

# Tendency of Investment Economy Formation

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**Abstract:** The relevance of the topic is caused by the need to identify trends and characteristics of the investment economy formation in the face of the external economic environment new challenges. The article's main aim is to develop recommendations for optimizing the directions of the state economic policy in the field of investment activity development. The research is based on an analysis of the current situation and the identification of trends in the formation of Russia's investment economy and its regions. The study's novelty is to identify trends and characteristics in the investment economy formation in the regions of Russia and formulate development sectors in the Republic of Tatarstan. The main results of the study are as follows: issues of the preconditions for the formation of investment activity in the country's economy are examined, as well as macroeconomic indicators that form the financial foundations of the investment economy, the main directions for improving investment attractiveness are identified and proposed, including the use of the advantages of geographical and geopolitical position, increasing the economic, social and political level of development, improving the state of the environmental situation and demographic situation.

**Keywords:** Investments, investment economy, investment climate, sectors of the economy, prerequisites.

## INTRODUCTION

Conducting economic entities' entrepreneurial activities is closely related to investment activities aimed at ensuring the continuity of reproduction processes. In implementing the global task of ensuring the country's economic development, the role of investment activity is significantly increased. The economic growth rate in the current conditions of socio-economic development is characterized by investment potential, which largely depends on the existing and created prerequisites for the formation of an investment climate (Battalova, and Ignatyeva, 2019; Kaban, 2019). The investment climate contributes to the formation of positive trends in economic development through the introduction of scientific and technological progress, as a result of directed investments in high-tech production. This determines the relevance of creating a favorable investment climate (Girayev, *et al.*, 2020).

Sustainable rates of socio-economic development and growth in investment activity can be ensured under the conditions of offensive development and balanced economic sectors. A balanced economy is achieved by creating safe living conditions, positive changes in the

innovative activities that ensure the introduction of modern technologies. Basically, the effectiveness of the functioning of the country's production potential depends on the quantitative and qualitative parameters of investments (Mukhametgaliev 2004; Mukhametgaliev, *et al.*, 2020; Lee *et al.*, 2017).

## METHODS

The research's theoretical and methodological basis was the work of the classics of economic science, publications of modern domestic economists regarding the problems of regulation of investment processes, materials of international and all-Russian scientific and practical conferences. The general methodological basis of the study is system analysis. In the process of work, a combination of monographic, abstract-logical, analytical, economic-statistical, calculation-constructive and other methods of scientific research was used. As the research information base, we used official data from the Federal State Statistics Service of the Russian Federation, ministries and departments of the Russian Federation, materials contained in monographs, dissertations, reports of research institutes, publications, materials of scientific conferences, expert opinions, data obtained during analysis and calculations of the authors.

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**Table 1: The Results of the Russian Rating Assessment by the Global Competitiveness Index 4.0 in 2019 (Abramov et al., 2020)**

#	Factors	2018	2019	2019+/-to 2018
	<b>Global competitiveness index of World Economic Forum (GCI WEF) 4.0</b>	<b>43</b>	<b>43</b>	<b>0</b>
1	Institutes	72	74	-2
2	Infrastructure	51	50	+1
3	Information and Communication Technology (ICT)	25	22	+3
4	Macroeconomic stability	55	43	+12
5	Health	100	97	+3
6	Education and skills	50	54	-4
7	Commodity Market	83	87	-4
8	Labor market	67	62	+5
9	Financial system	86	95	-9
10	Market size	6	6	0
11	Business agility	51	53	-2
12	Innovative potential	36	32	-4

