

Historical Origins of Modern Theoretical Concepts of Foreign Investment

VITALII HRAMOTNIEV¹

ANNOTATION. The article analyses the evolution of the scientific theory of foreign investment from ancient times to modern times, which is an important task that allows to understand the historical roots and development of foreign investment concepts, as well as to identify the main trends and changes in approaches to this phenomenon over time. From the perspective of the concept of empiricism, the author examines the relationship between the process of formation of the scientific paradigm of foreign investment and socio-economic, moral and ethical factors inherent in the key stages of development of human civilisation in the specified period of time. Based on the study of works by ancient Greek and Roman thinkers and statesmen, the author identifies early forms of foreign investment, various factors that contributed to their emergence and limited their development in antiquity, and the peculiarities of the awareness of this economic phenomenon by these thinkers. The works of historians of economic science and the legacy of scholars of the Middle Ages have made it possible to trace the technological, political and economic factors that influenced foreign investment in this period. Particular attention is paid to the changes that occurred in the Middle Ages in the scholastics' understanding of economic activity in general and investment in particular. This approach, applied to the works of the classics of economic science of the Modern and early Modern periods, made it possible to trace the impact of key events in economic history of that time, including the commercial, financial, and industrial revolutions, on the scientists' understanding of international capital flows, as well as the political and economic factors influencing them. The analysis of the evolution of the scientific theory of foreign investment has made it possible to identify its main stages, the periodisation of which is related to the process of liberation of economic freedom of an individual from moral, status, religious and state restrictions that prevailed in different epochs of the studied period of history. This result helps to better understand the historical contexts and factors that have shaped modern concepts and practices in the field of foreign investment. This will help to identify the main challenges and opportunities for the future development of foreign investment and ways to address them. The knowledge gained will be useful for the development of more effective foreign investment strategies, as well as for the design of policies that promote sustainable economic development.

KEYWORDS: foreign investment, evolution of the theory of foreign investment, historical development of the concept of foreign investment, progress of scientific understanding of foreign investment, historical analysis of scientific perception of international investment.

¹ **Vitalii Hramotniev** — PhD in Economics, Deputy Director of the Institute for Strategic Studies “New Ukraine”. Scientific interests: international economic relations, foreign direct investment, approaches and methods of attracting it. E-mail: gramotnev.vitaliy@gmail.com ORCID: <https://0009-0009-2511-4649>

Introduction

In economic science, the modern term "foreign investment" is a complex concept that includes a variety of investment strategies to generate profits or achieve other socio-economic goals. The term also covers investments in securities, shares and banking assets. The diversity of interpretations of "foreign investment" in the modern economic literature is explained by the constant development of investment theories and their adaptation to changing market conditions and social environment.

Despite the fact that the essence of this economic phenomenon remains stable over time, the forms of its implementation in economic reality are changing. This is due to the fact that investment activity of foreign economic entities is carried out in specific historical conditions that affect the results of research on the essence of foreign investment by economists in different periods of time and in different countries.

The generally accepted "starting point" in the development of specialised and scientifically based theories of foreign investment is the late 1950s and early 1960s, after which the studies of S. Hymer, R. Caves, R. Coase, P. Buckley, M. Kesson, A. Rugman, R. Vernon, J. Kindleberger, G.J. Johnson, R. Lacroix, and D. Dunning were published.

However, some evidence of economic activity close to the modern meaning of foreign investment was noted much earlier. Such facts and attitudes can be found in the works of Plato, Aristotle, Xenophon, Cicero, Columella, Thomas Aquinas, Adam Smith, David Ricardo, John Mill, etc. However, the study of the history of economic doctrines and economics of ancient times, including such classics as A. Marshall, J. Schumpeter, M. Finlay, T. Frank, D. Gilchrist, D. Davies, K. Beloch, D. Munro, O. Perlwitz, R. McInree, F. Schaub, W. Scheidel, M. Stringer, P. Temin, W. Thompson, W. Westerman, W. Durant, and I. Kulisher are mostly either too general or specialised and do not focus on the process of forming the foundations of scientific understanding of foreign investment, which became the basis for the emergence of specialised theories in the late 1950s.

Given the above, the purpose of this study is to conduct a retrospective analysis of the evolution of the theory of foreign investment from ancient times to the beginning of modern times in order to periodise the stages of its development, to identify specific socio-cultural, religious and ethical factors that determined the trajectory of the said evolution.

To solve this problem, the author used a combination of general scientific and special research methods, in particular: generalisation and comparison – for systematisation, critical rethinking of scientific achievements of philosophers, thinkers, economists of different eras; graphical – for visualisation of information on the evolution of the theory of foreign investment and the impact of certain factors on it.

Preconditions and Examples of Foreign Investment in the Light of Ethical and Economic Concepts in Ancient Greece

Classics of economic science believed that economic activity in ancient times was less developed, and scientists' views on economic phenomena were primitive. In his work, A. Marshall argues that the Greeks did not feel a great need for economic activity due to favourable natural conditions, and therefore: "knew little or nothing about the economic problems that are the focus of attention in our century"².

In doing so, he relies on Plato and Aristotle, who indeed express their negative opinion of trade. For example, Plato, while generally acknowledging the need for trade, both internal and external, nevertheless believes that this activity encourages a citizen to seek excessive enrichment, hence: "That is why the occupations of a small trader, a large merchant... are in a bad account and are recognised as extremely shameful"³. Considering merchants to be persons engaged in trade with other cities and states, Plato expresses concern about the negative consequences of foreign trade for the state: "The sea fills the country with the desire to profit by means of large and small trade, instils hypocritical and deceitful habits in the souls, and citizens become hostile to each other and to other people."⁴ Aristotle, exploring the question of the best organisation of the state, as proposed by Plato, emphasises the indecency of engaging in trade: "in the state... citizens should not lead the life of... traders (such a life is ignoble and contrary to virtue)"⁵, and as for money loans, he speaks extremely negatively: "usury is justifiably hated... This kind of profit is mostly contrary to nature."⁶

At the same time, it is important to take into account that the above-mentioned considerations of Plato and Aristotle concerned their ideas of the ideal state, but this did not mean the rejection of trade and other economic activities in their era. Even with this in mind, it is difficult to fully agree with Marshall's view that the ancient Greeks were completely ignorant of modern economic issues. Most modern scholars of ancient economics agree that Greece reached its peak of economic and cultural development in the classical period, namely in the 5th to 4th centuries BC. Attica and its centre, Athens, were the engine of economic growth in the ancient world during this period.

Historical sources indicate that despite the relative backwardness of the economy, the ancient Greeks were familiar with the desire to invest in a

² Marshall A. Principles of Economic Science Volume 1. Progress. C. 45.

³ Plato. Laws, book XI

⁴ Plato. Laws, book IV

⁵ Aristotle. Politics, VIII, 2

⁶ Aristotle. Politics, III, 23

broad sense, which Pierre Massé, a famous French economist and public figure, described as: “the act of taking pleasure in a future type of current investment good”⁷. When studying how household owners managed their businesses in Xenophon's *Oikonomia*, we gain important insights: “My father managed his own household in this way and taught me how. He never allowed me to buy land that was well cultivated, but that which, through the negligence of the owners or because they lacked funds, was neither cultivated nor planted, he advised me to buy... I assure you, Socrates,” he continued, “that thanks to our efforts, the value of many plots of land has become many times greater than the original.”⁸ However, Xenophon does not consider other methods of capital accumulation, and in this particular example, the capital that is invested is limited to the money spent on land, the personal labour of the owner and his slaves. The ancient Greeks also invested in mining. The most famous example is the concessions for the development of the Lavrian mines, which were the main source of silver for coinage in Athens at the time. Xenophon's work even mentions that foreign capital was involved in the development of the mines: “In any case, it (*the state – author's remark*) allows even any foreigner to develop mines, provided that he pays taxes on an equal footing with citizens.”⁹

Another special area for foreign investment, which was typical for ancient Greece, was the economic activity of the *meteks*, who were residents of ancient Greek cities who, despite their lack of citizenship, actively participated in their economic life. Professor Kulisher notes that the resettlement of people from remote areas to the major cities of Ancient Greece also had its own economic motives: “Economic growth was concentrated in a few places. Trade and industry developed here... No wonder that among the places where emigration went... Athens is on the first place, then Rhodes and Delos.”¹⁰ Also, in the work of the same author, we find information about the measures taken by the rulers of ancient Greek polises to attract foreigners to their territory and the realisation that the invested capital would contribute to the development of the state: “this... will attract all noble persons to Athens, who will increase the city's income.”¹¹

In the fifth century BC, one of the most prominent foreign investors in Athens was Kephalos, a successful entrepreneur and respected citizen of Syracuse. Around 451 BC, he moved to Athens at the invitation of the prominent statesman Pericles. Having no citizenship in the city and being a *metekos*, he invested his capital in setting up his own business — the production of shields. This was at a time when Athens' wars with other poli-

⁷ Masse P. Criteria and methods for optimal determination of capital investment. — MOSCOW, 1971, P. 27.

⁸ Xenophon. *Oikonomia*. Chapter 20

⁹ Xenophon. About the profits. Chapter 4

¹⁰ Kulisher I. Outline of the economic history of Ancient Greece. L.: Sivach Publishing House, 1925. C. 119

¹¹ Kulisher I. An Essay on the Economic History of Ancient Greece. C. 120

ties were high on the agenda, so Kefalos' products were very well known and sought after, allowing him to expand production to an extraordinary size for the time. The profits made by the Kefalos family from this and other types of production made them one of the wealthiest families in Athens by 404 BC.¹² His success in business and active social life made Kefalos a prominent figure in Athens. He became such an important figure that Plato himself included him among the characters in his work *The Republic*. In this work, Kefalos is a person who expresses his views on what is good for a rich man.¹³

Although the ancient Greeks already had elementary forms of investment activity, as well as examples of foreign investors in their economic life, we do not find in the works of ancient philosophers any attempts to single out this form of activity for study. In my opinion, the main reason for this is the close connection between the level of knowledge about a subject and the accumulated experience of its observation and sensory perception. This connection is considered within the framework of the philosophical doctrine of empiricism, which states that all knowledge arises from experience and perception. According to empiricists, the mind cannot understand a subject in a generalised way until it is confirmed by sufficient sensory data. This means that the researcher's understanding of the object of study at any given time directly depends on the availability and development of scientific means of knowledge.

