

Mechanisms and Directions for Investment Process Enhancement in the Region for Foreign Investors

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Abstract— The relevance of the issue chosen for the study is directly related to the need of searching for the factors of revival and recovery of both the Russian economy as a whole and its individual subjects. First of all, the Russian economic science faces the tasks of theoretical substantiation and practical solution of the problem of lagging behind in investment and innovative development. The article found that domestic producers could not quickly adapt to a significant increase in the cost of imports of intermediate and investment goods. In connection with this foreign investment in Primorsky region should be seen as drivers of economic growth. Some theoretical aspects of the theory of capital flows are presented. In particular, there was noted a positive correlation between the inflow of foreign investment and the efficiency of domestic producers, that was introduced in the works of the majority of authors. The low position of Russia and Primorsky region in various investment ratings is noted. Despite this, the study showed that Primorsky region has created basic conditions for the formation of a favorable investment climate, economic and investment stability. It was identified that the main mechanisms for increasing the investment attractiveness of Primorsky region are the formation of the institutional environment, the formation of a new regulatory framework, the promotion of the region in the world arena, the introduction of special tax, customs, and administrative regimes. The main motives for the inflow of foreign investments into the territory of the Primorsky region are established, the directions of correction of the current investment trend are proposed, the consequences of the movement of international capital are noted.

Keywords— *Primorsky region, mechanisms, investment rankings, investment attractiveness, foreign investment, institutional instruments.*

I. INTRODUCTION

The market-oriented reforms carried out in Russia since 1992 were anti-investment for the economy of Primorsky region, which resulted in a reduction of the industrial, scientific, technical and intellectual potential accumulated in the pre-reform period, with considerable physical depreciation of fixed assets in the fishing, forestry, mining and other industries. Innovation and investment backwardness was also supported by a long period of high world energy prices and their dominance in the national economy. The new regional policy began in 2000 and was aimed at centralizing power and

money resources at the federal level and their further redistribution back to the regions in the form of interbudgetary transfers. This policy was called to solve the problems of atrophy of various industrial sectors. Such investments for some time stimulated the economic growth of some regions. For instance, the holding of the APEC Summit in Vladivostok has in fact contributed to the diversification of the monoproducer economy of Primorsky region. However, immediately after the implementation of large-scale projects, which formed the foundation of the region's economic well-being for six years, state investments stopped serving as a key driver of development. In 2013 budget capital expenditures decreased to 28% [1]. In 2012, after the completion of all the construction projects of the APEC Summit, 187, 517.6 million rubles of investments in fixed assets were used to develop the economy and the social sphere, which was only 58% by 2011, according to the estimate by the Territorial Body of the Federal State Statistics Service for Primorsky region. The oil price downturn on the world market and the subsequent devaluation of the ruble formally provided an opportunity for Russian investors to significantly increase their share in the domestic market. However, numerous studies by Russian experts such as Mironov V.V., Orlova N.V., Yeghiev S.K., Berezinskaya O.B., not only explained why this would not happen due to import dependence of domestic producers, the lack of raw materials rent, convertible into the growth of consumer demand, as well as a radical increase in the cost of imports and sanctions on investment goods, but also predicted a more severe recession than most specialists expected [2, 3, 4].

Considering disproportions in the economic development of the constituent entities of the Russian Federation and the fact that not only domestic enterprises can be proactive in the area of investment, it becomes obvious that such pessimism can not be spread to all regions of Russia and to a foreign investor. Given the current circumstances, Primorsky region has obvious advantages on the country's map: favorable natural and climatic conditions, geographical proximity to states that did not join sanctions, and availability of preferential administration regimes. Approximately 420 million people live within a radius of 1000 km (1 hour by plane) around Vladivostok, which is the center of Primorsky region. This is the only city in Russia that has access to such a

large market. Primorsky region possesses a significant amount of fixed assets and ranks 12th among all constituent entities of the Russian Federation by the value of fixed assets in 2015 (2 739 943 million rubles) [5]. With that, the depreciation of fixed assets in the same period was only 33.4%, which is much better than the average Russian indicator (48.8%) [6]. It is necessary to keep the region in the 4th place in the Russian Federation. The purpose of the study is to identify mechanisms for attracting foreign investment in the region's economy and to offer the most efficient sectors for their deployment.

The scientific foundations of the theory of the movement of capital were created and developed by many generations of scientists. Among them are T. Man, A. Smith, D. Ricardo, K. Akamatsu [7-11].

The primary task of various authors was to explain the causes and consequences of the international capital movement. Most of them believed that the participation of foreign capital correlates positively with the productivity of domestic business entities and is thought of as a sign of economic and financial development. But there were those who questioned the advantages of international integration, especially with regard to emerging economies, which opened prematurely to the world capital markets [12-15]. It is obvious that with a predictably low investment activity of the domestic producer in the difficult period of adaptation to expensive financial resources, imported intermediate and investment goods, foreign investments in Primorye can not be considered premature. Most likely, on the contrary, they can become practically the only driver of its growth.

