

Figure 1: FDI determinants – UNCTAD

II. Data and Methodology: In this empirical analysis, the variables utilized are FDI inflows(FDI), inflation rate (INF), economic growth (GDP), trade openness (TO), Export (EXP) and unemployment rate (U) in France. The variables of FDI, GDP, TO,EXP consist of yearly data spanning between 1980 and 2018, with 39 observations while unemployment rate consists of yearly data between 1991 and 2018, with 28 observations. Trade openness is calculated as the share of exports of goods and services (constant 2010 US $) in GDP (constant 2010 $).Inflation in this analysis is measured by the consumer price index which reflects the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specified intervals, such as yearly.

.In this study, all variables are obtained from the World Bank Database.

The analysis is conducted in OLS (Ordinary Least-Squares) method.[4] Our regression models include two variables, namely, response variable and one explanatory variable:

1.GDP=$a_0 + \mathbf{a_1}$***FDI+** $\boldsymbol{\varepsilon_i}$

2.TO=$b_0 + \mathbf{b_1}$*FDI+ $\boldsymbol{\varepsilon_i}$

3.EXP=$\mathbf{d_0}$+ d*FDI+ $\boldsymbol{\varepsilon_i}$

4.U=$\mathbf{g_0}$+ $\mathbf{g_1}$*FDI+ $\boldsymbol{\varepsilon_i}$

They can be written as:

$\mathbf{y_i}$= β_0+ $\boldsymbol{\beta_1}$*$\mathbf{x_i}$ + $\boldsymbol{\varepsilon_i}$ (1)

Here, $\boldsymbol{\varepsilon_i}$is the error term for observation i since it contains all factors affecting $\mathbf{y_i}$ other than $\mathbf{x_i}$.

III.The impact of foreign direct investment on macroeconomic variables in France

TABLE1. DESCRIPTIVE STATISTICS

Variables	t_0 statistics	t_1 - statistics	F-statistics	R-squared	adjusted R squared
GDP=1797782.248+15.873*FDI	22.17	6,6	43,56	0,54	0,53
TO=22.22+0.00012*FDI	32.4	5,66	32,05	0,46	0,45
EXP=300299.63+8.12*FDI	6.85	6,250	39,06	0,51	0,50
U=11,6+(-5,04E-05)*FDI	22.98	-3.956	15.65	0,38	0,35

Source: Authors' compilation with Excel

Foreign Direct Investments are the driving force behind the economic growth. Although FDI cannot bring the GDP growth immediately, it can show its result after a few years due to investment lag. According to this analysis, the coefficient of determination (R2) between GDP growth and FDI inflows is 0.54 meaning that FDI inflows have significant impact on GDP growth. Critical value of t-student is 2.03(for a 5 % level test and with n-k-1=36 degrees of freedom) . The true value of t_0-statistics is 22.17 and t_1-statistics is 6.6. Due to 6.6> 2.03, β_1(15.873 in our model) shows the real impact of FDI on GDP growth and 22.17>2.03, β_0 (1797782 in this model) shows the impact of other factors on GDP growth . The critical value of F- statistic is 4.11 and the true value of it is 43.56. 43.56>4.11 and it is obvious from this that the model is significant at the 5 % significance level.

As for the regression model between trade openness and foreign direct investment inflows, the coefficient of determination (R2) is 0.46 meaning that FDI inflows have a dramatic influence on TO. The critical value of t-statistic is 2.03 (for a 5 % level test and with n-k-1=36 degrees of freedom) . The true value of t_0-statistics is 32.4 and t_1-statistics is 5.66 meaning thatβ_1 (0.00012 in our regression model) and β_0(22.22 in this model) are significant at the 5 % significance level. The critical value of F-statistic is 4.11 and true value of it is 32.05. Owing to 32.05>4.11, the model is significant at 5 % significance level.

As to the regression model of FDI inflows and export, the coefficient of determination is 0.51 meaning that the explanatory power of the model is slightly strong with the independent variable explaining 51 % of the movement in the dependent. The critical value of t-statistic is 2.03 (for a 5 % level test and with n-k-1=36 degrees of freedom) The true value of t_0-statistics is 6.85 and t_1-statistics is 6.25 meaning that β_1 (8.12 in our regression model) and β_0 (300299.63 in this model) are significant at the 5 % significance level. The critical value of F-statistic is 4.11 and true value of it is 39.6. Owing to 39.06>4.11, the model is significant at 5 % significance level.

