

SCTMG 2020

International Scientific Conference «Social and Cultural Transformations in the Context of Modern Globalism»

ASSESSMENT OF INVESTMENT ATTRACTIVENESS OF THE RUSSIAN ECONOMY

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Abstract

The article presents the study results of the Russian economy investment attractiveness. A terminological analysis was carried out, which showed significant differences in the interpretation of terms. The terminological analysis made it possible to formulate the author's definition of the country's investment attractiveness as a set of objective signs, properties, and opportunities that determine the potential solvent demand for investments and determine the possibility of a boundary transition of investment resources. The study noted that the influx of foreign direct investment is an active driver of economic development in developing countries. Developing countries are characterized by a poor quality institutional environment and not support investment in the production and protection of property rights. The macroeconomic factors of investment attractiveness are considered. The methods of assessing the country's economy proposed by domestic and foreign scientists in the context of the sources of information used and the factors studied are studied. The development of methods for assessing investment attractiveness from a simplified, narrowed approach to a risk approach involving the assignment of ratings to countries is shown. The goal is to characterize the investment attractiveness of the Russian economy. The results are ambiguous and do not leads to one of the methods to be recommended as optimal. It is concluded that it is necessary to use an integrated approach, the application of which will allow forming a complete knowledge of the investment attractiveness of the Russian economy and outline the main directions for its increase.

2357-1330 © 2020 Published by European Publisher.

Keywords: Investments, investment attractiveness, economy, development, assessment methods, rating.



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1. Introduction

Digitalization, sanctions, ongoing reform of some regions of the Russian economy actualize the task of accelerating and reorienting investment processes in order to intensify innovative activities and ensure the acceleration of socio-economic development of society. Ultimately, these trends increase the country's competitiveness. Russia has sufficient resources, production, and scientific potential. However, in order to more effectively solve socio-economic problems and strengthen its position in the global space of Russia, it is necessary to increase foreign investment. Moreover, their effectiveness largely depends on the assessment adequacy of the national economy investment attractiveness, the results of which are determined by the chosen assessment method.

2. Problem Statement

Currently, researchers differently understand the investment attractiveness of the country and focus on various methods of assessing it, as Table 1 clearly shows.

Table 01. Review of works on the assessment of investment attractiveness

Authors	Ways to assess the investment attractiveness of the country	Note
Aksenova and Prikhodko (2010).	A narrowed approach. Factor approach. Risk approach.	The work is devoted to modern approaches to assessing the investment attractiveness of the country.
Kapustina and Portnov (2014)	Ratings are reflecting the investment climate and the attractiveness of countries for investors – comprehensive assessment proposed by the authors.	The study reflects methodological approaches to assessing the investment attractiveness of a country.
Veretennikova and Rybina (2011).	Analysis of macroeconomic indicators. Place in ratings compiled by international rating agencies.	The work includes approaches to assessing the investment attractiveness of the industry. The country-level assessment is only mentioned.
Ogorodnikov, Matveeva, Kryuchkova, and Chirkova (2014).	The methodology of the Harvard Business School. Euromoney rating.	The study is devoted to methods for assessing the investment attractiveness of individual economic systems. The country-level assessment is only mentioned.
Golovina and Lungu (2015).	Euromoney rating. Global Competitiveness Index. Rating A. T. Kearney.	The work carries out the investment attractiveness of the Russian economy in the world market. Some methods of assessment are considered.
Makhalina (2014).	Rating A. T. Kearney. Rating Doing Business.	The work is devoted to the investment climate in Russia. Ways to assess the investment attractiveness of the country are only mentioned.

Klimova and Murashkina (2015).	Bloomberg Markets Global Investor Poll.	The study assesses the impact of sanctions on Russia's investment climate and industrial policy. A method of evaluating a country's investment attractiveness is only mentioned.
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The authors believe that the use of an integrated approach will increase the objectivity of assessing the investment attractiveness of the Russian economy.

3. Research Questions

The investment attractiveness of an economy is a complex economic term. The ambiguity of the interpretation of this term has a significant impact on the methods and results of assessing the investment attractiveness of the economy, which is especially noticeable for the developing market economy of Russia.

4. Purpose of the Study

The purpose of the study is to assess the investment attractiveness of the Russian economy using an integrated approach. Research tasks are the clarification of the concept of investment attractiveness of the country; a comparative description of the methods for assessing the country's investment attractiveness; substantiation of the need and effectiveness of using the integrated approach.

5. Research Methods

The study uses general scientific methods – comparison, description, analysis, synthesis. The theoretical basis is the work of Russian and foreign scientists in the field of investment.

6. Findings

Investment attractiveness is a complex, multidimensional concept, the study of which is devoted to a wide range of works of domestic and foreign scientists. However, to date, a single approach to determining the investment attractiveness of the economy has not been formed. It seems appropriate to combine the definitions of Valinurova and Mozgoeva since the country's investment attractiveness is a generalized description of the advantages and disadvantages of foreign investment in the economy from the perspective of an investor (as cited in Veretennikova & Rybina, 2011).