II. RESEARCH RESULTS

The investor's decision on the feasibility of investments and their sizes is carried out at several levels of analysis. At the first country level, the country's investment attractiveness is explored. At the second in-country level the attractiveness of the region and industry are taken into consideration.

As a rule, at each level, a list of factors influencing the increase or decrease in attractiveness is developed. On its basis a derived indicator is created. This index is calculated for each region, industry or subject of potential investment. Based on this approach, various ratings are compiled, for instance, Standard and Poor's (S&P), Moody's, Fitch - IBCA, Dun&Bradstreet, ratings of the British newspaper Financial Times and the British magazine Euromoney.

In these ratings each country receives a classification number that shows to what extent the investment climate of a country is favorable for investment. According to ratings of these agencies, Russia does not occupy high positions and is not considered the most favorable country for the investment, due to the sanctions introduced in 2014, the fragility of the Russian economy, political uncertainty and geopolitical risks. Exchange rate volatility has a negative impact on the inflow of foreign capital. The investor knows at what rate the money is going to be invested into the Russian economy, but has no idea at what rate the money is going to return back. Although the devaluation of the ruble itself, with other things being equal, i.e., in the absence of volatility of the exchange rate and

high inflation, opens up new opportunities for investors, turning Russia into a country with rather low production costs [16].

Investment attractiveness ranking is provided by several organizations. A rating assessment of regions on the attractiveness for doing business in Russia is carried out by several organizations. The most famous organizations are: Expert RA, Economic Research Journal and National Rating Agency. The most prestigious rating is the one of Agency for Strategic Initiatives. The purpose of the rating is to assess the key factors for creating a favorable investment climate - the effectiveness of the efforts of regional authorities to improve the investment climate in the region. Since November 2014, the Agency for Strategic Initiatives, together with leading business associations, is developing a full-scale deployment of the National Rating of the Investment Climate in the Constituent Entities of the Russian Federation throughout the country. Primorsky region in all four areas which are "Regulatory environment", "Institutions for business", "Infrastructure and resources", "Support of small business" receives rather low ratings. Summarizing the results of recent years, the region has neither become one of the leaders, nor entered the number of regions with the greatest dynamics of the integral rating. The results of the National Rating were not neglected by public authorities aimed to improve the investment and business climate. Efforts were made to solve point problems. First of all, this is issuing permits for construction, connection to infrastructure, registration of property rights, setting land for cadastral registration. To date, the cost of connection to networks in Primorsky region is 2-3 times lower than in Volga and Ural regions.

The tasks of increasing the investment attractiveness are solved in the framework of the implementation of the socio-economic development strategy of Primorsky region until 2025, approved by the Primorsky Region Law No. 324-KZ of 20.10.2008, with an increase in investments of up to 2.0 trillion rubles for this period. Due to timely effective solutions in Primorsky region, the basic conditions for creating a favorable investment climate have been created, economic and investment stability has been ensured. In particular, a qualitative regulatory framework was formed, a system of investment priorities was established, and mechanisms for state support of investment activities were implemented (Table 1).

To understand the prospects for the configuration of Primorsky Krai's economy and possible directions for correcting the investment process with the help of a foreign investor, it is important to find out in which sectors of the economy the investments in fixed assets grew faster. According to the results of 2012-16, transport and communications prevail in the structure of investments (46.2% in 2012 and 25.1% in 2016). Significant investments were made in 2012 for the production and distribution of electricity, gas and water (13.3%), in 2014 - in public administration and ensuring military security; social insurance (19.9%) and manufacturing industries (15.2%). In 2015, manufacturing industries account for 16.0% of the regional investment structure, and in 2016 they account for 23.5%. Thus, the region maintains an economy model with a relatively

developed transport infrastructure and a stable share of the manufacturing industry. With that it would be wrong to assume that high investment activity in these sectors led to

structural changes in the economy of the region.

