

Russia's investment strategy

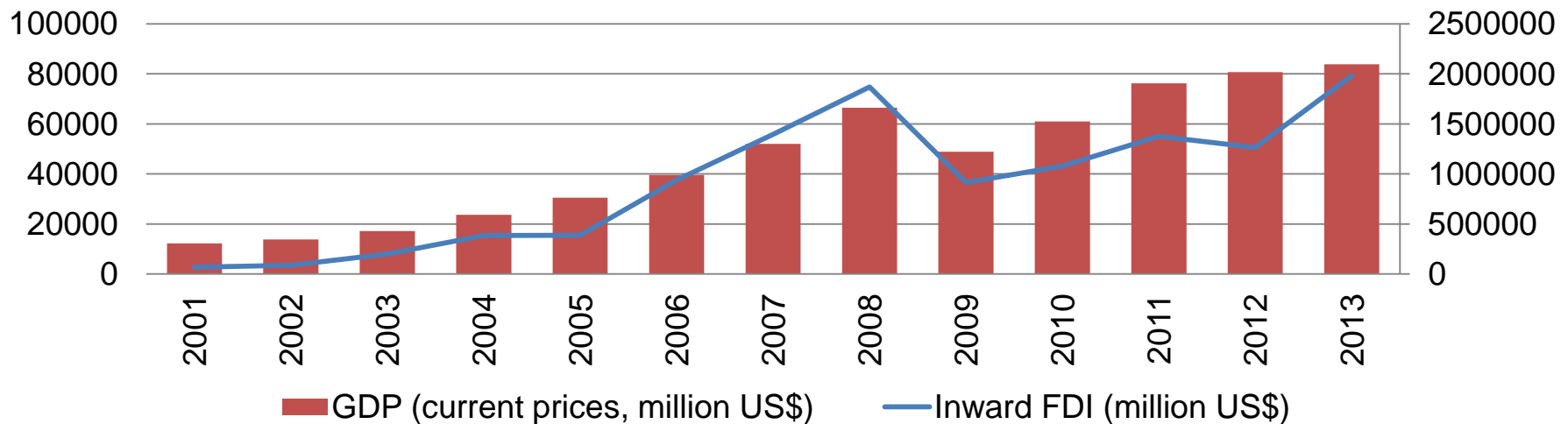
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Dynamics of FDI to Russia

- ✓ FDI to Russia grew from US\$2.7 bn in 2001 to US\$74.8 bn in 2008
- ✓ Factors:
 - Low base level
 - Good prospects for economic growth fostered by high oil prices.
 - Underdeveloped internal financial system
 - Rapid growth in consumption
 - Low competitiveness of national firms that produce consumer goods

GDP (right axis) and inward FDI (left axis) to Russia in 2001-2013



FDI to Russia now

- ✓ In 2013 FDI inflows to Russia reached US\$79 bn
- ✓ In 2013 Russia ranked 4th in the world in terms of received FDI (behind British Virgin Island, USA and China)
- ✓ In 1H of 2014 FDI to Russia halved relative to 1H of 2013
- ✓ The main factors are high political risk, sanctions and deceleration of economic growth
- ✓ New factors of attractiveness are devalued ruble and retaliatory sanctions imposed on the Western imports
- ✓ Russia still provides opportunities for FDI though political risks are high