To begin with, according to the research of a well-known scholar of the economics of ancient civilisations, M. Finlay, the ancient Greeks did not have words that would exactly correspond to the terms used by modern economists: "...basic terms such as labour, production, capital, investment, income, circulation, demand, entrepreneurship, utility, at least, cannot be found translated (*in ancient Greek – author's remark*) in the abstract form required for economic analysis..."¹⁴ Finley points out that the ancient Greeks were engaged in trade, production, mining, paying taxes, making coins, investing and lending money, making profits or suffering losses. However, they did not consider these activities as interconnected components of the modern economic process. It is worth noting that the ancient Greek thinkers' study of economic phenomena was dominated by an ethical approach. For Plato, the main goal and result of a just state, including its economy, was to achieve the piety of citizens. At the same time, the concept of capital, described in terms of property, wealth or money, was almost always considered in terms of the ethical nature of the ways of acquisition or laziness and depravity arising from excessive self-interest: "But it is impossible to be both very good and very rich at the same time" – we

¹² JK Davies. *Athenian Propertied Families, 600-300 BC* New York: Oxford University Press. 1971. P. 587-590

¹³ Plato, *The Republic*, Book I

¹⁴ Finley M. *The ancient economy*. University of California Press. Berkeley and Los Angeles. 1973. P. 17

find in Plato¹⁵. A characteristic sign of the distance from the modern understanding of capital investment in Plato's economic concept is the way he portrays rich people: "like savages, they worship gold and silver, they have storerooms and house vaults to hide it all, they surround their dwellings with fences, and there, just like in their lair, they spend, without regard for the cost, on women and on anyone else."¹⁶ Here and elsewhere in his works, excess money or other property is not invested as a capital investment, but is merely stored in chests as "dead weight" or lent to others, dissolving both the creditor and the debtor.

Aristotle is considered to be a pioneer of economic science, as he was the first to realise the meaning of the concepts of capital and investment and their connection with productive human labour. His approach to these concepts remained within the framework of ethical norms, where the accumulation of the necessary property for life was considered natural, but the acquisition of excess wealth was considered unworthy: "And since physical pleasures are abundant, such people seek the means that would provide them with this excess of pleasures... This is what I think it is necessary to say about the art of making a fortune that is not necessary... As for the art of making a fortune that is necessary...: the necessary art belongs to the domain of the household, it corresponds to nature."¹⁷ In this way, he distinguishes between the art of unproductive self-interest, which is condemned, and the science of wealth accumulation. This forms the conceptual basis for understanding investment as an active process of investing capital to increase its value.

Aristotle shows a limited understanding of the practical ways of accumulating wealth. He speaks of trade in a somewhat detached manner, considering it artificial, and condemns usury in its entirety as a violation of the natural order. In his view, the essence of the art of wealth accumulation lies in the skill of efficiently and prudently acquiring the necessary things: "the objects of possession: which are most useful, where and how to get them; for example, in acquiring horses, cows, sheep, as well as other domestic animals...; then one must be knowledgeable about agriculture... These are the most essential initial parts of the art of making a fortune in its own sense."¹⁸ It can be seen that in many methods of increasing wealth, Aristotle does not take into account the possibility of investing money or other capital in the creation of new enterprises or the expansion of existing industries.

It is important to note that the term "economics", introduced by Aristotle into scientific use, is formed from two ancient Greek words: "oikos", which

¹⁵ Plato. *Laws*, Book IV

¹⁶ Plato. *The Republic*, Book VII

¹⁷ Aristotle. *Politics*, Book I, Chapter III

¹⁸ Aristotle. *Politics*, Book I, Chapter IV

means house or household, and "nom/nem", which means management or organisation. The word literally meant the art of managing a particular household. This is also confirmed by the work of Xenophon, which is translated into Ukrainian as "Oikonomikos" («*Οἰκονομικός*» – *translator's remark*) and contains advice on how to teach his wife to refrain from luxuries and choose an experienced manager for household affairs. The experience of observing the economic life of ancient Greek scholars was limited, on the one hand, due to its fragmentation and underdevelopment, and on the other hand, it was distorted by ethical norms. In addition, they lacked proper methods of scientific research. Plato and Aristotle were not only pioneers in the theory of the state, but also in the development of methods and laws of formal logic, without which scientific knowledge is impossible.

Having identified the root causes of the absence of the concept of foreign investment in the works of ancient scholars, it is advisable to consider from the point of view of modern economic science the obstacles that prevented the development of this phenomenon in the economy of Ancient Greece. The main reason for this was the insufficient concentration of capital in policies. Finley also confirms this, saying: "there was no surplus of capital looking for more profitable investment opportunities..."¹⁹

Financial capital in ancient Greece was mainly expressed in the form of bankers' offices, which were already notable for their similarity to modern banks. The trapezites, the owners of these offices, initially played the role of money changers, servicing the foreign trade of the largest ancient Greek polises, many of which had their own coins. Demosthenes' speeches concerning the Passion banking office suggest that the concepts of loan, interest, collateral and other attributes of lending existed in Greece, particularly in Athens. However, researchers doubt the extent of this phenomenon, as, firstly, the office of Passionus appears to be an exception to the rule; secondly, it and other offices mainly serviced only individual policies; and thirdly, the issuance of loans was mainly related to the maritime grain trade. A well-known researcher has found only two cases of loans issued by banking offices in ancient Greece for production, and only five for personal consumption.²⁰

The concentration of industrial capital was also low. Most craft workshops were small or medium-sized, with the owner working with his family and 2-3 slaves, or, in the case of larger workshops, with 10-15 slaves. Cases when the number of slaves exceeded these limits were rare. For example, Demosthenes, the famous Athenian orator, owned two workshops: the first employed 20 slaves and the second 32. However, the workshop owned by Kefalos was an exception, with more than 100 slaves working there.²¹

¹⁹ Finley M. The ancient economy. University of California Press. Berkeley and Los Angeles. 1973. P. 158

²⁰ Thompson Wesley E. The Athenian Entrepreneur. In: L'antiquité classique, Tome 51, 1982. P. 55

²¹ History of Ancient Greece. M., 1972. C. 174-176

In ancient Greece, slave labour was the basis of the economy, which made it impractical to invest abroad in search of cheaper labour. Instead, it was more lucrative to conquer foreign settlements, rob their inhabitants and enslave them. This practice was supported by public morality and brought more profit than investment in production. One of the evidences of this is the legendary stories "The Iliad" and "The Odyssey", which describe numerous attacks of Greek heroes on other cities and thefts, including slaves and cattle. The movement of capital between the polities was extremely difficult. Compared to similar obstacles in the nineteenth century, as described by the classics, ancient times were even more difficult. Foreigners in the polis did not have full civil rights and were obliged to pay taxes and perform duties with only limited rights. Property ownership of foreigners who did not have special privileges was not protected by law.

The model of economic behaviour of citizens of ancient Greek cities and Athens, in particular: "tended to be more about acquisitiveness than production. The Athenian was a rentier, not an entrepreneur, who occasionally took out a loan to buy or improve land or to finance the production of goods".²² The conclusion that we can draw is that the ancient Greek economy was characterised by low levels of capital concentration and institutionalisation, widespread slave labour and a policy of conquest. These factors resulted in little motivation for the inhabitants of ancient Greek cities to invest in the economy of their polities or beyond. The lack of consistency and fragmentation of economic development did not create an appropriate basis for the development of a theory of foreign investment or a general concept of the economy as a system. However, the basic concepts of economic science proposed by Aristotle and the tools of formal logic he developed served as the basis for further development of the understanding of foreign investment in the future.

Social and historical imperatives of the evolution of investment activity and views on it in ancient Rome

The next key period in human history after the rise of Ancient Greece was the era of Ancient Rome, which not only inherited the achievements of Greek culture but also continued to enrich them. In particular, during the Roman Empire in the second century AD. Rome reached a high level of development, which created certain prerequisites for intensifying investment activity in the economic life of its inhabitants. Compared to Ancient Greece, the economy of Ancient Rome was characterised by a greater concentration of capital in various sectors. The infrastructure of the Roman Empire stimu-

²² Thompson Wesley E. The Athenian Entrepreneur. In: *L'antiquité classique*, Tome 51, 1982. P. 53

lated the successful development of agriculture thanks to fertile soils and a favourable climate, which contributed to the yield of grain, vegetables, grapes and olives. Supported by a steady stream of slaves, the agricultural sector benefited from cheap labour. In addition to small farms, large latifundia emerged, operating thanks to numerous slaves. The conquest of new territories and the construction of roads increased the availability of useful resources, which stimulated the development of the craft industry, including the production of weapons, ships, ceramics, textiles, etc.

