Modern Problems of Investment Cooperation Development in the Supply Chain of the World Economy

Gulnaz M. Galeeva[1], Inna V. Paiduganova[2], Elena N. Zagladina[3]
Kazan Federal University, Institute of International Relations, History and Oriental Studies
g.m.galeeva@mail.ru
payinna.ru@mail.ru
49enzagladina52@gmail.com m

Abstract- **This paper considers the problems and dynamics of investment cooperation development in the supply chain of the world economy. The following factors have been selected foridentification of current problems in the development of investment cooperation in the supply chain of world economy: distribution of investment flows by the developed countries, developing countries, economies in transition, and by regions of the world (Europe, North America, Africa, Asia, Latin America and Caribbean, Oceania). The study consists of several stages and is based on data published on the official websites of UNCTAD, BRICS, IMF and the World Bank. The study shows that the absolute leaders in terms of the attracted foreign direct investments for the years 2015-2016 remain the United States, the United Kingdom and Hong Kong. In the total volume of foreign direct investments inflow, the absolute advantage of 64% is in the services sector, the processing sector possesses 27%, and the extraction -7%. An important trend in the development of international investment cooperation has become the conclusion of international investment transactions (IIT) and regional agreements. Most of the countries, leading in FDI inflows are at the same time the leaders in terms of the number of concluded IITs.**

Key words: *world, investment, cooperation, tax, supply chain.*

1. Introduction

As the investment cooperation in the supply chain of the world economy develops, there occur a number of certain problems complicating the further increase of investment process. Imperfection of the legislative base in some countries, which need investments, may be determined as one of the main problems. Very often, the legal-normative base hampers the flow of investment or significantly limits them. Here belongs also the imperfection of the taxation system, when instead of stimulating the growth of investment flow investors are subject to unreasonably high taxes. In addition, low interest rates in developed countries are convenient for doing business and attract investors who chose more reliable developed countries, thus reducing investments in developing countries. Many developing countries and countries with a backward economy have a low level of development of business environment and relation culture with foreign investors. Investigation of modern problems of investment cooperation development is necessary for an objective scientifically sound investment policy formation of the national economies and improvement of the investment climate. Alongside with this, identification of key factors that will have an impact on the future distribution of global investment flows can also be called the important task of this study.

2. Materials and methods

The data from the UNCTAD, BRICS, IMF and the World Bank served the material for work. The evident disproportion in the investment flows distribution is presented on the diagram (see Fig.1).

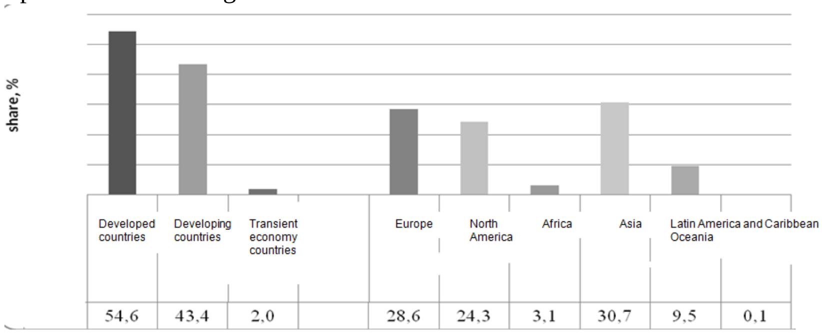

Fig. 1. The share of regions in the total inflow of foreign direct investment in 2015,% [1]

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It is seen from the diagram that the main investment flow is accounted for by the developed countries. However, the main region of investments is Asia. Approximately 83% of foreign direct investment (FDI) comes from East and South-East Asia countries, including China, South Korea and Japan. To some extent, this is evidence that countries of South and West Asia have a limited access to global investment flows. The analysis of individual regions shows that the least amount of investments falls on Oceania, which includes Australia and New Zealand. Quite insignificant investments are in such large region as Africa. The lack of investments contributes to preservation of backwardness in a region; it does not allow building the modern infrastructure and improving the socio-economic state of the region. Despite the fact that in the recent years, China has significantly increased its investments in Africa, the region remains depressed. This concerns individual African republics, moreover, investments are directed by Chinese companies directly to the power engineering sector. The countries of Africa are depending heavily on China, supporting the expansion of electrification systems on the continent. However, it contributes to the economic growth of the region and to the improvement of the living standard of the population. In addition, companies from China are actively developing cross-border transmission lines, for example, between Ethiopia and Kenya, as well as domestic distribution networks in Equatorial Guinea and in rural areas of Angola, where there is still no electricity [2]. However, Africa accounts for only 5% of China's total foreign trade and investment. This is negligibly little as compared to China's investments in other countries [3].

Countries with economies in transition also receive less than due investment for development and making a final transition to developed economies. The former republics of the USSR are also assigned to the countries with transitional economy; UNCTAD refers Russia to them as well. One of the main problems is the underdevelopment of the service sector, which holds a leading position in the total volume of attracted investments. A huge flow of investment goes to transnational corporations (TNC), but these countries lack influential TNCs specializing in the service sector, which could generate investment flows. The inflow of foreign direct investment (FDI) into the Commonwealth of Independent States (CIS) and Georgia has decreased by 42% reaching 30 billion dollars in conditions of low commodity prices, a decline in domestic market conditions, changes in legislation, as well as the direct and indirect impact of restrictive measures and geopolitical tension. The import of FDI in the Russian Federation has fell due to the fact that new FDI almost ceased to flow in conditions of the curtailment of operations and a series of transactions aimed at the withdrawal of investments. The economic crisis and changes in legislation in the country also led to a reduction in the scope and volume of FDI export. One should only expect an improvement in the situation in 2017, as the prices for raw materials remain low, but relatively stable. Common problems which create barriers for investing in the transition economy countries can be explained as follows:

1. The economic crisis affected plans in respect of a number of projects, some of which were closed, and the other part was “frozen”.
2. Instability of legislative base.
3. Taxation system.
4. High administrative barriers, particularly, the corruption problem.
5. Dependence of some countries on world commodity prices, which demonstrate instability.
6. Unskilled staff. The investors stick to the idea that the skilled specialists leave their countries for the career in the developed countries [4].

