

LOCALIZATION OF FOREIGN BUSINESSES IN THE RUSSIAN FEDERATION IN THE CONTEXT OF SANCTION LIMITATIONS AND POLITICAL INSTABILITY

^aMAXIM CHERNYAEV, ^bVICTORIA MUKHINA,
^cTATIANA KREYDENKO, ^dTIMOFEY MAZURCHUK,
^eANTONINA SHARKOVA

^{a-d}*Federal State Independent Educational Institution of Higher Education "Peoples' Friendship University of Russia" (RUDN University), 117198, 6 Miklukho-Maklaya Str., Moscow, Russian Federation*
^e*Federal State-Funded Educational Institution of Higher Education "Financial University under the Government of the Russian Federation" (Financial University), 125993, 49 Leningradsky Prospekt, Moscow, Russian Federation*
 email: ^am.chernyaev@mail.ru, ^bvictoria.mukhina@yahoo.de

Abstract: According to the famous French politician and diplomat of the 18th – 19th centuries Charles Maurice de Talleyrand-Périgord, in politics “there are no principles, there are only events”. The events of the contemporary circumstances around the world make economic integration necessary, regardless of the political games and preferences, with the purpose of forming a competitive domestic market in the global system of international relations, as well as with the purpose of creating opportunities for the economic growth and for an effectively functioning national economy. The main purpose of this research is to reflect on the actual economic activity of the foreign companies that place their manufacturing facilities in Russia starting from the time when sanction limitations were imposed. For that matter, the investment activity of foreign companies on the Russian market has been analyzed starting in 2014. It is starting from this period specifically that the international mass media have been mentioning a certain drop of investment activity on the side of foreign parties. The authors of the present paper have performed an analysis of the most lucrative economic sectors that have been the focus of foreign participants' financial interests. Companies whose manufacturing activity has been completely localized in Russia have been chosen out for the purposes of this research. Special attention has been given to the companies that have continued their investment activity in the regions of Russia after the deterioration of the geopolitical situation in 2014. The practical part of the present paper is based on the data provided by the Russian Direct Investment Fund, Russian Federal State Statistics Service as well as by foreign companies working in Russia. This paper presents and proves the attractiveness of the Russian market for foreign investors, which has been illustrated by specific cases of deals that have been closed.

Keywords: European business production localization, economic sanctions, foreign company investment activity, Russian economy, investment attractiveness, special economic zones (SEZ).

1 Introduction

The pace of global economic development has increased substantially since such concepts as the global market and the disappearance of the economic boundaries gained importance. However, the current time is marked with a certain refocusing of the political and economic actors, which in its turn inevitably leads to the deterioration of economic relations indicated by the short-term drop in the international commerce. The world export volume in 2016 was lower than in 2014 by 16.4%, and the world import volume of goods in 2016 dropped by 15.6% compared to 2014, which caused losses for both state and private companies. (1)

However, it is still necessary and important to maintain and develop economic contacts regardless of the political differences and sanction limitations.

The present paper aims to bring out the economic activity of foreign companies in the Russian Federation using the example of localization in the territorial entities of Russia.

A drop-in investment activity indeed marked the economic relations between Russia and its partners as a result of the Crimea events of 2014. However, the ratings of economic

attractiveness of Russia that dropped in 2014 and 2015 are being actively revisited today, according to the data from the Moody's rating agency that raised Russia's position in sovereign credit rating from “negative” to “stable” in the category Bal. (2)

Despite the continuing course of the Western countries in prolonging the sanction limitations concerning Russia, foreign companies keep investing into the Russian economy by placing their manufacturing facilities on the Russian market, which in its turn has become more open not only for Western but also for Asian partners, thanks to the changes in currency rates and the government's work on the programs for increasing the investment attractiveness. That emphasizes the significance of and need for the current study. (3-4)

2 Materials and Methods

Among the main research methods of this paper are systematization and information analysis, grouping and following categorization of the data in order to determine positive and negative examples of the figures, correlating the index numbers with the purpose of determining the connection of events and data that led to the realization of investment projects and decisions as well as economic forecasting based on the statistical data bodies and adjustments to the objective information summaries. The reference time frame is from 2014 through 2016.

The influence of the internal and external political and economic factors that are decisive for drawing the foreign actors to Russia has also been examined.

Academic literature and publications, periodicals and news reports, as well as analytical data from the regions of Russia and financial reports of the foreign companies based in the territorial entities of Russia, have all served as the informational background for this research.

The lack of similar databases in academic research accounts for the unique character of the activities connected to the methods of collection, categorization, and analysis of the information.

A number of methods have been used to study the issue. Among them are the historical, comparative, systematic, statistical, and normative analysis and forecasting. Economical and mathematical methods and the method of expert evaluation have also been used. This methodological system has been successfully tested by Russian scholars in a number of academic publications. (5-7)

3 Results

Examples of successful localization of 151 companies in the territorial entities of the Russian Federation since 2014 have been examined for a more detailed evaluation of the volumes of foreign investments and for forecasting the pace of investments into the Russian economy. Apart from that, examples of 50 companies that have been localized since 2014 and have carried on active investment activity in Russia have been taken into consideration.

