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Features of regional investment policy

Características de la política de inversión regional.

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Abstract.

Current trends in the development of the economy during the period of an unexpected global critical situation caused by the coronavirus and resulting in the financial and economic crisis indicate that there is an accelerated world-wide deglobalization, and a comprehensive transformation of the world community and the economic environment. Modern society highlights the issue of regionalization of the economy. This confirms the relevance and significance of the research topic and issues under discussion, while opening up new facets of the formation of the concepts describing economic security of Russia as a member of the world community. The purpose of the paper is to analyze the implementation of investment policy in the region. The object of the study is the regional investment policy. The subject of the study is features of the regional investment policy of the Primorsky Territory. The paper uses general scientific methods of empirical research, methods of theoretical knowledge, general logical methods and techniques, as well as methods of system analysis, and statistical methods. The paper provides a systematization of the concepts from the category "regional investment policy"; views on the current positions of investment attractiveness of the Russian Federation and the Primorsky Territory are considered. The criteria, features and constituent elements of a regional investment policy are analysed. Factors of investment potential of Primorsky Territory, and also dynamics and volumes of investments in Primorsky Territory are considered.

Key words: regional investments; regional investment policy; investments; investment attractiveness; economic development of regions

Resumen

Las tendencias actuales en el desarrollo de la economía durante el período de una situación crítica global inesperada causada por el coronavirus y que resulta en la crisis financiera y económica indican que hay una desglobalización mundial acelerada y una transformación integral de la comunidad mundial y ambiente económico. La sociedad moderna destaca el tema de la regionalización de la economía. Esto confirma la relevancia y la importancia del tema de investigación y los temas en discusión, al tiempo que abre nuevas facetas de la formación de los conceptos que describen la seguridad económica de Rusia como miembro de la comunidad mundial. El propósito del documento es analizar la implementación de la política de inversión en la región. El objeto del estudio es la política de inversión regional. El tema del estudio son las características de la política de inversión regional del territorio de Primorsky. El documento utiliza métodos científicos generales de investigación empírica, métodos de conocimiento teórico, métodos y técnicas lógicas generales, así como métodos de análisis de sistemas y métodos estadísticos. El documento proporciona una sistematización de los conceptos de la categoría "política de inversión regional"; Se consideran las opiniones sobre las posiciones actuales de atracción de inversiones de la Federación Rusa y el Territorio Primorsky. Se analizan los criterios, características y elementos constitutivos de una política de inversión regional. Se consideran los factores de potencial de inversión del territorio de Primorsky, y también la dinámica y los volúmenes de inversión en el territorio de Primorsky.

Palabras clave: inversiones regionales; política de inversión regional; inversiones; atractivo de inversión; desarrollo económico de regiones

Introduction

The concept of the regional economy development based on the formation of the production complex and infrastructure has lost its meaning in the local sense. The regional complex must meet the demand of the external market to ensure effective interaction at the international level. The factor of changes in Russia's foreign policy and, as a consequence, foreign economic positions was reflected in the change in the vector of economic interests from West to East, which confirms the relevance of the regional policy issues in the Primorsky Territory within the framework of investment attractiveness.

The problems of the formation and implementation of investment policies in the regions are presented in the works by I. A. Blank, N. L. Zaitsev, I. A. Zimin, N. I. Lakhmetkina, V. N. Livshits etc. G. Birman, Glazunov V.N., Gorbunov S.V., Endovitsky D.A., Izmaylova A.S., Kolmykova T.S., Pidyashova O.P., Staroverova G.S., Schmidt S., etc., were involved in evaluating the effectiveness of investment policy (Agency for strategic initiatives, 2018; Baitlyuv, 2016; Gross regional product by type of economic activity; Gerasenko, 2016).

The Far East has become for Russia a kind of “window to Asia” and a centre of close trade and political relations with the Asia-Pacific countries. Its land and sea borders made it a unique territorial unit and impose certain obligations to improve cooperation between Russia and Asia. However, significant investments in the development of the region have led to mixed results. The region is characterized by the presence of the countries with a high level of development, and the need for energy commodities. However, the position of development as a raw material donor of developed economies is not competitive. The management of the regional economy is shifting to increasing labour capital, innovation and investment potential (Lazarev, 2016).