The social structure of the Roman Empire, which included the nobility and horsemen, large landowners and traders, contributed to the concentration of financial capital and monetisation of the economy. The development of banking and trade created conditions for the exchange of coins, acceptance of deposits and provision of loans. Banking in Greece began to develop even before the arrival of the Romans and continued to exist in large cities after the arrival of the Empire. The most famous banking institutions were located on the island of Delos, where both temple and private offices operated.²³

The Roman Empire made a significant contribution to creating the conditions for foreign investment not only through the concentration of capital, but also through the opportunities it provided for exports and imports. Peter Temin confirms this fact in one of his publications: "The Greek city-states created political conditions that ensured internal stability, but the Romans were the first in the West to provide a large territory where business could be done relatively safely." Agreeing with Peter Temin, it can be noted that by creating the Pax Romana, the Romans created the conditions for the export of capital to the provinces. The expansion of the Roman Empire greatly facilitated the movement of capital by building a network of imperial roads, reducing the risks of travel, improving the exchange of information between regions, and introducing a single currency and administrative procedures. These factors allowed the provinces to develop the production of various goods based on their own comparative advantages.²⁴

The controversy over the investments of the Roman nobility and financial intermediaries in the provinces of the Empire remains relevant. On the one hand, the provinces that were conquered and incorporated into the Empire actually lost their foreign status, so investments in such objects should formally be considered domestic. On the other hand, the Empire was dominated by a worldview model that recognised Rome as the only centre of civilisation, and territories outside it were considered barbaric. This led to certain limitations in the possibilities of safe and profitable investment outside the Empire. Thus, the newly acquired provinces in this

²³ Temin P., *The Economy of the Early Roman Empire*, *Journal of Economic Perspectives* — Volume 20, Number 1 — Winter 2006 — Pages 133-151

²⁴ Scheidel W., *The Cambridge Companion to the Roman Economy*. Cambridge University Press; 2012. P.1-22

model can be seen as analogous to foreign countries in the modern sense of foreign investment. This also explains the tendency that: "The surplus capital of the Romans... followed the armies advancing inland for centuries" and "Roman entrepreneurs usually avoided politics and invested in real estate in distant lands or in private banking offices that did not attract attention"²⁵. Indeed, historical sources confirm the popularity of land and real estate outside the Roman Empire as investment targets for the Roman nobility. For example, the wealth of the prominent Roman orator, thinker, writer and politician Marcus Tullius Cicero consisted mainly of land plots in both rural and urban areas. His speeches and letters contain references to land ownership both in provinces close to the Apennine Peninsula, such as Etruria, Lucania and Sicily, and in more distant regions, such as Gaul (modern France and adjacent territories) and Asia (the territory of modern Turkey and adjacent regions).²⁶

Practical calculations of the comparative profitability of investments in viticulture on the lands acquired by Roman investors are given in the work "On Agriculture" by Lucius Columella. According to the author, such investments consist of the following costs:

- purchase of a land plot of 7 jugers, which is approximately 1.76 hectares, for 7 thousand sesterces;
- purchase of one employee (slave), for which it is recommended to allocate up to 8 thousand sesterces;
- costs of planting material, tools and materials in the amount of 14 thousand sesterces.

The total cost is 29 thousand sesterces. If this capital was placed in a bank for 2 years at 6% per annum, according to Columella's calculations, it could bring a profit of 3,480 sesterces, or 1,740 sesterces per year. However, if this capital was invested in viticulture, then, according to the author, the annual income could be at least 2,100 sesterces. Thus, Columella proves the feasibility and profitability of investing in agriculture both in Rome and in the provinces.²⁷

Recent archaeological discoveries concerning the remains of wine production equipment in the former Roman provinces of Gaul, Spain, Italy, as well as in the Black Sea region and North Africa, indicate that owners of large land holdings with vineyards made serious investments in the purchase and installation of expensive technological equipment for large-scale agricultural production. This production was aimed both at meeting the needs of the local market and at exporting to the metropolis.²⁸

²⁵ Frank T., *An Economic History of Rome*. Kitchener . 2004 P. 147, 86

²⁶ Cicero, M., *Speech in defence of Lucius Valerius Flaccus*, 70; *Speech in defence of Marcus Caelius Rufus*, 73; *To Publius Quinctus*; *To Marcus Tullius*; *To Marcus Fontaine*; *First Agrarian Speech*; *Letters to relatives*

²⁷ Columella L., *On Agriculture*. Book III, III

²⁸ Hobson, M. *The African Boom? Evaluating Economic Growth in the Roman Province of Africa Proconsularis*, PhD thesis, University of Leicester. 2012

Representatives of the Roman nobility, wishing to expand their investments beyond the agricultural sector, were somewhat cautious not to tarnish their reputation. They avoided direct involvement in financial transactions and tried to use the services of financial intermediaries. These intermediaries provided opportunities to make high-yielding but risky investments, including those involving the provinces. For example, Atticus, a colleague of Cicero, is known for his loans to Greek polities and his involvement in various commercial projects in the East of the Empire.²⁹

The Roman Empire's system of aggressive expansion and social organisation limited the possibilities for the development of investment activity in general and foreign investment in particular. According to some researchers, the imperial policy aimed at conquering resources reduced the need for investment both within the country and abroad. Instead, the inflow of war spoils played a significant role in the economy. As W. Durant notes: "The contributions levied from Carthage, Macedonia and Syria, the slaves that flowed to Rome after each success on the battlefields, the precious metals captured during the conquest of Cisalpine Gaul and Spain, the 400 million sesterces from Antioch, 4503 pounds of gold and 220,000 pounds of silver... — these and other unexpected acquisitions over half a century (202-146 BC) turned the wealthy classes of Rome into such unheard-of rich people as only monarchs had ever been before."³⁰ According to this author, the spoils of military campaigns did not contribute to the development of crafts, industry or other productive spheres, but rather encouraged more and more sophisticated consumption. The amount of money in Rome grew rapidly, exceeding the growth rate of production. "The gradual conquest of Italy and the provinces absorbed the surplus capital and population, so there was no urgent need to develop industry and trade. Income from small investments in land and business was enough to maintain the welfare of the people, and soon they (*the Romans* — author's remark) plunged into idleness."³¹

With the help of cheap slave labour, which for a long time was an important incentive for expanding production and accumulating profits, the need for investment, including foreign investment, was reduced. Regardless of the different points of view of historians on the number of slaves in Roman society, they all agree that this category of the population was a significant part of it. For example, the nineteenth-century French historian A. Vallon suggested that there was one slave for every one free citizen.³² A German historian of the late nineteenth and early twentieth centuries,

²⁹ Perlwitz, O., Titus Pomponius Atticus: Untersuchungen zur Person der Kontrol einflussreichen Ritters in der ausgehenden römischen Republik . Stuttgart. 1992 P. 25

³⁰ Durant W. Caesar and Christ — Moscow: KRON-PRESS, 1995. C.100

³¹ Frank T., An Economic History of Rome. Kitchener. 2004 P. 68

³² A. Vallon, History of Slavery in the Ancient World. Vol. II, OGIZ Gospolityvdav, Moscow, 1941, pp. 316-317.

J. Beloch, argued that there were approximately 3 slaves for every free citizen.³³ American historian W. Westerman believed that there were approximately 2 slaves for every free citizen.³⁴

The dominance of the military-conquest model of economic development was one of the many reasons for the decline of ancient Rome, starting with a slowdown and then cessation of expansion. Most of the trophy revenues were not used to develop productive activities, but were used to pay for imported food, metals and industrial products. Some of these funds were spent on luxury goods, which was due to the peculiarities of the empire's social structure. Representatives of the upper classes — the nobility and horsemen who held high positions — had to demonstrate their status by making luxurious purchases, which affected their investment behaviour. The rulers of Rome tried to limit the "flight of capital" and direct investments into the economy of the empire. For example, during the reign of Emperor Tiberius, the Senate imposed an obligation on the wealthiest citizens of Rome to invest most of their wealth in Italian lands. However, this led to a financial crisis, when many banks declared bankruptcy, and only the cancellation of this obligation and anti-crisis measures helped to stabilise the economic situation.³⁵

No less than economic reasons, the investment opportunities of the nobility and horsemen were limited by ethical norms inherited from ancient Greece, and in some cases even enshrined in the relevant laws. In his treatise *On Duties*, Cicero explicitly states that his views on the acceptability of certain economic activities are based on "precepts" that condemn usury and tax collection that arouse hatred in other people. In addition, Cicero has a negative attitude towards speculation, which he understands as the immediate sale of newly acquired goods for profit. He also condemns all artisans without exception, considering their occupation shameful. In contrast, he considers agriculture to be the most noble occupation.³⁶ Of all the types of craft production, only "brick making was the only type of industrial production that a Roman aristocrat could not be ashamed of being associated with profit"³⁷

The economy of the Roman Empire was becoming increasingly vulnerable to internal and external challenges due to the inability of emperors and the elite to channel capital into the development of productive industries. Along with other factors, this led to increased dependence on external sources, in particular, on imports of food and other essential resources. This

³³ KJ Beloch, *Die Bevölkerung der griechisch-römischen Welt*, Leipzig: Duncker & Humblot, 1886, P. 392-394

³⁴ Westermann W., *The Slave Systems of Greek and Roman Antiquity*. The American philosophical society. Philadelphia. 1955 P. 63-149

³⁵ MK Thornton and RL Thornton. The Financial Crisis of AD 33: A Keynesian Depression? *The Journal of Economic History*. Vol. 50, No. 3 (Sep., 1990), pp. 655-662

³⁶ Cicero, *On Duties*, Book I, 150

³⁷ Frank T., *An Economic History of Rome*. Kitchener. 2004 P. 123

complicated the economic situation and reduced the empire's resilience to external challenges, which played a role in the subsequent decline of Rome — "...the power of Rome turned into a political ghost that survived its economic death."³⁸

