

Artículo de investigación

Attraction of Foreign Investments as A Condition for Regional Industrial Development in Russia

Привлечение Иностранных Инвестиций Как Условие Регионального Развития Промышленности в России

Atraer la inversión extranjera como condición para el desarrollo industrial regional en Rusia

Recibido: 25 de abril de 2019. Aceptado: 8 de junio de 2019

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Abstract

The article focuses on a critical review of the current status and prospects for the development of effective functioning and stable industrial growth of the regions through the acceleration of investment activity, in particular, through the mobilization of physical and financial resources of domestic and foreign investors. The attraction of foreign direct investments enables the growth of gross domestic product and personal income. The publication targets elaboration of a prospective strategy aimed to attract foreign investments to the industry providing social and economic development of the regions and considering special features and risks of the investment activity. Methods: comparison, statistic measurements, description, interpretation, symbolic and dialectical logic. Lack of domestic funding and inability to provide investments from regional budgets makes the issue of sources and ways to attract external inputs more relevant. Results: Russian regions

Аннотация

Статья посвящена критическому анализу современного состояния и перспективам развития эффективного функционирования и стабильного развития промышленности регионов, через активизацию инвестиционной деятельности, то есть привлечение материальных и финансовых ресурсов как отечественных, так и зарубежных инвесторов. Через привлечение прямых иностранных инвестиций, становится возможным обеспечить рост валового внутреннего продукта и доходов населения. Цель работы – формирование перспективной стратегии привлечения иностранных инвестиций в промышленность, обеспечивающей социально-экономическое развитие регионов, с учетом их особенностей и рисков инвестиционной деятельности. Методы: сравнения, статистические измерения, описания, интерпретации; теоретические методы формальной и

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working under current difficult circumstances must identify features required for the development of an innovative regional strategy to attract foreign inflows and improve collaboration with foreign investors.

Keywords: foreign investments, investment environment, region, innovative development, industrial production.

диалектической логики. В связи с недостаточностью внутренних источников финансирования, а также невозможностью обеспечения инвестиций из региональных бюджетов, становится актуальным вопрос об источниках и способах привлечения ресурсов извне. Результаты: сегодня работая в сложных условиях, регионы России должны выявить особенности разработки инновационной региональной стратегии привлечения иностранных инвестиций и усовершенствовать систему взаимодействия с иностранными инвесторами.

Ключевые слова: иностранные инвестиции, инвестиционный климат, регион, инновационное развитие, промышленное производство.

Resumen

el artículo está dedicado a un análisis crítico del estado actual y las perspectivas para el desarrollo de un funcionamiento eficaz y el desarrollo estable de la industria en las regiones, a través de una mayor actividad de inversión, es decir, la atracción de recursos materiales y financieros de inversionistas nacionales y extranjeros. al atraer la inversión extranjera directa, es posible asegurar el crecimiento del producto interno bruto y los ingresos de la población. el propósito del trabajo es la formación de una estrategia prometedora para atraer la inversión extranjera en la industria, asegurando el desarrollo socioeconómico de las regiones, teniendo en cuenta sus características y riesgos de las actividades de inversión. métodos: comparaciones, mediciones estadísticas, descripciones, interpretaciones; métodos teóricos de la lógica formal y dialéctica. debido a la falta de fuentes nacionales de financiamiento, así como a la imposibilidad de obtener inversiones de los presupuestos regionales, la cuestión de las fuentes y las formas de atraer recursos del exterior se vuelve relevante. resultados: hoy, trabajando en condiciones difíciles, las regiones de Rusia deben identificar las características del desarrollo de una estrategia regional innovadora para atraer inversiones extranjeras y mejorar el sistema de interacción con los inversores extranjeros.

Palabras clave: inversiones extranjeras, clima de inversión, región, desarrollo innovador, producción industrial.

