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Theoretical and Methodological Foundations of International Capital Movement and the Main Tendencies of its Regulation

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ABSTRACT: This paper presents current problems and major trends in the international movement of capital at the end of the 20th and beginning of the 21st centuries.
One of the functions of any dynamically developing economy is participation in the international movement of capital. As practice shows, the international movement of capital in terms of growth rates is ahead of international trade. This is primarily due to the search for the most profitable use of excess capital, which is, therefore, being in motion, and flows from one country to another.
Foreign investments are becoming the main form of attracting foreign capital by both developed and developing countries, which is related to the policy of liberalizing the admission of foreign capital, as a result of which almost all restrictions on the export and import of capital have been lifted, and the competition for attracting foreign investment increased.

Keywords: International capital, investment, globalization, integration, regulation, investor.

I. INTRODUCTION

In modern conditions, the success and prospects for the economic development of industrially developed and developing countries, and countries with economies in transition are increasingly determined by the degree of their active participation in international capital flows. When attracting foreign investments, a government faces many problems related to how to attract foreign investors, in which sectors it is advisable to use investments, and in which activity foreign capital should be limited, and in what forms attracting of foreign capital is more profitable. Solving these problems requires the development and implementation of effective state policy in the field of foreign investment regulation.
The movement of international capital is unilateral: there is a transfer of capital abroad for its work and obtaining business profits or income in the form of interest. Accordingly, such kinds of capital are distinguished as borrowed capital and venture capital for the export of enterprises. In turn, they are divided into direct investment and portfolio investment.
The movement of loan capital in the form of international credit acts is loans in the form of money or goods provided by a lender of one country to a borrower from another country on the terms of urgency, repayment and interest payments. It also includes loans from international financial organizations (IMF, World Bank, EBRD, etc.). In the 1980s, they began to actively use such a form of loan capital as project financing, that is, the provision of large loans for building specific industrial facilities. Exporting venture capital in the form of long-term foreign investment led to the creation of foreign affiliates, subsidiaries and joint ventures.
The subjects of international investment counterparties are different countries. As subjects, they can act represented by state bodies and institutions or private firms and citizens. Depending on these investments, they are divided into public and private.
The recognition of a foreign investor as a subject of economic relations means the granting to it of the corresponding rights and privileges established by law and international treaties; meeting the requirements of registration and admission to the implementation of economic activity. This definition extends to the provision of guarantees and other conditions stipulated by an international agreement with the country concerned, as well as ensuring the possibility of diplomatic protection from the state of the investor's origin.
Foreign investment is the movement of capital, which is carried out in the order of participation in the management of a company in another country, as a result of which capital arises and profits are created.
Foreign investment is divided into two types: direct investment, which provides the investor control over foreign companies, and portfolio investment made to generate income from capital invested in foreign bonds, shares of foreign companies and other securities.

II. THE MAIN CAUSES OF CAPITAL MOVEMENTS

In addition to the traditional forms of international capital movement, modern investment practices include some economic forms and mechanisms for creating advantages for investors in investing capital.
These include international cooperation in the field of production, loans on a reimbursable basis, the creation of joint ventures, the creation of enterprises fully owned by foreign capital, agreements on the assignment, and production sharing.
International cooperation in the field of production ensures sustainable production links between enterprises in different countries; these links are accompanied by technology transfer, and sometimes the creation of joint ownership, thereby reducing production and circulation of costs and increasing product competitiveness.
Cooperation between the two countries on the basis of cost recovery allows enterprises of one state to receive

financial and material resources on the basis of a loan provided by another state, which will be repaid (replaced) as a part of the proceeds from the sale of products produced in the process of cooperation by established entities. This form of cooperation allows a state which does not have enough capital, to implement the construction of large and complex objects. This allows it to get modern equipment and technology and also guarantees the sale of products manufactured at the enterprise, which is created on a reimbursable basis.
The possibility of obtaining modern equipment and technologies, progressive systems of organization of labour and production arises from the creation of joint ventures that are fully owned by foreigners. Also, a joint venture allows much faster access to the markets of other countries where this state has weak positions.
Special forms of attracting foreign investment are realized through a concession and a production sharing agreement. On their basis, foreign investors are involved in the development of mineral deposits. A concession is a contract for the exploitation of land, natural resources, enterprises and other economic entities owned by the state, subject to certain conditions. Under the production sharing agreement, the investor receives exclusive rights to search, prospect and extract minerals in a certain area of the subsoil on a paid basis and for a certain period [1].
The main reasons for the export of capital are:
- The relative excess of capital in one country, which is transferred abroad to obtain entrepreneurial profit or interest;
- Non-coincidence of demand for capital and its offers in various areas of the world economy; the imbalance of the balance of payments, the dependence of the economy on the growth of exports, if the export of goods and services is more than imports, then capital is exported, and vice versa; more efficient allocation and use of capital;
- the growing internationalization and globalization of the economy, with the result that the ratio of foreign investment to the country's GDP and their share in its annual investments become important indicators of the country's participation in the world economy; the emergence of TNCs that invest in their subsidiaries and affiliates in order to increase profits by expanding the scope of activities in the geographical and industry direction;
- The emergence of opportunities for the development of local commodity markets, while capital is exported to stimulate demand for its products and thereby increase exports;
- Availability of cheaper raw materials and labour in host countries;
- A stable political environment and a generally favourable investment climate in the host country, and a preferential investment regime;
- Lower environmental standards in the host country (possibility of allocation of environmentally dirty production).