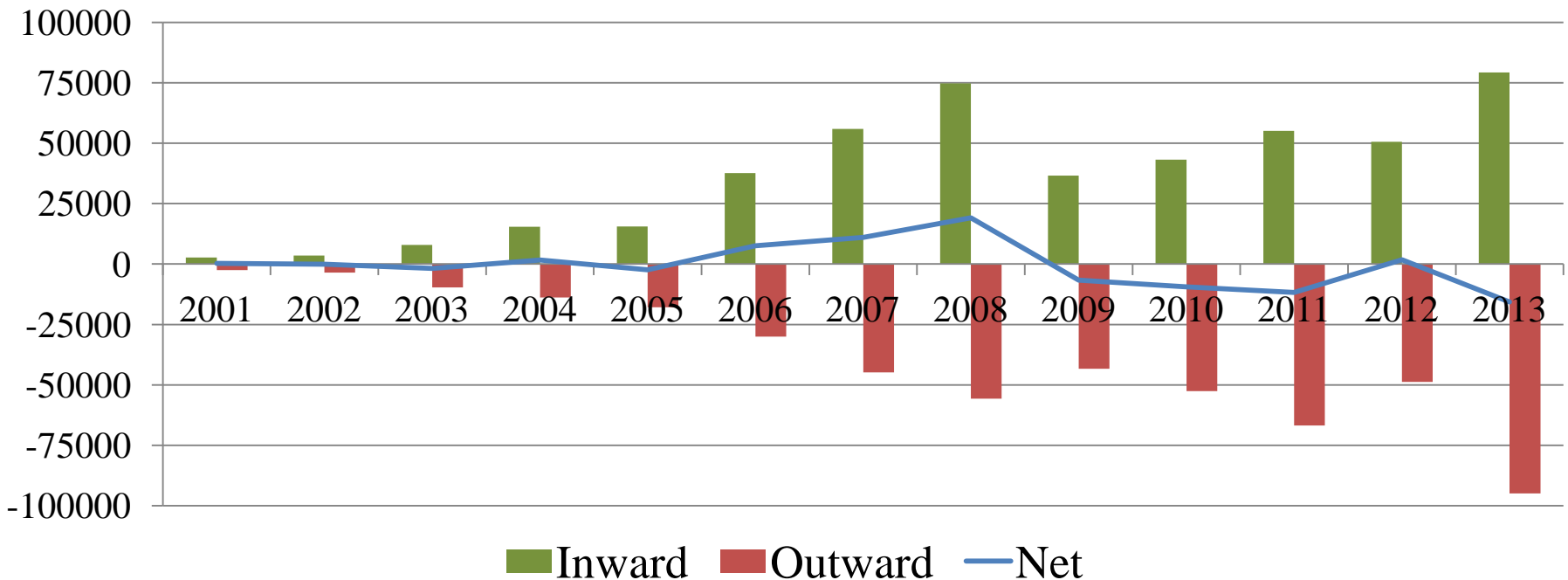
Russia's world ranks by GDP and FDI inflows in 2001-2013

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Russia's rank by FDI inflows	39	29	17	14	14	11	11	6	8	10	9	8	4
Russia's rank by GDP	17	16	16	16	14	12	11	8	12	11	9	8	8

Inward and outward FDI

- ✓ Large FDI inflows are accompanied by even larger FDI outflows
- ✓ Outward FDI are directed primarily to tax havens and to countries with favourable tax regimes

Russia's annual inward and outward FDI in 2001-2013, mln US\$



FDI to Russia by country of origin

- ✓ Most of FDI to Russia come from tax havens and countries with favourable tax regime. These are Russian capitals that were previously taken out from Russia

Inward FDI by investor country in 2013, mln. US\$

	Country	2013
1	United Kingdom	18927,2
2	Luxembourg	11638,6
3	Ireland	10398,7
4	British Virgin Islands	9378,9
5	Cyprus	8284,5
6	Netherlands	5751,6
7	Bahamas	2806,7
8	France	2100,4
9	Switzerland	1086,1
10	Bermuda	1077,8

FDI to Russia by industry

- Leaders are wholesale and retail trade along with finance
- The share of high tech doesn't exceed 4-5%.
- Extracting industries could be attractive but participation of foreigners there is limited by the Federal Law "Procedures for Foreign Investments in the Business Entities of Strategic Importance for Russian National Defense and State Security"

