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The Attracting of Foreign Investment in the Russian Economic Development

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Abstract

The attracting of foreign investment is a strategic goal of the Russian economy's development. Direct investment plays a special role in this process providing an access to financial resources, modern technologies, management skills, innovative goods and services as well as contributing to increase of economic competitiveness, sustained growth and improvements in living standards. In this connection, creation of an enabling environment for foreign investors is a priority sector of public investment policy. Based on the analysis of federal and regional forms of supporting investment activities, it can be concluded that the forms associated with budget injections into the economy are dominant. Co-financing of investment projects, government programs to support exports, create infrastructure (technology parks, SEZ infrastructure, TAD), create support centers for entrepreneurs, all this can be called financial stimulation of economic activity and, in particular, investment activity. The study suggest that the state has to go to these costs in connection with the reduction of the investment potential of the private sector, as a result of the economic crisis and international sanctions.

Keywords: Investment, foreign economic activity, protection of the national economy, attraction of foreign resources, the development of the national economy.

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Introduction

Investment has become a fairly common modern form of earnings in Russia and abroad. Almost every person thought about investing their savings in a project. But the problem of attracting investments is still a key issue in Russia. The attraction of foreign investment was a priority of the Russian government from the moment when the country took the first steps towards developing a market economy in 1991. Over the past few decades, consistent legislative and administrative measures have been taken to improve the investment climate and provide guarantees and protection for foreign companies doing business in Russia. This trend is still effective and supported by the government during the period of mutual economic sanctions, since investments in Russia are encouraged and supported, despite the political alienation between Russia and European countries. Public resources supporting investors become more relevant considering the form and methods of state support for attracting investment at the federal and regional level. An interesting case, the public investment policy methods have become the main concern within the context of shrinking opportunities for foreign financing and crises in Russian economy.

Discussion

At the federal level in the context of support of investment and economic development a number of organizations whose main focus is realization of directions of investment policy were founded.

1. The Russian export center

Russian export center provides complex financial and non-financial support export-oriented and foreign trade companies. The Russian government designated the legal status of the center in Federal Law №185-FZ dated 29 June 2015 "On Amendments to the Federal Law on the Bank for Development" and article 970 of the Civil Code of the Russian Federation.

Regional offices of Russian export center are collaborating with regional executive authorities and business community on the issues of export support and development.

The main functions of the center:

- Crediting of export contracts.
- Providing the bank guarantees.
- Compensation of Russian companies' expenditure on registration of objects of intellectual property abroad.
- Compensation of exporters' expenditure on certification.
- Analyzing of foreign markets.
- Promotion to foreign markets.
- International patenting.
- Access to foreign markets: international certification.
- Certification of free trade.
- Customs administration of export activity.
- Logistical support of export.
- Ensuring participation in international congress and exhibition events and business missions.
- Export licensing (Bublik, 2010).

2. The Russian Agency for Export Credit and Investment Insurance (EXIAR)

EXIAR was founded as a state institute for supporting an insurance of export credits and investment. The agency is a national export credit agency was founded to activate a development and realization of the export supportive program, set by Government of Russia at the end of 2009.

The main functions of the agency:

- Insurance support for exports of Russian goods and services, providing assistance when entering new markets.
- The development of a modern export finance system, secured by the agency's insurance coverage.
- Insurance support for Russian investments overseas.
- Support to export-oriented SMEs.

3. Join-Stock Company "Federal corporation for development of Small and Medium Entrepreneurship" (Corporation SME)

Join-Stock Company "Federal corporation for development of Small and Medium Entrepreneurship" was founded by Presidential Decree dated 5 June 2015 №287 "On measures to further develop of small and medium entrepreneurship".

The main functions of the company:

- Ensuring affordable financing
- Expanding access to procurement of selected types of customers
- Providing information and marketing support
- Providing of property support
- Providing legal support

4. Industrial Development Fund

The Fund was launched on the initiative of the Ministry of Industry and Trade of the Russian Federation and by order of the Chairman of RF Government Dmitry Medvedev dated 28 August 2014 №1651.

