7.5 Секция аталуы: ҚАЗАҚСТАН РЕСПУБЛИКАСЫНЫҢ ҚАРЖЫ СЕКТОРЫН ЖАҢҒЫРТУ
7.5 Название секции: МОДЕРНИЗАЦИЯ ФИНАНСОВОГО СЕКТОРА РЕСПУБЛИКИ КАЗАХСТАН
7.5 Economic science MODERNIZATION OF THE FINANCIAL SECTOR OF THE REPUBLIC OF KAZAKHSTAN

UDC 330.322.14

THE CURRENT STATE OF WORLD INVESTMENT AND ITS TRENDS AT THE GLOBAL LEVEL

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Abstract. Global investment flows will come under even greater pressure in 2021 as a result of the COVID-19 pandemic. These vital resources have been shown to decline sharply from $1.5 trillion in 2020, falling well below the minimum level they were at during the global financial crisis, which will wipe out the already sluggish international investment growth of the past decade. Inflows to developing countries would be particularly hard hit, as investments in export-oriented and commodity-based industries, in particular, would be hit hardest. The consequences may be felt much longer than the immediate impact on investment flows.

Keywords: investment, economy, industry, economic growth, capital, foreign direct investment, global investment.

Relevance of the research topic. The crisis could be a catalyst for the structural transformation of international production in this decade and open up an opportunity for greater sustainability, but it will depend on realizing the potential of the new industrial revolution and overcoming rising economic nationalism. Cooperation will be crucial; sustainable development depends on a global political climate that remains conducive to international investment.

The world economy is undergoing a serious crisis caused by the COVID-19 pandemic. Its immediate impact on investment flows will be dramatic. In the longer term, the pursuit of greater sustainability of production chains and autonomy of the production base may have long-term implications. But COVID-19 is not the only factor fundamentally changing the picture of investment activity around the world. The new industrial revolution, the policy shift toward greater economic nationalism, and the trend toward sustainability will have far-reaching consequences for the configuration of international production in the decade to 2030.

The general trend in international production is toward shrinking value chains, greater concentration of value added, and less international investment in physical production assets. This will create enormous challenges for developing countries. For decades, their development and industrialization strategies have depended on attracting foreign investment, increasing participation and retention of value added, and gradual technological upgrading within international production systems.

Export-oriented investments aimed at harnessing factors of production, resources, and cheap labor will remain important. But the pool of such investments is shrinking, and climbing the first rungs of the development ladder may be much more difficult. Some rebalancing toward growth based on domestic and regional demand and the promotion of investment in infrastructure and domestic services is necessary.

The COVID-19 crisis has caused a sharp decline in investment flows. After analyzing data on investment activity in the global market, we concluded that the decline in global investment inflows was up to 40% in 2020 compared to the 2019 level of $1.54 trillion. This resulted in FDI falling below $1 trillion for the first time since 2005. Investment flows are projected to decline another 5-10% in 2021 and begin to recover in 2022.

The outlook looks extremely uncertain. They depend on the duration of the epidemiological crisis and the effectiveness of political measures to reduce the economic impact of the pandemic. Geopolitical and financial risks and ongoing trade frictions add to the uncertainty.

The pandemic has been a supply, demand and policy shock to global investments. The imposition of a quarantine slows down investment projects that have begun. The prospect of a deep recession will lead to a reassessment of new projects. Policy measures taken by governments during the crisis include new investment restrictions. Beginning in 2022, investment flows will gradually recover due to sustainability, fixed capital replenishment and global economic recovery.

Preliminary earnings data from multinational corporations (MNEs) serve as a warning sign. The top 5,000 MNEs around the world, which account for the majority of global investment, have seen their expected profits for the year revised downward by an average of 40%, and in some industries they have been in negative territory. Lower profits will prevent reinvestment of earnings, which on average account for more than 50% of foreign investment.

Early indicators confirm the speed of the consequences. Both greenfield investment projects and international mergers and acquisitions (M&A) declined by more than 50% in the first months of 2020 compared to a year earlier. In global project finance, an important source of investment in infrastructure projects, the number of new deals fell by more than 40%.

The impact, while large everywhere, varies by region. Developing countries are expected to see the biggest drop in investment flows, as those are more dependent on investment in industries related to global value chains and extractive industries, which have suffered a major blow, and as they cannot take the same measures to support their economies as developed countries.

- Among developed countries, global inflows to Europe are expected to fall by 30-45%, much more than the fall in North America and other developed countries (where they will average 20-35%), because the region was already in a relatively more vulnerable state by the start of the crisis. In 2019, inflows to the developed world as a whole increased by 5% to $800 billion.

- In 2021, global inflows to Africa are projected to fall by 25-40%. The negative trend will be exacerbated by low commodity prices. In 2019, the volume of investment flow to Africa has already fallen by 10% to $45 billion.

- Inflows to developing Asia will be severely affected due to its vulnerability to supply chain disruptions, the region's weight of global investment, and global factors that require diversification of production geographies. The projected decline in global investment will be 30-45%. In 2019, investment flow in the region declined 5% to $474 billion, despite increases in Southeast Asia, China, and India.

- Global investment flows in Latin America and the Caribbean are expected to halve in 2021. The investment outlook is bleak as the pandemic exacerbates political turbulence and structural weaknesses in some countries. The sectoral composition of global investment in the region is another reason for their vulnerability.

- Global investment flows to transition countries are expected to fall by 30-45%. This decline will largely negate the region's rebound in investment flows in 2019 (up 59% to $55 billion) after several years of low inflows.