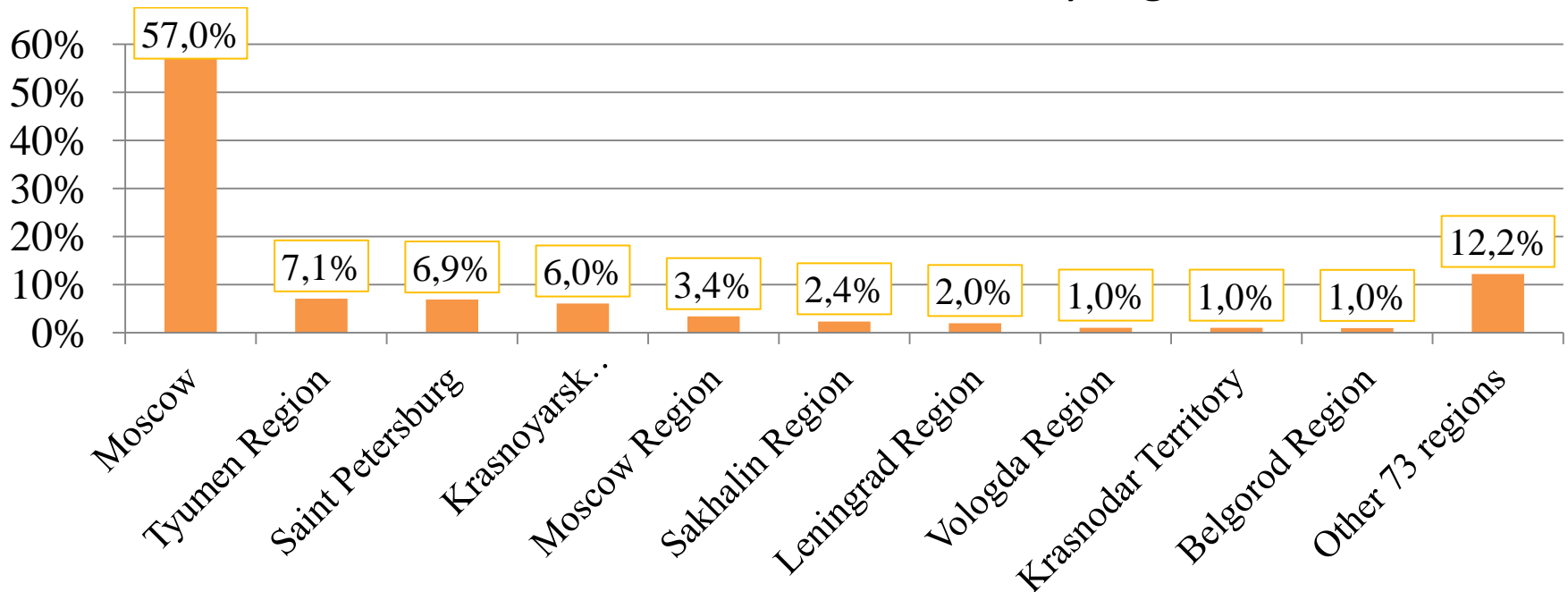
Annual inward FDI flows to Russia by industry in 2010 and 2013, mln US\$

	Industry	2013	
		US\$ mln	%
	Total	189097	100%
1	Wholesale and retail trade; repair of motor vehicles and motorcycles	43903	23%
2	Financial and insurance activities	31102	16%
3	Mining and quarrying	26219	14%
4	Coke and refined petroleum products	21618	11%
5	Basic metal and fabricated metal products	13481	7%
6	Other service activities	8685	5%
7	Real estate activities	7732	4%
8	Construction	5771	3%
9	Information and communication	5305	3%
10	Food products, beverage, and tobacco products	4776	3%
11	Mining and quarrying except of fuel and energy materials	3453	2%
12	Chemicals and chemical products	3121	2%
13	Transportation and storage	2899	2%
14	Other	11032	6%

FDI to Russia by region

- ✓ Distribution of investment is extremely uneven
- ✓ Moscow alone concentrates 57% of FDI inflows to the country, two main agglomerations – more than 70%

Allocation of inward FDI flows to Russia by region in 2013



Objectives of the state policy to attract FDI

- ✓ to diversify and modernize Russian economy
- ✓ to bring new technologies
- ✓ to launch innovations
- ✓ to bring modern management practices
- ✓ to decentralize economic activity
- ✓ not so much to create jobs (employment is already high)

Success story – Kaluga region

- ✓ Creation of automotive cluster (Volkswagen, Volvo, Peugeot Citroen and Mitsubishi Motor) in 2007-2008
- ✓ Three plants together with 22 suppliers created 12000 jobs in a region where industry had never been developed before
- ✓ Factors of success:
 - geographical proximity to Moscow fast-growing market for cars
 - flexible regional management
 - favourable tax and administrative regime provided jointly by federal and regional governments