Materials and methods

The theoretical and methodological basis of the study was the use of general methods of scientific and theoretical analysis to deepen the phenomena and concepts under study. The following methods are used in the paper:

- A logical method that allowed us to identify causal relationships between categories and elements of regional investment policy;
- A method of scientific abstraction allowing us to identify the nature and characteristics of regional investment policy;
- Methods of analysis and synthesis in identifying factors affecting the formation and development of the region from the point of view of investment policy, as well as disclosing the relationships between the elements and analysing their dynamics.

The novelty of the paper is to systematize the features of the implementation of regional investment policy.

Analysis and Results

To date, the question of the interpretation of regional investment policy remains controversial. The variability of interpretations and views on the content of the study definition is explained by the study of various aspects of investment policy by domestic and foreign scientists. Regional investment policy is an integral part of the economic policy of the region and the country as a whole. Regional investment policy refers to the “component part of the regional policy, which is implemented by federal, regional and municipal authorities and administrations, investors, aimed at mobilizing and efficient using the investment potential of the territory, at activating and stimulating investment processes in the region from the position of achieving tactical and strategic goals of the development (self-development) of the region” (Titova et al., 2017).

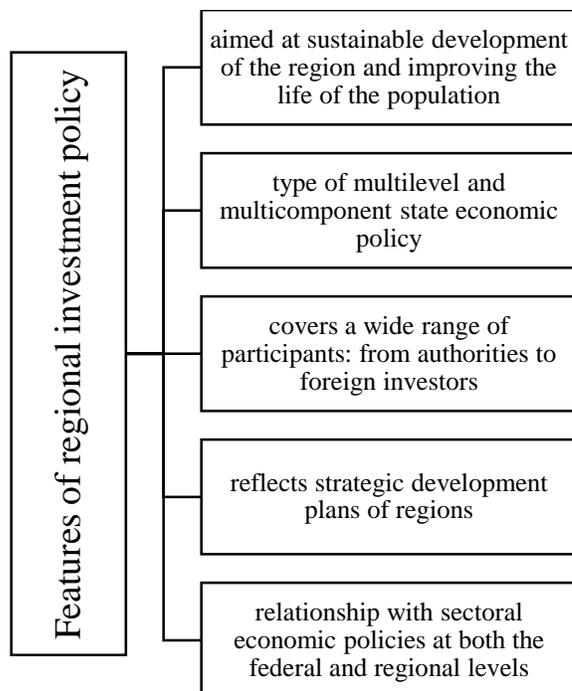


Figure 1. Signs of regional investment policy

Regional policy has a strong influence on many areas of economic development. Investments help to achieve many policy goals and complement it in the areas of education, employment, energy, environment, single market, research and innovation. Given the capacity of the studied economic category, it is necessary to determine the totality of the constituent elements, which create a regional investment policy by forming a synergistic system. The components of the regional investment policy are presented in table 1 (Krasova, 2019).

Table 1. The components of regional investment policy

Name of the component	Description of the component of regional investment policy
Tax component	Establishing tax payments and tax benefits that form the tax system of the region and the taxation regime for the results of subjects of regional investment policy

Budget component	Reflects the process of formation, distribution and redistribution of investment resources as a subject of regional investment policy
Price component	Consists in the establishment and regulation by the state of tariffs and prices for goods, work, and services
Credit component	Regulation of credit relations using legal pricing methods
Institutional component	Regulation of property management relations at all levels of government, as well as the protection of interests in public-private partnerships for the successful implementation of regional investment policies
Social component	Monitoring compliance with the interests of the population and a qualitative improvement in their living conditions, and also protection of the natural sphere

Taking into account the totality of the constituents of the studied category presented in Table 1, it can be noted that the regional investment policy is a multi-valued category that comprehensively reflects the measures, forms and methods of state support for the development of the region, the goals for participation of subjects of investment activity and the mechanism of their interaction at the level of this region (National rating of the investment climate in the constituent entities of the Russian Federation).