A widespread approach is that investment attractiveness is determined by investment potential and investment risks (Ilyina, 2012). Another approach involves a variety of factors of investment attractiveness (Golovina & Lungu, 2015). The constant influx of foreign direct investment is a powerful driver of economic development in developing countries (Drapkin et al., 2019). A statistical analysis of data on 25 countries showed that foreign direct investment contributes to economic growth, and the influence of direct domestic investment on growth rates is statistically insignificant (Campos &

Kinoshita, 2002). At the same time, developing countries are often characterized by a low-quality institutional environment and do not support productive investments and protection of property rights (Yildirim & Gokalp, 2016). It is necessary to take into account the factors that foreign investors take into account when deciding whether to invest in increasing the investment attractiveness of the Russian economy. After identifying the factors of investment attractiveness, one should choose methods for assessing it, which vary significantly. Factors of investment attractiveness usually include individual macroeconomic indicators characterizing the level of development of production and technology, quality of life, and the state of the monetary system. There are other important factors, such as the level of capacity and solvency of the domestic market; inflation rate; the level of corruption and criminalization of society in the economic sphere; degree of legal support of investment activity; stability of the regulatory framework of business and investment activities; stock market development; interest rate; tax policy (Golovina & Lungu, 2015).

The narrowed approach involves the analysis of some factors that more affect the country's investment attractiveness (Harvard Business School, Swiss Institute for Risk Studies in the business environment). It is simple but does not fully characterize the situation in the country, since the set of indicators does not take into account the objective relationship of the investment factor with other resource factors for the development of the country's economy. Researchers found a solution to the problem by increasing the number of indicators and using statistical data. The application of such techniques became complicated in the 1990s due to the emergence of countries with economies in transition that could not be estimated using the same parameters as developed countries. These parameters served as an impetus for the development of the factor approach. Investment attractiveness is assessed by a combination of factors that influence the decision of a foreign investor regarding a specific country. The factor approach is characterized by the use of various economic and statistical methods that allow the formation of an integral indicator that determines the investment conditions of the country.

The risk approach is based on a comparison of the investment potential and investment risk of the country. The risk approach involves assessing the risk level of a new investment object relative to the current level. This approach is used by international rating agencies, among which the Big Three stand out – Moody's, Fitch Ratings and Standard & Poor's. They assess credit risk, namely the likelihood that the government will not fulfill obligations to creditors and default. Common is the use of a scale with 21–23 ratings, which are divided into 2 large groups – investment and speculative groups. The initial rating that investors pay attention to is the long-term foreign currency rating. Moody's rating has a significant difference – the main event, the probability of which this rating shows, is not the default itself, but the fact that investors will suffer losses when it occurs.

The Fitch rating scale changes from AAA (highest credit rating) to D (default), plus and minus signs are added to the letter designations. On August 9, 2019, Fitch upgraded Russia's long-term foreign currency credit rating BBB with a stable outlook. Standard & Poor's assigns ratings from AAA to D, which are supplemented by plus and minus signs for the interim assessment. With a rating of AAA, the issuer has an exceptionally high ability to pay interest on debt obligations and debts themselves. In rating D, a default is declared and S&P believes that the issuer will refuse payments on most or all obligations. On July 19, 2019, the agency determined the long-term credit rating of Russia for foreign currency

obligations as "BBB" (outlook – "stable"). On February 8, 2019, Moody's Agency determined the long-term credit rating of the Russian Federation for obligations denominated in foreign currency as "Baa3" (outlook – "stable"). Thus, the long-term credit rating of Russia in foreign currency from the international rating agencies of the Big Three is currently at the investment level.

International Consulting Company A.T. Kearney annually publishes a ranking of the 25 most attractive countries for investment in the world, calculating the Foreign Direct Investment Confidence Index, which takes into account economic and political factors and the regulatory system. The indicator is determined by a manager's survey of more than 300 companies; the turnover of each exceeds a billion dollars. In the ranking for 2018, the first place, like several previous years in a row, is occupied by the United States, and Brazil last. Due to high investment risks, Russia has not been included in the rating in recent years. Representatives of the consulting company largely explain this by the tense foreign policy situation, insufficiently favorable conditions for doing business, and legislation in the entrepreneurial sphere (Golovina & Lungu, 2015).

A comprehensive assessment of the investment attractiveness of the countries of the world is carried out every six months by the Euromoney magazine, which measures investment risks (economic, political, and structural). Euromoney Country Risk is rated using 15 criteria. One hundred eighty-six countries are studied, each of which receives points on a 100-point scale, where 100 is considered the safest (no risk), and a score of 0 (zero) is equal to the maximum risk. In the first half of 2018, Russia received more than 47 points, demonstrating growth compared with the same indicator in 2017 (less than 45 points). Moreover, the value of the indicator was lower than that of South Africa and Morocco.