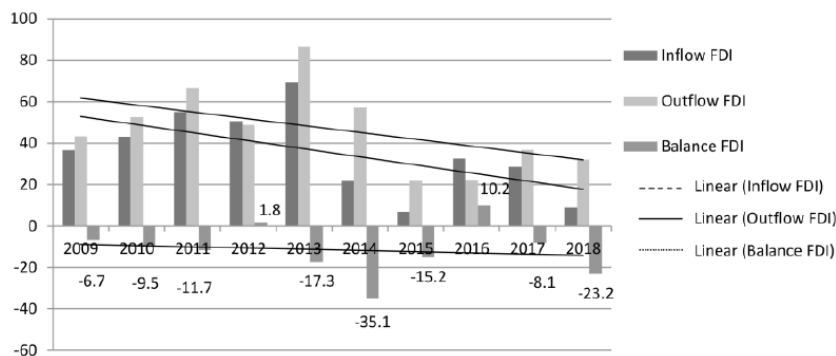
**RESULTS AND DISCUSSION**

The formation and implementation of the preconditions for creating an investment climate in the context of a globalized economy opens up the possibility of expanding their accessibility to world-wide investment sources, which is directly connected with a significant intensification of competition at the international level. To determine the country's rating, the World Economic Forum (Buana et al., 2020) annually determines the global competitiveness index (GIC 4.0). The methodology for determining the GIC is constantly being improved. In 2019, it was significantly changed taking into account the features of the development of the fourth industrial revolution (4IR) (Giraev et al., 2020; Mukhametgaliev 2004; Viktorin, et al., 2019). In 2019, a rating score was conducted among 141 countries of the world. The methodology is aimed at establishing the main parameters for the development of the investment potential of countries. Ultimately, the GIK 4.0 rating is established on the

basis of 12 factors. According to the rating, Russia was in 43rd place among 141 countries in the ranking, as in 2018 (Table 1) (Abramov et al. 2020).

Rating results directly affect the inflow and outflow of foreign direct investment in the country's economy. It should be noted that currently there is a general trend in the world in the decline in foreign investment inflows, which has led to a 19% reduction in capital investments. At the end of 2018, according to the Central Bank of Russia, incoming FDI in the amount of \$ 8.8 billion is noted, which is more than a three-fold decrease compared to 2017 and the outflow of foreign direct investment (FDI) from the capital of the Russian companies in the amount of 32 \$ billion (Figure 1)

The data provided over the past decade show a declining trend in the investment activity of the Russian economy. It is especially necessary to emphasize the trend of increasing the negative balance of investment inflow and outflow. Incentives for the influx of FDI into



**Figure 1:** Inflow and outflow of foreign direct investment (FDI) in Russia in 2009–2018, billion US dollars (Investments in Russia, 2019).

Russia are declining due to political risks, including sanctions. This led to a cumulative decline in the Russian FDI to \$ 8.8 billion, indicating that foreign investors continue to be wary of investing in Russian assets. The volume of outgoing FDI remained at a traditionally high level and exceeded the volume of incoming investments by more than 3.6 times (Abramov *et al.* 2020).

Foreign direct investment is distributed very unevenly across the Russian Federation, which is related to the Russian regions' gross regional product (GRP). Traditionally, at the beginning of 2019, the largest share of PPI out of 36.5 thousand Russian enterprises with a foreign owner was in such regions as Moscow, Moscow Region, St. Petersburg, and the Leningrad Region. Consequently, the first and important condition for the formation of an investment economy is the creation of macroeconomic prerequisites. The main macroeconomic indicators that form the financial foundations of the investment economy are the volume and growth rate of the gross domestic product, the level, the volume of money turnover, consumer price indices, the official exchange rate of the national currency, and the level of real income of the population (Mukhametgaliev *et al.* 2019; Sitdikova 2017; Khairutdinov, *et al.*, 2019). Key macroeconomic indicators are shown in Table 2.

Table 2 shows that the macroeconomic indicators emerging in recent years contribute to the development

of the investment process: the total GDP per capita is increasing, the amount of gross accumulation is increasing, which positively affects the growth of investment in fixed assets, but their share in GDP remains on the level of 21%. In recent years, there has been a decrease in the share of investments in fixed assets in GDP structure. So, the ratio of investments in fixed assets to Russia's GDP decreased from 20.7% in 2010 to 20.0% in 2015 and increased to 21.2% in 2016. However, in the dynamics of 2017-2018, again, there was a decrease from 21.5% to 20.7%. Another contradiction is that, with the growth of investment in fixed assets in 2018 in real terms by 4.3% compared to 2017, real GDP growth amounted to 2.3%. That is, a paradox is obtained: investments grow faster than GDP, but at the same time, the ratio of investments to GDP decreases. Along with these negative aspects can be considered an increase in prices for goods and products of economic sectors. The composite price index for investment products in 2017 increased by 3.1% compared to the previous 2016, and in 2018 by 7.3% compared to 2017. An analysis of the structure of investments by sources of formation shows that to a greater extent, investments in fixed assets are carried out at the expense of own funds of economic entities, which amounted to 53.1% in 2018, borrowed funds account for 30.6%, investments from budgetary funds account for 16, 3% In this regard, one of the decisive conditions in the formation of the investment climate is