Attracting high-tech investment

- ✓ Skolkovo innovation city near Moscow is aimed to support researchers, entrepreneurs and investors focusing on IT, energy efficiency, biomedicine, space, nuclear technologies etc.
- ✓ Technopark near Kazan (one of the largest in the Eastern Europe) was organized in the form of special economic zone
- ✓ Another high tech-oriented special economic zone was created in Tomsk city in Western Siberia
- ✓ The primary results are contradictive: there is positive dynamics of investment but there are no any breakthroughs

Attracting investment outside of Moscow

- ✓ 2005 – Federal Law “On the special economic zones in the Russian Federation”
- ✓ The idea is to organize special tax and administrative regimes on the territories with competitive advantages in order to attract investors
- ✓ 30 special economic zones have been created (the last one – in 2014 in Vladivostok)
- ✓ They are divided into 4 groups: industrial, innovation, tourist and port&logistic

Fiscal incentives for the residents of industrial and innovation SEZs

	Russia	Special economic zones	
Profit tax, %	20	2-15.5	
Wealth tax, %	2.2	0	
Land tax, %	1.5	0	
Transport tax, Euro per h.p.	0.1-3.5	0	
Payroll tax, %	30	Operating personnel	R&D personnel
		30	14
Price of land	100% market price	4-50% of cadastral price	

Special economic zones

- ✓ Since 2006 122 bn rubles were spent to SEZs
- ✓ SEZs failed to be really attractive for investors
- ✓ Only one zone – Alabuga in Tatarstan – is efficient
- ✓ In some tourist and logistic zones no one resident has appeared for the years of their functioning
- ✓ Three zones have been already closed because of inability to attract investors
- ✓ Factors of failure:
 - poor investment climate outweighs tax incentives
 - political criteria prevailed over economic ones while choosing the location for SEZs
 - Some SEZs were too small and were not provided with social infrastructure

Regional special economic zones

- ✓ There are two regional special economic zones in Russia: in Kaliningrad region (works from 1996 to 2031) and Magadan region (works from 1999 to 2025).
- ✓ Now a new regional special economic zone is being created in Crimea
- ✓ In all the three cases special economic zones are/were an instrument to mitigate political risk. Effect for attracting FDI is negligible

Special economic zones in Russia



Russian Far East initiative

- ✓ Since 2012 – Russia's economic 'pivot to Asia' aimed at Russia's integration to APR
- ✓ Key component of this pivot is rapid development of Eastern regions of Russia
- ✓ Siberia and Far East are considered as potential drivers of economic growth in Russia
- ✓ Their competitive advantages are abundance with natural resources (fossil fuels, metals, water, forests, fish etc.) and geographical proximity to growing Asian markets