There are several tasks of regional investment policy. Firstly, it is increasing the overall investment attractiveness of the region, since the implementation of this principle has a synergistic effect. The higher the volume of accumulated investments in the region's economy, the better the investment climate of the region and the greater the commercial attractiveness for investors and, consequently, the more effective is the regional investment policy. Secondly, it is the development of measures to increase the flow of corporate investors within the region, or the country. (Figure 2) (Baitlyuv, 2016). Thirdly, it is attracting investment, opening new legal entities as employers; creating new business sites opens up new opportunities for the population to realize their potential and find employment.

Fourthly, investment resources allow developing the region's infrastructure both as socially significant objects and as economically viable sites.

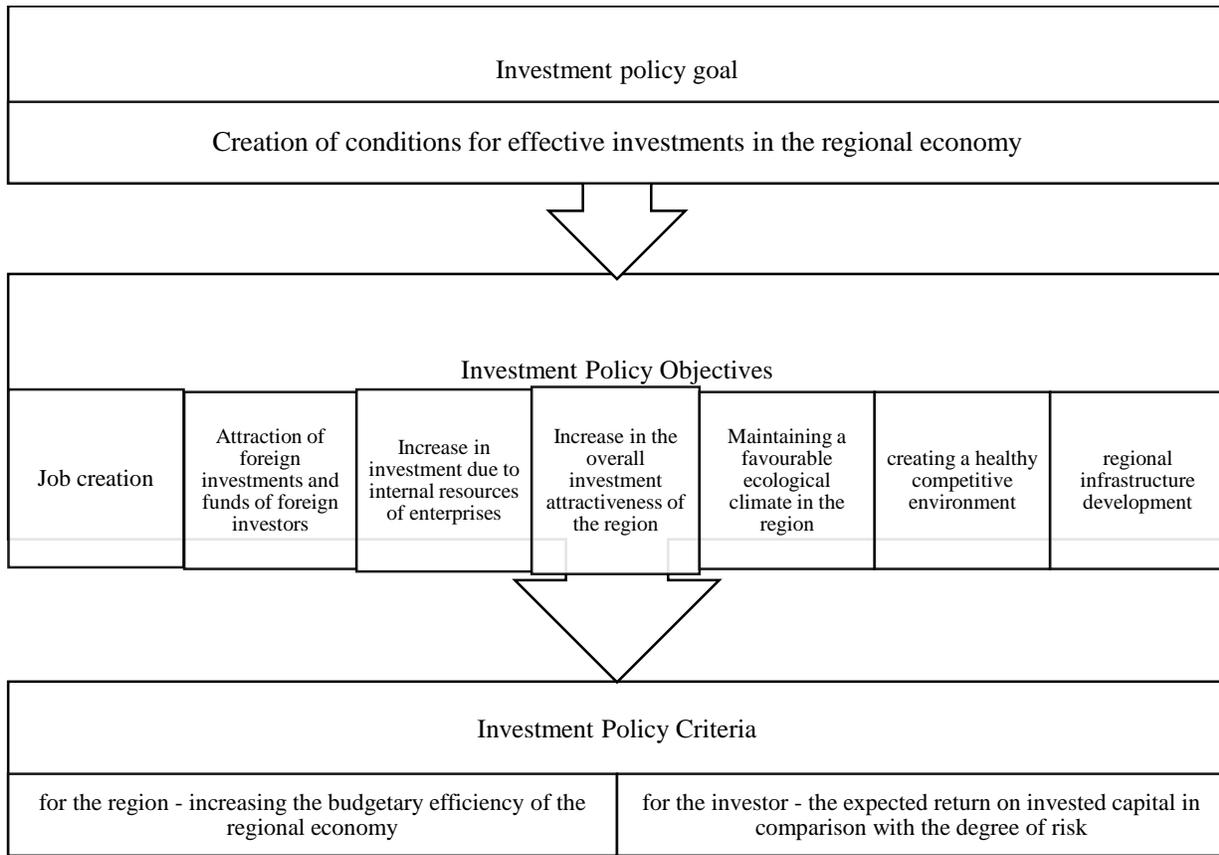


Figure 2. The content of the regional investment policy

As already noted, the investment climate is a determining factor for national and foreign investors.

It should be noted that the efforts that the state has carried out in the past few years have affected the national rating of Russia, which ultimately affects the investment climate of the regions. The rating of Russia as an attractive territory for doing business and investments rose by 81 points (Figure 3) (Latkin et al., 2108; Barreto, & Alturas, 2018).

