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**Foreign investments in Russian economy**

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**Introduction**

During last two decades we can observe increasing growth of foreign direct investment activity.

Every country tries to attract foreign capital and obtain direct and indirect advantages from foreign investment. Nowadays foreign investments play one of the main roles in the direction of global development. That is why the **subject** of this paper is the international capital flows.

**General Purpose**: to explore some theoretical basis of foreign investments and to analyze problems of Russian market development. To reach this objective it is required to cover certain points:

- тo give a general characteristic of management strategy of the foreign investments in Russia;

- тo point out Russia’s position in the world market of investments;

- тo explore the problems of attraction of foreign investments into the Russian Federation.

The **topic** of this research can be identified as **foreign capital in Russia.**

**1. Management strategy of the foreign investments in Russia**

All developed countries are pursuing management of the foreign investments, for example restrictions for countries to access to strategic branches of public sector of economy, military-industrial establishment, and other important branches. First of all, restrictions are based on necessity to defense national producer and employment preservation. But also it is necessary to attract foreign investments in economically important directions.

Historical experience of the developed countries shows that foreign loans in adverse conditions can become the lever of political pressure and the reason of concessions in home market protection. Unlimited attraction of the foreign capital in the form of direct investments can have almost the same consequences for national economy.

In transitive economy, foreign capital can weaken some branches which earlier were perceived as quite healthy, when economy was in autarchy form. That’s why globalization process looks as sovereignty loss in the opinion of considerable part of Russians.

That’s why it is necessary to manage foreign investments especially in sphere of the state’s strategic interests and priorities. However first of all it is necessary to specify: what is "strategic sphere" and "strategic regions» and by what criteria they are defined. And do we have standard-legal basis for restrictive regulation of the investments in our country?

For example aspect of relations with investments was not observed in recently accepted doctrine of the Russian Federation power safety; thought power resources import restrictions are included in the similar document in EU.

In the USSR concepts like "the strategic branch", "strategic region" were based on the military doctrine: it is that branch which backlog reduces military potential, and that region, easing of the control for which increases military threat. Threat was expected on all azimuths; and civil industries and regions social and economic level didn't enter into strategic parameters.

There is no such simple criterion for strategically importance in economy. Accordingly, there are no rules of equivocal foreign investment management.

This problem is actively discussed. From wide spectrum of opinions it is necessary to allocate polar positions.

The first position is based on thesis, that any formal restrictions shouldn’t be brought in. It is proved that the Russian economy will get healthy only when it will become completely accessible to the foreign investments. According to scientists of liberal sense, it is recognized that our state has tools for protection of the interests, without any management of investments.

The second position was showed recently. Its supporters consider that during the reorganization Russia’s economy was excessively opened for foreign investments, and urge to develop model of the state protectionism. They suggest to forbid the private foreign and national investments in sphere of state competence like defense, the law and order; to involve only domestic state (51 %) and private capitals in the major objects of transport infrastructure - railway and pipeline highways, federal highways; not to suppose foreigners in social branches - pension funds, education, medicine, the major objects of culture; to limit the foreign capital in branches in which owing to historical factors our world positions while are weak, for example: civil aircraft, communication, bank system. Also they say that due to poor development of land sales and inadequately low prices in the majority of regions it is necessary to enter interdiction for land purchase by foreigners.

**2. Russia and foreign investments**

**2.1 Russian position in the world market of investments**

By generalizing criteria the investment legislation of Russia and the EU countries are almost similar. At the same time legislative fastening of conditions for foreign investments doesn't mean that the foreign capital operations in our country are not bound free. The main distinction here is that liberal economy of E.U. is in the mature phase, and Russia is at stage of its formation. World experience can be expressed in axiom: at stage of development state should play great role in economy. Focused on result approach to foreign investments that is better, than policy of non-interference that is proclaimed by liberal economists.

Apparently, requirements of the Russian investments restriction supporters correspond to economic behavior of developing country at "stage of accumulation of the capital" (K.Marx). However, the position of the liberals who proclaim desirability of the state non-interference is quite explainable: there is obviously expressed doubt that the state machinery is capable to regulate adequately something on microeconomic level and foreign investments especially.

It is known that the discontent of foreign investors with activity conditions in Russia is connected not with absence or laws rigidity but with randomness of their application. On the contrary foreign firms demand literal application of already available laws and this causes the offence of officials. Foreign partners and managers are involved in some corporations only because it strengthens protection against the unfair officials. It is indicative that representatives of all levels of the power also agree with this regrettable fact.

Modern developed countries experience shows the necessity to pursue consistent and partner policy of protection of the domestic private capital from absorption by the foreign capital.

The Russian specificity consists in fact that this business layer is not politically issued and its interests are consequently reflected in state policy only in form of declarations.

On the other hand, nostalgic dreams of foreign trade activities nationalization are quite explainable: in the country there were serious difficulties caused by avalanche expansion of business by people which are involved in the international business. This problem was raised from level of foreign business regulation to level of the state ideology.

Russia faces similar choice not for the first time. In genesis of the modern approach to foreign investments historical experience of the Russian empire of the end XIX the XX century is put.