The main functions of the fund:

- The Fund offers preferential conditions for co-financing projects aimed at developing new high-tech products, technical re-equipment and the creation of competitive productions based on the best available technologies.
- To implement new industrial projects; the fund provides targeted loans at a rate of 1% and 5% per annum for up to 7 years in the amount of 50 to 750 million rubles, stimulating the inflow of direct investments into the real sector of the economy.

5. Found for Assistance to Small Innovative Enterprises

Found for Assistance to Small Innovative Enterprises is a public non-commercial federal state organization which was founded by a resolution of the Russian Government dated 3 February 1994 №65 (Tolochko, 2007).

The main functions of the fund:

- Carrying out of the state policy of development and support of small enterprises in scientific and technical sphere.
- Providing direct financial, informational and other assistance to small innovative enterprises that implement projects to develop new types of science-intensive products and technologies based on intellectual property owned by these enterprises.
- Creation and development of infrastructure for supporting small innovative entrepreneurship.
- Assistance in creating new jobs for effective use of the scientific and technological potential available in the Russian Federation.
- Attraction of extra-budgetary investments in the sphere of small innovative entrepreneurship.
- Training of personnel (including the involvement of young people in innovative activities).

An interesting direction of state support for investment activities can be called the creation of special economic zones and territories of advanced development. Activities of Special Economic Zones (SEZ) in the Russian Federation are governed by Federal Law dated 22 July 2005 №116-FZ. The decision on organizing SEZ is approved by Government and resolution of the Russian Government for 49 years.

There are different types of SEZ in the Russian Federation:

- Industrial production;
- Technology development;
- Tourism and recreation;
- Port and complex.

According to the law, the resident of the SEZ does not have the right to have branches and representative offices outside the SEZ territory. At the same time, individual entrepreneurs and commercial organizations that are not SEZ residents can carry out entrepreneurial activities in the SEZ, with the exception of the port special economic zone. There are 26 SEZs in Russia (10 industrial-production, 6 technical-promotional, 9 tourist-recreational and 1 port).

For 12 years of work in special economic zones more than 600 residents have registered, of which more than 100 companies with foreign capital from 33 countries of the world. Over these years, the total volume of investments made amounted to 244 billion rubles, about 25,000 jobs were created, about 35 billion rubles of tax deductions and contributions to extra-budgetary funds were paid, as well as 30 billion rubles of customs payments.

Each SEZ is endowed with a special legal status that gives SEZ investors a number of tax benefits and customs preferences, as well as guarantees access to engineering, transport and business infrastructure. The costs of investors in the implementation of projects in the SEZ are on average 30% lower than in the Russian Federation (Gubareva & Kovalenko, 2017).

Territories of advanced development (TAD) are economic zones founded by Federal Law dated 29 December 2014 №473-FZ "On the territories of advanced social and economic development in the Russian Federation" with large-scale tax breaks for residents.

There is an agreement between TAD management company and the resident of the TAD regulating their rights and responsibilities. During the term of the agreement on the implementation of activities, resident of the territory of advanced social and economic development undertakes to carry out activities stipulated in an agreement and to make investments, including capital investments, in the amount and within the time limits stipulated in the agreement on the implementation of activities, and TAD management company

undertakes to exercise powers provided by Federal Law on TAD, including giving to the property or leasing of lands if for realization of the corresponding activity the resident requires a land plot in the ownership. The agreement on the implementation of activities may provide for the obligation of the management company to conclude with the resident a contract of sale or lease of other property owned by it on the basis of ownership, in order to carry out the relevant activities (article 14, Federal Law “On the territories of advanced social and economic development in the Russian Federation”) (Bublik, 2000). Due to the fact that in the first 3 years of the law, TADs could be created only in the Far Eastern Federal District, TADs are most common in this region at the moment.