Introduction

The most effective way of economic growth required for the development of the Russian regions is a transition to innovative development and transformation of the regions into large governing centers (industrial, logistics and transport hubs, personnel centers). The foreign economic complex is one of the major mechanisms for the improvement of the regional investment environment. Most analysts argue that current foreign investment inflow and, accordingly, the establishment and development of international business are required by nearly all of the industrial sectors. It is hard to disagree with this as the main productive assets are significantly outdated and depleted by 80-90% (Kuznetsova, 2016). Having analyzed the current investment strategies in most regions of the Central Federal District (CFD) before 2025, we would like to point out that foreign investment

takes a minor place. Regions are missing clear development priorities not only in terms of identifying the sectors favorable for investment but also in searching for ways to attract foreign funds and sources.

Objectives and methods

The theoretical and methodological basis of the research included scientific investigations of the classics of economics, as well as results of national and foreign investigations in development and implementation of an effective strategy for the attraction of investments at the national and regional level. It also includes legislative, regulatory and statutory acts of the Russian Federation and the CFD regions. Information basis for the study consisted of statistical reports, reference data of governing

bodies, national and foreign releases, as well as official figures on investment activity outcome in the CFD regions (Investment portal of Russian regions, n.d.).

The research implemented the economic-statistical, calculation-constructive and abstract-logical methods.

Nowadays attraction of foreign investment resources to the regional economy is a challenging task as the choice of investment object made by a potential investor is rather subjective. In many cases, it is caused by insufficient information about the investment capacity of the region. Investment environment of a particular region varies considerably due to the difference in physical and resource basis, level of market infrastructure, ways to control investment processes. Therefore, the competitive struggle for the attraction of foreign investments is currently visibly growing. Now the financial system faces the following challenges: unstable exchange rate, volatile economy and foreign investments embargo due to the imposition of sanctions followed by a massive outflow of foreign funds. The task of finding an appropriate solution to the problem of effective regional strategy development for the attraction of foreign investments has sparked the great interest of Russian and foreign scientists.

Results and discussion

Assessment of the investment environment in Russian regions

Having analyzed dynamics of per capita gross regional product (GRP) in the CFD, as well as in the competitive regions, which reflects the level of the regional economic development, several regions among the CFD sub-federal units were found with the same low per capita GRP and a lot of other low socio-economic indexes. Along with population decline in the region, this fact demonstrates relatively low attractiveness for living and for business (Kuznetsova, 2016).

In the regional perspective, the development of industrial production is featured by high inequality: a range of index value for industrial production varies from 141.9% in the Jewish Autonomous Region to 89.2% in Sevastopol. Despite the nationwide scale of the industrial growth slowing down, the number of regions with positive index rate increased in 2017 in comparison with 2016 (Oksituk, 2014).

The results of 2017 showed the growth of the industrial production index in 73 sub-federal

units of the Russian Federation, which is 12 regions more than in 2016. The following regions lead the polls of industrial production index in 2017: Jewish Autonomous Region, Astrakhan Region, Republic of Altai, Arkhangelsk Region. Industrial production in these subjects increased by over 30%. Industrial production in the Jewish Autonomous Region increased by 41.9% mainly through enterprises of the mining industry. Mining operations in the region increased 4.7 times due to the eight-fold increase of iron-ore concentrate production at the Kimkano-Sutarsky MCC as opposed to 2016. Manufacturing facilities' production increased by more than 20% (Agency for regional socio-economic projects, n.d.).

Second place goes to the Astrakhan Region where industrial production index reached 137.2%. An important role in this aspect was played by the increase of oil production in the fields named after U. Korchagin and V. Filanovsky by nearly 50% (Iliuk, 2018).

The Republic of Altai was among three leaders of industrial production in 2016. Following the results of 2017, the industrial production index reached 131.3%, and the growth was recorded in all four industry sectors. Mining operations increased by 48.3%, supply of electric power, gas and vapor – by 34.7%. The achievements of the region are driven by the active implementation of numerous investment projects. For example, the mining sector is evidencing active development of the Korbalkhinsky ore deposit, the chemical industry is being modernized and expanded, and agricultural machinery is developing.

