

Assessment of Country Investment Attractiveness Evaluation Approaches

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Investment attractiveness of a country, and approaches to its evaluation have been thoroughly debated over few last decades. Initially, the key question concerned the reasons as to why large number of resource holders (financial funds, technologies, management systems etc.) would locate their assets, especially research and development projects, in other countries rather than remaining in their home economies. Increasing the quantity and quality of contacts with developed countries within investment process is crucially important for the development of Ukrainian economy. As follows from that point, the authors have identified features of approaches to investment attractiveness evaluation on a macroeconomic level analyzing latest works of scientists and researchers around the world.

It is believed, that the most valuable type of investments for future GDP growth is funds from multinational corporations: they bring not only money, but technologies, and decision how make new businesses profitable. Thus, the fundamental consideration for countries competing for investments is the influencing and improvement of such factors through effective investment incentives policies. Within this work, we researched recent studies of investment attractiveness evaluation around the world, and assumed key points for improving and applying those approaches in Ukrainian economy.

Within literature analysis the authors structured approaches to the evaluation based on the methods and subjects those approaches used. The most common methods are related to econometric analysis of statistical data that is collected and published by international institutions and rating agencies. Current analysis shows a tangible dependence between country investment attractiveness and the dynamics of FDI inflows. This dependence is not always straightforward, which is explained by influence of many other determinants within decision-making process. The authors suggest that involving independent experts from respective sectors of the economy could help to optimize the results of statistical data analysis. The expert survey provides the necessary correction coefficients which are to increase the accuracy and relevance of the investment attractiveness evaluation. The authors proposed a generalized approach to assessing the country investment attractiveness, taking into account international experience and features of the Ukrainian economy.

Key words: investments, country investment attractiveness, foreign direct investment, investment attractiveness evaluation.

Abbreviations:

R&D	– research and development
FDI	– foreign direct investment
CIA	– country investment attractiveness
GDP	– gross domestic product
MNC	– multinational corporation

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Introduction. Theoretical and empirical studies show that investment allocation has a perceptible impact on local economic development. Foreign direct investments (FDI) are vitally important for sustainable economic growth, creation of new jobs, and research and development (R&D) activities.

Countries all over the world perform various actions to improve their competitiveness and also improve the investment attractiveness. It is believed, that the most valuable investment are those who create new jobs, increase gross domestic product (GDP), and develop infrastructure wherever they come to. Taking that into consideration, governments are eager to incentive FDI inflows, especially from technological developed multinational corporations (MNC).

Problem statement.

In this article, we assessed country investment attractiveness (CIA) through the economic subjects' competences and environment empowering them to attract and maintain investments into particular destination. Realistic CIA evaluation is vitally important not only for investors and business owners, but for respective government institutions that deal with budget funds allocation, taxes collection, and who is responsible for unemployment situation within the country or region.

A. Thompson & A. Strickland [1] have built the foundation of strategic management concept that includes investment policies and decision-making processes. The problem of CIA has being developed by S. Makino [2] within FDI studies. The factors and barriers of CIA were studied by J. Kulczycka [3], and V. Snieska [4]. The groups of researchers such as J. Combs [5], I. Geyskens [6], N. Baily [7] have developed meta-analysis approach for CIA evaluation. Team of scientists by lead of Kaufmann D. [8] proposed Worldwide Governance Indicators Methodology for CIA evaluation.

The influence of government institutions and politic environment on investment attractiveness was discussed by S. Globerman [9], A. Marthur [10], E. Asiedu [11], M. Busse [12], A. Fakumi [13] and others. Large scale issues of CIA and FDI were faced by S. Böckem [14], P. Buckley [15], J. Kotlarsky [16], W. Gleißner [17] which was analyzing multifunctional concepts and diversity of factors determining them.

Econometric methods of CIA were developed by scientists such as H. Dawid [18], M. Dierkes [19], N. Bouchoucha [20].

Within few decades of active research literature has evolved over time. On the other hand, the results become sometimes controversial, and they are not satisfactory or not conclusive in most cases or even ignore specific aspects such as the quality of institutions. Despite this, recent ideas from around the globe are attempting to explain this phenomenon using a strong scientific theoretical foundation and statistical data. Thus, in order to propose a new approach to CIA evaluation we should analyze latest foreign experience and impose it on Ukrainian specific aspects.