The table below shows 10 companies with the largest financial investments into the business activity in Russia that have set plans for consequent production localization steps.

Table 1. Top 10 Companies According to the Volume of Investments into Production Localization in Russia Since 2014 in Million USD

№	Investor country	Investor company	Investment start year	Territorial entity of Russia	The volume of investments in million USD
11	Canada	Genoil Inc.	2017	Chechen Republic	15,000

22	Germany	Bervel GMBH	2015	Ryazan Region	4,000
33	Vietnam	TH True milk	2015	Moscow Region	2,700
44	Netherlands	Damen Shipyards Group	2014	St. Petersburg, Kirov Region, Nizhny Novgorod Region	2,276
55	Sweden	Elof Hansson Group	2016	Tyumen Region	1,161
66	China	China Chengtong Holdings Group LTD	2017	Khabarovsk Territory	1,000
77	China	Avic International Holding Corporation	2015	Tomsk Region, Novosibirsk Region	6,93
88	China	Zhuoda Group	2015	Republic of Sakha (Yakutia)	6,09
99	Turkey	Hayat Holding	2014	Republic of Tatarstan	6,00
110	China	Anhui Conch Cement Company	2015	Ulyanovsk Region	5,00

Source: Compiled by the authors based on open Internet sources.

Table 1 shows 10 companies with the greatest volume of investments into production localization in the territorial entities of Russia. The total investment volume of the top 10 companies amounts to 28,539 million USD. Chinese partners account for 4 out of 10 companies from this table. That indicates an increased interest of Chinese partners in the Russian market amid the capital outflow of the Western countries. In the light of the exchange value of the ruble that is more attractive for foreign

companies, and the legislative activities of the Russian authorities concerning the special economic zones, a Vietnamese company made the decision to place its manufacturing in Russia. In 2015 "TH True milk" invested 2.7 billion USD into the localization of agricultural plants for the dairy industry in the Moscow region. (8) The conclusion is rather simple: the percentage of Asian companies that are active in Russia is rising and poses substantial competition for the Western countries. Figure 1 shows the allocation of the top 10 companies from Table 1 according to the countries of origin.

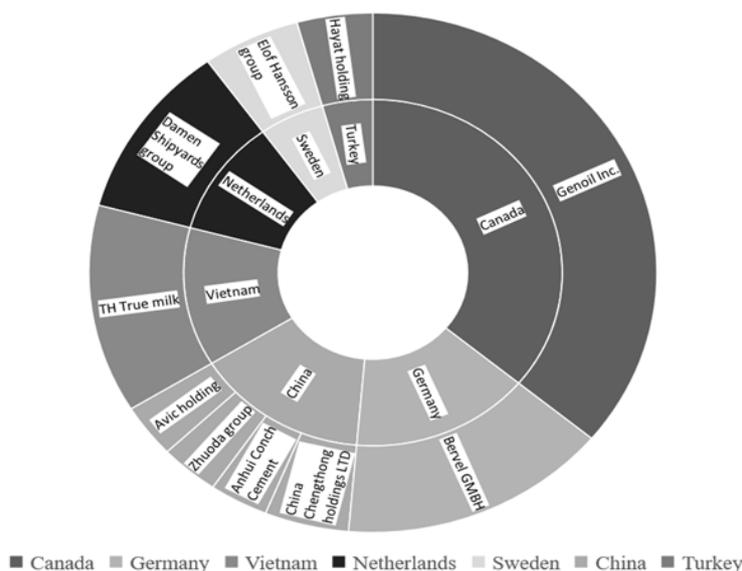


Figure 1. Top 10 Companies According to the Volume of Their Investments into the Production Localization in Russia Starting in 2014 with Consideration of the Country of Origin

Source: Compiled by the authors based on the data from Table 1

Extractive industries gained the most investments. Companies that are depicted in Figure 1 actively develop such branches as the extraction of mineral resources like oil, gas, and coal. "Genoil Inc" takes first place according to this parameter. In 2016 it signed an agreement for 50 billion USD with the "Grozneft" company for the oil field development in the North Caucasian Federal District. Chinese companies such as "China Chengtong Holdings LTD" and "Avic International Holding" prefer to invest into the wood chemical industry whereas "Zhuoda group" and "Anhui Conch Cement Company" invest into construction. (8) Western partners mainly invest in the consumer goods industry, shipbuilding, and wood chemical sectors. The aggregate investments that came from 151 companies that localized in Russia since 2014 amount to 49,725 million USD, which constitutes 8.9% of all investments into the Russian economy in the last 3 years. The above-mentioned

companies are planning to build up their investment activity in Russia in the mid- and long-term perspective. That will lead to an increase in the percentage. Many companies are trying to take up their slot on the Russian market and to use their manufacturing capacities for the connection of the "West-East" supply chains, confirming the long-term importance of this trend.