In some countries, the export of capital is associated with the existence of an unfavourable socio-political, economic situation in the country, deteriorating financial conditions and with other negative reasons, in particular, this is characteristic of Russia, where it is called capital flight. Flight of capital is understood as any illegal export of capital, and the export of capital, contrary to the goals and objectives of the state in the field of economic development of the country [2].
It is characteristic for the international movement of capital, that it seeks a more efficient application for profit. To make it more profitable for an investor to invest its money, it needs to determine their possible effectiveness. Many papers by domestic and foreign economists have proposed various methods for evaluating the effectiveness of investments. In this paper, methods are proposed that allow a more qualitative assessment of possible investments: using the method for determining net present value, calculating the internal rate of return, calculating the index of profitability of investments, and the method for determining the payback period for investments [3].
The main objective of the international investment theory is to justify the forms of capital investment, as well as the prerequisites and conditions for the use of methods for its evaluation.
International capital movements are carried out in business and credit forms. Venture capital includes direct and portfolio investments. Loan capital provides international loans. The choice of form depends on the investor, who intends to control and participate in the management of a company in the country that receives the capital or to rely only on profit. But in any case, it is necessary to determine the effectiveness of their investments. Determining the net present value according to the rule of indices and return on investment, or the payback period will allow investors to make a rational choice: either to invest in an investment project in the country, if it brings revenue, or if the project is unprofitable, choose another option, for example, invest in other countries, where investment projects are implemented.
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III. THE MAIN TRENDS OF INCREASING GLOBALIZATION

The main trend in the development of the world economy is the strengthening of its globalization process. The growth of international exchange of goods, services and capital exceeds the dynamics of world production. According to the WTO, in 1990-2016 world exports of goods and services grew annually 2.8-3 times faster than world GDP and world production, and the average annual growth rate of capital exports exceeded the international trade in goods and services by more than 2 times [7].
In 2016, the volume of foreign direct investment in the world decreased by 18% to $ 1.35 trillion, in 2011 - $ 1.65 trillion. The expert assessment of this situation explains this by the weakness of the economic system, uncertainty and the persistence of high risks. Foreign direct investment in developed countries fell by 31.6%, to $ 560.7 billion [3].
The global economy is characterized by the presence of global production systems in which trade in intermediate goods and services serves fragmented and distributed production processes between different countries. Global production systems are usually coordinated by TNCs, and international trade in semi-finished and finished products is carried out within their networks of branches, contractors and independent suppliers, which account for about 80% of world trade.
Global production systems create an essential element of double counting in trade— about 28% or 5 trillion US dollars in total world exports in the amount of 19 trillion US dollars in 2010 because intermediate products are

counted in global exports several times, although they should be counted only once at added value. Trade patterns in global production systems determine the distribution of the actual economic benefits of trade between individual countries and are largely shaped under TNC investment decisions. Countries with a large share of foreign direct investment in comparison with the size of their economies tend to be more actively involved in global production systems and create a relatively large domestic value-added in the export sector [3].

In global production systems in developing countries, an average of about 30% of their GDP is generated, compared with 18% in developed countries. There is also a positive correlation between participation in the system and the dynamics of per capita GDP. Global production systems have a direct economic impact on indicators of value-added, employment and income. For developing countries, they can also become an important mechanism for increasing production capacity, including through technology diffusion and worker training, and thus open up the possibility of long-term industrial upgrading [3].

However, participation in global production systems is also associated with risks. The GDP values may be limited if countries produce only a small portion of the value-added created in the process chain. Besides, the spread of technology, skills development and upgrades does not occur automatically. Developing countries face the risk that they will not be able to master production with relatively high added value. Besides, the environmental and social consequences, including in terms of working conditions, health and safety, can be negative. Opportunities and global production systems make it relatively easy to move production, and increased vulnerability to external shocks creates additional risks.

