The Role of Investments in Stimulating Economic Growth
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Abstract
The formation of the global economy demonstrates the undeniable importance of investments in the sustainable development of any economic system. This study aims to highlight the trends in changes in investment inflows into the economic development of different world countries and to identify their impact on economic growth. The authors reviewed the main developments of various international scholars on the effects of attracting investments in the economy and ensuring its sustainable development. Both general scientific and unique research methods were employed while conducting this research. The authors monitored the changes in investment inflows on the example of middle- and low-income countries, particularly the United States and Ukraine. A selective study of the impact of investment on key indicators of economic development - gross domestic product and labor productivity - was conducted. The correlation between the studied factors is determined. The authors have outlined the main factors affecting the economies of countries. It has been found that geopolitical tensions and the outbreak of active hostilities in many regions facilitate the formation of an unstable world order marked by polarized discourses, decreased trust, and insecurity of national economic systems. These factors reduce the volume of investments by non-residents of the country. The authors have formulated the key aspects related to the impact of investments on stimulating economic growth in different world countries using the methods of analysis, synthesis, and generalization.

Keywords: Domestic Investments, Foreign Direct Investment, Sustainable Development, Gross Domestic Product, Unemployment, Development, Potential, Construction Enterprises, Management

INTRODUCTION
Economic investments play a crucial role in stimulating the economic growth of a country, region, sector, etc. It is an important mechanism that allows financial resources to be attracted to the development of various economic sectors. Investments help to introduce new technologies and increase the productivity and competitiveness of enterprises. They also help in creating new jobs and raising living standards. A stable economic environment, legislation transparency, and property rights protection are essential conditions for successful investment attraction. Therefore, it is vital to develop investment policy, promote innovations and create favorable conditions for the investment climate in the country.

LITERATURE REVIEW
Various international scholars have frequently discussed the importance of investments in developing national economies. In the early 1990s, economic growth was linked to three variables that are largely influenced by the quality of economic policy: the level of investment, the social rate of investment profit, and the investment-induced return on labor (Anderson, 1990).

Based on statistical and analytical data analysis for 2012-2016, Ukrainian scientists have proved that foreign direct investments are an additional source of economic growth. They have a positive impact on the socio-

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economic well-being of the host country, ensuring the growth of exports of goods and services and creating additional workplaces (Skorobogatova & Potapova, 2018).

American scholars have developed a structural dynamic model of the economic impact of foreign direct investment on the global economy, including the interdependence between trade and domestic investment and between the accumulation of physical capital and uncompetitive technological capital (Anderson et al., 2019). Trade openness allows developing countries to gain access to international markets, which enables them to export their goods and services. This stimulates economic growth by increasing local business revenues (Yedder et al., 2023).

The direct impact on economic growth through the use of the FDI-EG indicator was studied by Chinese scientists (Wang, Xu, Qin, & Skare, 2022). At the same time, they believe that if policymakers and consumers become more aware of the risks of biodiversity loss, there will be more long-term opportunities for environmentally friendly investment in technology and innovations (Gorte, 2024). It has been found that domestic public investment can help fill infrastructure gaps and create a favorable environment for private investments (FasterCapital, 2024). A diversified review study measures foreign direct investments and economic growth research from different perspectives. It reveals the fundamental features, conceptual structure, and thematic evolution of FDI-EG research. These measurement approaches integrate relevant research on the past, present, and future from the perspective of different elements.

Moreover, the evidence indicates that FDI-EG research is a popular subject or research topic in conjunction with other factors (Wang et al., 2022). In the case of developing countries, domestic investment and trade openness play a crucial role in economic growth. The following factors have determined the focus of this study: globalization of the economic system;

transformation of interstate relations;
changing political situation;
military aggression of some governments;
monitoring of investment climate on the global scale and in certain countries.