FDI inflow has remained on the same level of 168 billion dollars in the Latin America and Caribbean (excluding Caribbean offshore financial centers).At the same time, in the Central and South America the dynamics was multidirectional. A large amount of investment was channeled to Mexico, with FDI inflows to South America declining, reflecting a slowdown in domestic demand and deterioration in the “terms of trade” caused by the fall in commodity prices. It is also worth noting that the bulk of investment in South America was directedinto Brazil, the most developed country in this region. The decline in commodity prices also significantly affected the import of FDI in the multinational State of Bolivia, Chile, and Colombia [5]. It should be noted that such disproportions in the distribution of investment flows do not allow the achievement of the desired result, because the interests of investors and recipients rarely coincide due to the various macroeconomic factors affecting the FDI attraction [6]. UNCTAD estimates that the contribution of overseas branches belonging to multinational enterprises into the state budgets of developing countries estimates approximately 730 billion dollars per year. On the average, this is about 23% of the total payments sum made by the corporate sector, and 10% of the total amount of budget revenues. The relative size (and structure) of suchcontribution differs between countries and regions, its amount being larger in the developing countries than that in the developed countries, which indicates the dependence of the developing countries on payments on the part of the corporations.

In addition, the lower is the development level of a country, the greater is its dependence on non-tax payments of companies. In the developing countries the volume of payments of foreign branches flowing into the state budget in the form of license fees for the use of natural resources, customs duties, taxes on wages and social charges, as well as other types of taxes and fees are double the amount of their payments in the form of taxes on their income.

3. Results and discussion

During the research period it was revealed that great importance in the analysis of investment processes have corporate structures of multinational enterprises are formed in the process of implementing cross-border investments that seek to optimize taxation as far as their commercial and operational needs permit. Thus, the scope and direction of FDI flows often depend on the tax considerations of multinational enterprises, since a certain structure and forms of investment can create opportunities for tax evasion from investment income afterwards, which is a problem in itself. When considering the problem of tax evasion in the investment context, special attention should be paid to the role of offshore investment centers (tax havens and special legal entities in other countries) as important players in the global investment field. Before reaching the destination and turning into productive assets approximately 30% of all cross-border corporate investments pass through such offshore centers. Investment flows into offshore financial centers (including into special purpose structures (SPS) and offshore financial centers) have declined in 2016, but still remain high. Another problem hindering the development of investment cooperation is the investment disputes that arise between the parties. The number of investor-state dispute settlement cases (ISDS) initiated in accordance with the treaties has reached a record high level; and most of these cases are still not resolved in favor of the developed countries. In 2015, investors filed 70 ISDScases according to IITs. It is the largest number of cases ever filed within one year. Since arbitration can be confidential in certain circumstances, the actual number of cases initiated in this year and in the previous years is probably higher. As of 2016, the total number of well-known ISDScases reached 696. At the same time, 107 countries were the defendants for at least one well-known lawsuit for the ISDS. The main body that deals with dispute settlement is the International Center for Investment Disputes Settlement (ICIDS) [7].

4. Summary

The carried out analysis showed that the main problem of investment cooperation development in the world market is regional disproportions, in particular, the lack of access on the part of some countries to international investment flows. Especially this problem concerns the majority of the CIS countries, Africa, the countries of Western and Southern Asia. The problems alsoinclude the imperfection of the legal framework and corruption, and a low development level of business environment and culture with foreign investors in some countries with developing economy. Another problem is tax evasion, practiced by multinational enterprises, which leads to a significant shortage in public revenues in the developing countries. It is necessary to solve the principal issues related to this, concerning the principle of equity in the distribution of tax revenues between countries. Particularly disadvantaged are countries that have limited capacity to ensure tax collection, more dependent on tax revenues from corporate investors and receiving an increasing share of investment through offshore centers. Cases of international investment disputes have become more frequent.

5. Conclusions

As a result of the analysis conducted for the situation that has developed in the supply chain of world economy in the field of investment cooperation in the recent years, a number of basic conclusions can be drawn. Investment cooperation in the world economy is of great importance, since it involves uniting the joint efforts of two or more states to achieve results that benefit each party. Sufficiency of investment resources in the supply chain of world economy has a significant impact on the development of market relations in national economies of different countries and the development of the industrial structure of the economy at a qualitatively new level [8]. An important role of investment cooperation lies in the fact that there is a division of labor between states, the economic structure of the participating industries is being updated. Investment cooperation is carried out in the real and financial sectors. Institutional provision is one of the main conditions for the development of international investment cooperation, as institutions allow accumulating and placing investments more profitably, facilitating the search for investment partners, acting as guarantors of investment relations, etc.

Institutional development is provided through the activities of international organizations, such as: UNCTAD, the World Bank Group, in particular: the International Finance Corporation, the Multilateral Investment Guarantee Agency, the International Center for Settlement of Investment Disputes and the European Bank for Reconstruction and Development, as well as other banks of development, such as: the Asian Development Bank, the Eurasian Development Bank, the Asian Bank for Infrastructure Investments and the New Development Bank. The normative-legal framework for regulating of foreign investment varies from country to country.

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