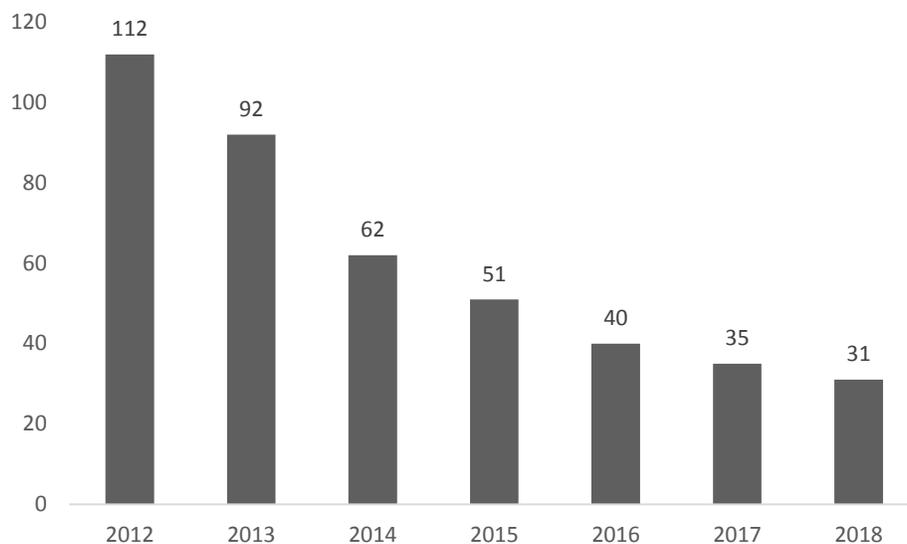


Figure 3. Russia's place in the World Bank ranking, 2013-2018

Considering the constituent indicators of this rating, it should be noted that the raise of the status of Russia was due to the following indicators: business registration procedure, credit level, investor protection.

The factors of liquidity of international trade remain quite significant, which is one of the key factors in the development of international relations. This can be explained by the factor of the country's domestic needs in economic development; it does not take into account the interests of foreign investors to consolidate their positions in the international market. At the same time, the state provides ample opportunities for tax benefits.

Currently, the Primorsky Territory, like all subjects of the Russian Federation, is in a difficult economic situation; the following trends are observed that affect the development of the Primorsky Territory:

- Slowing down the Russian economy, implementing Government projects to increase the attractiveness of the Far Eastern regions (including the Primorsky Territory): creating a special economic zone, a casino, implementing transport and logistics projects;
- Intensive development of multidimensional cooperation with China (business, culture, etc.), South Korea, North Korea, and the BRICS countries.

Over the past few years, Primorsky Territory has received tremendous benefits in connection with the decisions of the government regarding the improvement of investment growth and ensuring sustainable economic growth.

According to the rating, Primorsky Territory as a result has a rating of III, which is a satisfactory result, but, according to surveys conducted among foreign investors and entrepreneurs, we can talk about such risks for doing business in Primorsky Territory as (Lebedinskaya et al., 2018; Ameen, et al, 2018):

- The potential risk concerning a review of the original terms of the transaction by the Russian state after significant investment has been made;
- Location of deposits in inaccessible places with completely undeveloped infrastructure and in harsh climatic conditions;
- Lack of competitiveness of production capacities;
- Undeveloped infrastructure.

We also dwell in more detail on the assessment of the international rating agency RAEKS. According to this assessment, Primorsky Territory has a rating of 3B1 (confirmed in December 2018), which means reduced potential and moderate risk (Primorsky Territory).

Table 2. Analysis of the dynamics of investment attractiveness for Primorsky Territory, for 2014-2018

Index	2014	2015	2016	2017	2018
Risk rank	35	34	46	53	47
Potential rank	20	21	21	22	22
Share in the all-Russian potential, %	1,154	1,165	1,192	1,196	0,186
Change	0,004	0,011	0,027	0,004	-0,010

Primorsky Territory took 47th place in the investment risk rating of Russian regions for 2018. In the previous RAEX ranking, the region was in 53th place. For 2016-2018, the level of investment potential increased by only one percentage point. However, the risk level increased by 19 percentage points, which negatively characterizes the investment

activity of the Primorsky Territory and the level of investor protection from possible losses (Titova et al., 2017; Irvani, & ShekarchiZade, 2014).