The purposes of the research are to define the countries' investment attractiveness as an object of government institutions' policy, and identify the key structures that are important within CIA evaluation process.

Results of the research.

For decades scholars have been interested in exploring the main factors that determine a country's level of FDI attractiveness. Traditionally, scholars focused on economic factors such as market size, labour costs, exchange rates, infrastructure, and others as the key explanatory factors in determining a host country's ability to attract or deter FDI.

Therefore, investors have to make a decision where, when, and with which expected to return their investments will be done. On the other hand, recipients of those resources are supposed to have something to meet investors' expectations. This process of receiving investment resources has been studied by many scientists and institutions around the world. It should be noticed, there is ambiguousness in the definition of "ability to attract investments".

To ensure the proper understanding results of the following research let us assume key definitions and the differences among them.

Investment attractiveness is an ability to create, maintain and develop quantity and quality of inflowing FDI;

Investment incentives are the funds given to a company by government or other institution to affect the location of investment. The goal is to attract new investment or to retain some current facilities;

Investment potential is a concept that relates to investment attractiveness, and mostly used by post-soviet countries' researchers due to direct translation from a local language.

There is a significant amount of literature has analyzed country investment attractiveness in a wide range of contexts. According to [1] evaluation of investment attractiveness of the sector focuses on factors such as: the size of the market and its growth rate, profitability, intensity of competition, development conditions, the impact of seasonality and cyclicity, capital and technological requirements, and the characteristics of the social and political environment. Those factors were improved and sophisticated by many further scientists.

Before revealing the results of our CIA literature research, we make a cross-analysis of the GDP dynamic of Ukraine based on World Bank data. GDP and FDI net inflows dynamics within last 10 years is shown on Figure 1.

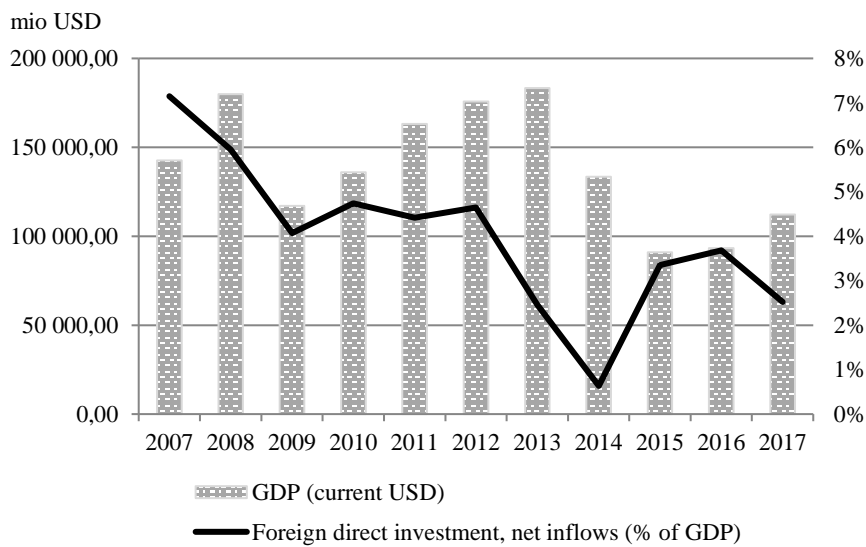


Figure 1. GDP, and FDI net inflows dynamics in Ukrainian economy during the period 2007-2017 [Source: based on [21]]

During latest decade, Ukrainian economy and society as well were facing many challenges, critical points and unpredicted influences. Macroeconomic events such as world crisis and recessions were mixed with Ukrainian internal political crises, tremendous currency devaluation, and foreign military invasion. Thus, it could not be possible to analyze CIA of Ukraine using only statistic or econometric indexes even though those ones were successfully implemented around the world.

Nevertheless, we need to consider recent studies about CIA evaluation in order to build a reasonably adequate approach that also could include Ukrainian macroeconomic and politic uncertainty.

The bases of this classification were sources of data, methods of calculation results, recipients or users of evaluation results.