The leaders of international companies view the turbulence of the global economy as a time of new opportunities. Jack Ma, chairman of the board of directors of Alibaba Group, announced in 2015, at the lowest point of decline of the economic relations with Russia: "I think now is the right time for investments into Russia. At the end of last year, we had a certain recession in business because of the drop in the ruble rate in Russia. But that's normal. Every business has its ups and downs." (9) Chinese partners also picked up the idea of developing mutual

collaboration with Russia. As a result, 24 Chinese companies have localized in Russia since 2014, which brought 5,645 million USD of direct investments into the Russian economy and consequently supplemented the regional budget.

For the Russian economy, it is just as important to maintain the attractiveness of the economy and to provide a market outlet for the running projects of international companies, offering opportunities to build these out in the future. After the mutual sanction limitations between Russia and its Western partners

were imposed, some companies have stopped their activities in the territorial entities of Russia for an indefinite period which damaged the Russian economy as it lost some investment funds and jobs. (10) And yet, not all of the foreign companies “wrapped up” their activities. Some companies embraced this moment to strengthen their presence and ramp up production, and in certain cases even to start new production units in other regions of Russia. Below you can see the examples of companies that invested in modernization and into building up their activities in Russia.

Table 2. Top 10 Companies According to the Volume of their Investments into Increasing their Production in Russia Starting 2014 in Million USD

	Country	Company	The volume of investments in million USD
1	Turkey	Hayat Holding	10,000
2	USA	PepsiCo, Inc	9,000
3	China	China National Building Materials Group Corporation	5,000
4	France	Groupe Danone	2,000
5	Germany	Siemens AG	1,500
6	Turkey	Kastamonu Entegre	1,303
7	Finland	Nokian Tyres OY	1,109.3
8	Turkey	Sisecam Group	1,100
9	USA	Mondelez International Inc	1,000
10	France	Schneider Electric SA	1,000

Source: Compiled by the authors based on open Internet sources.

“We have been working in Russia for quite some time. We have always been committed to this market and we are going to keep being its players and satisfy the demand of our consumers” – Victoria Mars, chairperson of the board of directors of Mars Inc. The leaders of other companies share the opinion of Victoria

Mars. According to the statements made by the Western partners, now is the most suitable time not only for developing new projects but also for increasing the production volumes of the already existing products. (8) Figure 2 which is based on the data of Table 2 shows the country of origin of the company and the volume of its investments among other projects.

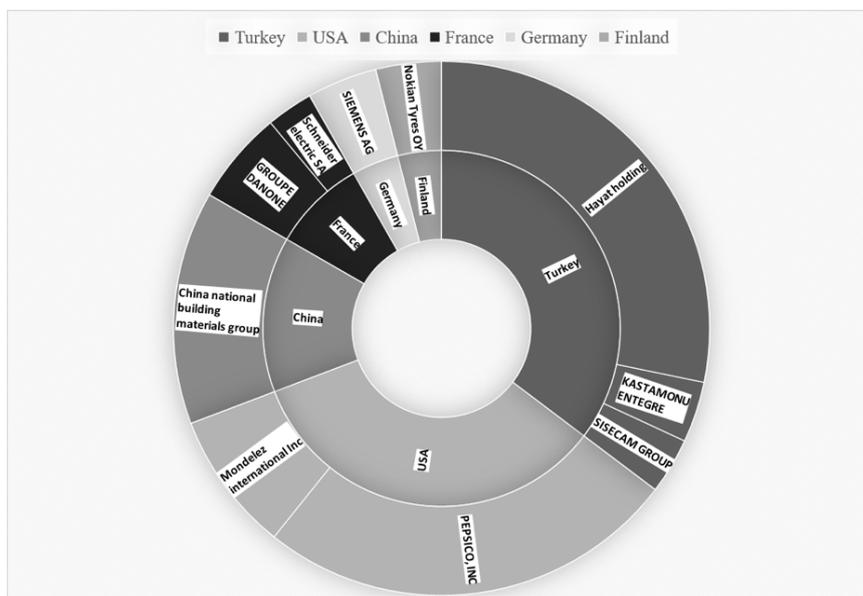


Figure 2. Top 10 Companies According to the Volume of their Investments into Increasing their Production in Russia Starting in 2014 with an Indication of the Country of Origin

Source: Compiled by the authors based on Table 2

Figure 2 shows 10 companies with the greatest volume of investments into increasing their production in Russia. Since 2014 the investments of the Turkish company “Hayat Holding” that placed its main production in the Republic of Tatarstan have

amounted to over 10,000 million USD. The American company “PepsiCo Inc.” has invested 9,000 million USD. The aggregate investments from the top 10 companies amount to 35,403 million USD which comprises 85% of the aggregate investments

of 50 companies that invested in increasing their production in Russia. Despite the political statements and harsh discourse about Russia in the international mass media, the USA remains one of the large investors on the internal Russian market. Since 2014 11 companies from the United States have been localized in Russia, with the total volume of investments amounting to 698.6 million USD. Companies that had already placed their production units in Russia have invested financial assets for over

11,085 million USD. Apart from the United States, the European Union (EU) countries also take one of the top lines for the localization of their production in the regions of Russia, despite the sanction limitations.

