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FOREIGN DIRECT INVESTMENT IN THE CURRENT CRISIS

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Abstract

This study highlights the importance of FDI for the global economy. The author considers the theoretical foundations of methods for assessing the investment attractiveness of regions. In today's difficult conditions of overcoming the global financial and economic crisis, the problem of assessing investment attractiveness is of particular relevance. Investments contribute to effective structural transformations in the economy, since the most promising sectors are most investment-attractive. New waves of the pandemic are holding back the investment processes. However, the trend towards an improvement of the investment attractiveness is continuing. The author provides statistical data on the current situation in the foreign direct investment market. The emphasis is placed on difficult economic, political, and financial conditions that play a negative role in the modern market of foreign direct investment. Despite a great variety of both Russian and foreign methods for assessing the investment attractiveness, it is difficult to choose an optimal one. There is no single accepted interpretation of investment attractiveness. In order to avoid foreign pressure, own methods for assessing the investment attractiveness have been developed; however, there is no single, legally approved method for assessing the investment attractiveness. The methodology for assessing the investment attractiveness should be understandable to potential investors and recipient parties.

Keywords: Foreign direct investment, investment attractiveness

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1. Introduction

Investments are drivers of the economic growth. The competitiveness of the national economy depends on their structural component. Investments contribute to effective structural transformations in the economy, since the most promising sectors are most investment-attractive. New waves of the pandemic are holding back investment processes; however, the trend towards an improvement of the investment attractiveness is continuing. This problem is especially relevant in the context of the financial and economic crisis, when potential investors are afraid if investing unfamiliar investment objects. Considering the reasons for the increase in the inflow of investments, it is worth considering the conditions of investment attractiveness and the investment climate in the country. First of all, it is the openness and development of the economy, which is inextricably linked with political and macroeconomic stability.

2. Problem Statement

The first attempts to assess the investment attractiveness were made more than 30 years ago. For example, the Japanese methodology for assessing the investment attractiveness does not provide for a quantitative assessment, while the American one includes "annual statistical maps" that include four generalized indicators of the investment climate: economic efficiency, business viability, development potential of the territory, and the tax policy. Since 1997 Russia has been developing own methods for assessing investment attractiveness; however, there is no single, legally approved method. The methodology for assessing investment attractiveness should be understandable to potential investors and recipient parties (Filimonova & Gorodinskaya, 2013).

3. Research Questions

Having analyzed the existing approaches and methods of assessment, three main approaches to assessing the investment attractiveness of the region were identified:

1. identification of fundamental factors, the presence of which determines the investment attractiveness of the region (the image, the dynamics of GRP, production volumes);

2. analysis of several factors that are considered equal, with each factor determined by a specific set of indicators (economic potential, market infrastructure, political factors, financial factors, etc.);

3. analysis of a wide range of factors that affect investment attractiveness as an aggregate indicator of investment potential and investment risks (resource and raw materials, production potential, political and economic risks) (Pridachuk et al., 2021).

Within these approaches, three large groups of methods for assessing the investment attractiveness of a region can be distinguished:

1) economic and mathematical methods;

2) factor analysis;

3) expert assessments (Ustyuzina & Khusainova, 2013).

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Considering specific methods for assessing investment attractiveness, it is necessary to mention investment attractiveness assessment systems, such as Fitch, Moody's, Standard & Poor's. They evaluate countries and regions for their ability to fulfill their obligations. Qualitative indicators include the following characteristics:

- institutional facilities;
- political factors related to intergovernmental relations;
- other aspects that reflect the desire of the region to fulfill its obligations;
- availability of support from the government.

Quantitative indicators include the following characteristics:

- trends and forecasts for the development of public finances, including taxes, the taxable base and operational transfers;
- debt burden;
- socio-economic situation.

4. Purpose of the Study

The purpose is to consider the current situation in the foreign direct investment market and reveal problems that affect the foreign investment flow.

5. Research Methods

The general scientific research methods were used (comparative, logical and statistical analysis).

6. Findings

Despite a great variety of both Russian and foreign methods for assessing investment attractiveness, it is still difficult to choose an optimal method. There is no single accepted interpretation of investment attractiveness (Kovaleva & Martirosova, 2018).

In the economic literature, this category is interpreted in different ways (Table 01), which indicates the lack of research methods and suggests that the country is still in search of the most optimal methods for assessing investment attractiveness. Of all the existing methods, the most popular one is the method of assessing the investment attractiveness by the Expert-RA rating agency, according to which “assessment of the investment climate of a region is based on data on investment attractiveness (investment potential) and investment risks” (Dzhabrailova et al., 2021, p. 49). According to the interpretation of the category “investment attractiveness of the region” by the Expert RA rating agency, such concepts as investment climate and investment attractiveness are identical.

Based on a significant number (about 200) of qualitative and quantitative indicators published by the Federal Service of Rosstat of the Russian Federation, the Ministry of Finance of the Russian Federation, the Ministry of Economic Development and Trade of the Russian Federation, the Ministry of Regional Development of the Russian Federation, the Ministry of the Russian Federation for Taxes and Dues, the Bank of Russia and other official bodies, "Expert RA" conducts an annual analytical study

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"Ranking of investment attractiveness of Russian regions", the results of which are published in the journal "Expert". In accordance with the Expert RA methodology, the investment potential takes into account indicators that affect possible volumes of investment in the region, and consists of nine components (resource and raw materials, labor, production, consumer, infrastructure, innovation, institutional, infrastructure, financial and tourism private potentials), each of which is characterized by a group of indicators. Investment risks reflect the probability of losing investments and income and can be of six types (economic, social, financial, managerial, environmental and criminal) (Kvashnina, 2019).