1. International institutions` regular reports.

Several international institutions such as A.T. Kearney, Union Investment GmbH, GFICA, World Bank Group, and others provide their own approaches of evaluation investment attractiveness for countries, regions, or even certain legal entities.

The source of their calculations are data from official government institutions of respective countries about dynamic of GDP, FDI, unemployment rate, inflation, and etc. those reports are combined with non-quantitative indexes such as quality of government`s management, level of freedom of speech, and press, protection of creditors' rights.

The users of those reports are all sorts of investors around the globe, international lending institutions (IMF, IBRD, IFC, and many local ones), governments and politicians, researchers, media etc.

Kearney FDI Confidence Index is constructed using primary data from a proprietary survey of 500 senior executives of the world`s leading corporations. The rankings are calculated based on questions about the respondents` companies` likelihood of making a direct investment in a market over the next three years.

Doing Business Index from World Bank Group covers 12 areas of business regulation. Ten of these areas are: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency are included in the ease of doing business score and ease of doing business ranking. Doing Business also measures regulation on employing workers and contracting with the government, which are not included in the ease of doing business score and ranking.

2. Survey questionnaire methods.

In order to perform a deeper statistical analysis, researchers [3; 4] choose a survey questionnaire as a tool for data collection. Their study was conducted on a sample of research numbering 165 from management of different levels of respective companies and financial institutions in Poland. The questionnaire consisted of three parts: a) investment attractiveness factors; b) conditions for investment; c) barriers to investment.

In each section there were several questions that were evaluated based on the Likert scale. Likert scale is a standard rule of verification, unidimensionality, reliability of the examined object. In order to obtain reliable information on the attractiveness of investment authors attempted to use an empirical research. Accordingly to their results, correlation analysis between the parts of the questionnaire shows that the answers to the questions from different subgroups largely overlap – mutual correlations show, for example, answers to questions regarding taxes and legal aspects. By using factor analysis, authors were able to determine the

number of factors and their significance. In the survey also were placed two open-ended questions, where respondents could provide more detailed responses. Those questions concerned the indication of other factors affecting the attractiveness of investment. The final stage of the analysis was determined the hierarchy rank by placing in the row.

3. Math analysis of statistic data.

Meta-analysis also could be used within research of relationship between institutional factors and host country FDI attractiveness [5; 6]. Meta-analysis includes a set of methods that can combine quantitatively the evidence from different studies in a mathematically appropriate way: formulating the question, defining eligibility, identifying studies, abstracting data, statistical analysis, and reporting the results.

The other group of scientists [7] employ an agent-based industry simulation model to study the effects of the interplay between individual firms' market evaluation strategies on the extent of product innovations and overall industry development. This computational model allows to describe many aspects of an industry in more detailed and more realistic terms than analytically tractable models, there is of course still a trade-off between the degree of realism of a model and the ability to analyze results in a useful way.

It should be mentioned, in order to be able to concentrate on the effects of market selection, diversification and innovation strategies the authors relied on several pragmatic assumptions which might not be convincing from an empirical point of view.

4. Combined methods with perspective conclusions.

N. Bailey describes six institutional factors which receive the most significant scholarly attention at investment attractiveness of a country: political stability, rule of law, democratic institutions, corruption, tax rates, and cultural distance. The first four of the six institutional factors align closely with the world governance indicators from the World Bank [7].

These indicators are based on several hundred variables obtained from 31 different data sources, capturing governance perceptions as reported by survey respondents, non-governmental organizations, commercial business information providers, and public sector organizations worldwide [8].

This approach may be performed retrospectively or prospectively. When a prospective meta-analysis is performed, a number of studies are designed and conducted with the anticipation that their data will be combined and analyzed together eventually. The whole procedure is different from a multicenter prospective trial because in prospective meta-analysis, the research protocols of the included studies may be similar but not necessarily identical.

Due to the inherently unobservable nature of the true level of governance in a country, any observed empirical measure of governance will only be an imperfect proxy for the broader dimensions of governance that it reflects, and the data informing that incompetent government policy is no exception. The practical consequence of this is that our estimates of governance are subject to nontrivial margins of error.