The order dated 31 January 2017 №147-r is one of the most relevant public programs which approved 12 target models simplifying the procedure for doing business and increasing the investment attractiveness of the federal entities in key factors:

- Obtaining a building permit and spatial planning.
- Land title and property units’ registration.
- Cadastral registration of land title and real estate objects.
- Implementation of control and supervision activities in the federal entities.
- Support of small and medium business.
- Technological connection to electrical networks.
- Connection (technological connection) to gas distribution networks.
- Connection to heat supply systems, connection (technological connection) to centralized water supply and drainage systems.
- Availability and quality of regional legislation on mechanisms for protecting investors and supporting investment activities.
- Effectiveness of feedback and work of the channels of direct communication between investors and the managers of the federal entities.
- Efficiency of the activities of a specialized organization for attracting investments and working with investors.
- Quality of investment portal of federal entity.

Target models should be used by the entities of the Russian Federation to form regional programs to improve the investment climate for each of the directions, most of which will be implemented by regional project offices by the end of 2017.

Public policies at the regional level

It’s more rational to consider government programs of investment support in three regions as an example of primary analysis:

- Khanty-Mansi Autonomous Okrug, this region is one of leaders in attracting investments.
- Sverdlovsk Oblast, this region has a developed industrial and post-industrial economy though there are many monocities there.
- Republic of Crimea, as a region with an uncertain legal status that make difficult to attract international and national investors.

- Government program of Khanty-Mansi Autonomous Okrug – Yugra (Social and economic development, investment and innovation in Khanty-Mansi Autonomous Okrug – Yugra in 2014 – 2020).

Activities under the regional program:

- Grant support for start-up entrepreneurs.
- Capitalization of guarantee fund.
- Capitalization of micro-financial fund.
- Stimulation of the development of youth entrepreneurship in the Autonomous Okrug.
- Ensuring the activities of the Euro Info Correspondent Center.
- Ensuring the activities of the Social Innovation Center (support to Social Entrepreneurship Entities).
- Financial support for social entrepreneurship.
- Targeted financing to provide compensation to the bank interest rate of entities and organizations.
- Targeted financing to provide compensation for lease payments, initial contribution costs under leases of entities and organizations.
- Compensation of costs incurred by Organizations related to business incubation activities.
- Targeted financing aimed at promoting and popularizing entrepreneurial activities, involving the population of the Autonomous Okrug in business activities, including the holding of regional championships (competitions) in management.
- Targeted financing, aimed at supporting in the field of training, retraining and advanced training of personnel of the Organizations, which includes: the organization and conduct of educational activities; reimbursement of expenses.
- Targeted financing to provide compensation for costs of local producers associated with participation in exhibitions, fairs, conferences and other events aimed at promoting goods, works, services to regional and international markets.
- Maintenance of activity of Fund of support of business of Yugra.
- Ensuring the activity of the Coordination Center for Support of Export-Oriented Small and Medium-Sized Enterprises of Yugra.
- Government support of infrastructure organizations that create a favorable business climate and conditions for doing business.
- Financial support of small and medium enterprises.
- State support of infrastructure organizations that create a favorable business climate and conditions for doing business.

Government program of Sverdlovsk Oblast “The increase of investment attraction of Sverdlovsk Oblast until 2020”.

Activities under the regional program:

- Subsidizing a part of the costs of small and medium-sized businesses, related to the acquisition of equipment for the purpose of creating and (or) developing, and (or) modernizing the production of goods.

- Provision of grants to start-up small business (including those created by the citizens from among the socially unprotected groups of the population: unemployed, disabled, young citizens, servicemen discharged into the reserve in connection with the reduction armament (Gubareva, 2014).
- Ensuring the activities of the Sverdlovsk Oblast Entrepreneurship Support Fund.
- Ensuring the activities of the Regional Integrated Center of the Sverdlovsk Oblast.
- Maintenance of the activity of the Coordination Center for Support of Export-Oriented Subjects of Small and Medium-Sized businesses in the Sverdlovsk Oblast (International Center).
- Increase in the capitalization of the guarantee fund.
- Increase in the capitalization of the microfinance fund.
- Creation of state (or municipal) industrial parks (technoparks) for small and medium-sized businesses.
- Assistance in the development of equipment leasing by small and medium-sized enterprises.
- Creation and (or) development of youth innovative creativity centers.
- Development of a system for supporting small and medium-sized businesses in the territories of municipal entities located in the Sverdlovsk Oblast.