Within all twelve months of 2017, only seven Russian regions demonstrated stable and positive dynamics of industrial growth: Belgorod Region, Kaluga Region, Moscow Region, Saint-Petersburg, Republic of Moldova, Republic of Altai, Jewish Autonomous Region.

The most significant decline of industrial production is recorded in Sevastopol where the index dropped by 10.8%. In 2016, manufacturing enterprises took it to the top three regions in terms of positive industrial production progress. However, 2017 was less successful for this sector. Production of furniture, finished metal products and foodstuff saw a particularly evident decline. Except for Sevastopol, the industrial production index dropped in ten more Russian regions, but economic slowdown did not exceed 10%.

Strategy for the attraction of foreign investments to manufacturing sectors in Russia

After three years of continuous decline in investment activity, the negative trend turned into positive. Following the results of 2017, the number of fixed investments in the Russian Federation increased by 4.4% and reached 15.97 trillion rubles.

Increased investment activity is partially driven by inflows from government and oil-and-gas sectors to large-scale projects, which include the construction of the Crimea Bridge, "Power of Siberia" and active infrastructure development in the cities hosting the World Cup 2018 (Dudin, Lyasnikov, 2016).

Furthermore, the rate for the ruble, relatively stable during the year, enabled companies and government sector to restart the delayed investment programs on the renovation of production capacities and equipment stock. Some industries demonstrate 50-70% consumption of fixed capital requiring timely replacement to provide continuous production.

Financing and insurance, transportation and storage, health and social services, mining and agriculture are the main investment directions, which demonstrated index growth in 2017 (Deren, 2017).

The evident leader of investment inflows is the mining industry. Fixed investments in this sector increased by 8.6% in 2017. The industry share in the general industrial structure of fixed investments increased from 23.8% in 2016 to 25.1% in 2017. The second highest investment percentage in the total inflow belongs to the transportation and storage sector (18.1%) where investments increased by 8.8%. Leading positions in the positive development of fixed investment were taken by financial and insurance activity (+63.4%), recreational, sports, leisure and entertainment activity (+34%), health and social service (+12.7%). However, these three sectors account only for 6% of total fixed investment amount (Bogoviz, Osipov, Semenova, 2018).

Modern scientific studies implement several approaches to the analysis of foreign funds in the region, emphasizing, among other things, the foreign direct investments (FDI) (the approach is based on statistical analysis) and copyrighted databases of the current investment projects with foreign funds.

Analysis of the FDI revealed the problem of incompatibility with other regional figures, such as total investment amount, which confirms the inability to study the role of foreign investment in the regional economy based on the FDI statistics. At the same time, the setup of databases for investment projects with foreign funds is a labor-consuming process. Therefore, most studies are based only on large investment projects including open data. Yet it is worth drawing attention to the fact whether the foreign investments are original or reinvested by the Russian funds through offshore accounts (Veselovsky, Khoroshavina, Bank, Suglovov, Khmelev, 2017).

From 2014, the Russian Statistics Committee discontinued publication of data for cumulative foreign investment including direct, indirect and other entities which "provided statistical records without monetary authorities, commercial banks" while giving strong preference towards FDI. Now the Bank of Russia is responsible for foreign investment statistics (including the FDI stock in the banks, financial institutions (except banks), non-financial entities). However, the official website posts only the data concerning direct investment stock in sub-federal units of the Russian Federation.

It is worth mentioning that despite the availability of excellent calculation methodologies, the data reported by the Central Bank tends to be different from the figures of the Russian Statistics Committee. In this regard, analysis of foreign funds involved in the regional economy is based on the data of the Russian Statistics Committee collected before 2015 and starting from 2015 – on the data of the Central Bank of Russia (Veselovsky, Pilipenko, Savenko, Glebova, Shmeleva, 2017).

The main form of foreign investment in the territory of the regions is other foreign capital actively used for funding of private funds. According to official figures, the total annual inflow of capital to Russia includes 10-12% of FDI, 1-2% of indirect investments, up to 80% of other investments (Bogoviz, Osipov, Chistyakova, Borisov, 2019).