METHODS

During the study, we applied general scientific and special economic research methods. Based on the processing of the statistical database of the UNCTAD, OECD, UNSD, World Bank, State Statistics Service of Ukraine, and the Ministry of Finance of Ukraine, we determined the level of investment impact on economic development. For this purpose, various approaches and tools were used, namely analysis and synthesis, correlation, and comparative analysis of the main indicators of the global economy and specific countries. For example, economic and mathematical analysis allowed us to establish correlations between investment volumes and economic growth indicators (gross domestic product, labor productivity). In addition, this study employed benchmarking analysis to assess current investment, gross domestic product, and the unemployment rate. This allowed us to understand the impact of investment on economic development and make reasonable investment decisions. Structural analysis was used to analyze the allocation of investments by sources of revenue (Levitska et al., 2022). All of these methodological approaches helped us to form a personal vision of the role of investments in stimulating economic growth and to outline effective strategies for its acceleration.

RESULTS

Internal and external sources of investment in the country's economy play a crucial role in the economic growth of society. According to the development experience of different world countries, direct investments of non-residents significantly contribute to economic development. According to the classical definition, foreign direct investment flows are typically characterized by an increase in the balance value of net investments owned by an investor from one country into another and controlled by such an investor (Nikonenko et al., 2022). This is a category of cross-border investments when investors residing in one country establish long-term interests and significant influence over companies residing in another country. If an investor from another country owns
more than 10% of the company's voting rights in this country, there is evidence of such a relation. Foreign direct investment plays a vital role in international economic integration. They contribute to the creation of stable and long-term links between efficient economies. In addition, it is an essential channel for the exchange of technology between countries and foreign markets, an incentive for business development, as well as an exchange of innovations and knowledge, which contributes to the overall efficiency of the country's economy (OECD, 2024). They can be an essential tool for economic development by facilitating international trade through access to global trade. The positive impact of FDI on economic growth becomes stronger when financial development exceeds a certain threshold. Such a result can be observed when financial development is measured by both the banking sector and the stock market.

In fact, domestic investments and trade openness foster job creation in developing countries. These investments allow the creation of local businesses that require a workforce, which reduces unemployment and improves living conditions. In addition, domestic investments in infrastructure, technologies, and workers' training help to increase productivity at enterprises. (Tsimoshynska et al., 2021). This allows developing countries to produce more goods and services, which stimulates economic growth. In addition, trade openness facilitates the transfer of know-how and technologies from more developed countries to developing ones. As a result, local businesses are able to adopt more efficient and innovative practices, which increases their competitiveness and ability to export (Atstaja, et al., 2022).

On the other hand, domestic investments and trade openness promote economic diversification in developing countries. Instead of depending exclusively on traditional sectors, such as agriculture or raw materials, these countries can create new sectors, such as manufacturing, services, and information technology. Doing so helps to reduce their economic dependence and create a stronger foundation for long-term growth. Capital investments are progressing in terms of the importance of sustainable economic development. Such investments stimulate consumer spending and market demand, which contributes to an overall increase in economic growth. With an increase in household disposable income and a multiplier effect, the economy becomes more prosperous, allowing people to enjoy a greater choice of products and services (UNCTAD, 2024).

Investments play a crucial role in the economic growth of any country. In particular, middle-income countries heavily rely on investment to revitalize their economies and promote sustainable development (Figure 1).

![Graph showing correlation between growth of foreign direct investments and GDP over years](image)

**Figure 1:** Correlation between the growth of foreign direct investments into the economies of mid- and lower-developed countries

Source: World Bank Open Data (2024)

This analysis expresses annual percentages of GDP growth at market prices in constant local currency. GDP is the gross value added by all producers who are residents of the country, together with taxes on products and subsidies that are not included in the product price. This indicator is calculated without deducting depreciation of created assets or depletion or degradation of natural resources. Over the past ten years, there has been a trend of direct dependence on GDP growth and FDI on the economies of countries classified as medium and low-developed, excluding the time of the global crisis (COVID-2019).
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The war that began in February 2022 was the biggest test for the economy of Ukraine. It resulted in FDI growth of 0.23% in 2022 compared to 3.98% in 2021 and a significant decline in GDP (-29.10%) compared to 3.45% in 2021 (Figure 2).

![Figure 2: Correlation of foreign direct investment growth in the economy of Ukraine, 2012-2022](image)

Source: World Bank Open Data (2024)

Investments can take many forms, including foreign direct, domestic, and public investments. The type of attracted investments can also influence the success or failure of a country's economic growth. Ukraine has been devastated by Russian aggression, with economic losses estimated at hundreds of billions of dollars. Foreign investment is supposed to be the main source of Ukraine's recovery, but Ukraine is currently one of the 20 countries with the highest investment risk (the probability that investments will lose value or suffer losses) if all factors are considered (Figure 3).