FDI inflows result in reduction of unemployment rate. The coefficient of determination 0.38 meaning that the independent variable of FDI inflows explains 38 % of the movement in the dependent variable of unemployment. The critical value of t-statistic is 2.06 (For a 5 % level test and with n-k-1=26 degrees of freedom) while The true value of t_0-statistics is 22.98 and t_1-statistics is -3.956.β_1(-5,04E-05 in this model) and β_0(11.6 in this model) are significant at 5 % significance level.The critical value of F-statistic is 4.11 and true value of it is 15.65. Owing to 15.65>4.11, the model is significant at 5 % significance level.

IV. France's investment framework: implementing its methods in Uzbekistan: Why France attracts foreign investors is that tertiary fabric(including tourism) is highly developed, it has a vast industrial base, skilled and productive workforce being2nd European country in terms of hourly productivity and most importantly France has an investment-friendly business environment and relatively stable and transparent legal framework.[5] The Government of France have made many reforms to revitalize the economy in the country and to attract more investors. To illustrate, administrative formalities to establish foreign companies have been relaxed. Another stimulant is that the same subsidies are provided for foreign companies as French companies meaning that foreign companies can have more financial resources for R&D, to employ more skilled workers and improve their staff's both vocational and professional qualifications. Moreover, there are a number of organizations that improve business environment in France such as Business France which is an investment aid agency supporting the international development of the French economy.

It is clear from these observations that Uzbekistan can also enhance its business environment and attract foreign investors by introducing flexible regulations on companies which have foreign investment due to the fact that frequent amendments to laws also affect adversely the attitudes of investors towards the business environment in the country. Another pressing issue that should be paid more attention is the qualification and skills of human resources. This is the important factor for the development of every company and urges investors to invest their financial resources.

Foreign Direct investment inflows to France fluctuated over the 40 years from 1980 and 2019. However, if FDI net inflows in 2019 is compared to the quantity in the past period, for example in 1980 and 1990, it can be seen that it increased dramatically from 3282.77 mln US dollars in 1980 and 13183.29 mln US dollars in 1990 to 51038.71mln US dollars in 2019.(Figure2)

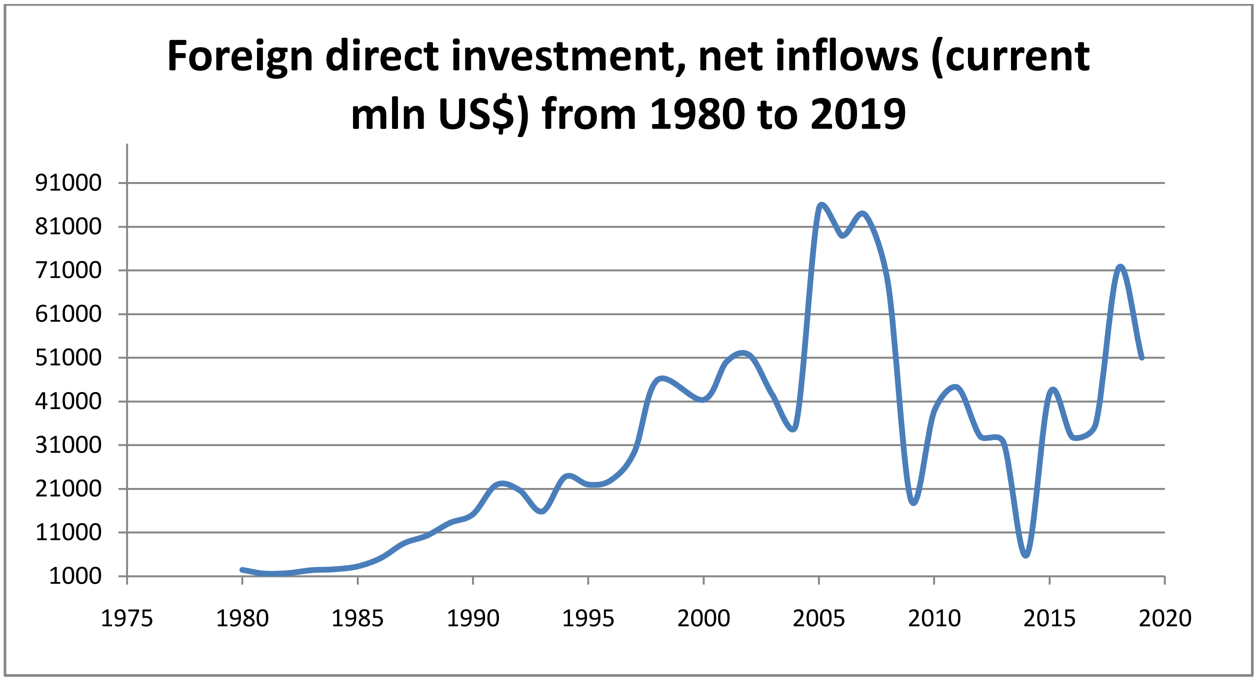
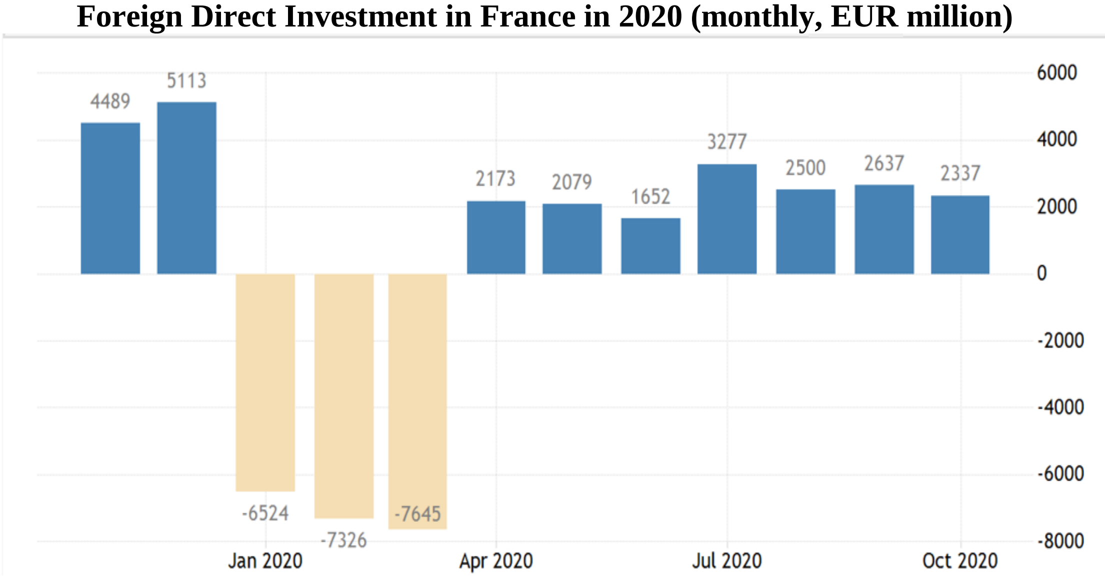


