Current Trends in Global Supply Chain Management Investment Policy

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**Abstract-** To achieve the Sustainable Development Goals of the world economy, significant financial resources and global supply chain are needed. Priority issues are related to the use of investment resources. Almost all sectors of the economy have a real need for investment. Domestic investments is not enough for countries to implement effective structural policies and upgrade fixed assets. They are forced to attract foreign investment. The annual requirements for international investment reach several trillion US dollars. However, foreign investors are in no hurry to expand investments in the economy of foreign countries. Moreover, in 2017-2019 there is a decrease in global direct foreign investment flows. This is largely due to a noticeable reduction in US investment in the economies of the European Union and China as a result of the tightening of the American protectionism policy pursued by the D. Trump administration and the US Federal Reserve to strengthen regulation of foreign companies in the US market. A decrease in the level of international investment under the worsening business climate in the world leads to the increased competition between countries for attracting foreign investment.

**Keywords-** investment, supply chain strategy, sustainable development, investment policy, foreign companies, capital market, American protectionism.

1. Introduction

Global supply-chain management (GSCM) is defined as the distribution of goods and services throughout a trans-national companies’ global network to maximize profit and minimize waste.[1] Essentially, global supply chain-management is the same as supply-chain management, but it focuses on companies and organizations that are trans-national. Mobilization of investments for sustainable development requires the presence of factors contributing to the attraction of investments in each country. Measures of national investment policy should be aimed at supporting priority sectors in the interests of the state and ensuring national security. International regulation of capital flows is carried out by concluding bilateral investment agreements between individual countries. The agreements are designed to protect the interests of foreign investors in the host country; signing of regional investment agreements in order to coordinate the regulatory process within individual integration associations.

The problem of expanding investment has received considerable attention at the international level. In October 2018, in Switzerland, at the X World Investment Forum of the UN Conference on Trade and Development, the question was raised of reforming the international investment system, overcoming the trend of decreasing foreign direct investment flows, and the inability to achieve a pre-crisis level of direct financial investment ten years after the Great Recession.

To achieve these goals, it is necessary to create mutually beneficial conditions for investment cooperation. A factor holding back the achievement of consensus between countries is the unwillingness of the American leadership to hear other participants in international investment cooperation, including traditional American foreign economic partners and closest political allies.

2. Research Method

According to the concept of the English economist J. Keynes, additional investments are needed, both internal and external, to achieve macroeconomic equilibrium, when effective demand is insufficient to enjoy the entire volume of GDP. Additional investments cause demand for additional commodities, which allows to enjoy the entire volume of national production and ensure full employment of workers. Keynes's theory is quite convincing, but, unfortunately, it does not consider the effects of investment on economic development in the long run. The Keynes model examines the depressive economy in the short run [1]. As a result, the term supply chains is rapidly becoming the new norm in discussing the spread of trade and investment around the globe.

An attempt to go further than J. Keynes in the study was made in the late 1940s by the English economist R. Harrod and the American economist E. Domar. According to the E. Domar and R. Harrod the main source of economic growth are: an increase in the stock of capital due to net investments and an increase in professional skills due to investments in human capital. According to the Harrod-Domar model, investments are the strategic variable by which economic growth can be controlled [2]. In accordance with this model, there is an equilibrium growth rate of real income in the economy at which the available production capacities are fully used. Investments and income are growing at the same and constant pace over time. But such a dynamic equilibrium turns out to be unstable as soon as the investment growth rate deviates from the level set by the model. Of course, the model is quite imperfect, but it should be noted that it illustrates the
relationship between investment growth rates and GDP growth rates. Later, this model formed the basis of the “Big Push” theory as applied to developing countries. The study of the problem of the influence of investments on the development of the economy was continued by the American economist R. Solow. In his theory, R. Solow considers capital accumulation, the volume of which changes under the influence of investments, as the main source of economic growth. Investments increase the stock of capital, and their disposal reduces it. The theory of R. Solow allows us to reveal the relationship of three sources of economic growth - investment, the number of labor in the country and technological progress [3]. According to the concept of R. Solow, in order for the economy to be in a stable state, investments should compensate the consequences of the outflow of capital, population growth, and changes in the production process. The theory of R. Solow to some extent explains the economic growth of the countries of Southeast Asia and China. However, the proposed R. Solow model has drawbacks, since all factors of economic growth are considered exogenous.