German researchers [14] analyzed investment attractiveness via economic and institutional reasons for FDI made by companies. They proposed theoretical models on both perspectives and test them empirically by using longitudinal data on the decisions of German firms to invest in Eastern European markets. Results show that a firm's decision to engage in a foreign market is influenced by the attractiveness of the target market and by prior FDI decisions of large and successful peers.

This theoretical model relies on simplifying assumptions concerning the firms' regional activity patterns. Although it assumes that firms either decide only to shift production without selling products in the host country in the case of efficiency-seeking FDI, or only to distribute their products in the host country from an own subsidiary while leaving all production activities in the home country in the case of market-seeking FDI, global firms often establish complex production and distribution networks around the globe.

Despite this study has limited availability of longitudinal data on market conditions in Eastern Europe, it could be used as a qualitative approach to analyzing a firm's decision to enter foreign markets.

Within the analysis of most common approaches to investment attractiveness evaluation, there could be identified some mutual principals. Current analysis clusters described approaches into a consecutive list of stages, on which could be based improved investment attractiveness evaluation process.

Preparatory stage. The analyst chooses goal, object and level of evaluation. Then, he collects data related to reports of analyzed legal entity (public financial statements, trial balances, employees statistics etc.), or country/region (geographical location, GDP dynamic, unemployment data, other related reports). Depends on selected sources and goals of analysis, user of evaluation process could choose most suited and reliable factors of investment attractiveness.

Construction stage. All the gathered data let us identify that as a starting point of evaluation, are put into data processing mechanisms (math or statistic software). When calculations are done, the result represents a certain quantitative information (in fractions, or percent), and graphical expression (table, diagram, matrix, three-dimensional objects, etc.). Thereafter, evaluation process has received the needed basis for following step.

Aggregation stage. In order to become an adequate measurement, quantitative data should be optimized by correction factors. Accordingly to the goals and object of evaluation, there could be applied almost an endless list of such factors. Perhaps, the most common tool of optimization is a survey questionnaire among professionals of respective field.

Conclusion stage. When evaluation results aggregated with correction factors are received, it could be presented as matrix (or other ranking) of investment attractiveness. Received results could give the operator not only a vision of current investment attractiveness but a forecast of its development within nearest reported periods.

Based on this, we are able to stress that selectivity and continuity, together with the articulation (interconnections and flexibility) of national policies, are fundamental factors in building up an attractive environment for international investors in R&D activities, as they signal a steadfast compromise of the national governments with regard to technological activities.

Conclusions and prospects of further research.

Current situation on Ukrainian investment market suppresses on government institutions to look for new ways of attraction FDI. There are many obstacles such as high country risks, poor and corrupted legislation system, strict regulation of foreign investments' outflow, unprotected creditors, etc. Summing up, Ukraine is still lacking some elements to attract FDI in: coordinated governmental actions and institutions responsible for this attraction.

The analysis of international experiences reveals that Ukrainian's issues with lack of high quality investment resources is common around the world. Foreign studies at CIA evaluation could be useful and applicable in our country.

In this study we offer a synthesis of the literature on CIA definition, and FDI attractiveness evaluation using most recent studies among Western scientist and technicians. We attempted to classify some current approaches based of their common features and used sources.

Future research should also develop the relationship between institutional factors and economic factors. According to more recent international business scholarship (e.g. Kulczycka J., Nowaczek A. & others, 2017; Bailey N., 2018), institutions should be viewed as systemic in nature, individual variables within evaluation process should be reinforced by institutional configurations such as government investment incentives.

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Проблеми оцінки інвестиційної привабливості країни

