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INVESTMENT AS A COMPONENT OF THE FINANCIAL MECHANISM OF FOREIGN ECONOMIC ACTIVITY REGULATION

Tetiana Rybakova *, PhD in Economics, Associate Professor,
Hryhorii Skovoroda University in Pereiaslav
Iryna Amelina **, PhD in Economics, Associate Professor
Oleksandr Marchenko*, PhD in Economics, Associate Professor**
National University «Yuri Kondratyuk Poltava Polytechnic»

** ORCID 0000-0003-2057-9550*
*** ORCID 0000-0002-3448-4918*
*** ORCID 0000-0002-3342-0525*

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Introduction. Investment activities play a key role in the process of large-scale political, economic and social transformations aimed at creating favourable conditions for sustainable economic growth in the countries with a market economy as well as in transition and developing economies. The rational investment attracting promotes production development, advanced technologies transfer, new jobs creation, labour productivity growth, increasing the competitiveness of products in the world market.

From the perspective of economic reforms, the problem of increasing investment activity and improving the investment climate is one of the crucial ones. The investment process intensification is a basic factor for the restructuring of the economy and modernization of its production potential.

The investment process is one of the objects of macroeconomic regulation, and its impact on economic development is constantly increasing. Investment can also be treated as an instrument for influencing foreign economic activity; attracting foreign direct investment (FDI) in frames of the state investment policy helps to link a country’s domestic economy to global value chains in key sectors that helps to increase export.

Review of the last sources of researches and publications. Studying the investment is the comprehensive task as there are many factors influencing the investment processes and investment activities. Nevertheless, the problem is not new, and for a long time it has been attracting the attention of a large number of scientists, both foreign and domestic ones.

Existing approaches to the role of the state and market mechanisms in the investment process are represented from the extreme liberalism (A. Smith, D. Ricardo, A. Marshall, J. Mill) to active state participation (J.M. Keynes, P. Samuelson). Nowadays most economists recognize the necessity of government intervention in the economy, including the investment processes, and the intervention depth, forms and methods are the objects of discussion.

Despite strong complementarities between the FDI and international trade, the two flows are typically presented and treated separately in the statistical information system [1]. Nevertheless, a number of foreign scientists (L. Fontagné, M. Pajot, Xiaming Liu, A. Jayakumar, B. Mitic, Li-Gang Liu, E. Graham and others) studied the affects of FDI on international trade for the case of developing and transition economies.

A significant contribution to the development of the domestic theory of investment and investment process was made by S. Mochernyi, A. Halchynskyi, V. Heiets, M. Dolishnii and other Ukrainian scientists. Much attention to the influence of the state financial policy on investment activity was paid by O. Vasyliuk, O. Zaruba, O. Kirichenko, M. Krupka, L. Taranhul, V. Fedosov, I. Chuhunov, etc.

However, the study of investment as a component of the financial mechanism of foreign economic activity regulation still does not attract the proper attention of scientists, since investment, including FDI, is considered mostly as an object of regulation in the context of economy modernization, economic growth, sustainable development.

The purpose of the article is to consider investment as a component of the financial mechanism of foreign economic activity regulation, to identify the regulating levers in frames of investment instrument and to study the experience of their use in selected countries.

Basic material and results. The international capital movement, carried out in the form of direct and portfolio investment, is one of the main forms of international economic relations, and investment is one of the important instruments for influencing the foreign economic activity. The investment policy is an integral part of state economic and social policy, a component of both financial and foreign economic policy of the state. Since investing as well as lending, taxation and insurance reflects the functions of financial relations, i.e. the process of funds movement, the investment should be considered as a component of the financial mechanism of foreign economic activity regulation (fig. 1).

State regulation of investment activity is a combination of government approaches and decisions enshrined in law, organizational and legal forms, within which the investor carries out its activities.

Speaking about investment regulation, we should, in our opinion, take into account the dual nature of investing process in this aspect. So, on the one hand, investing, in particular providing domestic industry with foreign investment resources, is one of the types of foreign economic activities. Government actions on stimulating foreign economic activity are directed at investment as well as at foreign trade and the promotion of domestic goods to foreign markets. On the other hand, investment itself is an instrument for regulating foreign economic activity, since, by encouraging investment in certain economic objects at the meso level, the state thereby affects the formation of foreign trade structure. There is evidence of a positive relationship between FDI, the level of specialization and changes in export structure in favour of products with higher value added [2, p. 776].