The most effective model for using investments for economic growth was proposed by the American economist P. Romer, who received the Nobel Prize in Economics for his research in 2018. According to P. Romer’s model, the main factor of economic growth is the growth of investment in R&D and investment in human capital. According to P. Romer, an economy with human capital resources and a developed science has better growth chances in the long run than an economy without these advantages [4]. According to P. Romer’s theory of new growth, technology as a factor of production increases the return on investment, which is why developed countries, especially the USA, manage to maintain a fast pace of economic growth. Investments add value to technology, and technology to investment, which contributes to economic growth. The purpose of this study is an attempt to identify factors that both contribute to and impede the intensification of international investment cooperation based on the analysis of theoretical and practical materials.

A hypothesis is being put forward that the United States could maintain leading positions in the system of investment flows in the next decade.

3. Results
In the post-crisis period, a significant increase in foreign direct investments began in 2015, when global supply chain investments increased by 38%, reaching almost $1.8 trillion, the highest since the 2008-2009 crisis. However, this growth was not uniform for different categories of countries. The fastest growing investments were in economically developed countries. In 2015, they doubled compared to the previous year. In countries with economies in transition, on the contrary, they declined by more than one third during the period under review. The decrease in foreign direct investment inflows into countries with economies in transition can be explained by the rather low prices for commodities, primarily oil, the relative underdevelopment of domestic markets and the use of restrictive measures.

In 2016, there was a decrease in the flow of global foreign direct investments by 13%, which affected both developed and developing countries. In 2017, the global volume of foreign direct investments, which accounted for more than 40% of external financing of countries with rapidly developing economies, fell by 16% or almost 1.5 trillion US dollars, which was caused by a sharp drop in investment flows in the United States, Great Britain and Russia [5]. In 2017, the inflow of global FDI amounted to 2.34% of global GDP, the outflow - 2.29% [6]. The main factor in the decline in foreign investments was a decrease in their profitability by almost 7%. Investment flows to the countries of North America decreased by 33%, to the countries of Europe - by 27%, while in Australia an increase of 11% was recorded [5].

The downward trend in FDI flows to countries with economies in transition continued. In 2017, their volume decreased by 17%, amounting to 55 billion dollars, which is 3 billion less than in 2016. This indicator is considered the lowest since 2005. The decrease in FDI flows to countries with economies in transition was the result of a sharp fall to 31 billion dollars in investment inflows in Russia, amounting to 17% versus 2016. The reduction in investment affected most CIS countries. In 2017, foreign direct investment to the economy of Kazakhstan decreased by 29% to 6 billion dollars, to the economy of Azerbaijan by 29% to 3 billion, to the economy of Ukraine by 25% to 2.5 billion [7]. At the same time, the influx of investments in the countries of Southeast Europe increased by 16% in 2017. Investments in the Serbian economy increased especially significantly - by 24%, amounting to 2.9 billion dollars [7].

Foreign direct investment in developing countries amounted 653 billion dollars in 2017, exceeding the previous year by 2%. And this, despite a 36% drop in the investments to the Chinese economy, compared to the previous year. FDI growth was observed in developing countries of Latin America, Asia, South Africa [7].

In 2018, the downward trend in foreign direct investment in the world continued. The drop in global FDI flows was 27%. The flow of investment in developed OECD countries decreased by 23% to 625 billion dollars in 2018. In the European Union, the decline in investment inflows amounted to 20% [8]. A particularly strong decline in FDI has affected the Irish economy. Investment growth took place in Australia, Canada. FDI in Russia halved from 26 billion dollars in 2017 to 13 billion in 2018. Russian investment abroad increased to 36 billion dollars, compared to 34 billion in 2017 [8].