The understanding of economic processes by scientists and philosophers of the ancient Roman era was marked by progress due to the accumulated experience of their ancient Greek colleagues. At the same time, the understanding of the economy as an interconnected system of various activities, including investment, remained limited due to moral and methodological circumstances. Scientists of the Roman Empire, summarising the ethical approach of Greece to wealth and its acquisition, demonstrated the evolution of their views under the influence of historical and economic changes. For example, Aristotle in 335-322 BC in his *Politics* did not reject petty trade, as he saw it as a means of satisfying natural human needs through exchange.³⁹ Meanwhile, he considered wholesale trade aimed at enrichment to be artificial. In 44 BC, Cicero noted that: "...trade, if it is insignificant, must be considered a dirty business; but if it is extensive and profitable, when many goods are brought from everywhere and many people are provided with them without fraud, it cannot be disgraced. As you can see, profit is already recognised as one of the permissible motives for doing business, which, in principle, opens a moral and ethical window of opportunity for investment business."⁴⁰

The lack of an understanding of the economy as an integral system at the macro level hindered the further development of scientific thought in the ancient Roman world in this area. More progress was made in the study of certain aspects of the economy, mainly in agriculture. Instead of the ancient Greek Xenophon's views on agriculture, which may seem primitive today, there were more in-depth and specialised works on the organisation of agriculture by Cato, Varron and Columella. Their works contain not only practical advice on the organisation of agricultural enterprises, but also the beginnings of scientific terminology that allows us to describe the investment process. For example, M. Stringer studied the evolution of ideas about costs and revenues over three centuries, showing how they were described by ancient Roman scholars. Cato used the term "sumptus" for all the costs of setting up a new enterprise, while Varro's writings included the term "impensa", which reflected the costs of the operational phase of the project. Columella considered the relationship between investment and income. However, none of these authors made a clear distinction between the concepts of income, gross profit and net profit.⁴¹

³⁸ Durant W. Caesar and Christ — Moscow: KRON-PRESS, 1995. C.717

³⁹ Aristotle. *Politics*, VIII, 2

⁴⁰ Cicero, *On Duties*, Book I, 150

⁴¹ Stringer M., *Impensae, operae, and the pastio villatica: The Evaluation of New Venture Investments in the Roman Agricultural Treaties*. 2020 p. 253-274

The Decline of the Roman Empire and the Development of Economic Concepts in the Middle Ages and the Early Modern Period

In medieval Europe, the evolution of society and the economy was accompanied by a variety of circumstances, some of which prevented foreign investment from continuing, even in the primitive forms that already existed in the Roman Empire. Other factors, on the contrary, favoured their transformation into new, more sophisticated forms. One of these factors, which should be attributed to the first group, is the collapse of the unified monetary system of the Roman Empire at the end of the fifth century A.D. It was accompanied by the elimination of the imperial administration system, which ensured relatively equal rules of the game in the central lands of the empire and in the provinces. The prevalence of subsistence farming in the early Middle Ages made it difficult to concentrate capital, so there was virtually no need to invest abroad. The same factor hindered the development of international trade, as material production was limited mainly to domestic production and did not create significant surpluses. In medieval Europe, the era of feudal fragmentation was accompanied by wars and epidemics, which led to the decline of economic and financial relations. This created unfavourable conditions for maintaining even the primitive forms of foreign investment that existed in the Roman Empire.

During this period, the development of investment theory acquired a specific character. On the one hand, thinkers' views on various forms of profit from invested capital were subject to the moral imperatives of Christianity. A key event in this context was the church's campaign against usury, which led to a ban on interest charges in Western Europe as early as the time of Charlemagne. This prohibition was confirmed by decisions of various church councils, as well as by the decrees of Pope Gregory IX in 1234, which provided for the expulsion of usurers and their excommunication.⁴²

At the same time, medieval scholastics formed their views on profit as the main motivation of an investor under the influence of the heritage of ancient thinkers. Robert McNerney points out in his research that Aristotle's key works, in particular *Nicomachean Ethics* and *Politics*, strongly influenced the works of Thomas Aquinas, which most fully reflect the economic and ethical views of medieval scholastics. Aquinas, referring directly to Aristotle's *Politics*, expressed his opinion on trade in a fundamental work begun in 1265. He used the term "trade" to refer to "any exchange of property", and considered all those whose business was the exchange of property to be merchants. This allows us to include the modern concepts of

⁴² J. Gilchrist, *The Church and Economic Activity in the Middle Ages* (New York, 1969), P.182

"investor" and "investment" in the semantic field of these terms. Aquinas, using Aristotle's views, distinguished between two types of trade: "One of them is, so to speak, natural and necessary, and with its help either one commodity is exchanged for another, or money is given in exchange for the commodity necessary to satisfy the needs of life. The other type of exchange is either the exchange of money for money or any commodity for money, but not for the sake of satisfying vital needs, but for the sake of profit." According to Aquinas, the first type "deserves approval" because of its naturalness, while the second "deserves condemnation" because it "serves to satisfy the thirst for profit". However, in the scholastic's further reasoning, one can find a key innovation, which, in contrast to the ancient point of view, states: "...profit... in itself is not yet something contrary to virtue or sinful, since nothing prevents this profit from being used to achieve some necessary and even virtuous goal, in which case trade becomes lawful".⁴³ Thus, investment in the sense of exchanging one good today for another in the future has acquired a potentially morally neutral meaning. The final ethical assessment of such an investment depended on the intentions of the investor himself: whether he was interested only in personal gain or whether he sought to achieve a socially beneficial effect or to compensate for his costs. Additionally, Thomas Aquinas made a significant step forward in understanding the phenomenon of investment, explicitly separating it from loans or credits: "Whoever lends money grants the borrower ownership of the money... whoever entrusts his money to a merchant or artisan and forms a kind of community with him does not grant him ownership of the money, but retains it for himself... he is therefore entitled to claim... the part of the profit made on his money that is due to him by law."⁴⁴ In this interpretation of the ancient scholastic, elements of modern concepts of investment activity can already be traced. Schumpeter noted the merits of Thomas Aquinas in rethinking the legacy of ancient philosophers, calling his *Summa Theologiae* a key step in the development of the methodology of economic science, as well as science in general in Europe after the disappearance of the ancient world.⁴⁵

However, it is important to understand that this "justification" of the pursuit of profit did not take place in isolation from the context of its time. As seen in previous eras, the development of economic concepts and the easing of moral regulation of human economic freedom were the result of the scholastics' rethinking of theoretical guidelines of antiquity. In addition, the economic reality from the early to the classical and later to the late Middle Ages changed to such an extent that the scholastics and the Church could not ignore it. Moreover, the Church took an active part in

⁴³ F. Aquinas. The sum of theology. Volume VIII. Part II-II. Question 77. Chapter 4.

⁴⁴ F. Aquinas. The sum of theology. Chapter 4

⁴⁵ Schumpeter J. History of economic analysis. Economic school. St. Petersburg, 2004. p. 10

these processes. According to F. Brodel: "In fact, the whole society — sovereigns, the rich, merchants, the poor, and the church — was engaged in usury, a society that tried to hide the forbidden practice, condemned it but resorted to it, turned away from its bearers but tolerated them."⁴⁶

From the eleventh to the early fourteenth century AD, Europe's economic life underwent a significant development, called the Commercial Revolution. First, a distinct commodity production emerged. The increase in production exceeded domestic needs, which contributed to the emergence of professional traders and the expansion of international trade. In turn, this led to the search for new trade routes and sources of cheap resources and labour. Secondly, as duchies and counties minted their own coins, professional money changers appeared, which later became banking offices, similar to the troupes in ancient Greece. The first banks emerged in Northern Italy, where specialised banking institutions provided loans at high interest rates of 15-20%. In the fourteenth century, Florence had more than a hundred banks that conducted large international operations and dominated the money market in Western Europe.⁴⁷

The High Middle Ages also saw the development of financial instruments such as bills of exchange and portfolio investment, in particular in foreign debt securities. Although the first securities market was established in Amsterdam in the early seventeenth century, the practice of investing in government bonds was available, including to foreigners, long before that time. These securities "...were traded very early in Venice, in Florence before 1328, in Genoa... not to mention the shares of German mines that were listed at Leipzig fairs from the 15th century, Spanish juros — state rents, French rents on the Town Hall (from 1522) or the rent market in Hanseatic cities from the 15th century onwards".⁴⁸ According to J. Munro, the aforementioned bonds of the Spanish Crown were one of the most popular instruments of international investment at that time. This was due to the simplicity of the procedure for their acquisition by foreigners. The same author also notes that the sale of municipal debt to foreigners was practiced in the XIV century in Flanders.⁴⁹

The surplus of capital, which "far exceeded the possibilities of investing in the European economy, led to the spread of the phenomenon of foreign investment".⁵⁰ With the beginning of the era of great geographical discoveries, foreign investment gained a special scope and approached modern

⁴⁶ Brodel F. Games of exchange. Volume 2 M. Progress 1988. C. 568

⁴⁷ Onishchenko Y.I., The main stages of the evolution of banking activity, Scientific Bulletin of Kherson State University. URL: http://www.ej.kherson.ua/journal/economic_06/06.pdf

⁴⁸ Brodel F. Games of exchange. C. 88

⁴⁹ Munro, J. The medieval origins of the 'Financial Revolution': Usury, rents, and negativity. Department of Economics, University of Toronto. 2002 P. 636

⁵⁰ McLachlan, C., Shore, L., & Weiniger, M. (2010). International Investment Arbitration: Substantive Principles. Oxford: Oxford University Press, P. 3

forms. If the Roman legions opened the way for capital in the provinces, with the beginning of the aforementioned era, it followed adventurers and romantics to new horizons. The need to provide capital with a new, more profitable use became one of the motives for the expansion of European empires in all directions in the 15th and 17th centuries. Europeans discovered new lands and sea routes to Africa, the Americas, Asia and Oceania, and sought new trading partners and sources of goods that were in high demand in Europe.⁵¹ From the beginning of the 15th century, Western European countries began to actively establish colonies in different parts of the world. For example, the Dutch East India Company, founded in 1602, was one of the world's first international corporations and specialised in commercial activities in Indonesia. Portugal and Spain, the first European countries to actively explore and develop new territories, began to establish colonies in Central and South America, as well as in Africa and Asia. Their expansion, aimed at obtaining gold and other valuable resources, had a major impact on the geopolitical map of the world and the economic development of these regions.⁵²

Foreign investment in the eighteenth and nineteenth centuries was mainly associated with colonial expansion. This process involved the transfer of capital from metropolises to colonies, especially for the exploitation of natural resources and the use of cheap labour. The colonial policy of European powers was aimed at extracting profits from the extraction of resources and exploitation of colonial territories, as well as at meeting their own military and economic needs. This was usually done through military and administrative presence in the colonies. The profits generated from this process were used to finance the expansion of military forces and empire expansion. This approach led to significant enrichment of the mainland countries, especially through the export of gold and silver from the colonies.