![Figure 3: Top 20 countries by the level of investment risk, 2023](image)

Source: Damodaran, 2023.

In this case, the rating is based on a study by scholars from the Stern School of Business at New York University.
(Damodaran, 2023). Now, let us consider the changes in capital investment structure in the country’s economic development, as shown in the example of Ukraine in recent years (Figure 4).

Over the past year, the share of public and foreign investment, households’ funds, and bank loans and credits has significantly decreased, while the share of companies’ own funds has grown. Foreign direct investment encourages the development of new technologies, popularization of global knowledge and experience, stimulation of innovation, and increased productivity. On the other hand, public investments help to fill infrastructure gaps and create a favorable environment for private investment (FasterCapital).

Investments in infrastructure and sustainable development goals cover key issues such as fighting corruption, managing financial risks, integrating planning and budgeting, and defining best practices for project evaluation and selection. They also cover new areas in infrastructure management, such as maintaining and managing public infrastructure assets and building resilience to climate change (Schwartz, 2020).

Labor productivity plays a vital role in economic development in the modern world. There is a corresponding interdependence between FDI, nominal GDP, and labor productivity. The corresponding trend was typical for the Ukrainian economy during 2010-2022 (Figure 5).

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**Figure 4:** Structure of capital investments in Ukraine by financing sources, %

Source: SSSU (2023)
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Figure 5: Correlation between nominal GDP, foreign direct investment, and labor productivity in Ukraine, 2020-2022.
Source: Ministry of Finance of Ukraine (2024)

The statistical indicators related to the decline in industrial employment in Ukraine, the abandonment of complex mechanisms of interest rate influence on the country’s economy, and the reallocation of resources to less productive sectors have affected the overall development of the economy. It is also important to note the institutional shortcomings regarding innovations in Ukraine, which may slow down and limit the pace of technological progress (Kruhlov et al., 2023). Also, an inefficient patenting system, complex bureaucratic procedures, and high research and development costs may complicate the introduction of new technologies into the industry (Kalina et al., 2022). Therefore, the analysis of labor productivity and industrial employment statistics in Ukraine provides an opportunity to better understand the economic processes taking place in the country.

An analytical study based on a correlation analysis of the interdependence of investment in the US economy showed an inverse correlation with unemployment (correlation coefficient is equal to -0.46082) between 2020 and 2022. A correlation was found between nominal GDP and investment (correlation coefficient is equal to -0.22034) and unemployment rate (0.7608) (Figure 6). It is crucial to take into account all these aspects to increase the competitiveness of each national economy and the development of society in general.

Figure 6. Dynamics of nominal GDP, economic investment, and unemployment rate in the United States
Source: UNCTAD (2023); United States GDP - Worldometer. (2024); UNECE (2024)
By measuring labor productivity and the statistical contradictions related to the decline in employment rates in the United States, it is possible to analyze little-known mechanisms of interest rate impact that cause the redistribution of the economy in favor of less productive sectors, as well as institutional shortcomings of innovations in the United States that investors are not familiar with (Adler and Siegel, 2019).

The XIX Global Risks Report warns that it will be challenging to avoid global shocks amid the rapid acceleration of technological innovation, economic uncertainty, and two dangerous crises: climate change and conflicts (UNCTAD, 2023).

Geopolitical tensions and the outbreak of active hostilities in many regions are contributing to an unstable world order characterized by polarized discourses and decreased levels of trust and insecurity. At the same time, these conflicts in various countries lead to an aggravation of international relations and pose a threat to international security. Under such circumstances, it is necessary to look for ways to resolve conflicts and promote a peaceful resolution. Simultaneously, countries are trying to cope with the consequences of extreme weather conditions. This is due to the fact that the efforts and resources aimed at climate change adaptation have yet to keep pace with the type, scale, and intensity of climate changes that are already occurring. The pressure on the cost of living continues to grow due to persistently high inflation and interest rates, along with prolonged economic uncertainty in most countries (Zahidi, 2024).