The main flow of FDI in 2018 came from Japan - 143 billion dollars, China - 96 billion dollars, France - 93 billion dollars. The main recipients of capital were: the United States - 270 billion dollars, China - 203 billion dollars, the Netherlands - 70 billion dollars, the United
The financial and economic crisis of 2008 turned the flows of global direct foreign investments. Investments significantly increased in developing countries. Despite increasing competition from developing countries, the most competitive economy in the world, ranking significantly increased in developing countries. Despite flows of global direct foreign investments. Investments in the financial and economic crisis of 2008 turned the

The USA occupies the first place in the world in the volume of direct foreign investments annually sent to the country by foreign investors. In 2017, the inflow of investments to the country amounted to 354.8 billion dollars, and the outflow - 379.2 billion dollars. Foreign multinational corporations find the United States a very attractive place to locate its branches, given the advantages unique to the United States such as American capacious consumer market; the availability of skilled labor; the developed legislative framework governing investment activity. Of particular interest to the US market are transnational corporations from the countries of the European Union. In 2017, the share of the EU countries in investment flows to the United States amounted to more than 40%. Over the past decades, the United States has remained the most sought-after region for European investors.

The American market has capital from almost 100 foreign countries, however, the leading positions are held by investments from a small group of developed countries, including Great Britain, Japan, Canada, Germany, France, Ireland, Switzerland and the Netherlands. Only these 8 countries account for more than 70% of the accumulated FDI in the US economy. The largest investor in the US economy is the United Kingdom, which accounts for 15% of the total inflow of foreign capital into the US economy. The second and third most important investors are Canada and Japan, which respectively account for 13% and 12%.

For 2012 to 2017 Singapore increased capital investments in the US economy more than five times. Today, Singapore is the ninth largest investor in the US economy.

From the point of view of European companies, among the most profitable areas of the US economy are the financial and banking business. Hence, a huge influx of European capital into the financial sector of the American economy is not accidental. The USA, despite the 2008 crisis, is the most liquid market of financial instruments and the insurance industry, which accumulated about 540 billion dollars by the end of 2017.

Every year, the volume of investments of European investors in the manufacturing industries of the USA is growing. The volume of investments in these industries amounted to 14.4 billion dollars in 2017. This, first of all, is the investment of capital by European investors in the high-tech sectors of US mechanical engineering. The main flow of investment goes to the car assembly plants of the American company Ford, located in the North-East of the USA.

European companies are actively investing in US trade sector, both wholesale and retail. In 2017, 24.6 billion dollars of European capital was allocated to the US trade sector. In total, 425 billion dollars was invested in the wholesale trade sector by all foreign investors, including investors from developing countries. Strengthening the position of foreign capital in wholesale trade contributes to the development of foreign trade between American firms and firms of investing countries.

Investments from EU countries organically flow into the US economy, becoming part of the reproduction process. Today, about 10% of US GDP is created with the active participation of European capital.

The investment attractiveness of the American market is explained, first of all, by the fact that the US state investment policy, encouraging the influx of foreign investment, is open and understandable to foreign investors. According to the current investment regime in the country, foreign investors are granted equal rights with national producers regarding the creation, registration and operation of companies, payment of taxes, and paperwork. Foreign investors are subject to similar restrictions under US law as US citizens.

At the same time, in the USA there are certain restrictions on foreign investment in the capital of companies in certain sectors of the American economy, which are set to protect “sensitive industries”. The restrictions apply to projects related to the production and processing of plutonium, the operation of nuclear reactors and waste disposal. In the field of sea and air transport, restrictions are imposed on the participation of foreign capital in the creation of joint-stock companies. In the agricultural sector, companies with foreign participation cannot receive special financial assistance and subsidies in the production and processing of products. The US Federal Reserve System (FRS) has the right to refuse any foreign financial institution in a request to start working in the US financial and stock markets in the event that the foreign government does not provide adequate conditions for US companies and firms.