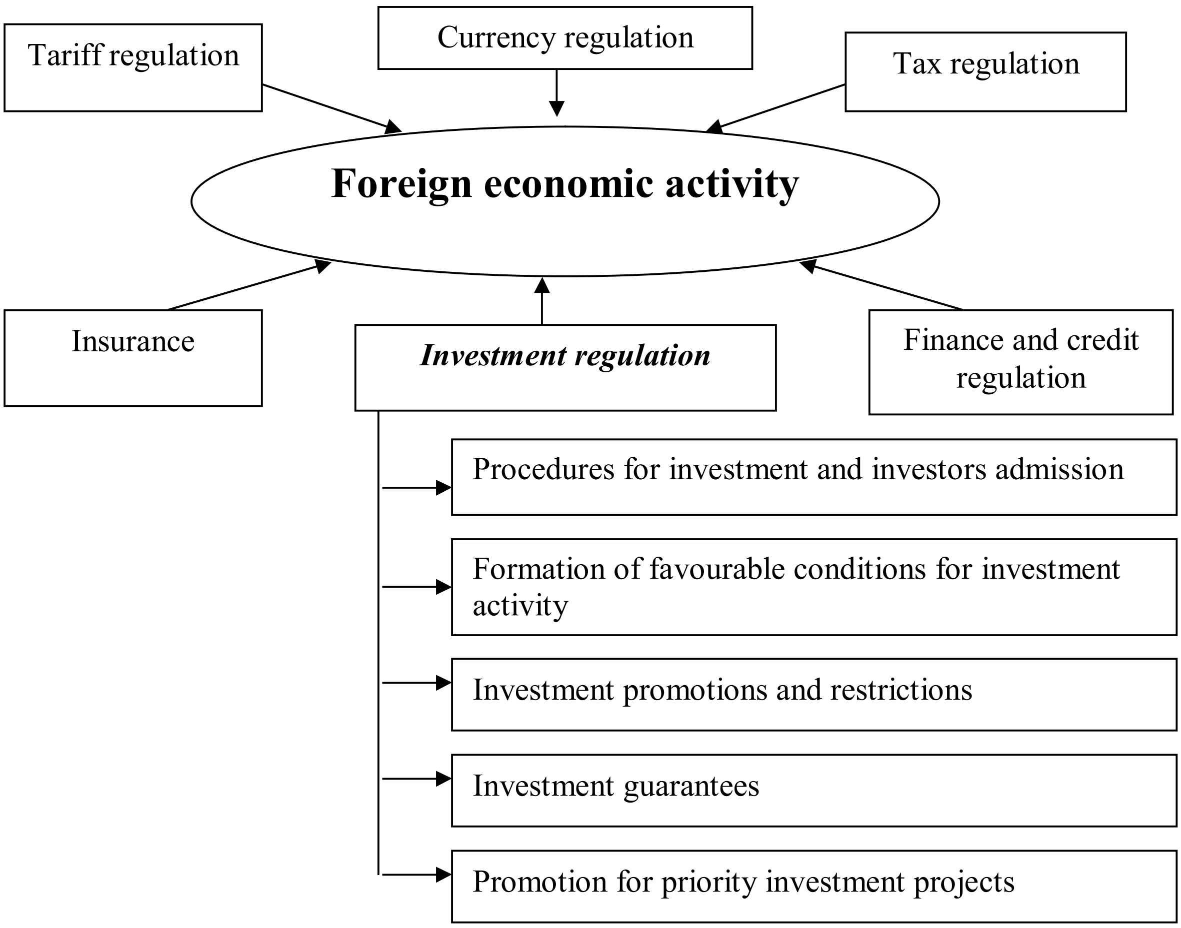

Fig. 1. Investment in the financial mechanism of foreign economic activity regulation

So, investment as an instrument of regulation should be investigated as a means of influencing foreign economic activity.

In the framework of investment regulation of foreign economic activity, the state uses such levers as procedures for investment and investors' admission, formation of favorable conditions for investment activity, investment promotions and restrictions, investment guarantees, promotion for priority investment projects.