Countries should make a strategic choice: to encourage or not to encourage their companies to participate in global production systems. They need to carefully compare the pros and cons of participation in global production systems, as well as the costs and benefits with an active policy of encouraging these systems or development strategies oriented to global production, depending on their particular situation or availability of production factors. Some countries may decide not to encourage participation in this system; others may not have such a choice. Most of them are already more or less connected to global production. Encouraging the participation in global production systems involves targeting specific segments of the system, i.e. promotion can be selective.

Important is the role of policy in harnessing the potential of the global production system to meet development challenges. If countries have decided to actively encourage participation in global production systems, policies must, first of all, determine its place in the international division of labour, and then to evaluate the actual path of development based on the integration in the system for its strategic positioning. To gain access to the global production system and modernization opportunities, a structured approach is needed to determine the company's specific place in the industrial policy system, create conditions for the growth of global production systems through the development of trade and investment, as well as creating the necessary infrastructure, developing the productive capacity of local firms and increasing level of training of local labor.

To reduce the risks associated with participation in global production systems, these efforts should be based on sound environmental, social, and managerial structures, along with a strengthening of regulation and law enforcement, as well as support for local enterprises to build their capacities to comply with regulatory requirements.

In 2012, the amount of global foreign direct investments movement decreased by 18% to 1.35 trillion US dollars, for the first time in the last10 years. This fall contrasted sharply with the behaviour of other key economic indicators, such as GDP, international trade and employment, each of which showed positive growth at the global level. Economic instability and political uncertainty in many large countries forced investors to exercise caution. Also, many transnational corporations (TNCs) have repurposed their investments abroad, including through asset restructuring, withdrawal of investments and relocation. It turned out that the path to raising foreign direct investment is not easy and maybe longer than expected [3].

In 2013, foreign direct investment remained at a level close to the 2012 level, with an upper limit of 1.45 trillion US dollars - this level is comparable to the average figures for the pre-crisis period of 2005–2007 (Fig. 1).

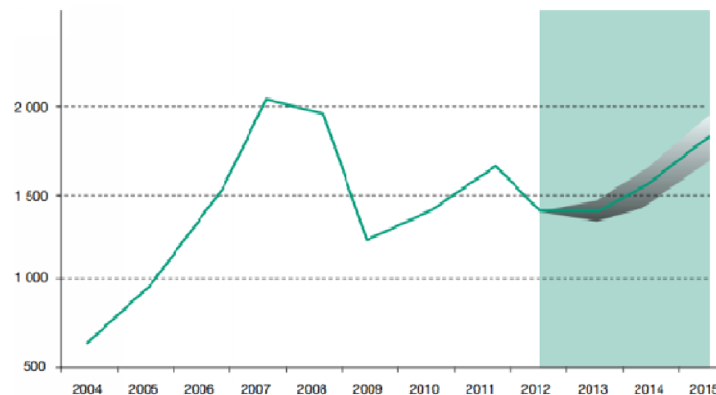

Fig. 1. Indicators of the foreign direct investment behaviour in 2004 and up to 2015 [4].

Global and regional investment trends are currently rather ambiguous. The path to the revival of foreign direct investment is not so simple. As already noted, an increase of 18% to 1.35 trillion US dollars in 2016 was significant for the global economy. The process of recovering foreign direct investment will take longer than expected, mainly due to global economic instability and political uncertainty. In 2013, the foreign direct investment will continue to be close to the 2012 level with an upper limit of 1.45 trillion US dollars. In light of the average investors' confidence in their recovery, it is expected that FDI flows will reach 1.6 trillion US dollars in