The evolution of views on foreign investment: from Mercantilism to the early 20th century

The Financial Revolution, which began in the 16th century, played a significant role in shaping Europe's economic structure and changing approaches to investment. The development of the banking system and the emergence of new financial instruments stimulated the rapid growth of wealth and fortunes of countries and individuals. Mercantilism, which became the dominant economic approach in that period, supported the idea of

⁵¹ Colins, D. (2017). *An Introduction to International law*. Cambridge: Cambridge University Press, P. 7

⁵² Colins, D. (2017). *An Introduction An Introduction to International law*. PP. 8-9

the superiority of foreign trade and the active increase in exports in order to maximise the accumulation of gold and silver. This approach rejected traditional religious and philosophical prohibitions, such as the condemnation of usury, which was now seen as an important financial tool for the development of trade and industry. Works such as *The Wealth of England in Foreign Trade* by Thomas Mann, a prominent English merchant and mercantilist apologist of the time, justified usury and emphasised the importance of trade for economic growth. These ideas became dominant in the financial policies and investment strategies of many European countries, contributing to the development of trade and industry during this period. In particular, T. Mann writes that usury: "enables the younger and poorer merchants to come forward and expand their trade, for which purpose, if they need money, they can and do borrow it at interest. In this way, our money does not lie as dead capital, but goes back into trade."⁵³ Mercantilists promote individualism and rationalism, supporting the ideas of personal thrift and entrepreneurship as key drivers of national wealth. They rejected the condemnation of commercial profits and interest, viewing it as a necessary factor in economic growth. Mercantilists believed that economic activity, including speculation, was a necessary and natural part of the functioning of society and the state. They saw exchange and trade as key components of a country's economic success and advocated the creation of conditions to stimulate and develop these processes.

However, mercantilists viewed economic freedom of the individual through the prism of benefit to the state: individual actions had to contribute to the overall prosperity of the country, not to the satisfaction of individual needs. This approach reflected mercantilist ideas about the importance of state regulation of the economy in order to ensure national interests. Economic freedom was subordinated to the goals of the state and was used in the context of strengthening its economic position and influence in the international arena. According to F. Braudel, mercantilism is: "...a whole series of actions and forms of tactics, projects, ideas, experiments that marked the initial strengthening of the position of the modern state in the XV-XVIII centuries in the face of specific problems it had to face."⁵⁴ To strengthen the state, mercantilists advocate its active intervention in the economy. They emphasise the need to accumulate gold and silver as a source of national wealth, promote exports and restrict imports through protectionist policies. Mercantilists support the idea of state control of the economy, support for state monopolies, and high import duties. According to T. Mann, capital should be invested in the development of

⁵³ Thomas Mun. *The English struggle for foreign trade, or the balance of our commercial trade, is the course of our strategy*. Thomas Mun. 1571-1641 P.144-145 URL: <https://quod.lib.umich.edu/e/ebo/A51598.0001.001/1:5.15?rgn=div2;view=fulltext>

⁵⁴ Braudel F. *Games of exchange*. C. 550

domestic production to increase exports and reduce imports: "...we should try to produce as much of our own goods as possible, whether natural or artificial". At the same time, in his opinion, domestic investments should be made primarily in the production of high value-added products, the export of which contributes to the enrichment of the state to a greater extent: "natural resources do not bring us as much revenue as our industrial enterprises. Iron ore in the mines is not worth much compared to the use and work it provides when it is cast into artillery cannons, forged into anchors. Compare our raw wool with our cloth... and you will find that these crafts are more profitable than natural resources"⁵⁵

The second half of the modern era, which is proposed to be distinguished in terms of the development of scientific ideas about foreign investment, is characterised by the rapid growth of Western European economies during the Industrial Revolution. Together with the rapid growth of international trade at the beginning of the era of colonial empires, they became a fertile ground for the development of classical economic theory in the works of such prominent economists as Adam Smith, David Ricardo, and John Stuart Mill. In their scientific works, they put forward key questions about the nature of capital, the reasons for its movement between industries and countries, and the motives of individual entrepreneurs, companies and states that influence their decisions to invest capital, including abroad. For example, in his key work, *An Inquiry into the Nature and Causes of the Wealth of Nations*, Adam Smith uses the term "foreign capital", which, although it does not have the same meaning today, reflects its essence to a large extent. Smith expresses his belief that if the society of a certain country does not have sufficient capital to cultivate all its land and process all its raw materials, then foreign capital will be useful for these tasks, and national capital can then be used to achieve higher priority goals. This shows that he sees foreign capital as an important factor for the development of the national economy.⁵⁶

It is also important to note that the historical conditions of economic development in England and other Western European countries, as well as their trade with colonies in different parts of the world, significantly influenced Adam Smith's perception of the process of capital flows between countries, its causes and circumstances. For example, at the macroeconomic level, one of the main drivers of international capital flows for Adam Smith was its excess, which could arise under certain conditions: "When the mass of capital in any country increases to such an extent that it cannot be fully employed in the service of consumption and the support of the productive labour of the country, the surplus part of it naturally flows into transit

⁵⁵ Thomas Mun. *England's treasure by foreign trade. or the balance of our foreign trade is the rule of our treasure*. P. 32-33

⁵⁶ Smith, A. *An Inquiry into the Nature and Causes of The Wealth of Nations*: 1776. P. 298

trade and is used to perform the same functions in the sphere of other countries." Since there was no developed global financial system at the time, capital moving abroad was represented for Adam Smith either in the form of tangible goods or in the form of gold and silver, because: "paper money cannot go abroad, because it will not be accepted in ordinary payments, owing to the remoteness of the banks issuing it and the country itself where its payment can be legally demanded."⁵⁷ It was the colonial structure of the world order of that period that determined Adam Smith's idea of the object of foreign capital investment, which, according to his work, was primarily international trade. For example, the sale of expensive industrial goods from England to the North American colonies and the export of cheap raw materials promised greater benefits than investing in the organisation of factories. In addition, Adam Smith pointed out that England's colonial policy at the time prevented the organisation of complex industrial production in the North American colonies: "...she (England — Author) imposes an absolute ban on the establishment of steel and rolling mills in all her American colonies. She is unwilling to allow the colonists to engage in this more complex production ... and insists that all the products of this kind they need must be purchased from her merchants and factory owners." The same restrictions also applied to the establishment of enterprises that would carry out deeper processing of local raw materials.⁵⁸

A. Smith identified the importance of granting people full economic freedom to allow them to freely exercise their entrepreneurial spirit and initiative: "Every man, so long as he does not violate the laws of justice, is left entirely free to pursue his own interests according to his own understanding, and to compete with his labour and capital with that of any other person and of the whole class."⁵⁹ This statement shows that A. Smith partially takes into account moral aspects when assessing economic activity, in particular, its compliance with the laws of justice. However, he does not specify what exactly he considers to be fair, leaving this issue open to debate. Therefore, in contrast to mercantilist views, moral aspects in the assessment of economic phenomena are somewhat noticeable, but do not occupy a central place in A. Smith's work. He emphasises the importance of human economic freedom, which, in his opinion, should not be subject to any restrictions by the authorities.

Д. Ricardo formulated the concept of comparative advantage based on his practical experience of observing the functioning of textile enterprises in England. He used the example of comparing the advantages between England and Portugal in the production of textiles and wine. According to his theory, capital within England will be directed to those regions where

⁵⁷ Smith, A. P. 228

⁵⁸ Smith, A. P. 450

⁵⁹ Smith, A. P. 533

textile production is most profitable. However, even if there are more favourable conditions in other countries, capital will not move there. This is a conclusion that he emphasises in his work "Beginnings of Political Economy and Taxation": "Experience, however, teaches that the following reasons prevent the exodus (abroad — Ed.) of capital: the imaginary or real danger to capital which ceases to be under the direct control of its owner and the natural aversion which all men feel to leaving their country... and to subjecting themselves... to a foreign government and new laws. These feelings ... induce a large part of the people who own property to be content with a low level of income in their own country rather than to seek a more profitable investment of their wealth in other countries."⁶⁰ D. Ricardo criticised A. Smith's assumption that the economy had accumulated a finite amount of capital that could no longer be used productively. He believed that the possibilities for investing in the creation of "comforts and pleasures of life" were not actually limited, even if the investment of capital in the production of simple consumption products was limited by the physical ability of the population to consume these products.

In his book "The Principles of Political Economy", Mill emphasised the importance of differences in rates of return between countries as a factor contributing to the movement of capital abroad for investment. He noted that in more developed countries, where a certain limit of capital concentration has been reached, the rate of return is usually reduced. However, unlike Ricardo, Mill supported the objective nature of capital migration between countries. He cited significant benefits for the economy of the investing country, including preventing the accumulation of excess capital, which could lead to a lower rate of return. In his aforementioned work, he notes: "for many years, this circumstance (the export of capital from England to the colonies — Author's note) was one of the main reasons that restrained the decline in profits in England."⁶¹ At the same time, D. Mill argues that another advantage for England was the growth of supplies of cheap food and raw materials for the textile industry from the colonies. This, in turn, helped maintain the return on capital in the English economy at an acceptable level. Mill concludes that: "the more capital that is sent abroad, the greater the quantity of it we shall have, and the greater the quantity that can be retained at home."⁶² In another part of his work, Mill noted the advantages that can be gained by a country that receives foreign capital. It is interesting to note his opinion that investment of foreign capital does not always lead directly to the improvement of the material condi-

⁶⁰ Ricardo D. On The Principles of Political Economy and Taxation. 1817 URL <https://www.gutenberg.org/cache/epub/33310/pg33310-images.html>

⁶¹ Mill, J.St. Fundamentals of Political Economy and Some Aspects of their Application to Social Philosophy: in 3 vols. MOSCOW, 1980, VOL. 3, P. 66.

