

Investments to the Innovation Economy of Russian Regions: Dynamics, Structure, Risks

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Abstract: The current research analyzes and assesses the investment climate of Russia since 2000 year. Also, it gives some predictions for short-run. The research is based on the key indicators which characterizes investment attractiveness of the Russian Federation. The researchers defined the most attractive areas for international investors. The research analyzes the investment structure and its change depending on domestic and outer economic threats. The analyze is the foundation for the opportunity to define weaknesses of foreign investing. The result of the research is that the absence of diversification of investment portfolio in the context of state partners is the threat to the Russia's investment portfolio. The study studies the regional aspect, implying that regions are potential objects for investing of foreign states and monitors main directions of the regional activity to define its growth.

Key words: Russia's economy, investment climate, foreign investment, external risks, internal risks, economic constraints, the dynamics of investment flows in the regions of the Russian Federation

INTRODUCTION

The accelerated dynamics of the 3rd world countries' development in recent decades allows them to take a fundamentally new approach with states which have retained the leading positions for many years. But, this process is accompanied by the intensification of the contradictions, the desire of major powers to maintain a dominant position on the world arena. To retain their positions, these states use a variety of methods and tools ranging from diplomatic, economic, ending the use of military arsenal. However, they are increasingly using economic measures. For these purposes, the financial constraints have been introduced: on the movement of capital, access to world markets, export-import operations. The essence of the restrictions is to create economic difficulties for an object of the impact with the aim of forcing it to buy expensive foreign credit, following the course which is beneficial for the dominant states or to abandon any economic actions that do not coincide with this course.

The Russian economy is no exception, as it was exposed to the economic constraints from the West. In view of this circumstance, the internal economic policy of Russia has been directed to the transformation of the domestic economy, creation of favorable investment climate and to 'fighting inflation'.

Organizations which promote the establishment of proper environment for attraction and effective application of investments, already exist in Russia. These organizations also directly engaged into promotion of Russia's business image and attraction of foreign investors. Firstly, we have to mention the Russian regional investment congress which goal is to improve investment climate in Russia's regions through experience exchange and coordination of activities between regional, federal researcherities and investors. Russian investment agency is engaged in attraction of foreign investments in Russia's economy by providing of assistance to foreign investors in getting an access to Russia's market and by promoting of Russia's business image through cooperation with international investment community. The union of R&D (innovative-technological) centers of Russia which helps to evolve the investment environment for development of small and medium-sized businesses in scientific-technically area and many others organizations which specialize in implementation of investment projects.

MATERIALS AND METHODS

However, these measures don't seem to be systematic and don't allow to solve problems of Russia's economy intensifying negative tendencies of the investment climate. Investments efficiency remains at low

level. This problem is highlighted by many specialists, including (Doroshenko and Manin, 2014; Glagolev and Vaganova, 2013; Vaganova *et al.*, 2015; Fliginskih and Mityushina, 2014). Quality of guaranties and terms of investing significantly vary from region to region (Bank of Russia, 2015). All of this provokes a necessity for conduction of scientific research by quantitative and qualitative analysis of Russia's investment climate.

RESULTS AND DISCUSSION

Main part: Let's examine a dynamic of investments into basic funds and intangible assets of Russian Federation (Fig. 1). After the peak point of the financial crises in 2010 the financial investments have been recovering. During the period of 15 years the investment inflow in Russian Federation had relatively positive dynamic, at the same time maximum inflow of investments was registered in 2014 in such industries as: oil and gas production and accompanying manufacturing industries in amount of 8,076 bln.rub., transport and communication 3,016 bln.rub., operations with immovable, rent and provision of services 2,355 bln.rub. If analyze allocation of investments in context of industries we can single out a tendency of putting foreign investors' capital in favor of oil and gas industry. From one point of view, for Russian Federation such character of investment has a positive effect, because incomes from oil and gas industry have significant share of total budget incomes. From other point of view we can also note negative tendencies concerned with strategically important industries of Russian Federation suffer from lack of sufficient investments.

Now a days, we can define several industries in Russian Federation which take considerable losses due to lack of funds for development from foreign investors. From such industries we can name the following: agriculture 498,5 bln.rub., metallurgical production 231 bln.rub., research and development 129,5 bln.rub., medicine 192 bln.rub. of losses only for 2015. The reasons which lead to such disproportion are lack of investors concernment in support of domestic industries, deficiency of motivational program from government which will put emphasize not only on production of oil and gas but also on development of others strategical industries for formation of more diversified and independent, so far, from oil and gas industry income clause in Russian Federation budget. Dynamic research of investment outflow issue and significant decrease of it's growth allowed to define a row of factors directly influencing investors interest:

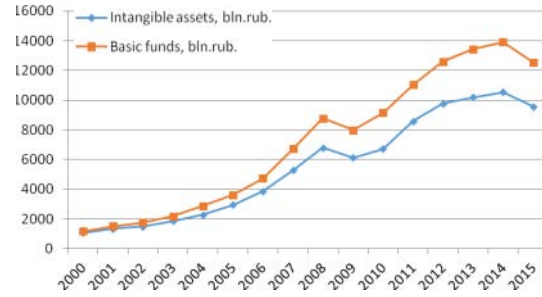


Fig. 1: Dynamics of investments into basic funds and intangible assets of Russian Federation from 2001-2015

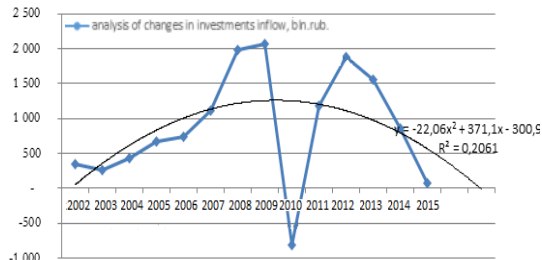


Fig. 2: Investment flow in economy of the Russian Federation

insufficient demand for domestic products, deficiency of own financial assets, high percent for commercial credit, investment risks, uncertainty of economic situation.

According to data provided by Federal state statistical service, during 2005-2013 years singular place in risk factors which influence investment attractiveness, is provided to uncertainty of economic situation as a leading factor predetermining the decision of investor on putting of funds into Russian projects. For approval of this fact we appealed to dynamic of investment flow from 2002-2015 and figured out the trend (Fig. 2).

Considering the information represented in Fig. 2, we determined a polynomial tendency with infirm rate of data credibility and considerable decreasing of investment flows in RF bordering with figures of 2008-2009 years which correspond with the period of financial crisis in the world economy. Despite the fact that the Russian economy occupies only a little part in the global financial system, it is increasingly affected by the external impact of financial restrictions, crisis, financial contagion and leak of funds. In this connection, we can observe that significant recessions of investment activity occur during the periods of so called economic instability. By analyzing of investments expansion growth during observable period, we can state that in 2015 absolute growth of investments amount decreased in comparison with 2014 and reached the amount of 78 bln.rub.

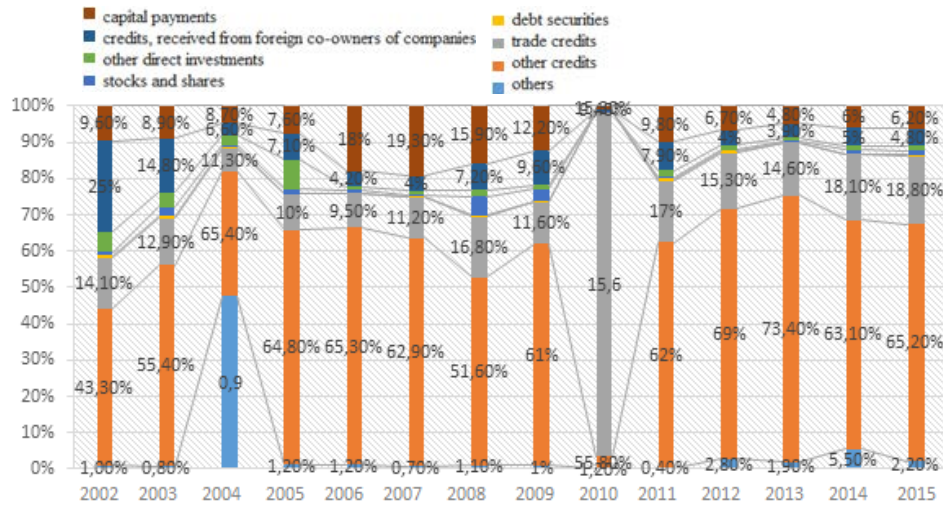


Fig. 3: Structure of investments in economy of Russian Federation in 2002-2015

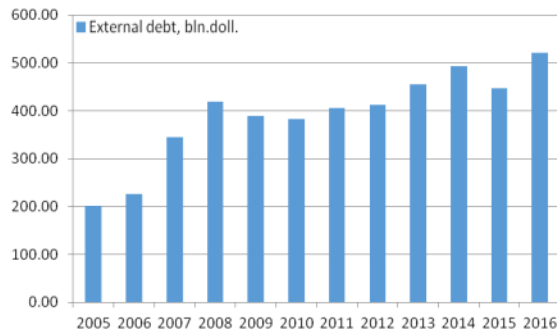


Fig. 4: External debt of Russia from 2005-2016 years, bln. doll

(Anonymous, 2015). In this connection, since 2010 year there's been a decreasing tendency of investments in Russia's economy in 1.2 bln.rub. per year in average.

