

Анализ влияния санкций на прямые инвестиции в России

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Аннотация

Эта статья рассматривает влияние санкций на прямые иностранные инвестиции в Россию. Приводятся доказательства о негативном влиянии действий санкций на приток капитала в страну. Авторы детально анализируют ситуацию, чтобы выявить основные проблемы, касающиеся инвестиционного климата в России, и предложить пути их решения в рамках действия санкций. Рассмотрены, как внешние, так и внутренние способы решения проблемы.

Ключевые слова: ПИИ, инвестиции, внешнеполитические шоки, макроэкономические шоки, санкции, экспорт, импорт.

Analysis of impact of the sanctions on the foreign direct investment in Russia

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Annotation

The article examines the effect of sanctions of developed countries on FDI in Russia. There proved that economic sanctions worsened the capital inflow in Russia. The authors analyzed the situation in order to find out the main problems concerning investment climate in Russia and work out recommendations on how to improve the situation – to make Russia a more attractive country to invest in under the circumstances of sanctions. Both internal and external issues are considered.

Key Words: FDI, investments, internal shocks, external shocks, macroeconomic shocks, sanctions, export, import.

At the present stage, each country is involved in international investment cooperation. TNCs, within which most of the foreign investments are carried out, are one of the most important subjects of the world economy. The Russian Federation is reviewing the legal regulation of FDI,

creating new conditions for attracting foreign investors, such as SEZ (Special Economic Zones), the territory of advanced development and PSA (production sharing agreement). However, despite the new opportunities, the potential has not been fully utilized, thus analyzing the dynamics of FDI in the Russian Federation is an urgent problem.

Today, many economists agree that the investment climate in Russia is deteriorating. The greatest influence on this process is made by the sanctions of the Western countries in relation to Russia, connected mainly with the political position of the Russian Federation regarding the Ukrainian crisis. Western states, the bulk of which is part of NATO, considered it inadmissible for the Russian authorities to act against the Crimea, as well as the eastern regions of Ukraine, in which, according to the Atlantic bloc countries, pro-Russian armed groups are active.

The complication of international relations and the deterioration of the macroeconomic situation in Russia have also affected the mood of foreign investors.

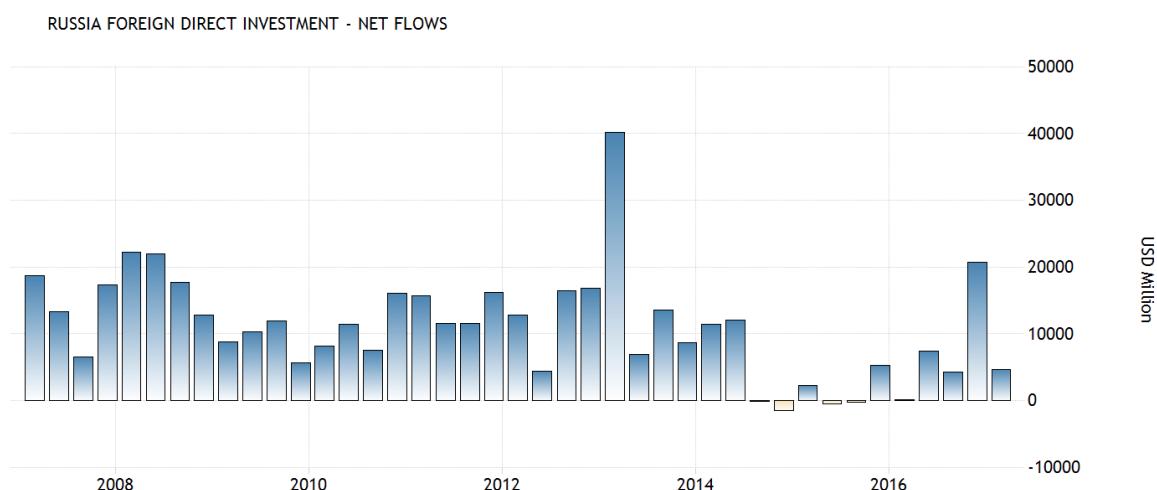


Fig. 1. Foreign Direct Investment in Russia 2006-2017 (USD million) [8]

The table above summarizes the information about foreign direct investment in Russia. The dynamics of foreign direct investment in Russia over the past 10 years is controversial. Analyzing the data from 2006 to 2010, it can be noted, that the highest volume of FDI was observed in the beginning of 2008, estimated to 74783 million dollars. In 2009, the situation dramatically changed, followed by sharp decline of the investments. However, in 2010-2011, their volume increased by 50,6% compared to 2009, and in 2013 increased by 36,8% compared to the previous year and amounted to 69219 million dollars.