⁶² Mill, J.S., p. 67

tion of the country's inhabitants, but it can contribute to the development of human capital: "...foreign capital, if not through the actual improvement of the material condition of the inhabitants, then through the introduction of new concepts in their minds and the destruction of the shackles of old customs, tends to generate new needs, greater aspirations among the local population and makes them think more about the future."⁶³

According to the author, B. Brandt, who lived in the XIX century and was born in the Kyiv province, played an important role among the researchers of foreign investment in his time. In his book "Foreign Capitals and Their Influence on the Economic Development of the Country", published in 1898, he conducted an in-depth analysis of the reasons for foreign investment and its impact on the economies of both investing and recipient countries. In this book, Brandt, following Mill, defined the natural tendency of capital: "where it can find the most profitable application. In the old, rich countries, the rate of interest on capital ... is decreasing more and more ... while the process of capital accumulation continues with extreme intensity ... at the same time, in young and poor countries ... the rate of interest on capital is quite high ..."⁶⁴ At the same time, B. Brandt points out that at the time of his research, foreign capital faces fewer obstacles that previously hindered its movement between countries. He draws attention to the high level of development of transport and the strengthening of law and order, which contributed to the rapprochement of peoples, as well as the growth of global communication networks. He emphasises that foreign investment should be viewed as a conscious decision of entrepreneurs and financiers, which corresponds to the current level of the global economic system. In addition, he emphasises that exports from developed countries have begun to face resistance in the markets of less developed countries, which has been expressed in protectionist measures. Brandt concludes that these difficulties and increased competition are factors that encourage capital owners to look for new forms of investment to avoid obstacles: "Foreign capital finds this deployment in foreign loans and in foreign industrial enterprises."⁶⁵

According to B. Brandt, investments abroad bring a number of positive consequences for investing countries. First, they lead to an increase in the profitability of exported capital and improve the country's balance of payments. In addition, Brandt concludes that investing countries indirectly benefit from increased opportunities to export their products to the recipient countries. This is due to the fact that foreign investment in the recipient country increases the purchasing power of the local population due to the rapid development of the economy. In addition, host countries also re-

⁶³ Mill J.St., p. 323

⁶⁴ Brandt B. Foreign capital. Their influence on the economic development of the country. Saint Petersburg: Printing house of U. Kirshbaum, 1898. pp. 288-289.

⁶⁵ Brandt B. S. 290

ceive many benefits, such as the expansion of productive forces, stimulation of entrepreneurship and initiative among the local population. Brandt points out the multiplier effect of foreign investment on the host economy, which is manifested at all levels of activity: "The emergence of one industry necessarily gives rise to another industry... The more significant is the inflow of foreign capital, the more diverse are the industries in which it is applied, the more numerous are the changes that..., successively branch out into numerous directions and are directed in all directions."⁶⁶

Brandt also analysed in detail the negative aspects of capital exports. For countries that send investments, this means capital losses due to risky investments and fluctuations in income due to exchange rate instability. In countries receiving foreign capital, there may be negative consequences of economically unjustified foreign loans, which can lead to large-scale bankruptcies and financial crises. Brandt also emphasises the riskiness of investing foreign capital in the banking industry, which can contribute to speculation and financial crises. A new point made by B. Brandt in the development of the theory of foreign investment is the systematisation of the positive effects of foreign capital investment. In particular, he refers to the increase in wages of employees, improvement of their living conditions and reduction of unemployment, which spread from enterprises with foreign investments to the entire industry and subsequently to the entire economy.⁶⁷ Although these theories, formed under the influence of specific historical circumstances, do not provide a complete understanding of the phenomenon of foreign investment, they nevertheless indicate the objective prerequisites for its emergence and further development in subsequent historical periods.

A significant contribution to the development of the neoclassical approach to the problem of foreign investment was made by E. Heckscher and B. Olin, who proposed the concept of factor productivity in the 1920s. Their approach expanded the understanding of the reasons for capital flows between countries. Previous researchers had focused on differences in the return on capital as the main reason for private capital to leave the home country. However, these researchers have also looked at a wider range of factors, such as customs barriers, access to raw materials, geographical diversification of capital investment, and political and geographical circumstances. They also noted that high tax rates and an unstable investment environment can contribute to capital flight. In addition, they distinguished between long-term and short-term capital exports, noting the speculative nature of the latter.⁶⁸ The followers of neoclassicism in their studies criticised the hypothesis that factors of production are not able to move across the borders of national states. If factors of production, including capital, cannot move freely between countries, then the

⁶⁶ Brandt B. S. 293

⁶⁷ Brandt B. S. 304

⁶⁸ Ohlin B. *Interregional and International Trade*. Cambridge ; Mass, 1933

level of capital returns and interest rates may differ significantly depending on the geographical location. However, if capital can move freely, it will flow from countries with low returns to countries with high returns to achieve a balance. Over time, this will lead to an equilibrium international distribution of capital, as capital flows only to correct imbalances, and its flow is unidirectional in each case.⁶⁹

Karl Marx, a classic of nineteenth-century economic thought, also made a certain contribution to the development of investment theory. On the one hand, the roots of his concept of capital exportation go back to the ideas of A. Smith. Thus, in the third volume of his work *Capital*, K. Marx described the export of capital as follows: "If capital is exported abroad, it is not because it could not be used at home at all. It is because it can be placed abroad at a higher rate of return."⁷⁰ However, the approach used by Marx to analyse the process of capital exports seems to be somewhat one-sided. He mainly concentrates on the consequences of excessive capital accumulation and its export for workers, which fits into his concept of class struggle in society.

Maynard Keynes, a classic of world economic thought, largely questioned the basic axioms of classical economic theory, including the concept of foreign investment. His beliefs were formed under the influence of the Great American Depression, when the causes and ways of preventing such crises could not be determined within the classical economic paradigm. This also applies to his understanding of the preconditions for capital flows abroad. On the one hand, he did not fully agree with the classical approach, as he believed that the nature of foreign investment originated from the balance of trade between countries. In his work *The General Theory of Employment, Interest and Money*, he wrote: "The amount of foreign investment is inevitably determined by the size of the trade surplus."⁷¹

At the same time, M. Keynes expanded the understanding of investment by studying this phenomenon more deeply than his predecessors. First, he did not just point out the desire for profit as the main reason for investing capital, but also investigated the dependence of the "incentive to invest" on the marginal efficiency of capital, which he proposed to assess through the ratio of expected return on investment to the current price of capital supply. This was an innovative approach because it used expected returns rather than static returns, as well as the expected price of new capital production. Secondly, given his general postulate that the market system is imperfect and incapable of self-

⁶⁹ Casson, Mark (2014) Coase and international business: the origin and development of internalisation theory. *Managerial and Decision Economics*, 36 (1), p. 8

⁷⁰ Marx K., *Capital: A Critique of Political Economy*. Volume III: The Process of Capitalist Production as a Whole P.202 URL: <https://oll.libertyfund.org/titles/marx-capital-a-critique-of-political-economy-volume-i-the-process-of-capitalist-production>

⁷¹ Keynes, John Maynard *The General Theory of Employment, Interest and Money*. 1936 URL: https://www.files.ethz.ch/isn/125515/1366_keynestheoryofemployment.pdf

regulation, Keynes suggested that the natural motives for investment by private investors, driven by the "pursuit of profit", may not be sufficient to ensure rapid and sustainable economic growth. He believed that if the principle of "laissez-faire", i.e. the doctrine of minimal state intervention in a market economy and the absence of direct state investment in such an economy, was followed, these motives might not be sufficient: "...the natural concern of the government in the field of economic policy is the rate of interest at home and the balance of foreign trade." Indeed, the ideas about the role of the state in stimulating investment formulated by scholars of past centuries may seem primitive compared to modern approaches. However, they laid the groundwork for the development of mechanisms to stimulate investment, including foreign investment, for many years to come.

Early studies focused mainly on the international movement of capital through trade in goods and certain forms of investment, and only partially took into account the phenomenon of foreign direct investment. However, they created the necessary preconditions for further development of the understanding of foreign investment as a separate economic phenomenon. Although classical, neoclassical, neo-Keynesian and Marxist theories contributed to the formation of a holistic concept of foreign investment, they were not able to fully explain the processes taking place in the international economy at the turn of the 1950s. The growth of foreign investment by multinational corporations showed that capital was flowing from countries with high profitability to countries with low profitability and vice versa. This created a need for new concepts that would be more adequate to the objective economic reality of the time.

Conclusions

The analysis of the evolution of the theory of foreign investment allowed us to trace the path of its development from the first fragmentary and primitive ideas about making fortunes in Antiquity to the formation of systemic theories of international capital flows in the early modern period. The study of the genesis of the concept of foreign investment in the context of the peculiarities of the structure of society and economy at key moments of this period of history allowed us to confirm the hypothesis expressed at the beginning of the article about the determinism of the level of development of ideas about foreign investment of thinkers and scientists of a certain era by the degree of progress of economic activity and human society as a whole at this stage.