The procedure of investment and investors admission implies the creation of a legal regime for investment, which should be mentioned as a special order of regulation consisting of the application of a certain set of legal instruments. They create a peculiar combination of orders, permits and prohibitions and establish the special focus of the legal regulation implemented through the specific elements of the regulation mechanism.

The national regulatory framework for FDI defines whether and under what conditions such investment can enter a host country, operate in it, and exit it [3, p. 6]. Currently, competition among countries for attracting foreign investment leads to the liberalization of national legislations concerning the foreign investment regulation.

In Ukraine, the legal regime of foreign investment is regulated by the relevant Law, which establishes the legal regime of investment activity and determines the national treatment for investment and other economic activity for foreign investors in the territory of Ukraine (Article 7) [4].

Creating the favourable conditions for investment activities is the goal of their legal regulation in the context of national legislation. It helps to attract investment, including the foreign ones. Investment promotion can play a critical role in developing and transition countries' economic performance. Stimulating investment in transition economies relies to a large extent on creating investment opportunities within export-oriented industries and on prospects for integrating production into global value chains [5, p. 153].

The formation of a favourable investment environment provides for:

the creation of auspicious conditions for the private entrepreneurs activities;

direct participation of the state in the effective and significant projects for the country;

stimulation of the private sector investment activity through investment benefits.

The investment promotions are given by the authorities of the country to attract primarily foreign investment. Companies with foreign capital are traditionally very careful in examining such investment benefits, as latter are one of the important points for entrepreneurs when making decisions on their international activities. The investment promotions are introduced in the context of the national policy of the economy state stimulation. Of course, they apply to all companies operating in the country, both national and foreign.

Among the main forms of investment promotions are:

the direct subsidies for investment in fixed assets and research;

preferential rates of taxation;

accelerated depreciation;

tax and investment credits;

preferential tariffs for services of state enterprises;

simplification of conventions necessary for the creation of enterprises, special economic zones, etc.

According to the investigations [2], the most effective way to attract FDI is to focus on free trade zone, trade regime, tax benefits, human capital in the host country, regulations of financial markets, financial system and the quality of infrastructure.

The industrialized countries have extensive experience in stimulating investment activities of foreign and domestic investors. In China, for example, there was an exemption for non-resident investors from any inspections during the business establishment period. The mechanisms for subsidizing rates for many tax charges, depending on the sectoral direction of investment projects, and the system of discounts on rent and infrastructure payments are widely used.

There are special promotions for foreign investors that contribute to the regional development of priority areas and to the export-oriented industries development. Numerous benefits are given to medium and small businesses.

The practice of investment restraint is aimed primarily at preventing foreign investors from controlling certain sectors of the economy. Today in the context of globalization and investment internationalization such restrictions have a negative impact on economic growth, therefore in the market economy countries, as a rule, there are no significant legal restrictions on foreign investment. Many transition economies are also undergoing gradual changes aimed at reducing foreign investment restrictions.

But investment restrictions are still used by developed countries as a means of striking a balance between openness to foreign investment and the necessity of solving problems in the field of economics and national security. According to the UNCTAD report, new national investment policy measures show a more critical stance towards foreign investment. In 2018, some 55 economies introduced at least 112 measures affecting foreign investment. More than one third of these measures introduced new restrictions or regulations – the highest number for two decades. They mainly reflected national security concerns about foreign ownership of critical infrastructure, core technologies and other sensitive business assets [6, p. 11].

For example, the United States has no law prohibiting, or subjecting to review, foreign investment based on economic security concerns or, with limited exception, national origin. It does impose some sector-specific limitations and review procedures on foreign investment in a handful of regulated industries, including the airline and nuclear energy industries. Additionally, the United States has a national security review process applicable to foreign investment [7].

As for China (one of the largest economies in the world and a leading exporter) there is a gradual simplification of investment opportunities for foreign investors, and restrictions for foreign companies in China will be cancelled gradually during 2021-2022 [8]. Nevertheless, in China national industrial policies provide guidance to foreign investors regarding the types of industries and regions in China that are open to foreign investment and the restrictions that may accompany that investment. The national industrial policies governing foreign investment include the 2019 Negative List, and it sets out the industries in which foreign investment is restricted or prohibited. Foreign investors are not allowed to invest in industries where foreign investment is prohibited, but are able to invest in the industries where foreign investment is restricted, as long as they are willing to be abide by certain restrictions and have obtained the relevant investment approvals [7].