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Інвестиційна привабливість країни представляє собою комплексний показник, що впливає на стан економіки в наступні періоди. Прямі іноземні інвестиції приносять в країну не тільки фінансові ресурси, що дозволяють створювати нове або розширювати існуюче виробництво, але і поширюють технологічні і управлінські рішення з країни-інвестора. Збільшення частоти і якості контактів з розвинутих країнами важливо для розвитку українських підприємств. Метою цього дослідження було виявлення особливостей підходів до оцінки інвестиційної привабливості на макроекономічному рівні в роботах зарубіжних учених і дослідників за останні кілька років. В ході аналізу публікацій авторами були структуровані підходи до оцінки по принципу використовуваних методів і суб'єктів оцінки. Найбільш поширеними стали методи економічного аналізу статистичної інформації, зібраної і опублікованої міжнародними інститутами і рейтинговими агентствами. Як показує ретроспективний аналіз, зв'язок між рівнем інвестиційної привабливості і динамікою притоку прямих іноземних інвестицій не завжди прямою, пояснюється наявністю багатьох інших детермінант, що впливають на прийняття рішень інвесторами. Таким чином, існуючі підходи до оцінки інвестиційної привабливості необхідно постійно верифікувати і вдосконалювати, враховуючи нові фактори. Відомо, що корупційні схеми і зловживання чиновників при реалізації державних проектів не сприяють зростанню інвестиційної привабливості країни. Однак навіть незважаючи на це в багатьох країнах Африки і Азії з високою корупційною толерантністю здійснюється приток прямих іноземних інвестицій. Така ситуація пояснюється не тільки бажанням інвесторів з розвинутих країн максимізувати прибуток в короткочасний період, але і бажанням захопити новий ринок, не допустив конкурентів по тем же галузях. С метою оптимізації результатів статистичного

анализа, приведение их к условиям конкретной страны и момента, в процесс оценки привлекаются независимые эксперты соответствующих отраслей экономики. Опрос экспертов дает необходимые поправочные коэффициенты, с помощью которых повышается точность и актуальность оценки инвестиционной привлекательности. Авторами был предложен обобщенный подход к оценке инвестиционной привлекательности страны, учитывая международный опыт и особенности украинской экономики.

Ключевые слова: инвестиции, инвестиционная привлекательность страны, прямые иностранные инвестиции, оценка инвестиционной привлекательности.

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Інвестиційна привабливість країни являє собою комплексний показник, що впливає на стан розвитку економіки в наступні періоди. Прямі іноземні інвестиції приносять у країну не тільки фінансові ресурси, що дозволяють створювати чи розширювати існуюче виробництво, а й поширюють технологічні та управлінські рішення з країни-інвестора. Збільшення частоти та якості контактів із розвиненими країнами має важливе значення для розвитку українських підприємств. Метою даного дослідження було виявлення особливостей підходів до оцінки інвестиційного привабливості на макроекономічному рівні у роботах зарубіжних вчених та дослідників протягом останніх кількох років. У ході аналізу публікацій авторами були структуровані підходи до оцінки за принципом використовуваних методів та суб'єктів оцінки. Найбільшої поширеності набули методи економетричного аналізу статистичної інформації, зібраної та опублікованої міжнародними інституціями та рейтинговими агентствами. Як показує ретроспективний аналіз, зв'язок між рівнем інвестиційної привабливості та динамікою притоку прямих іноземних інвестицій не завжди прямий, що пояснюється наявністю багатьох інших детермінантів, що впливають на прийняття рішення інвесторами. Таким чином, існуючі підходи до оцінки інвестиційної привабливості необхідно постійно верифікувати та удосконалювати, беручи до аналізу нові фактори. Відомо, що корупційні схеми та зловживання чиновників під час реалізації державних проектів не сприяють росту інвестиційної привабливості країни. Проте, навіть попри це у багато країн Африки та Азії з високою корупційною толерантністю відбувається притік прямих іноземних інвестицій. Така ситуація пояснюється не тільки бажанням інвесторів з розвинених країн максимізувати прибуток в короткостроковому періоді, скільки захопити ринок, не допустивши конкурентів з тих самих галузей. З метою оптимізації результатів статистичного аналізу, приведення їх до умов конкретної країни та моменту до процесу оцінки залучаються

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незалежні експерти відповідних галузей економіки. Опитування експертів дає необхідні поправочні коефіцієнти, за допомогою яких підвищується точність та актуальність оцінки інвестиційного потенціалу. Авторами було запропоновано узагальнений підхід до оцінки інвестиційної привабливості країни, враховуючи міжнародний досвід та особливості української економіки.

Ключові слова: інвестиції, інвестиційна привабливість країни, прямі іноземні інвестиції, оцінка інвестиційної привабливості.

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