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Regional features of attracting foreign investments into the Russian economy

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Abstract

Aspects of investment attractiveness of subjects of Russian Federation, where the mode of Special Economic Zones (SEZ) is applied, are reviewed in this article. Emphasizing the importance of foreign direct investment for overcoming the technological gap from the leading world economies, the authors discuss several SEZs selected for reasons of uniformity of their socio-economic status and purpose of creating SEZ mode in them. One of the main purposes for establishing the SEZ mode is the creation of investment attractiveness for projects, being implemented in these regions. Special Economic Zones of Technical Innovation Type (Tomsk), industrial type (Samara, Ulyanovsk, Elabuga) are analyzed in this article because these are the types of SEZ modes where borrowing is supposed, as well as introduction and development of modern technologies. In large-scale projects planned by the Government in these areas, participation of small businesses is almost ignored, which, from the point of view of the authors, harms the investment attractiveness of the projects. Identification of regional special characteristics of investment attractiveness of studied objects is carried out in comparison with the state of small business in these areas. Importance of small business development in the creation of a favorable investment climate is shown.

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1. Introduction

In one of his speeches, Director of Macroeconomic Research of High School of Economics (HSE) Sergei Aleksashenko named Russian industry as archaic. The Russian economy is in dire need for modern technologies. Existing technological gap in the industrial sector as well as in most other sectors of economy puts Russia at a disadvantage under the inevitable integration of Russia into the world economy and general civilization process. Russia's integration into the global economy, where the success of development is largely determined by a competitive industrial production, is passing against the background of complex political differences with the leading developed economies. However, no country can effectively solve its problem of economy modernization in isolation. Creating its own modern technological base without borrowing of advanced technology – is an impossible task.

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Borrowing technology is possible by purchase, by theft, by mutual exchange during implementation of joint projects, or as part of direct investment. The first three ways of borrowing 'Western' technologies are extremely difficult or completely closed for Russia in coming years. Also it is important to note that borrowing technology was not very successful before the introduction of sanctions against Russia either.

Few people today would not agree with the fact that foreign direct investment is a strategic factor for modernization of Russian economy. Despite the significance of today's commodity sector of the economy, despite the importance of the financial sector, only modernization of the real sector of economy will make it competitive. Russian leadership tries and puts a lot of effort to overcome the painful factors of economic transition, including the process of attracting foreign investment. Among these efforts is the creation of Special Economic Zones (SEZ).

2. Review of related research

A Special Economic Zone is defined by government of Russian Federation as a special part of Russia's territory, where a special mode of doing business is being applied (Federal Law "On Special Economic Zones in Russian Federation» N 116-FZ, July 22, 2005).

The tasks to be solved by Special Economic Zones include:

- transition from raw material export economy to a high-tech production inherent to innovation economy;
- development of industries with a high degree of processing and creation of favorable conditions for doing business in the development and production of competitive high technology products and services;
- development of port facilities and port services competitive with foreign analogues;
- development of tourism and sanitary resort activities;
- simplification of administrative regime for doing business and improving investment climate;
- ensuring competitiveness of Russia in the world community and its equal position.

There are four types of SEZ created in Russia:

- Industrial;
- Technical-implementation;
- Port and logistics;
- Tourism and recreation.

In this article we consider only the industrial SEZs. In Russia, there are five industrial SEZ - "Alabuga" in Elabuzhsky region of Tatarstan, "Lipetsk" in Griazinsk district of Lipetsk region, "Togliatti" in Stavropol region of Samara region, "Pskov" in Pskov region and "Titanium Valley" in Sverdlovsk region.

SEZ creation is not an invention of Russia. SEZs were created long time ago and are being created in the world nowadays. Goals of creating SEZ are not always the same. In developing countries, in contrast to industrialized countries, the emphasis in creating SEZ is to attract foreign capital, technology, industrial modernization, training of the workforce (Frolova T.A., 2010).

In Brazil, the country in many ways similar to Russia (according to the global rating agency Standard & Poor's, level of investment attraction in Brazil is similar to Russian), 30 years ago a free zone "Manauas" was organized in the impenetrable forests of Inner Amazon, which allowed to emerge more than 400 enterprises (which means - 400 residents) in the wildland, and this also gave jobs to more than a million of people. SEZ residents who placed their plants were LG, Siemens, Bosh and others.

In China, SEZs were the most important factor in the economic boom. Only in the last 20 years China has invested more than \$ 120 billion. Dollars in 37 SEZ (Andreeva A., 2006), which on average is 100 times more than Russia.