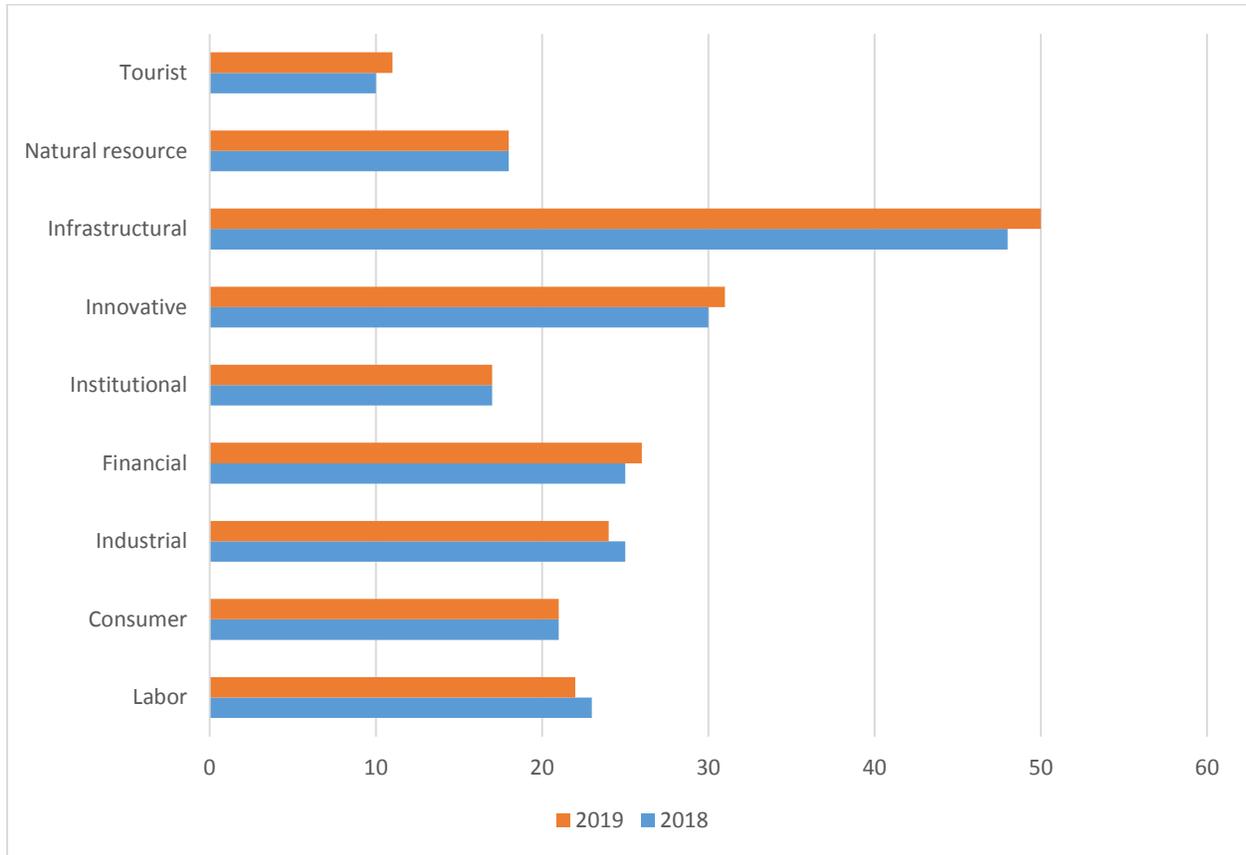


Figure 4. Factors of investment potential of Primorsky Territory

In terms of investment risk, Primorsky Territory is at 53rd place with a weighted average risk index of 0.255. According to Expert RA, Russia's leading national rating agency, Table 3 shows the investment rating of Primorsky Territory for the period of 2004-2018. (Primorsky Territory). Primorsky Territory has a rating of 3B1 which corresponds to the level of lowered potential with a moderate level of risk (Investment projects planned for implementation in the Primorsky Territory with the participation of foreign investment).