Bloomberg news agency in its terminal surveys uses The Bloomberg Markets Global Poll. About 1300 subscribers take part in it, which are traders, bankers, and financial managers, determining the best places for investments for the coming year. According to the agency, the Russian economy growth over the past three months of 2018 amounted to 2.2 % and was the highest since the third quarter of 2017. However, presumably, the increase was due to increased economic activity before the increase in value-added tax.

Ernst & Young, one of the largest audit and consulting companies in the world, conduct a study of the investment attractiveness of European countries every year, where the main emphasis is on foreign direct investment. Dynamics of the number of FDI projects implemented in Russia in the period 2011–2018 ambiguous. In 2014–2017, there was an increase from 114 to 238 projects, and in 2018 their number decreased to 211 projects.

In 2017, foreign investors in Russia made investments in 238 projects, which is 33 projects more than in the previous year. These circumstances allowed our country rising two lines in the list of top 15 European countries and take fifth place.

If we examine the Ernst & Young indicator understudy in dynamics, we can find that the number of FDI projects in Russia has significant fluctuations over the years. Yet, for the period 2007–2017, the growth rate was 171.2 %.

The World Bank annually publishes the Doing Business analytical report, which provides a rating of countries in terms of their creation of favorable business conditions, assessing changes in legislation in the field of entrepreneurial activity. In evaluating the state, business regulation by ten indicators is taken

into account (Kapustina & Portnov, 2014). The latest Doing Business in 2018 study examined business conditions in 190 countries. In the general list, Russia took 35th place, rising five positions.

The World Economic Forum annually forms a global competitiveness rating based on statistics and a survey of company executives. This index includes an assessment of 113 indicators, which are combined into 12 large groups that affect the business climate in the country. In the ranking of global competitiveness 2017–2018, Russia took 38th place from 137 countries, rising by five positions.

The Swiss Institute of Management (IMD) also studies the global competitiveness of world countries. Each indicator is evaluated on 5 indicators. For assessment of the leading indicators, 333 criteria are analyzed. In 2018, the study covered 63 countries, with Russia taking 43rd place, rising from the previous year (46th place). In addition to macroeconomic stability (55th place in the world), the compilers of the rating ranked the strengths of the domestic market (sixth place) and the penetration of I.T. and modern communications (25th place). Weaknesses include the quality of institutions (72nd place), the development of the financial market (86th place) and public health (100th place).

The Foundation for Peace public organization also annually compiles a rating of countries characterizing investment attractiveness. The analysis is carried out on three large blocks of criteria: social, economic, and political. In total, there are 12 "vulnerability indicators"; more than 100 indicators of the work of state security institutions are used for assessment. The scales of index and rating as a whole are formed in such a way that the higher the sum of points, the worse the situation in the state. The weakness rating of states includes 178 countries, which are divided into groups: states with a high level of instability (a critical level of risk); states with a stability level below the average (dangerous level of risk); countries with stability level above average (low level of risk); States with a high level of stability (no risk). In the ranking of 2017–2018, Russia takes 67th place out of 178 and falls into the group of countries with a moderate level of instability.

The latest Doing Business in 2018 study examined business conditions in 190 countries. In the general list, Russia took 35th place, rising five positions. When considering the indicators in Russia, the following position in the ranking:

- high: ease of registration of property rights; enforcement of contracts; the simplicity of business registration; the ability to connect to the power supply system;
- average: the possibility of lending; investor protection level; the level of taxation; ease of liquidation of enterprises;
- low: ease of obtaining building permits; the level of international trade.

Thus, each method of assessing the country's investment attractiveness has features related to the methodology, sources of information, parameters taken into account, and country coverage. Therefore, the evaluation results have significant differences. A holistic view of the investment attractiveness of Russia can only be made using the integrated approach. In the context of the integrated approach, it is necessary to analyze the country's position in all the critical ratings recommended by domestic researchers and evaluate their dynamics.

7. Conclusion

An integrated approach allows arguing that the Russian Federation demonstrates not high-level ratings of investment attractiveness. Moreover, the improvement of individual indicators should not be unambiguously considered as a positive trend. The main issues include bureaucratization, high tax burden, non-transparency of business, the imperfection of legislation in the field of entrepreneurship. However, the advantages of investing in Russia are superior to these shortcomings: a costly raw material base, developed mining and manufacturing industries, the presence of large operating enterprises that can become right platforms for the introduction of modern technologies, cost-competitive workforce, qualified specialists in various fields, developed communication systems. In the decision-making system on investing in the Russian economy, the key factors are the foreign policy conditions and the situation on world commodity markets.

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