TABLE I. MECHANISMS FOR INCREASING THE INVESTMENT ATTRACTIVENESS OF PRIMORSKY REGION

Mechanism	Details	The content of the instrument and the result of its application
Formation of the institutional environment	Representation of the Agency for Strategic Initiatives in the Far Eastern Federal District, Primorye Investment Agency, Primorsky Krai Development Corporation	For example, the Primorsky Krai Development Corporation creates engineering and transport infrastructures of the integrated entertainment resort "Primorye".
Formation of a new regulatory framework	Primorsky Region Law No. 354-KZ of 10.05.2006 "On State Support of Investment Activities in Primorsky Region"; Primorsky Region Law №195-KZ of 15.02.2008 "On innovation activities in Primorsky Region"; Primorsky Region Law № 354-KZ of 10.02.2014 "On the investment fund of Primorsky Region".	A clear procedure for appealing investors to obtain state support for investment activity on the principle of "one window" is defined. Investment projects in the sphere of production of goods are provided with income and assets taxes relief. Measures were taken to simplify investors' access to state support. To be more precise, the requirements for creating high-performance jobs and for economic activities have been removed. The main requirement for obtaining a benefit is the amount of capital investment in the investment project: 50 million rubles for the first three years or 500 million rubles for the first 5 years.
Working with the National Agency for Strategic Initiatives and the Business Community	Target indicators are the best regional practices for improving the investment and business climate	19 workflow charts have been developed. The offices for the integrated provision of registration services for businesses have been launched. For small businesses, the terms for obtaining technical conditions for energy facilities have been reduced from 14 to 10 days, the time for sending the draft of the technological connection agreement and the deadline for concluding an energy supply contract with a guaranteeing supplier have been reduced by half.
Promoting the region on the world stage	APEC Summit, Eastern Economic Forum.	As a result of the Eastern Economic Forum, a number of agreements have been concluded, including the construction of nuclear medicine centers, a mineral fertilizer plant in Nakhodka, the construction of a shipyard, the construction of a plant for the production of Mazda engines.
Special tax, customs, administrative regimes	Free port of Vladivostok, Territories of advanced socio-economic development.	Tax preferences. Favorable customs regimes. Acceleration in the construction industry. Reduced administrative pressure.
The presence of large Russian and foreign investors	SIEMENS (Germany), KOTRA (Republic of Korea), Lotte Confectionery Co LTD (Republic of Korea), NagaCorpLtd (Cambodia), etc.	The presence of large Russian and foreign investors enhances the image of the region, inspires confidence from potential business entities.

Weak investment activity in construction, science, education and the financial sector causes a slow pace of modernization of the economy of Primorsky region and makes it difficult to enter the path of sustainable growth. However, the mere increase in investment in sectors experiencing an investment pause may prove to be tactically ineffective. After all, increasing investment leads not only to their real growth, but also to the acceleration of inflationary processes, which contradicts the current tasks of economic policy [17]. For strategically and tactically correct stimulation of the investment process, it is important to take into account the real effect of nominal increase in investments. As the dynamics of prices for products and services necessary for the implementation of investment projects are not the same in different types of activities, the increase in investment has a different real effect in different sectors of the economy. For a quantitative analysis, A. Vedev and A. Kosarev suggest using an indicator of investment efficiency [18]. It is calculated as the ratio of the real increase in investment to the price increase (investment deflator). So, the efficiency of investment in fixed assets in agriculture and forestry in Primorsky Krai, according

to our calculations, in 2015 was only 0.92. The efficiency of investments in the following sectors is even lower: production and distribution of electricity, gas and water (0.79) and construction (0.44). The highest efficiency is demonstrated in the province by manufacturing (at the level of 1.27). Therefore, it will be tactically more feasible to attract investments to this sector of the economy, since it had the highest level of investment efficiency in 2015. In addition, this is compliant with the strategic priorities of the country's economic policy. As another direction of current investment trend correction, it is possible to expand investment activity in construction by reducing administrative barriers and creating an enabling business environment. This sector, despite the low efficiency of investments, has minimal inflationary risks (price index 100.1%) therefore it can be considered by the investor as promising. With that, the time for issuing construction permits has currently an average rate of 210 days in the country. The effectiveness of procedures for obtaining a building permit remains very low and requires serious attention from the state. Residents of the Free Port of Vladivostok have the right to receive a town-planning plan

within a period of 10 days, and a building permit within 7 days [19, 20].

III. CONCLUSION

Thus, the conducted research allows us to conclude that at the regional level, despite the low estimates of the investment attractiveness of Primorsky region, all necessary measures were taken to change this situation. Currently, there are favorable conditions for the growth of intensive factors affecting development of social production and the growth of labor productivity in the region. First of all, they are expressed in the creation of a sound regulatory framework, in the establishment of a system of investment priorities, in the application of mechanisms for state support of investment activities. It should also be noted that the maturity of market relations has increased, as well as the availability of highly qualified personnel. Of course, the existing sanctions barriers postpone implementation of measures in capital-intensive industries with respect to a foreign investor. However, there is reason to believe that regional authorities will use the instruments of the Free Port of Vladivostok to strengthen relations with potential investors instead of expecting geopolitical changes. Against the backdrop of all the positive factors that we identified, an increase in the investor's assessment of the business climate requires new changes. At the federal level, it is improving the quality of public administration, effective law enforcement, combating corruption and economic crime, eliminating excessive administrative, technical, information barriers and a high level of monopoly. At the regional level, this is the application of the above-described and new measures to attract investment. As noted at the beginning of the work, the main task of various authors in the theory of capital flows was to explain the causes and consequences of the movement of international capital. Summarizing the above, we can provide answers to these questions. In addition to favorable natural and climatic conditions, advantageous geographical location, a foreign investor receives lower production costs in the Primorsky region due to the devaluation of the national currency, minimum tariff and non-tariff barriers and preferential taxation system by means of the Free Port Vladivostok and Priority Development Area. The result of foreign direct investment is traditionally the growth of employment of the host party and the increase in the competitive capacity of local enterprises.

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