Having analyzed the volume of foreign investments, we worked on determining these companies' countries of origin. Figure 3 below shows the main investment flows of foreign companies according to their country of origin.

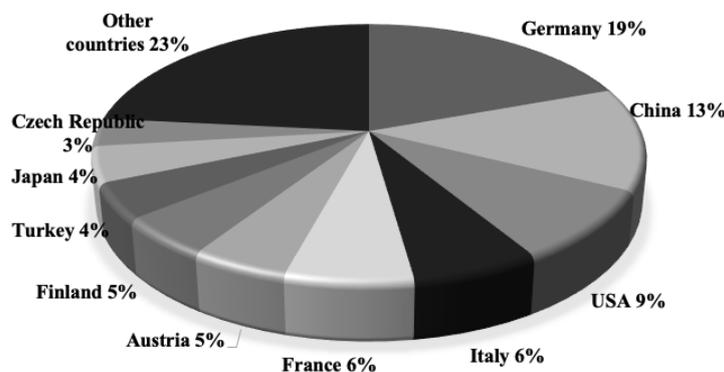


Figure 3. Top 10 Companies According to the Investor Countries That Have Localized Their Production in Russia

Source: compiled by the authors based on data

Despite the sanction limitations that are being imposed by the Western countries, mainly the European Union countries and the United States hold the leading positions for the number of foreign companies that have localized their production in Russia. On top of the list of investor countries is Germany. German companies account for almost 20% of the localized production units. China also keeps working together with Russia actively, being the second largest "player" in the field of investments.

4 Discussion

Russia is actively developing investment sites and supporting the special economic zones (SEZ) on a large scale. The Leningrad and Kaluga SEZs, as well as the SEZ in the Republic of Tatarstan and others, (11) can be viewed as examples of successful implementation of concessionary economic and tax conditions. Dozens of production units have been placed in these regions, among which are also examples of localization of foreign companies. Joint venture companies are being actively built with a lot of projects approved for 2018. In 2016 foreign direct investments (FDI) into the Russian economy increased by 4,256 million USD compared to 2015. (12)

Table 3. Foreign direct investments to Russia in 2014 – 2016 according to the type of economic activity in million USD

Branch	Investments in million USD	New jobs claimed
Chemical industry	10,549	3,425
Wood processing industry	6,731	6,801
Agricultural sector	6,195	1,617
Mechanical engineering equipment	4,447	148
Components	3,644	No data
Retail	2,725	2,564
Construction. Construction materials	2,487	7,152
Automotive industry. Replacement parts	2,276	100
Transportation infrastructure	2,152	6,528
Oil and gas sector	2,001	No data
Non-metal mineral commodity	1,532	150
Medical equipment and materials	1,101	1,652
Food products and drinks	798	155
Pharmaceutical industry. Biotechnology and medical research	562	300
Energetics	546	2,665
Household goods	355	58
Telecommunications industry	284	No data
Aircraft industry and military-industrial complex	268	527
Logistics	257	No data
Software and IT services	210	20
Fishing industry	129	0
Public utility	111	1,200

Textile industry	50	400
Research and development	36	300
Transport and consumer packaging	35	No data
Commercial services and delivery	30	0
Tobacco industry	12	100
Investments and investment banking	10	0

Source: compiled by the authors according to the open statistics of the Central Bank of Russia

Table 3 shows the main areas of foreign investments according to the type of economic activity. Compared to 2014, in 2016 foreign investors increased their activity in manufacturing. In monetary value, it amounts to 6,997 million USD. (13) The FDI also increased both in the collection, treatment, and allocation of wastewaters and in research and development as well as in transportation and storage. In the other areas, one can see a slight investment outflow which proves that the programs of special economic conditions need to be expanded for certain areas of economic activity.

It should be noted that not all companies that have localized their production or invested in building out their existing production are shown in Table 1. Information about the investment activity of many companies is not publicly available. According to the given information, the forecasted attractiveness of the Russian economy for foreign investors looks optimistic. Over the span of 2 years, 12 branches of the Russian economy received

investments of over 1 billion USD, amidst mutual sanction limitations and turbulence of the global economy.