It is clear that the above environment is a multidimensional space within which one can trace the trajectory of scientific thought on foreign investment, but the study allowed us to identify the dominant factors in line with the dynamics of which the theory of foreign investment has progressed. These are, on

the one hand, the historical development and complexity of economic life. On the other hand, it is the change in the degree of economic freedom of a person, i.e., the extent to which it was limited by various moral, ethical and socio-economic regulations. Changes in the nature of the criteria that determined the acceptability of an individual's economic activity by society and key moments of economic history allow us to divide the periods of development of scientific views on foreign investment into two general groups.

During the first group of periods — from Antiquity to the mid-eighteenth century — human economic freedom was consistently freed from strict restrictions of a metaphysical, status, religious and state nature. At that time, philosophers and scientists considered capital investment (of which foreign investment is a special case) in terms of the degree of its permissibility: why should it not be done, are there any exceptions, and if so, to whom and under what circumstances is it permissible?

The first of these periods of evolution of these views is proposed to be the classical era of Ancient Greece, characterised by the flourishing of city-states. Certain sectors of economic life, including maritime trade and banking, acquired relatively developed forms, agriculture was the most widespread, while other sectors of the economy, including handicraft production, were poorly developed. Economic freedom is significantly limited by the moral imperatives prevailing in society. Plato and Aristotle despise any occupation that degrades the soul or harms the body. Small trade is natural. Big trade and crafts are bad, usury is evil. Profit corrupts the soul. The virtuous are those whose occupation is war, politics, philosophy and agriculture. The ideas of ancient thinkers about the economy are generally primitive and are not separated from considerations of state governance. Rare examples of foreign investment are of a specific nature and do not find interest among philosophers.

In the next period of development of the concept of foreign investment in the imperial era of Ancient Rome, the expansion of the empire formed a single economic and administrative space connecting many provinces, which, together with the active development of agriculture and livestock and the widespread monetisation of the economy, created conditions for investment in the provincial economy. The influence of the ethical criterion of "affinity to nature" borrowed from the ancient Greeks on economic freedom is somewhat weaker, but is complemented by the criterion of "status", according to which nobles and horsemen are significantly limited in their choice of capital investment objects. Agriculture was still recognised as the worthiest of these. Cicero condemns craftsmanship and denies usury, but considers petty trade "dirty", while wholesale trade is acceptable. Profit, in his understanding, is an acceptable motive for activity, but not the main one. The theoretical statements of the thinkers are still general, but within the framework of applied economic theories, especially agrarian ones, the rudiments of understanding the concept of investment appear.

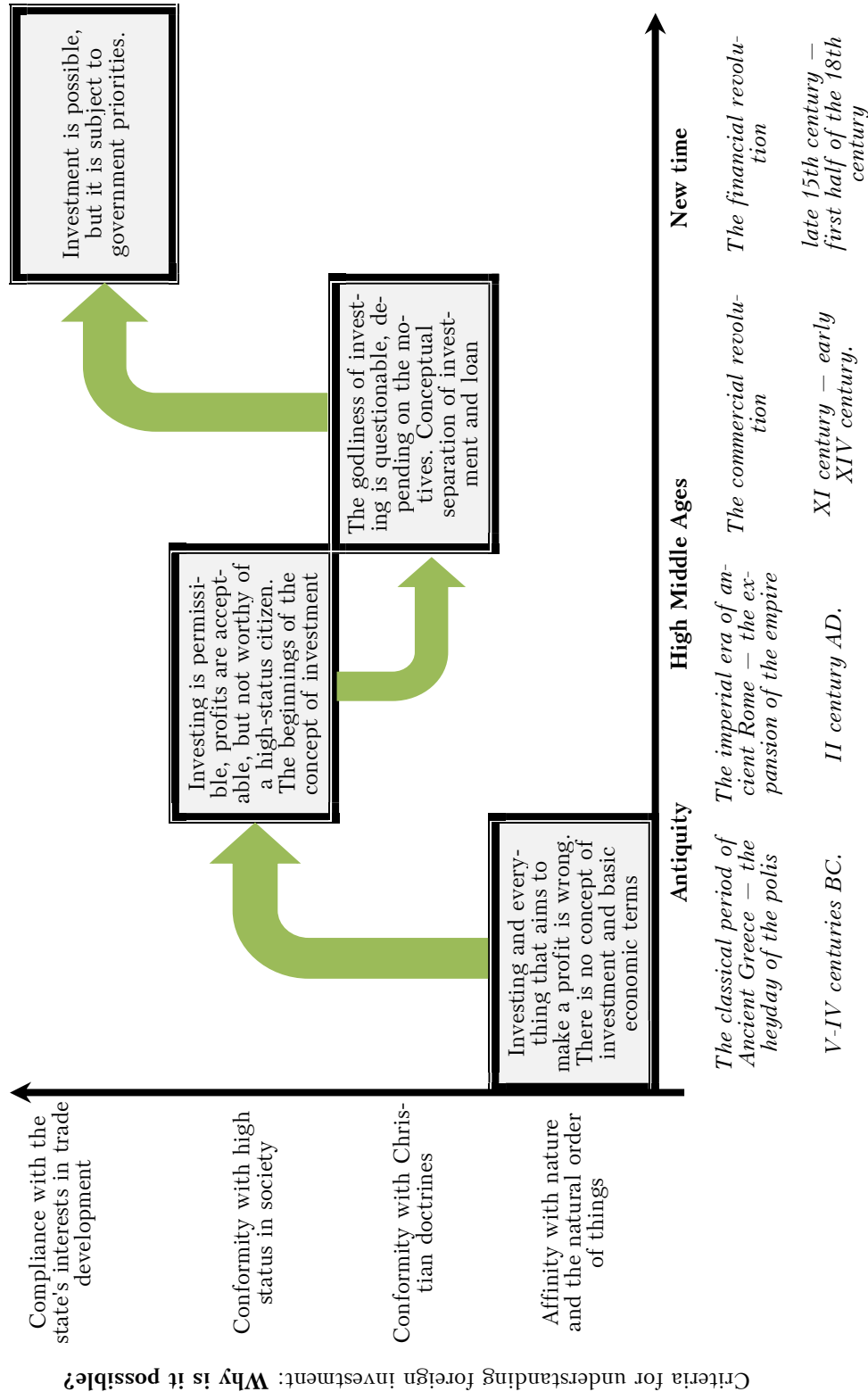


Fig. 1 Periodisation of the history of the development of the theory of foreign investment as an element of economic science from Antiquity to the beginning of modern times

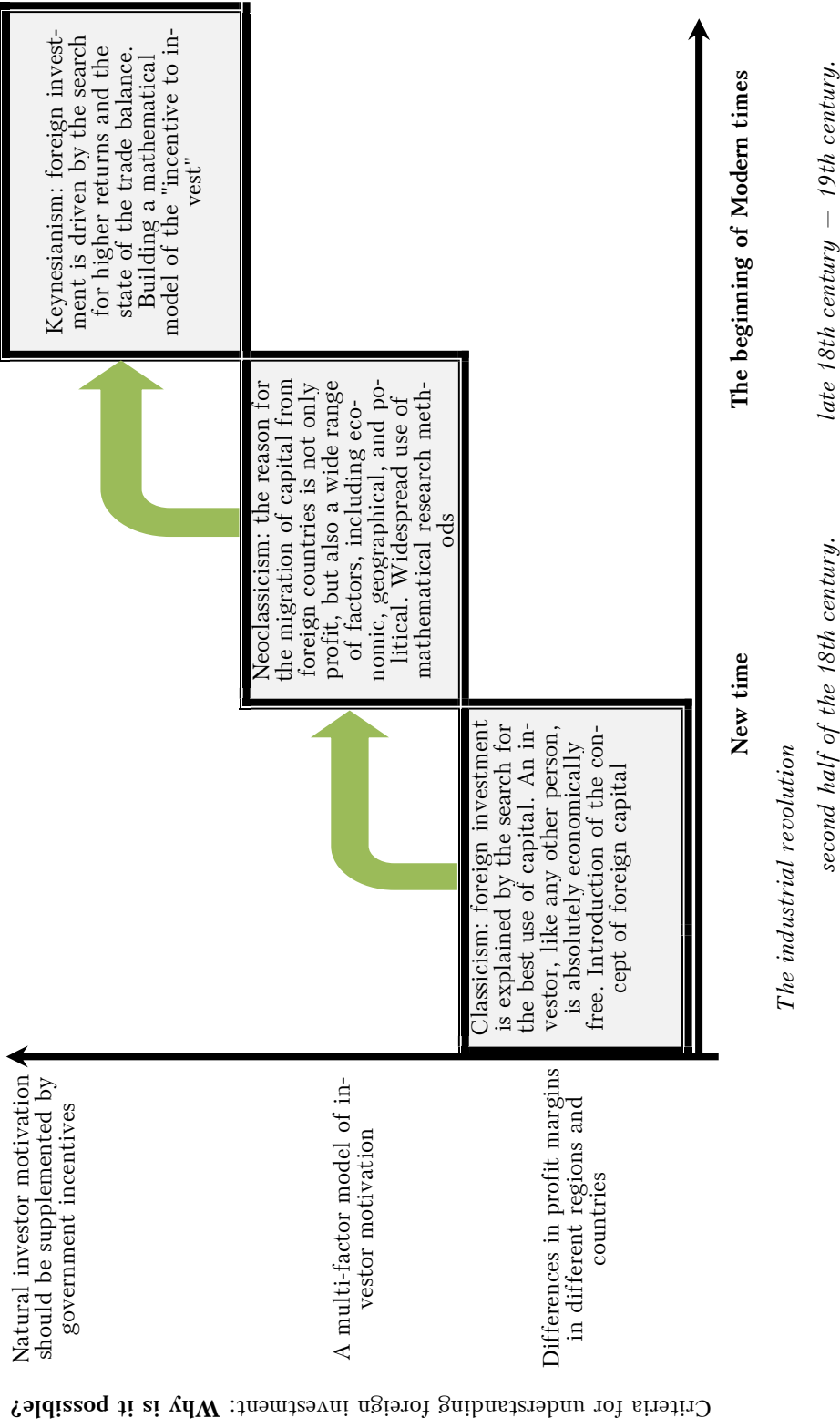


Fig. 2 Periodisation of the history of the development of the theory of foreign investment as an element of economic science from the end of modern times to the beginning of modern times

Source: compiled by the author

In the medieval period, especially in the High Middle Ages, the development of the concept of foreign investment, on the one hand, received a new impetus due to the systematisation of formal logic methods applied to economic phenomena by scholastics and, especially, Aquinas. This makes it possible to conceptually separate investment and borrowing. However, economic activity, which in the previous period had received some freedom from the ethical principle of "naturalness", was subject to even stricter regulation by the tenets of Christianity. Aquinas returns to the condemnation of large-scale trade, but from a theological perspective, and considers small-scale trade to be natural. He recognises profit as neutral, and its evaluation depends on the virtue of motives. These moral constraints were weakened only in the Late Middle Ages under the influence of the Commercial Revolution and the era of great geographical discoveries, which complemented each other.