In Ukraine the investment legislation provides for the possibility of determining the territories in which the activities of foreign investors and enterprises with foreign investments are restricted or prohibited, based on the requirements of national security [4].

Nevertheless, attracting investment still remains a priority (fig. 2). The majority of new investment policy measures still moved in the direction of liberalization, promotion and facilitation.

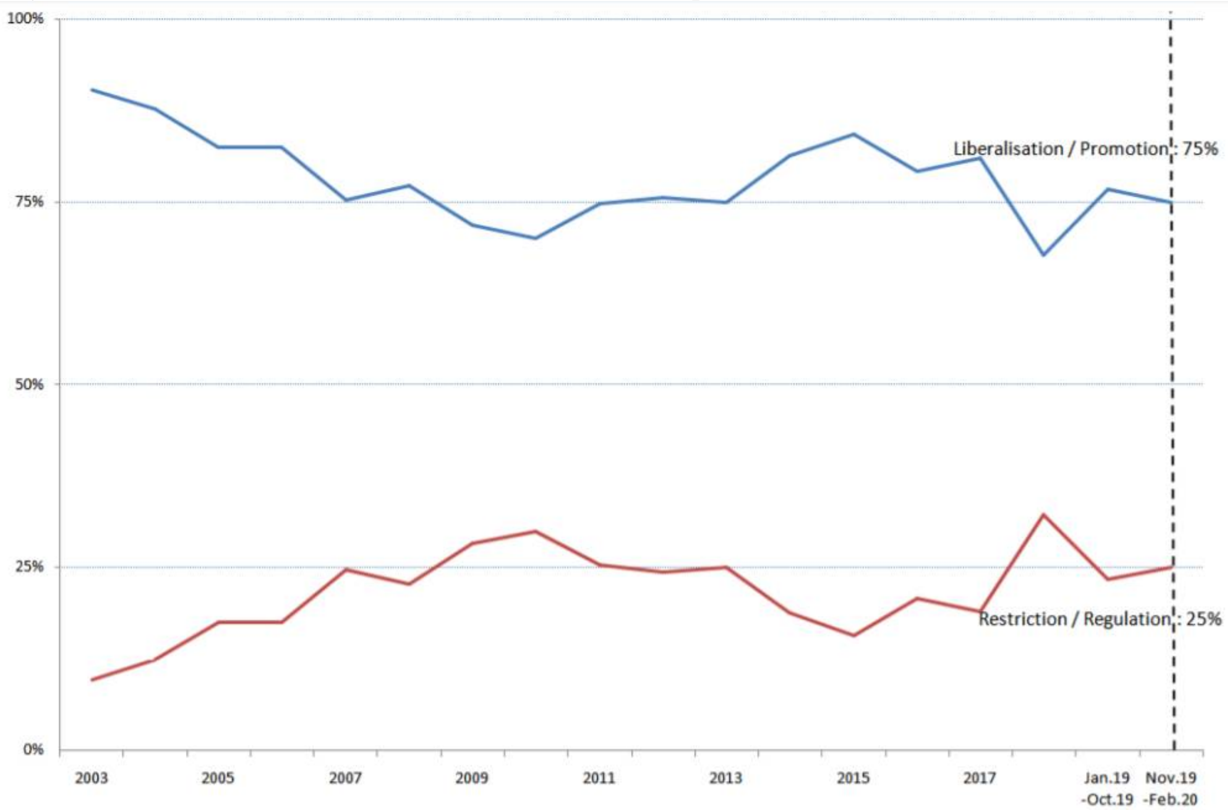

Fig.2. Changes in national investment policies in 2003-2020 [9, p. 6]

Numerous countries removed or lowered entry restrictions for foreign investors in a variety of industries. The trend towards simplifying or streamlining administrative procedures for foreign investment continued. Also, several countries provided new fiscal incentives for investment in specific industries or regions.

Guarantees for the protection of foreign investment are provided by the recipient countries in national law and by international treaties.

