# THE PRACTICE OF USING THE INSTRUMENTS OF INCENTIVES OF FOREIGN DIRECT INVESTMENT BY FOREIGN COUNTRIES

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A favourable business climate is important for attracting the foreign direct investment (FDI). Undeveloped business environment hinders economic development and may deter potential investors. FDI is the largest source of external financing in developing countries and countries with economies in transition. Now the issue of creating an effective mechanism of stimulation of FDI is especially important for all countries, including Ukraine. Indeed, in practice, even countries with relatively low levels of FDI can significantly affect the volumes through interventions to improve the business climate. Given this, there is a need to determine the most efficient tools, methods, and incentives for FDI in the world.

There are many classifications that would determine the major determinants of FDI. So, the main determinatives of foreign direct investment are the size of the market, openness, labour costs and productivity, political risks, infrastructure, and taxation.

Accordingly, government support is one of the main activities under the FDI policy. Governments provide many incentives for foreign investors (financial and tax incentives) and thus remain the main driving force in attracting FDI. In addition to fiscal or tax incentives, countries offer financial incentives, which are defined as “direct contributions to the company of government” (including direct subsidies to capital, soft loans or specialized infrastructure).

Countries use the preferences to foreign investors, which included tax benefits and special privileges to encourage volumes and dynamics of investment growth. The most common tax privileges for enterprises with foreign capital are reducing income tax and tax holidays. Successful examples of using instruments to stimulate investment are China, Ireland, Japan, the EU, and the USA.

Creating a transparent system of investment incentives can provide the expectations of foreign investors and intensify foreign investment. Government policy in the area of FDI should be adapted to most key sectors and regions. Effective financial, tax, and other incentives are capable of greatly affecting the inflows of FDI into the country.