First sanctions on Russia were imposed in the middle of the March, when Russia, despite the warnings, included the Crimea in its composition. Then the United States and the European

Union, Australia, New Zealand and Canada put into effect the first package of sanctions. It severely deteriorated the investment climate in Russia. As can be seen from the graph, the third quarter of 2014 has shown negative volume of FDI. The situation started to improve in the end of 2016, when the amount of FDI investment was estimated to be 32976 million dollars, which is 62% more than in 2015. Currently, for the first half of 2017, the amount of FDI is equal to \$14 billion, which is connected with the fact that the economy began to recover and there is intense economic growth.

Table 1. Direct foreign investment in the Russian Federation by major countries – partners in 2012-2016, million US dollars [5]

Country	2012	2013	2014	2015	2016
Total	43168	55084	50588	69219	20958
Austria	1353	1563	1135	-326	851
Bahamas	2282	1829	2111	2791	3808
Virgin Islands UK	2139	7225	2475	9379	2295
Germany	3196	2234	2265	335	107
Ireland	2326	5306	9877	10399	-531
Cyprus	12287	12999	1985	8266	5340
China	336	126	450	597	1280
Luxemburg	2892	4106	10814	11638	-659
Netherlands	3733	7383	10330	5716	1001
United Kingdom	1142	2007	46	18927	140
USA	435	276	285	485	708
France	2592	1107	1232	2121	2123
Sweden	1831	2025	1322	-1203	179

Among the countries belonging to the main investors – Cyprus, the Bahamas, Luxembourg, the Virgin Islands, which are offshore zones, meaning that the financing from there in many ways is a return of money previously withdrawn from Russia. Other important investment partners – Germany, Great Britain, the Netherlands, France, China – countries that have significant production capital in our country.

After the entry into force of anti-Russian sanctions, most European investors, with the exception of Germany, significantly reduced the amount of investment. In addition, in 2015, some companies left the Russian market. In particular, the corporation General Motors closed production of cars Opel and Chevrolet; in the IT sphere, the offices of Google, Skype, Adobe Systems, Game Insight, Luxoft were closed; in the banking sector – Raiffeisen Bank reduced its presence. Cooperation between Russia and China, on the contrary, is successfully developing: 22 projects have already been transferred for direct investment, approximately 30 projects are under development.

Evaluating the attractiveness of industries for foreign investors, the most popular industries are wholesale and retail enterprises, processing industries and mining. The investments in IT-sphere, construction, financial sector significantly decreased.

Table 2. Foreign investment projects by industries [5]

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Production	78	69	94	94	113	152	90	81	84	95	171	171
Trade	10	16	28	27	33	26	23	31	27	15	23	30
Transport	10	6	18	16	10	19	7	12	10	5	2	9
Agriculture	0	1	2	0	1	1	0	3	0	0	2	9
Financial	22	14	20	30	16	20	15	10	11	9	15	5
Construction	1	0	2	2	1	1	1	0	0	1	0	2
Energy sector	0	1	4	2	1	1	5	0	5	4	1	2

Production is still the main branch of the Russian economy with the largest number of foreign FDI projects. In the past year, the number of new projects in this area remained at the same level – 171. The majority of the created jobs also fell on production. However, the number of projects in other industries has changed significantly. For example, the number of projects in the sphere of financial services and services for business fell three-fold – to 5. This decline is largely due to the fact that unlike in 2015, in 2016, there were practically no FDI projects in the field of software.

The imposition of sanctions certainly influenced Russian industrial policy. This dependence is extremely ambiguous. The most sensitive to sanctions are the regions in which defense and machine-building enterprises are concentrated (Udmurtia, Tula region, St. Petersburg). Among the companies lying in the increased risk zone there is “URAL Vagonzavod” (Sverdlovsk, Chelyabinsk, Tver, Tomsk regions).

The dynamics of the development of the "fuel" regions of Western Siberia also depends on sanctions because of a decrease in the investment activity of Western partners. Undoubtedly, it is necessary to say about the Crimea, enterprises and companies of which had targeted Western sanctions. The pressure is felt by such Crimean companies as Feodosia enterprise providing oil products, Kerch ferry crossing, Kerch and Sevastopol trade ports, Massandra companies and several others. As for the oil and gas industry, Transneft and Gazpromneft are also subject to financial sanctions – there is a ban on any transactions, financing and other transactions with new debt obligations for more than 30 days in the EU and 90 days in the US. From the EU side, this restriction also extends to Rosneft.