DISCUSSION

Investments play a crucial role in stimulating economic growth. They contribute to the development of various economic sectors and can have an additional positive impact on employment, production, innovation, and overall living standards (Danyliuk et al., 2020). Therefore, the main aspects of investments’ role in stimulating economic growth can be summarized in Table 1. As a result, it can be argued that investments act as a catalyst for the development of various industries and economic growth of the national economy.

<table>
<thead>
<tr>
<th>Influence factors</th>
<th>The role of investments</th>
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<tr>
<td>1. Increase of production and performance</td>
<td>Investments in new technologies, equipment, and infrastructure help to increase production efficiency. This, in turn, leads to an increase in gross output.</td>
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<td>2. Creation of new workplaces:</td>
<td>Investments in various economic sectors can lead to the creation of new workplaces, which reduces unemployment rates and increases the level of employment.</td>
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<td>3. Infrastructure development:</td>
<td>Investments in the construction and development of infrastructure (transportation networks, energy, and communications) improve the business environment and reduce transportation and production costs.</td>
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<td>4. Support for innovations:</td>
<td>Investments in R&amp;D and the development of new technologies contribute to innovative development, which in turn supports the economy’s competitiveness.</td>
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<td>5. Increasing exports:</td>
<td>Investments in production and infrastructure can increase export volumes, contributing to the country’s trade and foreign exchange income.</td>
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<td>6. Support for small and medium-sized enterprises:</td>
<td>Investments can be directed towards developing small and medium-sized enterprises, which is a crucial element of creating workplaces and developing entrepreneurship.</td>
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<tr>
<td>7. Better credit:</td>
<td>Investment can provide businesses with access to credits, allowing them to expand production and launch new projects.</td>
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<td>8. Attraction of foreign investments:</td>
<td>Encouraging foreign investment can facilitate an exchange of technologies, knowledge, and resources, which can help to develop the economy.</td>
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Although investments are essential for the economic and social development of every country, they are even more important for the least developed countries. Least Developed Countries (LDCs) are typically marked by a heavy reliance on a few sectors that generate little income for local producers, such as agriculture, and extractive industries, such as mining, logging, and fishing. Investments, including foreign ones, can help countries move up the value chain into more profitable sectors. They also contribute to production and employment growth and expand opportunities to participate in global value chains.

Investments linked to national enterprises can further accelerate development through technology transfer and skills acquisition, as well as lead to positive effects within and across sectors (Klochan et al., 2022).

However, it should be noted that current foreign investment does not automatically lead to increased or improved employment in the host country. Political commitment, policy coherence, and effective institutions are essential to ensure inclusive economic growth and decent work, as well as to encourage responsible business
behavior by foreign investors. Investments should be aligned with national development priorities to allow beneficiary countries to fully reap the benefits of investments (ILDC, 2024).

It is imperative that more capital is directed to companies that improve their understanding of biodiversity loss drivers and provide products and services that reduce these drivers. According to the Intergovernmental Platform on Biodiversity and Ecosystem Services (IPBES), there are five direct drivers of biodiversity loss: land and sea use change, overexploitation, climate change, pollution, and invasive species. Investors may still need to fully understand the opportunities arising from biodiversity loss, but they can start by looking at page 1 of the Climate Change Investment Guide. Given the enormous value of nature to humanity and the economy, we believe that as policymakers and consumers become more aware of the risks of biodiversity loss, there will be more long-term opportunities to find solutions that reduce or eliminate these risks. In other words, investors should pay more attention to areas where these opportunities are already emerging (Gorte, 2024).

Capital investments enable research and development, which is the first step to bringing new products and services to market. Additional or improved means of production increase labor productivity and efficiency of enterprises. New equipment and facilities help to produce more products at a faster rate.

CONCLUSION

At the current stage of global economic development, investments play an essential role in stimulating economic growth in different countries. Investments help accelerate production, develop technologies, create new workplaces, and improve the quality of life for people. Countries that actively attract investments have fairly rapid economic development and high competitiveness in the international market. Investments can be both domestic and foreign, and both types affect the country's economy. An essential condition for effective investment is the stability of the political situation, compliance with laws and legal regulations, as well as the proper use of the attracted funds.

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