Table 3. Investment rating of Primorsky Territory 2004-2018.

Date	Rating
24.12.2018	3B1

26.12.2017	3B1
20.12.2016	3B1
16.12.2015	3B1
20.12.2014	2B
17.12.2013	3B1
15.12.2012	3C1
18.12.2011	3B1
26.11.2010	3B1
21.11.2009	3B1
29.11.2008	3C1
17.11.2007	2B
02.12.2006	2C
05.11.2005	2B
30.10.2004	2B

As can be seen from the data of RA Expert, on December 24, 2019 the rating was downgraded. As a result of this work, Primorsky Territory is one of the most actively developing regions of Russia, a leader in economic growth among the Far Eastern regions. Primorsky Territory takes the first place among the Far Eastern Federal Districts in terms of investments in economic and social development and investment attractiveness (rating by Expert RA rating agency). It takes 22nd place among 85 constituent entities of the Russian Federation and the second place among Far Eastern Federal Districts (after the Republic Sakha (Yakutia)).

Table 4. Dynamics of investments in fixed assets in the Primorsky Territory for 2013-2018, million roubles.

	Investments in fixed assets for a full range of business entities		
	million roubles	Growth rate ,%	Growth rate to 2013, %
2013	123061,2	59,6	100,0
2014	134301,0	106,8	109,1

2015	116068,0	78,7	94,3
2016	130500,0	112,4	106,0
2017	125700,0	96,4	102,1
2018	141858,9	101,7	115,3

The regional policy in relation to the Far Eastern Federal District is aimed at meeting the needs of the Far East not so much on the domestic market with a small number of consumers, not on the European market with high transport costs, but rather on the region working to export goods to the Asia-Pacific countries. Therefore, Primorsky Territory is on the fine line between the development up to the level of a highly developed transport hub, partner and competitor of neighboring countries, or the stop of this development at the level of the transit region and the warehouse of raw materials.

So, on the one hand, this regional policy may lead to the fact that the Primorsky Territory will become a raw materials appendage of not only Russia, but also Asia-Pacific countries. There is a risk of increasing environmental problems, but the Chinese and Russian governments assure that all environmental standards presented in the legislation of the Russian Federation will be complied with.

On the other hand, there are many projects for the development of the Far Eastern Federal District, which, in turn, will allow us to develop the necessary specialization sectors of the Far Eastern Federal District. The Far Eastern Federal District ranks first in terms of foreign investment. The infusion of foreign investment has a positive effect on the socio-economic development of the region. The total amount of foreign direct investment in the Russian Federation in the 3rd quarter of 2018 amounted to \$ 52 million, of which \$ 14 million was in the Far Eastern Federal District, which is 11.4% higher than in the third quarter of 2017 (Titova et al., 2017; Krasova, 2019; Lebedinskaya et al., 2018; Levkina et al.).

Conclusions

The Far Eastern region is considered to a greater extent not as an equal partner, but as a raw material base and territory for locating the production capacities of neighbouring countries. There are a number of reasons for this, which for the most part remain unresolved since the period of the development of the Far East and hamper its full development; however, they are important aspects on which it is necessary to focus regional policy in the future:

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- Outflow of population from the Far Eastern Federal District with a significant area of the District (36.4% of the territory of Russia);
- Low innovation potential in the economy of the cities of the Far Eastern Federal District;
- Uneven distribution of human, technological and natural resources;
- Low level of socio-economic development;
- Insufficient level of economic development of the border areas, underdeveloped production, transport and social infrastructure;
- Economic isolation of the region from the centre of Russia and increased economic dependence on neighbouring countries;
- High financial dependence on the federal budget.

The development of projects to improve the development of transport infrastructure, taking measures to increase the investment attractiveness of municipalities, and creating the most comfortable working conditions for investors can be an effective tool to increase the welfare of the population; it will also contribute to financial soundness, stability, and effective development of the economy of the municipality and the region as a whole. At the same time, the "raw" regional policy, adaptability and adjustment to the needs of the countries of the Asia-Pacific region cause concern about the preservation of Russia's national interests regarding the Far Eastern Federal District.

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