Constitutional and legislative protection is one of the most powerful forms of protection that the host country provides to foreign investors. But it should be noted that the protection of foreign investment by the special regulatory acts at the level of national legislation is provided not by all countries [10, 11]. For example, in Great Britain, Germany, USA there is no special legislation that would guarantee investment protection for foreign investors, and they are principally protected by a network of bilateral investment treaties.

In USA foreign nationals and entities that invest in the country enjoy protection before an independent international arbitration tribunal against certain actions by the United States that breach substantive protections established in bilateral investment treaties and the investment protection provisions in free trade agreements to which the United States is a party [7].

In many countries guarantees for foreign investors are provided by national governments at the level of national legislation as well as by the international treaties. In China, for example, the legal rights and interests of foreign investors are protected under the Foreign Investment Law of the People's Republic of China[1]. To attract foreign investment, some local governments may offer support for foreign investors through the granting of land use rights, providing financial subsidies, etc., and certain sectors, such as high-tech, research and development, and others encouraged by the government, may be eligible for preferential tax policies [7].

Ukrainian national legislation regarding the protection of foreign investment consists of the laws “On the Regime of Foreign Investment” [4] and “On Protection of Foreign Investment in Ukraine”. Certain statements of the Commercial Code of Ukraine contain the investment guarantees as well.

To date, the package of guarantees for foreign investors, which, as a rule, is provided by national governments at the level of national legislation and in international treaties, consists of the guarantees of providing a national treatment for foreign investors, fair and impartial attitude, protection of investment, compensation in case of expropriation, guarantees of free transfer of payments in connection with investment, guarantees relating to the procedures of settlement of investment disputes.

Along with the legislative protection, foreign investment protection is based on the investment insurance system. In modern world practice insurance is one of the most effective methods of financial protection from investment risks. An important role is played by insurance companies offering various insurance products to protect investors from risks.

The existing insurance mechanism for investment protection assumes a two level system: insurance within the national insurance systems of the countries and the international insurance system. The financial relations on investment between foreign entities are regulated as a rule by means of bilateral agreements concluded at the level of national governments of the relevant countries.

Foreign investment insurance is managed by the Multilateral Investment Guarantee Agency (MIGA), a member of the World Bank Group. Its mandate is to promote FDI in developing countries by providing guarantees (political risk insurance and credit enhancement) to investors and lenders. MIGA’s guarantees protect investments against non-commercial risks and can help investors obtain access to funding sources with improved financial terms and conditions. [12].

Peculiarities of priority investment projects consist in their exclusive right to possession and use of special benefits and guarantees the state is able to provide them. Such projects are determined by the state on the basis of foreign economic policy objectives, and they are most often associated with the modernization of enterprises in leading export-oriented sectors of the economy.

Many governments have well-defined strategies for priority investment projects promotion. China, for example, has introduced mechanisms to improve the delivery of major foreign investment projects, reduce import tariffs, streamline customs clearance, and establish an online filing system to regulate FDI [13]. According to China’s FDI policy, large-scale investment projects will be offered land and sea-use approval support, benefit from accelerated environmental impact assessments, and enjoy measures to cut logistics costs.

In Ukraine the investment incentives and other economic incentives may be granted to business entities which carry out projects with the attraction of foreign investment that are implemented according to governmental programs for the development of priority sectors of the economy, the development of social services or the development of territories [4].

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[1] Adopted on March 2019 and replaced the WFOE Law, the EJV Law and the CJV Law which have been governing foreign investment in China for several decades.

Conclusions. Investing is one of the types of foreign economic activity as well as an important component of the financial mechanism of its regulation, therefore its functioning cannot be studied separately from its other elements. Investment is a regulatory instrument within the framework of the financial mechanism, and its influence on foreign economic activity is realized by the set of levers.

In transition and developing economies the investment regulation of foreign economic activity should be aimed at promoting the investment processes development. In this case, the levers of investment regulation of foreign economic activity are the following: procedures for investments and investors admission, formation of favourable conditions for investment activity, investment promotions and restrictions, investment guarantees, promotion for priority investment projects.