The smallest investments have been registered in the banking sector and in computer technologies. Computer hardware development only takes place in sporadic corporations which mainly execute state orders in military and research sectors. Therefore, competition with foreign companies in these areas is made difficult and not attractive for partners. In this sector, foreign investment goes to telecommunications equipment and wireless hotspot technology that are being supplied to the Russian market and exported to the CIS countries. While providing investment reports, many companies announced having created new jobs. Many investment branches showed additional openings, the automotive industry being a good example – since 2014, 7,152 new jobs have been registered.

According to a number of prominent experts, the recovery from the loss of investments will take place in the next 4-5 years, primarily thanks to the long-term investments of foreign companies into starting and developing production units in Russia. (10)

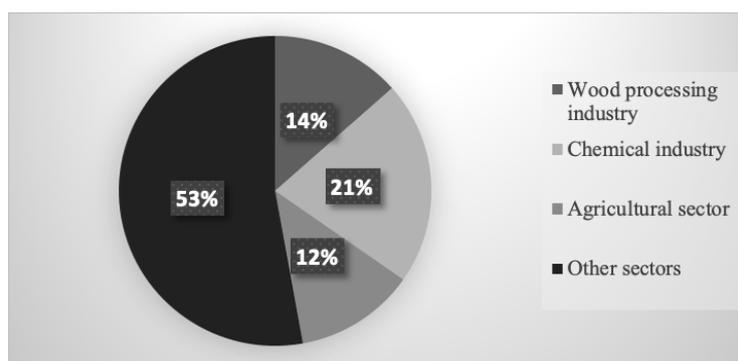


Figure 4. Top 3 Sectors of Russia According to the Foreign Direct Investments in 2014–2016.

Source: compiled by the authors based on Table 1

The Russian Direct Investment Fund (from here on – RDIF) studies the flows of direct investments according to the economic sectors of the country. Having analyzed the information from RDIF, we recognized 3 branches that enjoy the preference of foreign investors; they are wood processing industry, chemical industry, and the agricultural sector.

In total, these 3 sectors account for slightly over 47% of all investments that flowed to Russia from 2014 through 2016. Chinese companies actively invest in developing the

chemical and forest industries, the examples of such companies being China Chengtong Holdings Group Ltd. and China CAMC Engineering Co., LTD. The agricultural sector gets investments primarily from Western companies. The investment regions are located in central Russia.

After the information about the activity of foreign companies on the Russian market was collected and analyzed, the objects of fund investments have been picked out and allocated to the regions of Russia.

Table 4. Number of Investment Objects Registered by Foreign Companies for Localization of New Production Units and Expansion of Production in 2014 – 2016

Territorial entity of Russia	Number of investment objects
Kaluga Region	103
Moscow Region	93
Republic of Tatarstan	66
Samara Region	58
St. Petersburg	56
Nizhny Novgorod Region	48
Rostov Region	48

Leningrad Region	43
Lipetsk Region	42
Sverdlovsk Region	37
Tyumen Region	37
Novosibirsk Region	36
Moscow	33
Ulyanovsk Region	27
Voronezh Region	25
Kaliningrad Region	25
Yaroslavl Region	24
Krasnodar Territory	23
Khabarovsk Territory	23
Tver Region	21
Chelyabinsk Region	21
Primorye Territory	19
Republic of Bashkortostan	19
Vladimir Region	18
Ryazan Region	18
Tula Region	17
Trans-Baikal Territory	16
Republic of Karelia	15
Novgorod Region	15
Volgograd Region	14
Belgorod Region	13
Omsk Region	12
Smolensk Region	12
Saratov Region	11
Stavropol Territory	10
Orel Region	9
Penza Region	9
Kemerovo Region	8
Kostroma Region	8
Komi Republic	8
Amur Region	7
Orenburg Region	7
Perm Territory	7
Tambov Region	7
Astrakhan Region	6
Volgograd Region	6
Kirov Region	6
Kursk Region	6
Udmurtian Republic	6
Altai Territory	5
Ivanovo Region	5
Irkutsk Region	5
Murmansk Region	5
Krasnoyarsk Territory	4
Kurgan Region	4
Republic of Dagestan	4
Republic of Mordovia	4
Tomsk Region	4
Chechen Republic	4
Bryansk Region	3
Pskov Region	3
Republic of Adygeya	3
Republic Of Mari El	3
Khanty-Mansi Autonomous Area – Yugra	3
Chuvash Republic	3
Arkhangelsk Region	2
Kamchatka Territory	2
Karachayevo-Circassian Republic	2
Magadan Region	2
Republic of Ingushetia	2
Republic of Tuva	2
Sakhalin Region	2
Yamal-Nenets Autonomous Area	2
Jewish Autonomous Region	1
Kabardino-Balkarian Republic	1
Nenets Autonomous Area	1
Republic of Altai	1

Republic of Buryatia	1
Republic of Kalmykia	1
Republic of Sakha (Yakutia)	1
Republic of North Ossetia – Alania	1
Republic of Khakassia	1
Chukotka Autonomous Area	1

Source: compiled by the authors based on data of the Russian Direct Investment Fund.