The COVID-19 crisis has caused a sharp decline in the flow of global investment. Global investment inflows are projected to decline by up to 40% in 2021 from the 2019 level of $1.54 trillion (Figure 1). This will cause new investment to fall below $1 trillion for the first time since 2005. Global investment is projected to decline another 5 to 10 percent in 2021 and begin to rebound in 2022. A rebound in 2022, with investment flow returning to a long-term pre-pandemic trend, is possible, but only at the upper end of expectations.

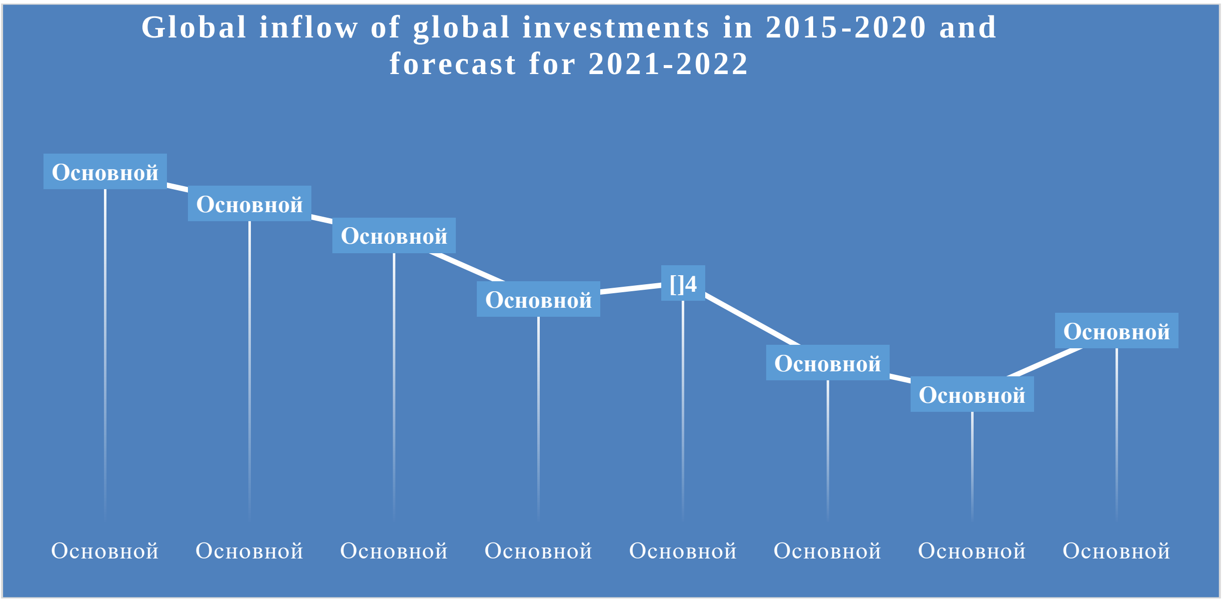

Figure 1 – Global inflow of global investments in 2015-2020 and forecast for 2021-2022, trillion USD

Source: World Bank

This projection is associated with serious uncertainties related to the duration of the global crisis and the effectiveness of policy measures to mitigate the economic impact of the pandemic. Uncertainty is exacerbated by geopolitical and financial risks and ongoing trade frictions.

Table 1 – Global investment flows by region in 2017-2019 ($ billion). Source: World Bank

Region	**Import of investments**			**Export of investments**		
	2017	**2018**	**2019**	**2017**	**2018**	**2019**
World	**1 700**	**1 495**	**1 540**	**1 601**	**986**	**1 314**
Developed countries	950	761	80	1 095	534	917
Europe	570	364	429	539	419	475
North America	304	297	297	379	41	202
Developing countries	701	699	685	467	415	373
Africa	42	51	46	12	8	5
Asia	502	499	474	417	407	328
East Asia	422	413	389	367	345	280
South Asia	52	52	51	11	12	12
Western Asia	28	30	28	39	50	36
Countries with economies in transition	50	35	55	38	38	24

The COVID-19 pandemic outbreak has led to a 25-40% reduction in global investment flows to developed countries, down from $800 billion in 2019. Falling corporate profits will directly impact reinvestment of earnings. New equity investments will be reduced, which is already reflected in a decline in the number of international corporations and announced greenfield investments. Global investment trends may also be affected by extraordinary measures related to COVID-19, including stricter controls on investment inflows. Anticipated demands for greater supply chain resilience in critical industries may affect long-term trends. In April 2020, the number of multinational corporations in developed countries was 53% lower than the monthly average in 2019. The drop in the number and value of greenfield projects announced in the first quarter of 2020 (down 25%) was another sign that capital spending on new projects will be sharply reduced. Inflows to Europe are expected to decline the most (by 30-45%) due to the dramatic impact of the pandemic on several large countries in the region and the economic instability that preceded it.

Table 2 – Major trends shaping the future of international production

	Trends	**Key Elements**
Technology / New Industrial Revolution	The latest in robotics	Industrial automation, artificial intelligence systems
	Digitalization of the supply chain	Platforms, cloud, blockchain
	Layer-by-layer printing technologies (3D printing)	Distributed production, mass customization and dedifferentiation of production
Politics and economic governance	Increased government intervention in national policies	Industrial policy, antitrust policy, tax policy
	Increasing protectionism in trade and investment	Tariffs and non-tariff measures, protection of strategic/sensitive industries
	Strengthening regional, bilateral, and ad hoc economic cooperation	Trade deals between certain groups and on common issues
Sustainability	Policy and regulatory measures aimed at achieving sustainability	Major green plans (and various implementation timelines), border carbon adjustments
	Market-influenced changes in goods and technology	Increased reputational risk and demand for sustainably produced goods and services
	Impacts on physical supply chains	Supply chain sustainability measures, changing sources of agricultural inputs

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