Nowadays, competition among countries for attracting foreign investment leads to the liberalization foreign investment regulation. Most countries have extensive experience in stimulating investment activities and use the special promotions for foreign investors within export-oriented industries. Investment restraints are used as a rule to prevent foreign investors from controlling certain sectors of the economy. Foreign investments are protected by constitutional and legislative protection as well as by the investment insurance system which provides investors for the financial protection from investment risks.

This study shows that today there are no special investment instruments and levers focused solely on foreign economic activity regulation, and the levers considered above make the affects on the country's economy as a whole. However, as already mentioned, the impact of investment on foreign economic activity can also be significant. A detailed study of these effects in conjunction with other financial methods of foreign economic activity regulation will help to optimize its structure according to the priorities of the state foreign economic policy.

The prospect for further research is to study the empirical dependencies between the investments and foreign trade volumes in order to work out measures for the effective regulation of foreign economic activity by means of financial mechanism.

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Рибакова Тетяна Олександрівна, кандидат економічних наук. Університет Григорія Сковороди в Переяславі. **Амеліна Ірина Володимирівна,** кандидат економічних наук. **Марченко Олександр Вікторович,** кандидат економічних наук. Національний університет «Полтавська політехніка імені Юрія Кондратюка». **Інвестиції як складова фінансового механізму регулювання зовнішньоекономічної діяльності.** Показано роль інвестування в забезпеченні сталого розвитку країн та їх інтеграції до глобального економічного простору. Обґрунтовано необхідність вивчення інвестицій як складової частини фінансового механізму регулювання зовнішньоекономічної діяльності (ЗЕД). Розглянуто інвестиції як інструмент цього механізму, в рамках якого діють відповідні важелі. До важелів інвестиційного регулювання ЗЕД запропоновано відносити такі: формування сприятливих умов інвестиційної діяльності; порядок допуску інвестицій та інвесторів; інвестиційні пільги й обмеження; інвестиційні гарантії; сприяння реалізації пріоритетних інвестиційних проектів. Вивчено досвід окремих країн, зокрема України, щодо застосування важелів інвестиційного регулювання ЗЕД. Установлено, що на сьогодні конкуренція між країнами за залучення іноземних інвестицій призводить до лібералізації режиму їх регулювання, для чого державами створюються сприятливі умови стосовно здійснення інвестиційної діяльності. У промислово розвинених країнах і країнах з перехідною економікою для сприяння розвитку пріоритетних регіонів та експортоорієнтованих галузей застосовуються різноманітні інвестиційні пільги. Визначено, що практика інвестиційних обмежень теж має місце, зокрема щодо критичної інфраструктури, ключових технологій тощо, але в безумовному пріоритеті є сприяння залученню інвестицій. Розглянуто сучасну систему інвестиційних гарантій для захисту іноземних інвесторів, до якої входить пакет гарантій, що їх надають національні уряди на законодавчому рівні, та механізм страхування інвестиційних ризиків. Досліджено правові аспекти регулювання іноземних інвестицій в Україні й з'ясовано, що вітчизняні пріоритети інвестиційного регулювання ЗЕД у цілому відповідають світовим тенденціям.

Ключові слова: інвестиції, регулювання, зовнішньоекономічна діяльність, фінансовий механізм, важелі регулювання, інвестиційні пільги, інвестиційні гарантії.

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Rybakova Tetiana, PhD in Economics, Associate Professor. Hryhorii Skovoroda University in Pereiaslav. **Amelina Iryna**, PhD in Economics, Associate Professor. **Marchenko Oleksandr**, PhD in Economics, Associate Professor. National University «Yuri Kondratyuk Poltava Polytechnic». **Investment as a Component of the Financial Mechanism of Foreign Economic Activity Regulation.** In the paper the necessity of studying investment as a part of the financial mechanism of foreign economic activity regulation is substantiated. The investment is considered as an instrument of this mechanism, within which a set of regulation levers is proposed. The experience of several countries in using the investment regulation is studied, in particular the legal framework for investors admission, the practice of investment promotions and restrictions, investment guarantees. It is shown that in conditions of investment liberalization taking place nowadays, the countries analyzed use the investment levers actively for the development of their foreign economic activity.

Key words: investments, regulation, foreign economic activity, financial mechanism, regulation levers, investment promotions, investment guarantees.