During the period from 2014 through 2016, 1,286 investment objects have been registered by the foreign companies. These objects include:

- expansion of production;
- power augmentation of the current projects;
- creating new production units on the basis of the existing ones;
- buying out of existing production units;
- starting production units in the new regions of Russia (a company already localized 1 or more production units in Russia);
- localization of new production units. (14)



Figure 2. Foreign Investors by the Territorial Entities of Russia, 2016

Source: The Russian Direct Investment Fund

In Figure 5 you can see the map of Russia with marked territorial entities. All regions of Russia have been classified according to the number of foreign companies registered there. The range varies from 1 to >100. The brighter the color, the more foreign companies are located in this area. The greatest number of companies – 103 – are located in the Region of Kaluga, especially in the SEZ. The Region of Moscow is the second most attractive area for investments with 93 companies. (15) The Republic of Tatarstan is in third place with 66 investment

objects. The special economic zone “Alabuga” is being developed in Tatarstan. It has already attracted multibillion investments from large American and European manufacturers. (11)

The Russian special economic zones are important platforms for the localization of foreign production.

At the moment there are officially 25 special economic platforms that can be divided into 4 types (Table 5).

Table 5. Special Economic Zones of Russia

Special economic zones	
Industry	9
Technologies	6
Tourism	5
Logistics	1

Source: Compiled by the authors based on the data. (16)

The SEZs of Russia is a large project that aims at developing the Russian economy by attracting Russian and foreign investors to the high-tech sectors of the economy, to the import-substituting production, to shipbuilding and tourism. Special economic zones are being created for 49 years. The state grants special legal status to each area. This status gives the investors of this SEZ tax relief and customs preferences. It also gives them access to the engineering, transportation and business infrastructure. The expenses for the investors in SEZ are on average 30% lower than those Russia-wide (Table 6).

For Russian companies, SEZs offer an opportunity to implement international projects, to get the import substitution of equipment going and to enter the international markets.

For foreign manufacturers, special economic zones offer an opportunity to enter the Russian market with larger opportunities to make additional profits in the first years of work, being supplied with the resources necessary for the business development and for the implementation of bold ideas in order to create new industrial and high-tech products. The four types of SEZs in Russia offer the opportunity to:

- develop high-tech production in the Russian economy;
- develop tourism and a tourism service branch;
- develop and localize production of new types of products;
- expand the system of transportation and logistics.

Table 6. Advantages of Working in the SEZs of Russia for Foreign Businesses

Special administrative regulations	Lower administrative obstacles
Special tax regulations	Lower profit tax rate, exemption from land and transport tax for the first 5 years
Special customs regulations	Duty-free zone regime
Infrastructure	Office space, gas, running water, electricity, accessibility by transport
Warranties	The government of the Russian Federation guarantees the unalterability of the preferences provided
Transparent governing system	Regulatory authorities: The Ministry of Economic Development and Trade, authorities of the territorial entities, Russian customs service, etc.
Accessibility of qualified human resources	Collaboration with the research and training centers of Russia and other countries
Investor expenses 30% lower	

Source: Compiled by the authors based on the data. (15)

The present research comes to the assumption that over the years of sanction limitations, not only did many foreign manufacturers not stop cooperation with Russia but they also developed their cooperation. To prove this is true we would like to share the statistics of the "Special Economic Zones" for 2015 and 2016. (3,15)

In 2015, 12 companies involving foreign funds were registered with the total volume of investments of about 18 billion rubles. In 2015, 22 residents started production units, among them, were those involving famous large international brands from the USA, Switzerland, Germany, and Japan. (15) By the end of 2015, in all types of SEZs, a total of 61 units were built by residents. During this year, companies involving funds from the following countries became investors in SEZs: Poland, South Korea, Italy, USA, Germany, Switzerland, the Netherlands, Kazakhstan, China, Finland, and Turkey.

During the 1st quarter of 2016, 2 more residents involving foreign funds were registered, with the total volume of investments of around 1.5 billion rubles. Throughout 2016, 70 new companies have been attracted to SEZs, committing a total volume of investments for 84 billion rubles. The list of localized production units includes such cross-national giants as Yokohama (Japan), 3M (USA), ABB (Switzerland – Sweden), GKN plc (Great Britain), PPG Industries Inc. (USA), CIE Automotive (Spain), Air Liquide (France), Rockwool (Denmark), GM (USA), Ford Sollers (USA), Lanxess (Germany), Bekaert (Belgium), and Armstrong (USA).

By 31st of December 2016, a total of 525 resident companies were registered in the SEZs. The volume of their committed investments amounts to 650.5 billion rubles, which means over 1

billion rubles for one SEZ resident. The volume of investments that have already been made by the residents amounts to 218 billion rubles.