The key consequence of the sanctions is a restriction of access to external financial markets and, consequently, a rise in the cost of funding for Russian banks and organizations, as well as a possible deterioration in the overall financial situation. Thus, the Russian economy remains vulnerable in the face of sanctions. In many respects the reason for this is its focus not on the development of its own production capabilities and the strengthening of economic potential, but on the consumption of imported products. It should be noted that today about half of Russia's GDP is created through the export of raw materials. The sanctions imposed by the West compel the Russian executive authorities to develop high-tech industries that process manufacturing, and thereby reduce the technological gap between it and the developed countries in order to ensure national interests and sustainable social and economic development.

Nevertheless, Russia has very valuable advantages for investors. They include a capacious domestic sales market, a professional but affordable workforce, a rich resource base and profitable ratio of the ruble to the dollar / euro for foreigners. So, the main question is how to become attractive for investors so that they would like to invest even under the circumstances of sanctions. Let us consider the main problems of Russian investment climate and work out corresponding recommendations.

The main problem is the imperfection of the legislative framework between the state and the foreign investor with regard to guaranteeing the safety of making profits. Investors are afraid to lose everything due to the unstable economic situation in Russia. Therefore Russian government should give some kind of “insurance” that foreign capital is saved. And investors will have their initial capital back at least if something goes wrong.

Thus, the first recommendation is the following: it is necessary to form a transparent system and create simple regulatory documents understandable for the application that will give a guarantee of safety to the foreign investors.

An important problem affecting the size of the inflow of foreign investment is the excess of the powers of state officials and corruption. According to the perception of corruption, Russia is on the 136th place out of 174 places according to the organization of Transparency International. In the foreign press, the topic of corruption scandals in the Russian Federation, including those involving major officials, is constantly being discussed.

The second recommendation is obvious, but very tough to be executed in short time: the Russian government must suppress the corruption in order to eradicate it at all. A country with clean reputation and low “percentage” of money laundering is a safe place to invest in.

Another issue is concerned with the imperfection of the tax incentive system. To stimulate effective investment, it is necessary to create favorable conditions in the form of tax incentives, administrative support for investors and state guarantees.

Here we have the third recommendation. It is necessary to establish such tax benefits and use such legislative mechanisms, so that Russia could compete with the countries-leaders in the investment capital market. In particular, the modern mechanisms like the concept of a beneficial owner, the rules of controlled foreign companies, the concept of permanent representation, the rules of transfer pricing, rules for insufficient capitalization and others may be involved.

In order to attract foreign investors to the Russian Federation, it is necessary to eliminate the above-mentioned problems and create a favorable investment climate. However, it considers not only benefits and great conditions for foreign investors, but stable and bright development of domestic market as well.

Let us talk about production and export of Russia. In the diagram below you may see the export of different goods from 2010 to 2015 years.

We can admit that the main products going to export are minerals (\$219 226 mln. in 2015), metals (\$40 775 mln. in 2015) and chemicals (\$25377 mln. in 2015). As for agriculture, it is just on the 5th position. Actually this is one of the main problems of Russia – the country does not use one of the most powerful resource, agricultural, properly. It prefers to import goods that it can produce by itself. Consequently, the dependence on minerals is very high.