Figure2. Foreign Direct Investment net inflows from 1980 to 2019 in France.

According to the World Investment Report 2020, published by UNCTAD, FDI flows to France decreased by 11% to reach USD 34 billion (compared to USD 38 billion in 2018). This was mainly due to a decline in cross-border M&A sales of assets. France is the 13th recipient of FDI in the world. According to the Global Investment Trend Monitor published by UNCTAD, France was the 4th country receiving FDI flows during the first half of 2019, receiving USD 33 billion in FDI. Luxembourg, the Netherlands, the United Kingdom and Switzerland are the main investors in France and represent more than 50% of the stock of FDI.

Foreign Direct Investment in France in 2020 (monthly, EUR million)



Source: TRADINGECONOMICS.COM| BANQUE DE FRANCE

Foreign Direct Investments have suffered as a result of the coronavirus pandemic. While Foreign Direct Investments constituted 5113 million euros in December in 2019, it decreased sharply to -6524 million euros in January, -7326 million euros in February and finally -7645 million euros in March when lockdowns were by far the most strict than following months. It began to go up again in April when lockdowns started being relaxed. Foreign Direct Investments in France increased by 2337 million euros in October,2020.

CONCLUSION AND RECOMMENDATIONS: This study conducted an empirical analysis of FDI inflow's impact on on macroeconomic variables of GDP growth, inflation rate, unemployment rate, trade openness and export in France. From this research, it is obvious that there is a long-run relationship between these indicators. Due to the fact that there is a positive relationship between FDI inflows and economic growth, the country should embrace more investment to its economy. In this way, more population in the country can be provided with employment resulting in decrease in unemployment rate because unemployment rate is high at 10.4 % in 2020 according to IMF and this adversely affects young people and older workers.The analysis has also shown that there is a negative relationship between FDI inflows and unemployment rate. FDI inflows not only create opportunity to open up new businesses and enlarge companies increasing the quantity of goods produced in the country but also promotes innovations which serve to make the country's products competitive in the world market. The level of SMEs operating for export and investing in innovations is low in the country. Therefore, increase in FDI inflows to the country can have positive effects on its economy.There is a positive correlation between exports of goods and services and FDI inflows according to this study as well.

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