S.U. Vitte is the sign person for modern economists-statesmen. He widely used exclusive economic force of the imperial power in the liberal purposes. In the end of 1890th years it has supported unlimited attraction of the foreign capital in Russian industry and railway business. It was named “medicine against poverty”.

Vitte's system promoted economy development: by 1900 Russia went on 1 place in the world on oil extraction, the network of railways grew North American speed.

However Vitte began to assert that the commercial policy problem in Russia is reduced to persevering and consecutive protective mode... Until this mode will prepare a strongly developed industry it would be possible able to sustain... Internal, and then external competition"

capital investment market policy

**2.2 Foreign capital in modern Russia**

Foreign corporations operating in Russia prefer short-term financial investments and mainly invest in extracting and metallurgical branches. No more than 1,5 % of foreign investments are put in scientific and technological projects. Besides it during the real period:

- Average and small foreign capital was involved with high profitability and fast recoupment of separate projects in sphere of trade, building and services. In the opinion of investors, profits are much higher than risks;

- Investments from representatives of the Russian Diaspora in foreign countries. Offshore companies that illegally take out and legalize capital.

For reasons of national safety, strategic restrictions of the foreign capital in the defensive industry of Russia, are quite logical: the public sector of the domestic heavy industry demands protection against unfriendly absorption. On the contrary, preservation of the general technical backwardness will be expected consequence of isolation. According to some high-rank officers, traditional unreadiness of Russian (Soviet) army to any war in XIX-XX of centuries is the direct consequence of similar closeness.

Historically, Russian military-industrial complex has fixed basic patents and know-how in sphere of high technologies. That’s why along with restriction of "external" influence of transnational corporations it is necessary to avoid "internal" pressure of military-industrial complex state enterprises towards broad understanding of "strategic restrictions", meaning to facilitate advancement on the world market of civil and double purpose domestic technologies.

Nowadays military-industrial complex has inexorable pressure on all branches and levels of the Russian economy.

**3. Problems of foreign investments attraction in Russia**

Attraction of investments into real sector of economy is one of the economic policy main problems in Russia.

Foreign investors which operate in the Russian market can be divided into 3 groups:

investors which operate in enclave part of the general legal field of national managing treatment;

small and average commodity producers who possess the original production and services "know-how"

investors who are guided by reception of profit of speculative character

In Russia, it is necessary to attract the second type of investors. They will promote competition among manufacturers.

Measures focused on creation of attractive conditions for inflow of investments include 3 basic groups: base measures on creation of favorable investment climate; legal and administrative bases of foreign investors activity; specific stimulus for inflow of investments.

Strategic target of policy in sphere of foreign investments attraction is to provide favorable conditions for foreign investors to invest in Russian economy. The serious preparatory work on tax change, investment and corporate legislation which could promote intensification of investment process is needed for this purpose. The national treatment of economic activities that exists in Russia is extremely unattractive for the foreign companies. The national treatment principle in Russia should be complemented by system of privileges and guarantees for foreign investors.

Along with application of national treatment, realization of other foreign investments legal regulation principles is also necessary. First of all, it is the treatment of the most favored nation which is applied on purpose of discrimination in relation to investors from any countries.

Russian politics according to foreign investments should be characterized with high transparency.

Priorities of policy of attraction of foreign investments in Russia should be focused on several aspects:

- Financial incentives for kinds of activity which are important for economy of the Russian Federation, including export of competitive production and import of new technologies;

- Branch priorities: attraction of foreign investments (1) in hi-tech branches (information technology, the space and nuclear industry; (2) branches that have "bottlenecks" character in economy; and (3) branches that develop export – machine-tool construction for the wood, oil, gas industry, power, metallurgy.

- Priorities for some companies: it is inexpedient to stop stimulation of the large companies, but at the same time it is necessary to pay attention to the small and average foreign companies investments attraction

- country priorities: activisation of investment attraction process in Russia economy, demands country investments inflow sources diversification at the expense of economically developed countries, and the countries with dynamical emerging markets.

The investments policy should be focused on liquidation of formal restrictions and administrative barriers on the way of the foreign capital, on use of system of the guarantees focused on specificity of foreign investments and called to compensate negative consequences of the developed investment climate.

**Conclusion**

Every country tries to attract foreign capital and obtain direct and indirect advantages of foreign investment. Today foreign investment plays one of the main roles in the direction of global development. Foreign investment plays an extraordinary and growing role in global business.

Russia has an enormous and underdeveloped endowment of natural resources, particularly in mineral resources and petroleum. There are high expectations for foreign investments to flow into resource development and related sectors. However, foreign inflows to Russia have tended to flow into not only the primary sector but also into the services sector. In general, foreign investments are more concentrated in the central regions of the Moscow, St. Petersburg and the Republic of Tatarstan than elsewhere.

There are some problems of investing in Russia. In Russia, government support of investment is very low. Bureaucracy in the Russian Federation is a very strong obstacle for investing. The legal environment for foreign investments in Russia has historically been characterized by the weak enforcement of laws and contracts. Also our country has many restrictions on investing (for example investing in strategic branches).

Russia has recently considerably enhanced its position as a foreign investments destination. It is very important for our country. Foreign investments are one of the major foundations for economic growth of Russia.

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