Direct investment in foreign countries is an important area of economic policy of the United States. Speaking about American capital abroad, it should be noted that transnational corporations, being the main American exporters of foreign direct investment, have become the leading “force” of market production and the international division of labor, as well as key beneficiaries of global value chains. Direct investments by US transnational corporations play an important role in connecting the economies of many countries with the US economy and in creating a production system for a globalized world economy.

The American editor Fortune annually, since 1995, publishes a list showing the top 500 largest companies in the world. According to the Fortune rating, by the
end of 2017, the gross revenue and profit of the 500 largest TNCs in the world amounted to 30 trillion dollars and 1.9 trillion dollars, respectively [17]. Fortune ranks 126 large US companies. Thus, a quarter of the world's leading transnational corporations are American residents. The total revenue of US corporations is 9 trillion dollars, or almost 30% of the total revenue of companies included in the rating. These results are largely facilitated by government support, which is manifested in the policy of regulating American investments abroad [9].

The largest volume of US investment in the EU is concentrated in manufacturing industries in the UK, the Netherlands, France, and Germany. The largest investments were made in automobile production. EU countries specialize in the production of high-quality cars. For Germany and the United Kingdom, the automotive industry is one of the leading sectors of the economy, due to the presence of a large number of highly skilled workforce, professional research centers engaged in the development of innovative technologies, as well as developed infrastructure.

An important sector of American investment in the EU economy is the field of finance and insurance. American capital is held in large amounts on deposits in European banks. Investors invest their capital in securities. Since more than 90% of portfolio foreign investment is between developed countries, the US and the EU are more involved in the global portfolio investment system than any other regions of the world. Among the reasons for the concentration of portfolio investment in the domestic market of developed countries of the European Union are the unified national legislation on securities, developed infrastructure of the stock market, guarantees for the fulfillment of contractual obligations, high liquidity of national securities, high costs of international transactions with securities.

The interest of American investors in the EU countries is due to the developed infrastructure of countries, state support for innovation, a system for protecting the rights of foreign investors, a loyal attitude to foreign capital of individuals and legal entities, and the presence of entrepreneurial ethics.

In 2018-2019 investment cooperation between the USA and the EU is weakening, which is caused by the strengthening of American protectionism regarding the steel and aluminum industries of the EU countries, the implementation of duties on the import of European steel in the amount of 25% and aluminum in the amount of 10% from June 1, 2018 [13]. D. Trump received the right to introduce duties in accordance with Art. 232 of the Trade Expansion Act of 1962 (Trade Expansion Act), which allows to take unilateral measures to restrict imports, guided by the interests of national security [14]. Relations between the US and the EU in investment cooperation have intensified as a result of the US’s inability to persuade Europe to abandon investing in the Nord Stream 2 project, which has led to a buildup of controversy in US-German relations.

Direct investment from the United States to Russia over the past five years has declined by 80%. In addition, the United States blocked Russian assets worth several hundred million dollars. The number of completed projects in 2017 compared to 2016 decreased by half - from 38 to 19 [15]. In the coming years, we can hardly expect to overcome the bearish trend and even a slight increase in the influx of American investment in Russia.

Russia is going through a difficult period. At present, although there has been some improvement in the sphere of investment activity, it has not yet been possible to achieve sufficient rates of economic growth. The main source of financing investment activity remains the own funds of organizations. In 2018, they amounted to 59.7%. Conducted sociological studies indicate the existence of serious difficulties in business development. We are talking about the low availability of personnel of the required qualifications in the labor market; high level of taxes; low availability of finance. An analysis of the activities of enterprises shows that the solution to most of the problems that business in Russia faces is only possible if investments in fixed assets, infrastructure development, and human capital are increased. Particular importance is attached to attracting foreign direct investment to the country.