State policy for development of Russian Far East

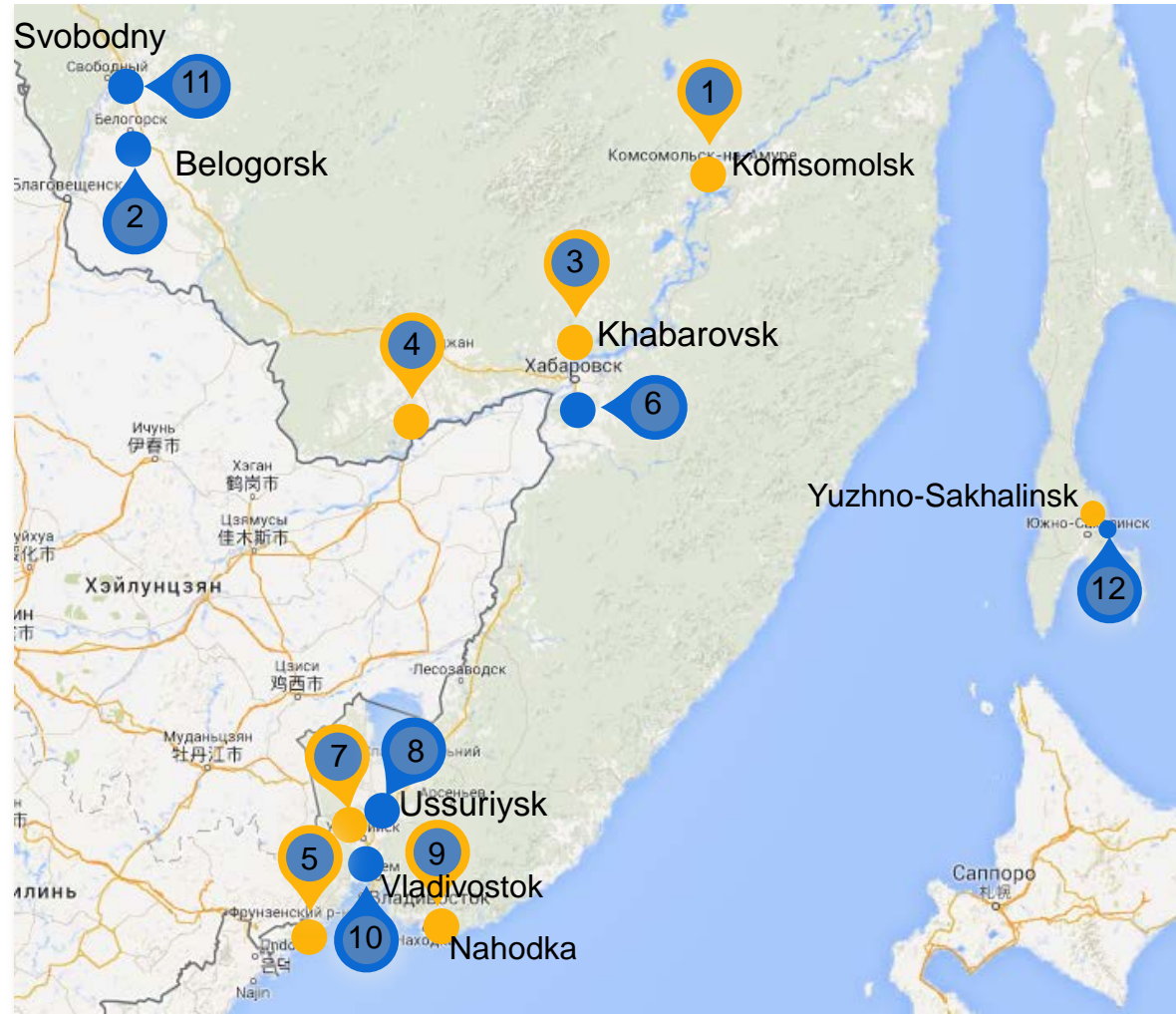
- ✓ Since 2014 the maximal profits tax rate in Russian Far East has been reduced to 10% (and may be further reduced by regional governments to 0%)
- ✓ Developing of transport infrastructure (primarily railroads)
- ✓ Financial support of 18 large investment projects of Russian companies (primarily in resource extracting and processing sectors)
- ✓ Organizing 14 'advanced economic development zones' (or territories or rapid development)

Special advanced economic development zones: deregulation and tax incentives

Conditions in Asia-Pacific countries	Korea	China	Singapore	USA	Canada	Japan	Russia - today	Russia - target
Profit tax, %	10	15	17	33	23,5	26,4	13,5	10
Inbound and outbound logistics cost , US\$ per 20-foot container	700	550	440	1320	1660	970	1800	440
Power cost, US cents per 1 kWh of electricity	7,3	7,4	13,6	6,9	7,4	17,9	11,7	6,9
Payroll taxes , %	8,8	26,7	16	7,7	8,7	25,6	14	7,7
Dealing with construction permits, days	29	67	26	27	163	193	244	26
Connection to the system power supply, days	28	41	36	68	142	105	254	28
Export support, score based on the volume of export support measures	5	4	4	4	5	3	2	5
Protection of intellectual property, rank score (rating IPRI)	2	3	4	5	4	5	3	5
Labor power	High	High	High	High	Middle	High	Low	High
Availability of suppliers	High	High	High	High	Middle	High	Low	High

Special Advanced Economic Development Zones

1. Komsomolsk 
2. Belogorsk  
3. Khabarovsk 
4. Leninsk  
5. Zarubino  
6. Lazo 
7. Ussuriysk 
8. Mikhailovka 
9. Nahodka  
10. Nadezhdinskoe  
11. Svobodny  
12. Nagorny 





Thanks for attention!