According to the balance of payments, the larger part of the country witnesses foreign inflows after "investment drought" arising from sanctions imposed by Western countries against Russia (Table 1) (Osipov, Skryl, Evseev, 2016).

Table 1: Foreign direct investments in the Russian Federation classified by the CFD sub-federal units with registered residents, million USD.

	2013	2014	2015	2016	2017
Russian Federation	193,685	146,370	133,949	137,763	149,040
<i>Including:</i>					
CFD	121,078	89,990	79,509	78,575	100,450
Belgorod Region	1,839	236	42	32	846
Bryansk Region	68	8	12	8	5
Vladimir Region	238	332	256	242	284
Voronezh Region	239	262	166	217	172
Ivanovo Region	19	24	80	65	85
Kaluga Region	648	707	1,274	1,060	1,544
Kostroma Region	488	999	387	134	261
Kursk Region	168	66	27	14	28
Lipetsk Region	1,110	843	1,166	2,023	2,225
Moscow Region	6,477	7,499	8,031	8,205	9,382
Oryol Region	59	251	6	7	10
Ryazan Region	27	150	97	59	226
Smolensk Region	62	52	274	241	149
Tambov Region	19	14	9	28	11
Tver Region	104	96	202	70	53
Tula Region	927	426	623	718	833
Yaroslavl Region	481	224	138	142	477
Moscow	108,107	77,801	66,718	65,314	83,859

Source: (Official website of Agency for strategic initiatives, n.d.; Agency for regional socio-economic projects, n.d.).

It is worth mentioning that the Smolensk Region takes 11th place in the CFD (among 18 regions) by the amount of the FDI for 2017 and has the highest concentration of all foreign investments. Moreover, the dynamics of foreign funds inflow to this region are stable. About 87% of foreign investments are largely concentrated in Moscow, which holds up to 50% of all capital inflows imported to the country, and in resource-based regions – Moscow, Lipetsk, Kaluga (Official website of Agency for strategic initiatives, n.d.). For more than 70 Russian regions foreign capital is inaccessible or even unavailable. For example,

in comparison with the Smolensk Region the entities of the Moscow Region, according to the Table 1 have been invested 63 times more, which considerably increases general uneven development of the Russian regions (Osipov, Skryl, Evseev, 2016).

Despite existing sanctions, foreign companies show growing interest in the Russian business. Thus, for example, in 2018, an Austrian company decided to build the largest medium density fiberboard facility in Europe in the territory of Smolensk Region (in 2018, investment reached around 18 billion rubles, the factory employs about 700 people). During the Saint-Petersburg International Economic Forum held in 2018 the region's administration signed a collaboration

agreement with Dehondt Technologies développement (France) to implement a project on the manufacture of flax production equipment in the territory of the region.

Risk map of foreign investment attraction

While developing a strategy for the attraction of foreign investments, it is important to emphasize potential difficulties in the mobilization of foreign funds and suggest possible solutions.

Risk map has been created as a part of the study based on the category approach to display the impact and probability of risks (Fig. 1).