Table 1. The basic parameters of Russian industrial type of SEZ dated by may 2014, provided by Hubprom portal

	Investments, mln. rubles		Area, ha	Vacant plots, ha	Number of residents
	planned	implemented			
SEZ Lipetsk	17 789	7 533	1024	>400	23
SEZ Alabuga	83 211	16 439	2000	>1000	42
SEZ Moglino	2 881	-	215	>180	1

SEZ Togliatti	13 600	2 251	660	382	17
SEZ Titanium Valley	-	-	721		5

Ratio of residents in Russia's SEZs

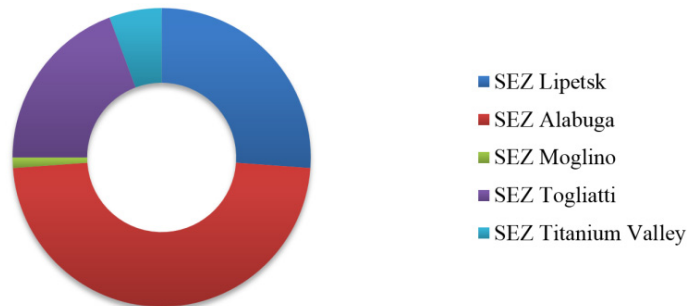


Fig. 1. The basic parameters of Russian industrial type of SEZ dated by may 2014, provided by Hubprom portal

Such a deplorable state can be explained by a whole variety of reasons. These are discussed by many researchers, please, see example (Keshisheva N.G., 2011). We focus only on the role of small and medium-sized enterprises.

Some authors cautiously speak about the role of small and medium-sized businesses in economy of the country in general and in particular in SEZs. Due to various circumstances, the State does not consider small business as the basis of economy. The attitude to small business, despite the endless stream of applications for its support, could be described as indifferent or even hostile to a certain extent. Among economists, along with positive assessments (Chudesova G. P., 2007), skepticism and underestimation of the role of small business are not uncommon (Kalabekov I.G., 2010).

3. Models introduction

«Small business has not yet been considered as an essential tool for development of regions in order to use it to overcome the socio-economic backwardness of some subjects. The main concentration of small business is in Moscow, St. Petersburg and their areas, representing 40% of the total number of small business in the country. Industrial structure of small businesses can not be characterized as progressive, because most of the enterprises are engaged in trade, and share of innovative companies is negligible. With this reality, Russian economy will depend on export of raw materials for a long time» <http://www.rosuez.ru/>.

Study on dependance of the state of small business in Volga Federal District with the volume of attracted foreign direct investment in period 2009-2013 showed a correlation. This analysis did not include small business relating to trade and enterprises directly related to oil and gas business.

Share of small business in gross regional product, normalized to 100 000 region's population was chosen as the parameter.

It is clear that such an analysis is quite rough, but it gives food for thought and allows to make a conclusion about underestimation of the role of small business in attracting foreign investment.

It should be recognized that, in general, creation of SEZ did not help borrowing of advanced technologies much yet. Implementation of major projects, during which sprouts of modernization of Russian industry could arise, even comparing the scale of Brazilian "Manaus", requires extremely large foreign investments. In current Russian conditions of high risks, potential investors do not come in such projects. They fear not only the total corruption, but also poor transport security, and administrative barriers. Large projects face the deficit of qualified personnel due to low density of population. Extremely low labour productivity also deters.

Table 2. Labour productivity in Russia and abroad by branches of economy (2008, in PPP dollars for 1 employee, at 2010 prices)

	Average productivity	Fish farming	Mining, energetics housing	Manufacturing	Construction	Trade, hotels and restaurants	Transport and communications	Other
	Total	A-B	C+EexceptD	D	F	G-H	I	J-P
USA	101 056	76 954	281 277	116 671	59 554	70 476	127 891	109 397
Norway	98 821	43 166	1 303 395	79 655	66 245	53 986	105 724	69 873
Spain	69 282	42 467	216 190	66 418	66 521	53 357	78 752	79 208
Russia	35 620	18 100	89 318	37 801	29 212	45 075	34 953	28 533

Lag from the United States (the leader of foreign countries) is 2.9 times, lag from the level of European countries - 2.2 times. This situation shows low efficiency of the entire economy, and at the same time, great potential for growth of labor productivity, even by borrowing of not the most advanced, therefore, cheaper foreign technology. Borrowing of such technologies is preferable for small business, because they are more accessible, and later, with development, their replacement with more advanced technology is not as painful as for large enterprises.

Tax exemption on profits is hardly interesting to the investor, because profits are to be only in distant future.

Therefore, we should rather rely on modest investments, on creation of companies with a small number of labor, thus we should bet on small and medium-sized enterprises. Investor, investing little capital in creation of company, would not rely on outdated technology.

4. Conclusion

In such formulation, Special Economic Zones can be considered as a kind of platform for developing government policies at the federal level for development of small and medium-sized business at the regional level, improvement of legislation and law enforcement practice. The emergence of a systematic approach to small business activity in SEZs would accelerate its development as well. Correctness of these findings today are exemplified by the Lipetsk and Tatarstan SEZs.

We should note about Tomsk technical-implementation SEZ. It was going to be closed, but this decision was changed and extended its existence up to 2055. Tomsk has a great scientific and technological potential. Creation of small enterprises that can not only produce test implementation, but also be a base for staff training and an experimentation platform, would greatly enhance the effectiveness of such SEZ.

Emergence of a large number of small enterprises in the real sector of economy will inevitably lead them to unite and desire to acquire political superstructure, defending their interests in the government. This will be an effective tool in the fight against corruption.

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