In the World Bank ranking Doing Business 2019, Russia ranked 31st out of 190 countries in the business climate. The task set by the end of the current decade to enter the top 20 Doing Business ranking has not been achieved. The World Bank report provides regulatory assessments for 11 aspects of an enterprise’s life cycle (Figure 1.). Despite the obvious breakthroughs in a number of positions that have occurred over the past 5-6 years, an analysis of Russian business in each of the aspects confirms the need to seriously improve the institutional environment of domestic entrepreneurship.

Fig. 1. Doing Business Rating Indicators [18].

Russia’s biggest progress has been made in access to construction, where the quality and speed of obtaining a building permit were assessed. According to this traditionally weak position, our country has risen by 64 steps (Fig. 2).
Positive changes cannot be achieved without a comprehensive, systematic approach to changing the institutional environment of business, including improving lending conditions, issues of renting real estate, providing qualified personnel, improving the legal foundations of business, increasing the efficiency of the contract execution system, optimizing tax rates and much more. It should be noted that the institutional environment will not be modernized if it is fragmented. Changing the investment climate requires a set of measures to create a new model of the institutional environment of Russian entrepreneurship, aimed at orienting economic entities to long-term investment; to expand modern sources of financing for enterprises (such as leasing, factoring, credit line, overdraft, grants or subsidized bank loans). The transition to an innovative development model requires a systematic approach, carrying out activities covering all levels of Russian society [19].

4. Conclusion
Today, governments are aimed at attracting foreign direct investment, which contribute to the implementation of national sustainable development goals based on the global supply chain. Investments are the main source of economic growth. There is a direct relationship between the rate of economic development of a country and the rate of investment. When investing in the amount of 20-25% of GDP, it is possible to ensure an average annual economic growth rate of 2.5-3%, as is the case in developed countries. The economic situation in the world in 2019 will be less favorable for investment than it was in 2018. This is largely due to the risks of a slowdown in global economic growth due to the strengthening of American protectionist policies. If the main efforts of most states are aimed at creating a liberal international investment system, the policy of the D. Trump administration is aimed at improving the national investment system by weakening elements in some countries due to strengthening in others. In the event of a crisis, the business climate in the world will deteriorate, which will lead to a decrease in the level of international investment and increased competition between countries for attracting foreign investment, including American ones. Against this background, it is difficult to count on an increase in investment inflows into Russia in 2019. Additional risks are created by the sanctions imposed by the West on Russia. Since the issue of lifting sanctions is not considered in 2019, the factors that influence the further decrease in the level of investments and the deterioration of the business climate will remain relevant in 2019-2020.

References
[10] These Eight Countries Account for Three-Quarters of FDI in the USA. URL: https://ofii.org/blog/these-eight-countries-account-for-three-quarters-of-fdi-in-the-usa

Table 2: Rating for Doing Business indicators that are included in the final assessment.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2018</th>
<th>2019</th>
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<tr>
<td>opening business</td>
<td>28</td>
<td>32</td>
</tr>
<tr>
<td>permission for construction</td>
<td>115</td>
<td>48</td>
</tr>
<tr>
<td>Electrical connection</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>Property registration</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Obtaining loans</td>
<td>29</td>
<td>22</td>
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<tr>
<td>protection of interests of minority investors</td>
<td>51</td>
<td>57</td>
</tr>
<tr>
<td>Tax payment</td>
<td>52</td>
<td>53</td>
</tr>
<tr>
<td>International trade</td>
<td>100</td>
<td>99</td>
</tr>
<tr>
<td>Execution of contracts</td>
<td>18</td>
<td>18</td>
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<tr>
<td>Insolvency resolution</td>
<td>54</td>
<td>55</td>
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</tbody>
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Source: Doing business ranking [18].
This Asia-Pacific Country Leads the List of America’s Most Rapidly-Expanding Investors - and it’s not China. URL: https://ofii.org/blog/this-asia-pacific-country-leads-the-list-of-america-s-most-rapidly-expanding-investors-and-it-s-not-china


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