Comparatively, 1 ruble of effected public funding within the SEZ equals 1.3 rubles of private investments. The SEZ residents have created over 21 thousand jobs, the volume of tax payments amounts to 28 billion rubles, the amount of customs payments amounts to 25.5 billion rubles. Meanwhile, many companies fall into the phase of concessionary taxation and a number of large companies are still being built or starting production.

Therefore, it is expected that the performance index of foreign residents is going to grow substantially every year. By the end of 2016, out of the mentioned companies registered in the SEZs, 92 companies involve foreign investments from 29 different countries. According to the data by the end of 2016, the companies involving foreign funds within SEZs have invested over 140 billion rubles.

Foreign investors do not abandon their projects and believe in the Russian market. During 2016, 12 new companies involving foreign funds and with the total volume of planned investments of over 19 billion rubles have been registered. 11 residents have built and put their units in place, large and famous brands from the USA and Germany being among them. By the end of 2016, a total of 73 units have been built in the SEZs of all types by the residents. (3,10,16)

After the overview of the companies that have localized in Russia had been performed, the information from the regional statistical authorities was analyzed. Based on this information, a table of Russian territorial entities was put together, covering the range from the territorial entities with the most investments to the territorial entities with the least investments.

Table 7. Direct Investments to the Russian Federation by Territorial Entities Where the Residents Are Registered in Million USD, 2016

Territorial entity of Russia	Amount of direct investments
Moscow	65,313.922
Sakhalin Region	8,294.830
Moscow Region	8,204.915
St. Petersburg	7,631.641
Volgograd Region	7,342.386
Tyumen Region	7,307.287
Leningrad Region	5,775.358
Krasnoyarsk Territory	5,424.191
Yamal-Nenets Autonomous Area	2,763.166
Lipetsk Region	2,022.906
Chelyabinsk Region	1,777.006
Sverdlovsk Region	1,589.904
Republic of Sakha (Yakutia)	1,347.206
Krasnodar Territory	1,338.499
Kaluga Region	1,059.810
Kemerovo Region	872.096
Primorye Territory	872.028
Republic Tatarstan	803.746
Tula Region	718.084

Nizhny Novgorod Region	709.475
Perm Territory	585.396
Republic of Karelia	578.987
Khabarovsk Territory	544.111
Komi Republic	410.845
Murmansk Region	405.234
Stavropol Territory	384.751
Amur Region	359.585
Novgorod Region	357.418
Udmurtian Republic	335.181
Arkhangelsk Region	291.469
Samara Region	261.760
Astrakhan Region	251.366
Vladimir Region	241.547
Smolensk Region	240.670
Voronezh Region	216.620
Trans-Baikal Territory	206.953
Volgograd Region	197.942
Tomsk Region	193.467
Rostov Region	191.390
Novosibirsk Region	183.808
Republic of Khakassia	171.729
Kaliningrad Region	152.665
Chukotka Autonomous Area	148.699
Ulyanovsk Region	148.283
Khanty-Mansi Autonomous Area – Yugra	142.137
Yaroslavl Region	141.968
Kostroma Region	133.920
Republic of Bashkortostan	131.061
Saratov Region	123.842
Orenburg Region	112.130
Republic of Tuva	109.290
Republic of Adygeya	106.719
Republic of Buryatia	75.469
Penza Region	75.235
Tver Region	69.956
Ivanovo Region	64.614
Ryazan Region	58.611
Altai Territory	37.351
Irkutsk Region	35.217
Chuvash Republic	33.538
Omsk Region	32.162
Belgorod Region	31.513
Tambov Region	27.947
Pskov Region	24.632
Jewish Autonomous Region	19.372
Kirov Region	18.044
Kursk Region	13.551
Republic Crimea	11.175
Kurgan Region	9.187
Bryansk Region	7.971
Republic Of Mari El	7.441
Orel Region	6.806
Magadan Region	6.750
Republic Of Mordovia	6.050
Sevastopol	3.382
Kamchatka Territory	2.202
Republic of North Ossetia – Alania	1.638
Republic of Dagestan	0.921
Kabardino-Balkarian Republic	0.364
Republic of Altai	0.230
Chechen Republic	0.097
Republic of Ingushetia	0.035
Karachayevo-Circassian Republic	0.025
Republic of Kalmykia	0.004
Nenets Autonomous Area	0.00004

Source: Compiled by the authors based on. (3)

The above-mentioned Table 7 shows the territorial entities of Russia according to the number of direct investments. The Nenets Autonomous Area turns out to be the least attractive for investments. This region has only one foreign production unit organized by the German company "BASF AG" specializing in hydrocarbon extraction. The Republic of Kalmykia also has only one foreign unit – the company "Falcon Capital a.s." specializing in wind power plant production. Since these regions took the least significant positions in Table 4 and Table 5, the data needs to be analyzed additionally.

In order to figure out the relation between the amount of investment flows to a territorial entity of Russia and the number of objects for these investments, a correlation of data bodies according to the regions of Russia was performed. The correlation coefficient between the data from Table 4 and Table 5 is 0.2 which means that there is no interrelation between the number of investment units and the number of financial flows.