Table 1. The authors' definitions of the concept 'investment attractiveness of the region' (Litvintseva & Goldobina, 2019)

No.	Authors	Interpretations
1	Litvinova	An integral characteristic of the investment environment formed on the basis of an assessment of the investment potential and investment risk of the region, reflecting the subjective perception of the region by a potential investor
2	Akhtarieva	An integral indicator determined by economic and financial indicators, indicators of state, public, legislative, political and social development. Investment attractiveness determines the vector of movement of physical, financial, intellectual and human capital into the country or abroad
3	Yangulbaeva	the state of the regional economy formed by existing risks and established investment potential, confirmed by indicators of profitability, reality and prospects of financial investments in the social or economic development of the region
4	Zhurova	a set of features (conditions, restrictions) that determine the inflow of capital into the region and are assessed by investment activities
5	Tretyakov	a system of objective features, means, and opportunities that determine the potential effective demand for investment.
6	National rating agency	a set of factors affecting the feasibility, efficiency and risk level of investments.
7	Rating agency RAEX ("Expert RA")	two relatively independent characteristics: investment potential and investment risk

According to (Smirnov & Lukyanov, 2021), the inflow of foreign direct investment in developed countries fell sharply by 69 %. Almost 80 % of investments were from developed countries. Estimated at about $229 billion, inflows to developed countries were only one third of the lows since the global financial crisis in 2009 ($714 billion). Transnational corporations TNCs have significantly reduced new equity investments. Combined with the lower M&A activity, this resulted in a marked decline in the equity component of FDI to near zero Intra-company loans turned negative (–$134bn) as parent firms withdrew loans or received repayments from their affiliates which strengthened their balance sheets. Contrary to previous expectations, and despite significantly lower earnings, reinvested earnings in overseas affiliates remained relatively stable.

Inflows to Europe fell (–$4 billion) due to the sharply negative foreign direct investment in countries with significant transshipment flows such as the Netherlands and Switzerland. Flows to the Netherlands fell to $150 billion in 2020 due to large sales of capital assets and negative intra-corporate

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loans (–125 billion and –102 billion dollars, respectively). The cost of cross-border mergers and acquisitions reached almost 100 billion dollars due to the corporate reconfiguration registered as a merger of Unilever (UK) with Unilever (Netherlands) at $81 billion. FDI in Switzerland remained negative at $88 billion due to large asset sales of $155 billion.

FDI in the EU fell by 71 % to about $110 billion from $373 billion in 2019. In the EU members, there has been a decline in foreign direct investment. Germany showed a significant decline from $58 billion in 2019 to $23 billion, despite a jump in cross-border mergers and acquisitions (Smirnov & Lukyanov, 2021).

The amount of infusion of foreign capital directly depends on the investment climate and the level of investment attractiveness. In Russia, many projects are being implemented to increase investment attractiveness, but there are pitfalls that a foreign investor faces when entering the Russian market. First of all, these are legislative problems – security corruption (Borodushko & Kuzminykh, 2018). The international anti-corruption movement Transparency International published a study "Corruption Perceptions Index" (CPI) for 2021. Russia scored 29 points out of 100 and took 136th place out of 180. Angola, Liberia and Mali scored the same.

One more problem is the unstable external political and economic environment. The Western sanctions, the war with Ukraine and the apparent crisis in the Russian economy have scared away foreign investors.

The imperfect tax incentive system also deserves attention; it is required to use the system of tax incentives and rates.

Another significant problem is the imperfect tax incentive system. It is necessary to establish such tax rates and benefits that help compete with the leaders in the investment capital market.

In order to attract foreign investors to the Russian Federation, it is necessary to eliminate the above problems and create a favorable investment climate.

The World Bank created a special rating – Doing Business. The index was created by two economists - Simenon Dyankov and Gehard Polje in 2003 based on the research by Oliver Hart. Since 2003, the Doing Business ranking has been published annually by the World Bank based on annual data. As of 2020, the ranking includes 190 countries.

The first five places were distributed as follows:

1. New Zealand;
2. Singapore;
3. Hong Kong;
4. Denmark;
5. South Korea.

Russia ranks 28th; among the former USSR countries, Georgia ranks 7th, which is a very high indicator, while Lithuania ranks 11th place, Estonia – 18th, Latvia – 19th.

Another step towards improving the investment climate is the elimination of bureaucratic red tape. From 2012 to 2015, procedures for registering enterprises were simplified. According to this indicator, the country has risen from 111th place to 34th. The number of procedures required for registration has been reduced from 9 to 4, the registration time was reduced from 30 to 13 days. The registration cost decreased (Skripnikova & Postanogova, 2015).

7. Conclusion

In recent years, despite favorable macroeconomic conditions, global direct investment flows have been experiencing serious fluctuations. To the greatest extent, they concern developed countries and transitional economies. The Russian Federation should create more favorable conditions for attracting investors, to cope with problems that deteriorate the investment attractiveness: to reduce administrative barriers, to cope with political difficulties, and to amend tax legislation (Litvintseva & Goldobina, 2019).

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