The period of development of the theory of foreign investment in the modern era consists of two parts. The nature of the first one is determined by the results of the rapid expansion of the horizons and scale of international trade, which led to increased competition between the leading European countries. In an attempt to find an answer to this challenge, the concept of mercantilism was born, which asserts that the main way to achieve state wealth is to expand exports and reduce imports. This implies the need to develop domestic production and the inexpediency of investing in the development of production abroad. Mercantilists, on the one hand, completely reject all previous moral and ethical criteria that in previous eras linked freedom of economic and, consequently, investment activity. On the other hand, by affirming the key role of state regulation in the development of foreign trade, they recognise the subordination of personal economic freedom to higher state goals.

The emergence of the classical direction of economic theory marks the beginning of the second part of the evolution of the theory of foreign investment, when full economic freedom of the individual is postulated, so the search for reasons for the inadmissibility of foreign investment loses its relevance. The researchers' interest in the nature of this phenomenon, which can be expressed by the simplest question, comes to the fore: "Why is this possible?" The views of classicists were largely shaped by the results of the Industrial Revolution in England. Comparing the differences in the growth rates of production in different regions of England, as well as between it and other countries, the founding fathers of classicism: A. Smith and others came to the conclusion that the main reason for the movement of capital, including foreign investment, is its excess in a particular region, which causes a desire to find a more profitable use for it elsewhere. In the issue of personal economic initiative, A. Smith takes a maximalist position, believing that it should be absolutely free from government interference.

The only restriction he sees is the laws of justice, the essence of which, however, he does not specify.

During the next period, representatives of neoclassicism expanded the field of research and found more and more answers to the question of the reasons for foreign investment and its nature. Without questioning the postulate of economic freedom, they use mathematical methods to study the process of international capital flows in search of greater profitability. In addition, they complement the motives for foreign investment with many diverse factors, including economic, political, and geographical ones.

The last period of time chosen for the study is the period of development of the concept of foreign investment in the early twentieth century, when Maynard Keynes and his followers made a significant contribution to it. Continuing to search for an answer to the question of the essence of foreign investment, he focused on a mathematical explanation of the natural incentive to invest. Questioning the previously accepted axiom of market self-regulation, he suggested that the natural motivation of individual investors should be supplemented by government incentives. Keynes' legacy, in my opinion, formed the basis for the study of foreign investment by the next generation of economists, whose systematisation of developments is worthy of a separate study.

*This article was translated from its original in Ukrainian.

References

1. Aquinas. F. The sum of theology. Volume VIII. Part II-II. Question 77. Chapter 4.
2. Beloch, K.J. Die Bevölkerung der griechisch-römischen Welt, Leipzig: Duncker & Humblot, 1886, P. 392-394.
3. Brandt B. Foreign capital. Their influence on the economic development of the country. Saint Petersburg: Printing house of U. Kirshbaum, 1898. pp. 288-289.
4. Brodel F. Games of exchange. Volume 2 M. Progress 1988. C. 550
5. Casson, Mark (2014) Coase and international business: the origin and development of internalisation theory. *Managerial and Decision Economics*, 36 (1). p. 8
6. Cicero, M., Speech in defence of Lucius Valerius Flaccus, 70; Speech in defence of Marcus Caelius Rufus, 73; To Publius Quinctus; To Marcus Tullius; To Marcus Fontaine; First Agrarian Speech; Letters to relatives
7. Cicero, On Duties, Book I, 150
8. Colins, D. (2017). An Introduction to International law. Cambridge: Cambridge University Press. PP. 8-9
9. Columella L., On Agriculture. Book III, III URL <http://simposium.ru/ru/node/14862>
10. Davies, J.K. Athenian Propertied Families, 600-300 BC New York: *Oxford University Press*. 1971. P 587-590

11. Durant W. Caesar and Christ — Moscow: KRON-PRESS, 1995. C.717
12. Finley M. The ancient economy. University of California Press. Berkeley, Los Angeles. 1973. P. 17
13. Frank T., An Economic History of Rome. Kitchener. 2004 P. 123
14. Gilchrist, J. J. The Church and Economic Activity in the Middle Ages (New York, 1969), P.182
15. History of Ancient Greece. M., 1972. C. 174-176
16. Hobson, M. The African Boom? Evaluating Economic Growth in the Roman Province of Africa Proconsularis, PhD thesis, University of Leicester. 2012
17. Keynes, John Maynard. The General Theory of Employment, Interest, and Money. 1936 URL: https://www.files.ethz.ch/isn/125515/1366_keynestheoryofemployment.pdf
18. Kulisher I.. An Essay on the Economic History of Ancient Greece. C. 120
19. Kulisher I.. Outline of the economic history of Ancient Greece. L.: Sivach Publishing House, 1925. C. 119
20. Marshall A. Principles of Economic Science Volume 1. Progress. C. 45.
21. Marx K., Capital: A Critique of Political Economy. Volume III: The Process of Capitalist Production as a Whole P.202 URL: <https://oll.libertyfund.org/titles/marx-capital-a-critique-of-political-economy-volume-i-the-process-of-capitalist-production>
22. Masse P. Criteria and methods for optimal determination of capital investment. — Moscow, 1971, P. 27. [In Russian]
23. McLachlan, C., Shore, L., & Weiniger, M. (2010). International Investment Arbitration: Substantive Principles. *Oxford: Oxford University Press*, P.3
24. Mill, J.St. Fundamentals of Political Economy and Some Aspects of their Application to Social Philosophy: in 3 vols. Moscow, 1980, VOL. 3, P. 66. [In Russian]
25. Munro, J. The medieval origins of the 'Financial Revolution': Usury, rents, and negativity. Department of Economics, University of Toronto. 2002 P. 636
26. Ohlin B. Interregional and International Trade. Cambridge; Mass, 1933
27. Onishchenko Y.I., The main stages of the evolution of banking activity, Scientific Bulletin of Kherson State University. URL: http://www.ej.kherson.ua/journal/economic_06/06.pdf [In Ukrainian]
28. Perlwitz, O., Titus Pomponius Atticus: Untersuchungen zur Person der Kontrol einflussreichen Ritters in der ausgehenden römischen Republik. Stuttgart. 1992 P. 25
29. Plato, The Republic, Book I
30. Plato. Laws, Book IV
31. Plato. Laws, Book XI
32. Plato. The Republic, Book VII
33. R. R. McNery, Aquinas St Thomas, in Dictionary of the Middle Ages, P. 353-366
34. Ricardo D. On the Principles of Political Economy and Taxation. 1817 URL <https://www.gutenberg.org/cache/epub/33310/pg33310-images.html>
35. Schaub F. Der Kampf gegen der Zinswucher, ungerechten Preis und unlautern Handel im Mittelalter. Von Karl dem Großen bis Papst Alexander III. — Freiburgim-Breisgau: Herder, 1905. — S. 26-47, 120-143

36. Scheidel W., *The Cambridge Companion to the Roman Economy*. Cambridge University Press; 2012. P.1-22
37. Schumpeter J. *History of economic analysis*. Economic school. St. Petersburg, 2004. p. 10
38. Smith, A. *An Inquiry into the Nature and Causes of The Wealth of Nations*: 1776. P. 298
39. Stringer M., *Impensae, operae, and the pastio villatica: The Evaluation of New Venture Investments in the Roman Agricultural Treaties*. 2020 p. 253-274
40. Temin P., *The Economy of the Early Roman Empire*, *Journal of Economic Perspectives*, Volume 20, Number 1 – Winter 2006 – Pages 133-151
41. Thomas Mun. *England's treasure by foreign trade. or the balance of our foreign trade is the rule of our treasure*. Thomas Mun. 1571-1641 P.144-145 URL: <https://quod.lib.umich.edu/e/eebo/A51598.0001.001/1:5.15?rgn=div2;view=fulltext>
42. Thompson Wesley E. *The Athenian Entrepreneur*. In: *L'antiquité classique*, Tome 51, 1982. P. 53
43. Thornton, M.K. and R.L. Thornton. *The Financial Crisis of AD 33: A Keynesian Depression?* *The Journal of Economic History*. Vol. 50, No. 3 (Sep., 1990), pp. 655-662
44. Wallon, A. *History of slavery in the ancient world*. Vol. II, OGIZ Gospolitvydav, Moscow, 1941, pp. 316-317.
45. Westermann W., *The Slave Systems of Greek and Roman Antiquity*. *The American philosophical society*. Philadelphia. 1955 P. 63-149
46. Xenophon. *About the profits*. Chapter 4
47. Xenophon. *Oikonomika*. Chapter 20

Received: May 1, 2024

Accepted: May 29, 2024

Released: July 15, 2024