In addition to decreasing growth rates of investments in economy, let us graphically depict the structure of investment financing sources from side of external investors and note it's risky character (Fig. 3). The structure presented shows that a significant risk, connected to external debt of the Russian economy, is the high level of dependence of domestic companies on foreign trade lending which leads to the increase of the external debt of the Russian Federation. It should be noted that the retail loans express corporate debt, primarily government-controlled corporations and banks and are considered as quasi-sovereign obligations (Kheyfets, 2012). When it comes to this position, the government has to take responsibility because of the threats to the stability of the economy as a whole. Since,

large companies and banks tend to borrow money from foreign creditors, the increasing amount of the external debt (Fig. 4) poses a threat to the economic security of Russia.

According to the bank of Russia, accumulated external debt of the Russian Federation in July, 2016 amounted to 524.5 bln.doll. and increased since the beginning of the year by 3 bln. doll. or by 0.6%. The increase of the external debt is the consequence of the activation of the acquisition by non-residents of sovereign debt instruments in rubles on the secondary market, as well as charges of Russian companies of dividends to shareholders. Trade credits, obtained as investments, bring significant risks for investing due to susceptibility to currency crisis because of growth of comparative volumes of currency crediting. Among the main risks connected with this form in investing are:

- Credit risks
- Risks of percent rate growth
- Currency risks

Research of dynamic and structure of investments in Russia's economy demonstrated, that besides the risks mentioned, the investment climate is affected by the lack of investment portfolio diversification in context of counties-counterparts. Now a days, an essential amount of investments belongs to China. Pausing for detail overview of Russian-Chinese relationships in attraction of investments into domestic economy we specify, that for 2 years period of cooperation Russian-Chinese relationships are continuing to develop rapidly. Oil pipeline from Russia to China was built and is currently effectively operating, joint ventures for prospecting and production of oil in Russia were established and the

construction of large joint oil processing plant was initiated in China. Russia and China do not limit their cooperation with energy industry. In 2015, despite not simple situation in world economy, RF managed to remain the same level of turnover. According to preliminary estimation, this figure will transcend 90 bln.USD. Perspectives of mutual trade development in 100 bln.USD will be achieved by 2017 and 200 bln.USD by 2020 (Nacs News, 2015).

Apart from the credit risk, there is a regional (internal risk) which impacts the investment climate of the country. Considering regional development of RF, we can note that growth of investment activity is demonstrated by regions which specialize in oil and gas industry, in particular Tyumen region 732 bln.rub. However, today we can observe an activation of regions with high-developed agricultural sector: Krasnodar region 199 bln.rub. (data for 1st half-year of 2015), Rostov region 94 bln.rub. and Saratov region with orientation for capital market: Moscow, Voronezh and Tambov regions. Positive factor in that case is that absolute growth of production from these cities is at least 10 bln.rub. in comparable prices, in Rostov region this indicator reached maximum level of 59 bln.rub. (NRA, 2015). Despite the optimistic dynamics, absolute figures are far from desired. In the first quarter of 2016, investment balance in these regions with foreign countries averaged a modest \$5 million.

Still a large part of foreign investments is in the primary sector which plays a significant role in the development of the Russian economy. In terms of economic constraints, the Russian Federation faces a real threat of reduction of investment income in a key sector. Recently direct foreign investments have been directed into a narrow segment of the Russian economy, mining, real estate operations and rent, i.e., the most reliable and stable industry. The Russian economy was in terms of economic constraints, when the most effective channels of influence on the investment climate are: a substantial degree of dependence on the dollar and attachment to external sources of funding, all of this leads to a high currency exposure. It is possible to neutralize this risk through a focused and consistent system of available and uninterrupted domestic credit, the activation of other sources of domestic resource mobilization, the development of the financial market, monetary policy, aimed at stimulating domestic production with use of intellectual potential of the country. Exit currency dependence and encouraging domestic production is the most reliable guarantee of improving the investment climate in Russia.

CONCLUSION

In general, the barriers standing in the way of improving the investment climate in Russia are the

Table 1: Main pros and cons of investments management

Advantages (+)	Disadvantages (-)
High profitability of investment	High risk
Favourable terms of proposal	Underdevelopment of taxation system
Rapid growth of various funds and share structures	Utilization of old business technologies and low interest for new research development

following: weak regulation of investment activity by the state, the imperfection of the Russian legal framework for the protection of investors. All this affects the business environment, increasing costs of doing business and forcing investors to seek more profitable investments in financial assets than in real sector of economy, despite the attractiveness of Russia in terms of possible prospects potential business opportunities. Using the method of financing multiple investment projects, offered by American scientists Flannery *et al.* (2015) also the results of the research of the investment climate of the Russian economy, the researchers picked out main pros and cons of investments management (Table 1).

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