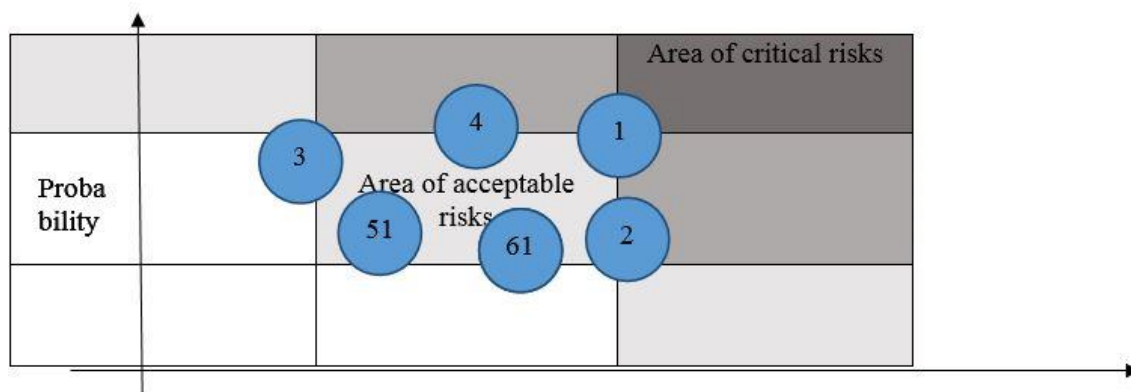


Fig. 1. Risk map of foreign investment attraction

1. Different interests of the parties. The regional investment policy is aimed at the promotion of integrated regional development. Administration and industry structures put a priority on the creation and development of target production facilities in the region. At the same time, several foreign companies implement only export-oriented policy towards the Russian Federation. 80% of cases show that the Russian Federation is perceived as a principal market where foreign companies are eager to promote their goods without project financing of their activity (Osipov, Skryl, Evseev, 2016).
2. The state interests in several big companies (non-private property). A lot of companies attractive for the region are founded by the government, which makes the process of investment cooperation more difficult (such practice is the most common in cooperation with the companies located in the Republic of Belarus).
3. Difficult communication and managerial decision-making are a common obstacle on the way to attract foreign funds. Only executive boards, top managers and executive partners of holding companies and central offices are competent in the project financing. Communication with representative offices and subdivisions of the companies in the territory of Russia is not feasible as they lack the power to make such decisions.
4. Unstable Russian market (economic situation) preventing foreign investors from reliable allocation of their funds. Such external risks include the following: banking risk – change of interest rate and long loan term; instable taxation – change or elimination of exemptions; protection of the domestic market; etc.
5. Weak incentives for implementation of national innovation projects resulting from the introduction of foreign technologies.
6. Suppression and exclusion of domestic manufacturers, uncontrolled national production.

Moreover, it is worth emphasizing the general problems in creating a favorable investment environment, which directly affect the foreign capital inflow:

- poor investment in the region's economy both from internal and external resources, low investment rate;
- growing interregional competition in the labor, investment, goods and services markets;
- high consumption level of fixed capital due to insufficient investment: the productive capacity of industrial enterprises is being upgraded at a low pace causing poor technological and economic efficiency of production facilities and generation of technological hazard;

- weak development of infrastructure along with its growing quality and expansion of the developed Russian regions area affecting the choice of region for living and investing;
- lack of skilled personnel and regular labor force;
- inefficient employment of limited labor force and inappropriate qualification of specialists failing to meet the real demands of the labor market;
- lack of investors' own funds, difficult borrowing transactions (high-interest rates, lack of collateral);
- difficult production incentive characterized by the absence of full-scale market channels causing slack operation.

Conclusion

Despite existing sanctions, foreign companies demonstrate a particular increase of interest in the Russian business. It is evidenced by the survey carried out before the Saint-Petersburg International Economic Forum 2017 by the editorial staff of the multi-language online magazine BIGRUSSIA (Business Investment Guide to Russia) among the heads of foreign entrepreneurs, groups and associations. Furthermore, such industries as agriculture and food processing, petrochemistry, machine building, pharmacy and IT were reported as the most attractive for investing of foreign funds (World Economic Forum, 2015-2016).

Several authorities responsible for the improvement of investment policy efficiency act in the territory of the regions to create a favorable investment environment, provide public involvement in investment processes and ensure extensive support of foreign investors.

Thus, today Russian regions have a strong demand for the attraction of foreign investments to be used for production modernization and implementation of advanced technologies. The advantageous geographical location of numerous regions is a powerful factor of socio-economic stabilization. Regional territories have prerequisites for perspective investment infrastructure whilst lacking a clear agenda for long-term planning of investment policy to attract foreign investments to the region. Development of a proper strategy for the attraction of foreign investments will enable navigation in possible risks and allow for assessment of possible achievement of strategic goals (Sandu, Ryzhenkova, Veselovsky, Solovyov, 2014).

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