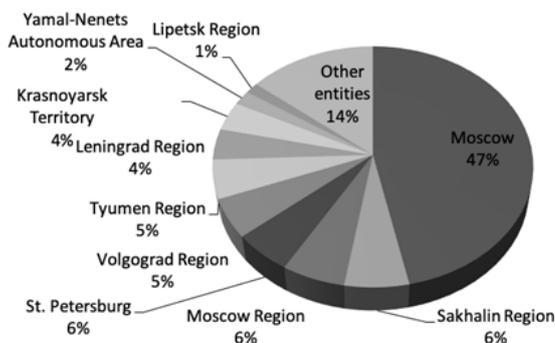


Figure 6. Direct Investments to the Russian Federation According to the Territorial Entities Where Residents Are Registered in 2016 in %

Source: Compiled by the authors based on the statistical data of the Central Bank of Russia

Figure 6 shows the top 10 territorial entities where residents are registered according to the number of direct investments to Russia in 2016. Moscow is leading. In 2016 the region of Moscow received foreign investments of 65,313 million USD. It's 46.7% of the total volume of investments spread out in the regions. This can be explained by the fact that a great number of the headquarters of the regional companies is located in the capital of Russia. Therefore, the bulk amount of finances comes to the investment destinations "in transit" through Moscow. The rest of the shown territorial entities also remain attractive for investments due to the total of numerous factors: accessible infrastructure, regional programs for enterprise development, the SEZ status, a high population in the region and others. 89% of all direct investments go to 10 regions which accounts for the uneven reclamation of the potential of various Russian territories. Financial accumulation in a small part of Russia leads to the deficits in the regional budgets, therefore projects that aim at the least reclaimed parts of the country are especially in demand in the given situation. However, they are not less attractive in terms of investments. Great natural and human potential make it possible to reclaim the farthest regions of Russia which, in its turn, will lead to an active and even

infrastructure development of the country and strengthen its positions in the international market.

5 Conclusion

According to the summary calculations from 2014 through 2016, foreign direct investments into the Russian economy amount to 418,523 million USD. Over 29,653 new jobs have been created.

Therefore, it can be said that the Russian market remains attractive not only for Russia's "old" partners but also for those who took the path of total business localization in Russia recently. The Russian government in every way supports the interest of the foreign companies in the localization of their production both in the new SEZs and in the far-away regions that have great potential. Predicted values for the pace of investments until 2020 have been calculated based on this analysis. The forecast is based on the data about the signed contracts and the development plan that was published in the mass media. (13,16-17)

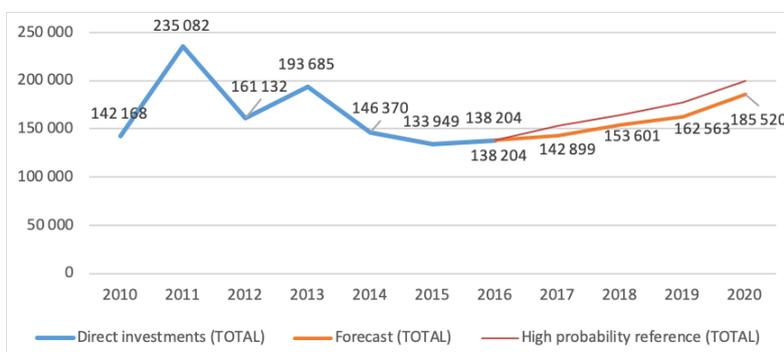


Figure 7. The Forecast of Direct Investments to Russia Until 2020 in Million USD.

Source: Compiled by the authors

Based on the direct investments that came to Russia from 2010 – 2016, a forecast was made with high probability and a

confidence interval of 20%. A positive upward trend has been determined for investments into the Russian economy. However,

the rate of increase will remain low. The level of investments similar to those before 2014 can only be restored after 2020. The period of recession in the national economy is over. The main priority of the economic development of the current period is signing the new partnership agreements between Russia and foreign companies as well as restoration of the lost connections. (18-20)

In conclusion, it should be mentioned that European and Asian businesses see and recognize the potential of Russia. The above-mentioned localization measures are a good example of this fact. The strategic potential of the Russian market is a priority for a foreign investor. Financial investment flows were not stopped as the sanction limitations were imposed. Long-term economic relations turned out to be stronger than political differences. Western countries should see Russia not as a political rival but rather as a potential economic partner in the long-term.

Acknowledgments

The publication has been prepared with the support of the "RUDN University Program "5-100". The article has been prepared as part of voluntary research paper number 061603-0-000 entitled "Ways of improving the efficiency of the oil and gas sector as a requirement for maintaining the security of energy supply for Russia in the conditions of unsteady economy" that was done at the National Economy Department, Faculty of Economics, People's Friendship University of Russia (RUDN University).

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Secondary Paper Section: AH, AD