**Table 2: The Main Russian Macroeconomic Indicators for 2010-2018 (Investments in Russia, 2019).**

Indicators	Years				
	2010	2015	2016	2017	2018
Gross domestic product					
total, billion rubles	46309	83095	86015	92102	103876
Per capita, thousand rubles	325	568	587	628	708
as a percentage of the previous year (at constant prices)	104,5	97,7	100,3	101,6	102,3
Amount of gross accumulation:					
total, billion rubles	10473	18604	20243	22190	23612
as a percentage of the previous year (at constant prices)	128,5	88,2	98,8	106,0	100,8
Investments in fixed assets:					
total, billion rubles	9152,1	13897,2	14748,8	16027,3	17595,0
Per capita, thousand rubles	64,1	94,9	100,6	109,1	119,8
as a percentage of the previous year (in comparable prices)	106,3	89,9	99,8	104,8	104,3
as a percentage of gross domestic product	20,7	20,0	21,2	21,5	20,7
Consolidated price index for products (costs, services) for investment purposes), percent	109,1	110,3	103,2	103,1	107,3

**Table 3: The Specific Structure of Investments in Fixed Assets in 2018 (Investments in Russia, 2019).**

Indicators	Absolutely, billion rubles. 2018	Structure,% of the total	
		2018	2017
Investments,total	17595,0	100	100
including: residential buildings and premises	2237,2	12,7	13,6
buildings (except residential) and facilities, land improvement costs	7622,5	43,3	43,8
machinery, equipment, vehicles	6078,7	34,6	33,7
Intellectual property	550,9	3,1	2,8
other	1105,7	6,3	6,1

to ensure political stability (Battalova and Ignatjeva 2019).

The specific structure analysis of investments in fixed assets shows (Table 3) that the majority of investments in fixed assets (56.0%) in 2018 were directed to the construction of buildings and structures. The share of investments in the development of the active part of fixed assets (machinery, technological equipment) amounted to 34.6% compared to 33.7% in 2017. Investments in intellectual property are 3.1% (in 2017-2.8%), and others assets-6.3% (in 2017-6.1%). Analysis of investments in fixed assets by main types of economic activity in 2018 (Table 4) shows that more than 70% of investments in fixed assets are aimed at the development of useful mining minerals (18.2%), transportation and storage (17.0%), operations with real estate (14.8%), manufacturing (14.7%), provided electric energy, gas and steam; air conditioning (6.0%). Table 4 - Investments in fixed capital by main types of economic activity (Investments in Russia 2019).

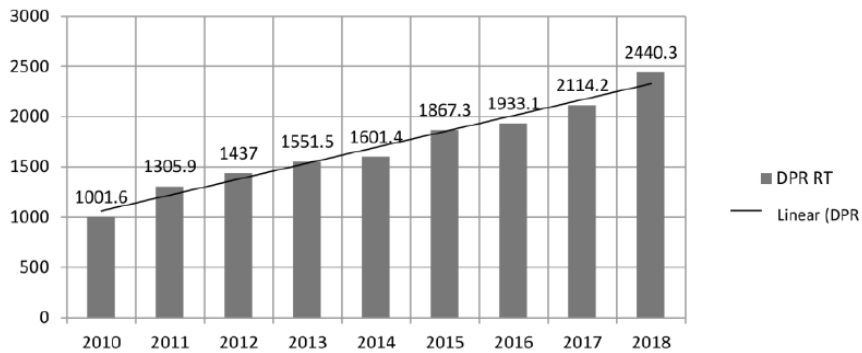
At the same time, it is worth noting the insignificant structural shifts of investments by type of economic

activity with an increase in growth rates in almost all areas, which allows us to state that most sectors in the Russian economy are increasing investments in the development of production.

The investment activity organization at the regional level is one of the socio-economic status main integrators and prospects for further developing entrepreneurial activity. A constant increase in investment infusion ultimately leads to the modernization of equipment, technology, increasing the capital-labor ratio, increasing the region's production potential, and is the most important basis for improving the quality of life of the population. The region's investment attractiveness is the main condition for the development of enterprises on an innovative basis since enterprises are the final destination for the development of funds and the implementation of specific investment projects. In this case, the regional investment image becomes the attractiveness of each specific project, because for a strategic investor economic and political stability, the level of socio-economic development of the region are much more important than convincing arguments for investing in a

**Table 4: Indicators**

Indicators	Billion rubles	2018		For reference: 1 2017 % to the total
		In% to		
		2017	total	
Total	17595,0	104,3	100	100
fromit: mining	3199,6	102,9	18,2	19,0
Transportation and storage	2983,0	105,8	17,0	16,6
Manufacturing industries	2584,9	107,0	14,7	14,3
Real estate activities	2608,4	95,6	14,8	16,4
providing electric energy, gas and steam; air conditioning	1047,5	105,7	6,0	5,9
agriculture, forestry, hunting, fishing and fish farming	777,0	105,5	4,4	4,4
Other (12 types of activity)	4394,6	103,4	24,9	23,4



**Figure 2:** Growth dynamics of the Republic of Tatarstan domestic, regional product (Investor guide, 2019).

specific project (Sectoral strategy of investment development of the Republic of Tatarstan) for the period 2017-2021 with a perspective until 2030; (Caraka et al., 2021; Mukhametgaliev et al., 2020).