Government program of Republic Crimea “Economical development and innovation economy” in 2017 – 2020 (Bublik & Gubareva, 2014).

Activities under the regional program:

- Development of a microfinance organization.
- Development of a guarantee fund.
- Development of an enterprise support center.
- Implementation of measures for the development of mono-profile municipalities
- Creation and (or) development of activities of organizations that form the infrastructure for supporting small and medium-sized businesses in the field of crafts, folk arts, rural and eco-tourism, including chambers of crafts.
- Realization of activities for youth entrepreneurship.

In addition to government program of Republic of Crimea there is a program “Improvement of the investment climate in the Republic of Crimea” which appoints the basic approaches and index of investment activity’s development as well as activities to create an investment climate (Dmitrieva, 2013).

Activities under the program “Improvement of the investment climate in the Republic of Crimea”:

- Increase of investment activity in the territory of the Republic of Crimea.
- Elimination of administrative barriers and infrastructure restrictions for the development of investment activities.
- Development and introduction of measures of state support of investment activity subjects implementing investment projects in the territory of the Republic of Crimea.
- Introduction of mechanisms of public-private partnership in relation to objects of state property of the Republic of Crimea and objects of the right of municipal property.

- Formation and promotion of the Republic of Crimea' image as an open region, favorable for investment activities.
- Staffing of investment activities.
- Creation and maintenance of effective work of innovative infrastructure.
- Stimulating the development of new science-intensive products to meet the needs of the population and all sectors of the economy of the Republic of Crimea.
- Support of leading scientists and research groups capable of providing advanced levels of education and researches.
- Creation of an effective system of training specialists in the innovation sphere.
- Information support of innovation activity.
- Development of intellectual property in the Republic of Crimea.

Moreover, it's interesting to consider a federal program of Ministry of Economic Development of the Russian Federation on subsidizing regions of Russia from federal budget to support small and medium-sized businesses at the regional level (Russian Federation, 2009). The realization of the program entrusted to regional government.

Subsidies are provided for co-financing the spending of the entities of the Federation in the following areas:

- Providing financial support to SMEs and organizations that form the infrastructure for supporting SMEs.
- Co-financing of capital investments in regional and (or) municipal property.
- Assistance to the development of youth entrepreneurship.
- Organization of one-stop-shop services for the creation, development and support of SMEs.

In order to increase the efficiency of using federal budget funds for state support of small and medium-sized businesses, Decree No. 1538 of 29th December 2016 was adopted, according to which the need to conduct competitive selection of the subjects of the Federation for granting subsidies for these purposes was excluded. This reduced the timeframe for bringing funds to the regions to support small and medium-sized businesses (Girko et al., 2017).

Conclusion

New economic conditions require the use of new methods of attracting investments. Based on the analysis of federal and regional forms of supporting investment activities, it can be concluded that the forms associated with budget injections into the economy are dominant.

Co-financing of investment projects, government programs to support exports, create infrastructure (technology parks, SEZ infrastructure, TAD), create support centers for entrepreneurs, all this can be called financial stimulation of economic activity and, in particular, investment activity. The state has to go to these costs in connection with the reduction of the investment potential of the private sector, as a result of the economic crisis and international sanctions.

In this case, it will be clear whether these costs will be repaid or not in the long term. At the same time, state forms of attracting investments that are not related to direct investments in the economy (creation of tax and customs preferences within the SEZ and TAD, reduction of administrative barriers, informatization of state services, implementation of the "one-stop shop" principle) can be assessed

positively. Accordingly, in the future, regular, time-appropriate adjustment of existing methods and forms of investment policy is required.

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