2014 and $ 1.8 trillion US dollars in 2015.However, there are significant risks associated with this growth scenario.
In 2017, for the first time, developing countries which accounted for 52% of the global inflow of foreign direct investment, received more of them than the developed countries. This was partly since the largest decline in direct foreign investment inflows was observed in developed countries which now account for only 42% of their global volume. Nearly one-third of the global export outflow of foreign direct investment also fell to developing countries, marking the continuation of a steady upward trend [5].
The outflow of foreign direct investment from developed countries has decreased to a level close to the 2009 amount. In the conditions of instability in the economic prospects, transnational corporations (TNCs) from developed countries still maintained a wait-and-see approach to new investments or were freed from foreign assets instead of significantly expanding their activities at the international level. In 2012, in 22 of the 38 developed countries, there was a reduction in the export of capital in the form of foreign direct investment, which accounted for 23% of the total reduction.
In 2012, there was a slight overall decline in the inflow of foreign direct investment in developing regions, although its decline was not observed everywhere. In Africa which was out of the general trend, imports increased by 5% to 50 billion dollars. This growth was partly due to foreign direct investment in the extractive industries, but investment in manufacturing of finished goods for the consumer market in the service industry is also increasing. Foreign direct investment in developing countries in Asia declined by 7% to $ 407 billion but remained high. With the ongoing restructuring of the geographical structure of production in the region with its movement to lower-income countries, such as Vietnam, Cambodja and Myanmar, investment in labour-intensive industries is attracting. Imports of foreign direct investment in Latin America and the Caribbean fell by 2% to $ 244 billion due to the economic downturn in Central American and Caribbean countries. This recession was filled by a 12% increase in South America, where the inflow of foreign direct investment was associated both with the development of the extractive industries and with efforts to develop new markets.
The inflow of foreign direct investment in developed countries has fallen sharply. The volume of foreign direct investment in developed countries decreased by 32% and reached $ 561 billion, which was last noted almost ten years ago. A significant decline in investment flows was observed in most developed countries, in particular in the European Union, which accounted for two-thirds of their cuts.
In countries with economies in transition, there was a relatively small decline. The sharp decline in international mergers and acquisitions led to a decrease in foreign direct investment in countries with economies in transition by 9% to 87 billion dollars. Of these, 51 billion US dollars were invested in the Russian economy, but a significant part of them was of Russian origin [8].
Due to the current situation, there have been changes in the trends of investment policy. The process of developing a national investment policy is increasingly focused on new development strategies. Most nations are committed to attracting and encouraging foreign investment to strengthen productive capacities and sustainable development. At the same time, many countries are currently developing regulations for foreign investment, making wider use of industrial policy in strategic sectors, tightening selection and monitoring procedures, and carefully checking international mergers and acquisitions. There is a risk that some of these measures are taken for protectionist purposes.
As macroeconomic conditions improve and the medium-term investor confidence is restored, TNCs will be able to convert their record amounts of cash reserves into new investments. In this case, foreign direct investment flows could reach 1.6 trillion US dollars in 2014 and 1.8 trillion US dollars in 2015. However, in this growth scenario, there are still significant risks. Factors such as the structural vulnerability of the global financial system, the possible deterioration of the macroeconomic situation and significant political uncertainty in key areas that affect investor confidence can lead to a further reduction in their flows [5].

IV. FINDINGS

Thus, we can conclude that the inflow of foreign direct investment in developing countries turned out to be much more stable than their inflow in developed countries, and in 2015, despite its slight decrease (by 4%) to $ 703 billion, it was only highest level of the previous year. It amounted to a record 52% of the global inflow of foreign direct investment, for the first time exceeding the inflow to developed countries by 142 billion dollars.
The world ranking of the largest recipients of foreign investment also reflects changes in the structure of investment flows: of the 20 largest recipients, 9 are in developing countries. In the regional context, the inflow to the developing countries of Asia and Latin America remained at a high level for many years, but its dynamics weakened. In Africa, in 2012 there was an increase in the inflow of foreign direct investment in annual terms.
It should be borne in mind such factors as the mismatch of supply and demand for capital in various areas of the world economy, the export of capital in order to stimulate demand for its products to increase exports, the availability of cheaper raw materials and labor in the host countries, a favorable investment climate in the host countries, and the growth of TNC's investments in subsidiaries and affiliates.

V. CONCLUSION

The analysis of the main tendencies of international capital movement at the end of the 20th and the beginning of the 21st centuries, the principles of regulating foreign investments, as well as the current state and problems of foreign capital participation in the Russian economy lead to the following conclusions. One of the functions of any dynamically developing economy is participation in the international capital movement. The international movement of capital is ahead of international trade in terms of growth rates. This is primarily due to the search for the most profitable use of surplus capital, which is therefore in motion, flowing from one country to another. The peculiarities of the world capital movement at the end of the 20th and the beginning of the 21st centuries, which define its tendencies, are the growth of direct foreign investments volumes, which become the main form of attracting foreign capital by both developed and developing countries. This is due to the foreign capital admission liberalization policy pursued by these countries, as a result of which virtually all restrictions on export and import of capital were lifted; increased competition for attracting foreign investment, which has necessitated the development of special measures by governments of host countries that stimulate the inflow of foreign capital; as well as an increase in the number of cross-border

mergers and acquisitions of foreign firms, which indicates that most foreign investments were related to the regrouping of the existing companies forces, and not to the creation of new production capacities.

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