In this regard, the Republic of Tatarstan provides an example of dynamic economic development and acts as an example of political stability in the constituent entities of the Russian Federation. It has currently reached the level of economic and social development that can provide favorable opportunities for investors in implementing investment projects in all areas of activity regardless of specialization. This position is confirmed by the fact that projects are being implemented on the territory of the republic and products of world brands such as GeneralElectric, FordSollers, Daimler, AirLiquide, Haier, Philips, Rockwool, Marriott, HayatGroup, Fujitsu, Kastamonu, Wienerberger and others (Battalova et al., 2019; Caraka et al., 2020). One of the main competitive advantages of the Republic of Tatarstan is the sustainable development of the economy, which is reflected in the growth of the domestic, regional product (Figure 2).

The given indicators in Figure 2 demonstrate that stable rates of economic development and growth of investment activity can be ensured under conditions of offensive development and a balanced economy. A balanced economy is achieved in the formation of safe living conditions and positive changes in innovative

activities that ensure modern technologies (Battalova et al., 2019; Enggartyasti and Caraka 2017). Basically, the functioning effectiveness of the country's production potential depends on the quantitative and qualitative parameters of investments. Indicators for assessing the investment activity of the Republic of Tatarstan are given in Table 5.

The data in Table 5 show that the first and important condition for the formation of an investment economy is to increase the competitiveness of business entities based on the creation of macroeconomic prerequisites for economic growth.

One of the important competitive advantages of Tatarstan is the active digitalization of the economy based on the maximum use of the capabilities of IT technologies, for the development of which the Innopolis University was created, which has become an international base for the design development of unmanned vehicles. In order to improve the investment infrastructure in the republic, the Alabuga industrial production zone and the Innopolis technological-innovative zone have been created and are functioning. By 2020, Tatarstan has five territories of priority social and economic development (TOSED). These sites provide for federal benefits and preferences for their residents. Ready-made production infrastructure has been created in technology parks, on industrial sites of municipalities.

**Table 5: Indicators for Evaluating the Republic of Tatarstan Investment Development Strategy's Implementation Results for the Period 2017–2021 with a View to 2030**

Outcome Indicators	Indicator values by years,%							
	2015	2016	2017	2018	2019	2020	2021	2030
The growth in foreign direct investment per capita of the Republic of Tatarstan	148	108	115	108	108	108	108	148
Growth in fixed capital investment excluding budgetary funds	110	102	105	107	109	111	113	131

## SUMMARY

The preconditions for the development of the investment economy are determined by external and internal factors, including the geographical and geopolitical location, the level of economic, social, and political development. The Russian economy's investment activity over the past decade has a downward trend; the trend continues to increase the negative balance of inflow and outflow of foreign direct investment. Incentives for the influx of FDI into Russia are declining due to the presence of political risks, including sanctions. The underdevelopment of the financial market's institutional structure is one of the factors that inhibit the growth of investment fund activity in Russia as a whole. The analysis results indicate a growing trend in the unevenness of regional investment, when the center of gravity of investment activity is shifting to commodity export-oriented and industrialized regions. In the future, such a policy will lead to a significant gap in the levels of socio-economic development of the regions, which contradicts the task of spatial development of Russia.

## CONCLUSIONS

Identification of prerequisites and ensuring their effective interaction contributes to the formation of a favorable investment climate for the sustainable development of economic sectors. The state of the production base and the development level of production to a large extent have a decisive influence on the processes of migration and workforce dynamics. In this regard, the urgency of the problem of implementing an effective social policy, as one of the basic prerequisites for the formation of positive trends, is growing. The opening of new industries and increasing employment contribute to the formation of a trend of sustainable socio-economic development. In the processes of interaction of these factors, an investment climate is formed, characterized by sustainable development and positive dynamics of economic indicators, including the state of logistics, transport infrastructure, the level of development of information and communication technologies, and the greening of production. For an effective investment policy at the regional level, it is necessary to develop an updated development strategy that takes into account the interconnection of regional goals, priorities and government programs aimed at improving the business environment for the development of business activity, improving the quality of human capital and infrastructure, maintaining a consistently high investment attractiveness of the region.

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