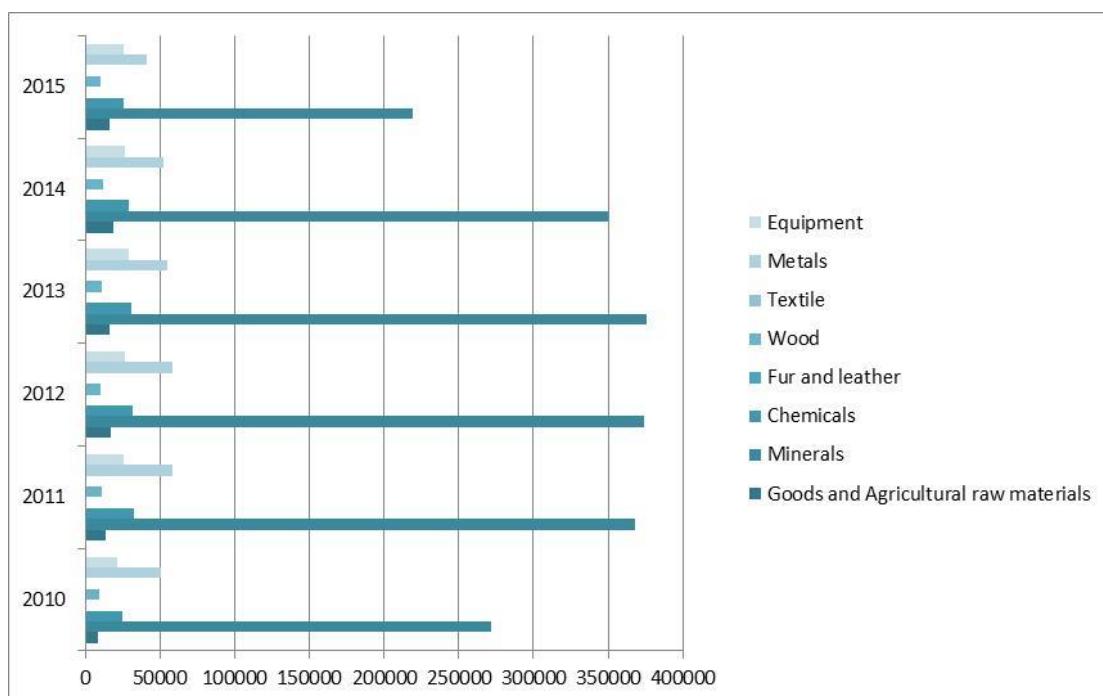


Fig. 2. Russian export by goods

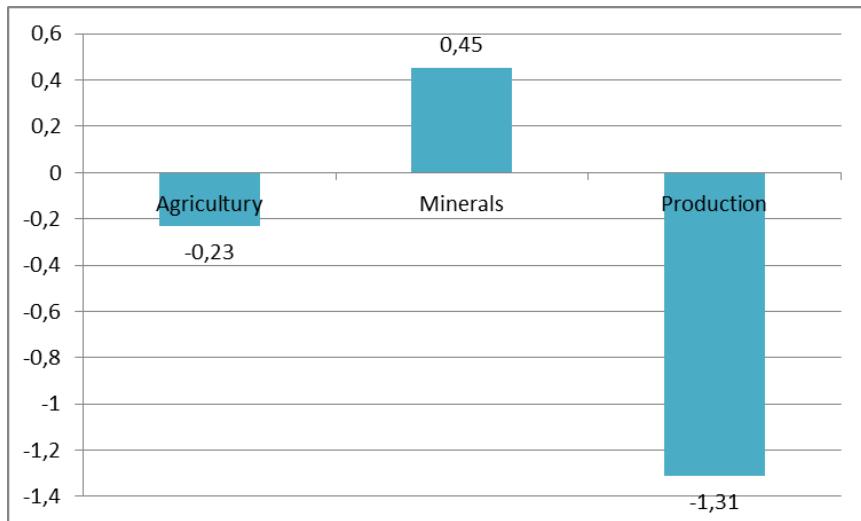


Fig. 3. Russian export by goods

To prove the opinion, have a look at the diagram above. It shows the increase of government investment in the 3 main categories from 2016 to 2017 years.

Clearly, the investment in agriculture and production is not sufficient. But in the situation of sanctions development of all the domestic opportunities seems to be the most reasonable decision. Moreover, it will play a great role in the attraction of foreign investors as far as it will show the strength and development of the country, increase profits and work places. In other words, it will improve the whole economic situation in Russia – this is what investors are waiting for. They are willing to invest in countries with prospering production and stable companies because they will work with them as well.

Another step towards improving the investment climate is the elimination of bureaucratic red tape. During the period from 2012 to 2015, the procedures for registration of enterprises have been simplified in Russia. By this indicator, the country rose from 111th place to 34th place. The number of procedures required for registration is reduced from 9 to 4, the time costs for them from 30 to 13 days. The cost of registration of the enterprise has decreased.

One more important indicator of a favorable investment climate is the developed infrastructure. In Russia a number of measures is taken to remove infrastructure constraints. The result of this activity for the period from 2012 to 2015 was a reduction in the number of procedures necessary for access to the energy networks 2 times. While the term of connection was reduced by 102 days and finally amounted to 179 days.

In conclusion, we would like to note that among the factors determining the inflow of foreign capital into the country, the sanctions imposed on Russia play a very significant role. Restoration of capital flows in the whole volume is possible only in the conditions of normalization

of economic cooperation with our foreign partners, for which it is necessary to develop appropriate political and diplomatic solutions. Nevertheless, even under sanctions, the state can help revive investment demand by expanding the domestic credit market, developing competition, providing investors with the necessary guarantees and protection of property rights, reducing corruption and administrative barriers. This way the investment climate will become more favorable, which subsequently will entail an inflow of foreign investment into the Russian economy.

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