

**Czech University of Life Sciences Prague**

**Faculty of Economics and Management**

**Department of Trade and Finance**



**Bachelor Thesis**

**Analysis of the Relationship between Foreign  
Investment and Russia's Economic Growth**

**Leonid Onishchuk**

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# **BACHELOR THESIS ASSIGNMENT**

Leonid Onishchuk

Economics Policy and Administration  
Business Administration

Thesis title

**The analysis of the mutual relationship between foreign investment and economic growth of Russia**

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## **Objectives of thesis**

Prove the existence of a relationship between economic growth and the volume of foreign investment poured into the national economy. In addition, the author wants to find the pattern of this relationship and characterise it, as well as to estimate the prospects of this international cooperation.

## **Methodology**

In order to reach the goals set in the chapter above, the author will primarily use a quantitative analysis that will include unanimously accepted techniques as SWOT, PEST and etc.

## **The proposed extent of the thesis**

35 – 40 pages

## **Keywords**

Investment, international relations, European Union, Russia, analysis, foreign investment

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## **Recommended information sources**

- Babitch, S. (2013) "A Statistical Investigation of Foreign Investment in the Process of Modernization of the Russian Economy: Regional Dimension", Russian Foreign Economy Journal, 6, 81-89
- Kuzub, T. (2009). Foreign Direct Investment in Russia during Crisis Period. North Caucasia Public Administration Academy Scientific Publications, 4, 124-129.
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### **Declaration**

I declare that I have worked on my bachelor thesis titled "Analysis of the Relationship between Foreign Investment and Russia's Economic Growth" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on 15.03.2022

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### **Acknowledgement**

I would like to thank doc. Ing. Lubomír Cívín, CSc., MBA and all other persons, for their advice and support during my work on this thesis.

# **Analysis of the Relationship between Foreign Investment and Russia's Economic Growth.**

## **Abstract**

The purpose of the study is to analyze the relationship between foreign investment and economic growth in Russia.

Theoretical aspects of foreign investment are considered, the role of investment in the functioning and development of the Russian economy is studied.

The theoretical part explores the theories of the impact of foreign investment on economic growth, a review of scientific literature confirming the impact of foreign investment on economic growth is made. And also a study of opinions on the impact of foreign investment on the economy of Russia is carried out.

In the practical part, the methodology of financing investments in Russia is given, the tendencies of attraction of foreign capital into the Russian economy are considered, the influence of foreign investments on the economic growth of Russia is evaluated, the policy of attraction of foreign investments into the Russian economy is defined, the measures of state support in the sphere of attraction of foreign investments are formulated. Thus, the paper investigates the factors of foreign investment's impact on economic growth and analyzes the impact of foreign investment on Russia's economic growth. Conclusions are made about the problems of investment activity in Russia. Further prospects for the development of foreign investment are outlined.

**Keywords:** Investment, National investment activity, climate, economy, investment potential, foreign investment.

# **Analýza vztahu mezi zahraničními investicemi a ekonomickým růstem Ruska**

## **Abstract**

Cílem studie je analyzovat vztah mezi zahraničními investicemi a ekonomickým růstem v Rusku.

Jsou zvažovány teoretické aspekty zahraničních investic, studována role investic ve fungování a rozvoji ruské ekonomiky.

Teoretická část zkoumá teorie vlivu zahraničních investic na ekonomický růst, je proveden přehled odborné literatury potvrzující vliv zahraničních investic na ekonomický růst. A také se provádí studie názorů na dopad zahraničních investic na ekonomiku Ruska.

V praktické části je uvedena metodika financování investic v Rusku, jsou zvažovány tendence přitahování zahraničního kapitálu do ruské ekonomiky, hodnocen vliv zahraničních investic na ekonomický růst Ruska, politika přitahování zahraničních investic do ruské ekonomiky. je definována ruská ekonomika, formulována opatření státní podpory v oblasti přitahování zahraničních investic. Článek tedy zkoumá faktory vlivu zahraničních investic na ekonomický růst a analyzuje dopad zahraničních investic na ekonomický růst Ruska. Jsou učiněny závěry o problémech investiční činnosti v Rusku. Jsou nastíněny další perspektivy rozvoje zahraničních investic.

**Klíčova slova:** investice, nacionální investiční aktivity, klimatické, ekonomie, investiční potenciál, zahraniční investice.

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## List of Abbreviations

**VAT** – Value Added Tax

**GDP** – Gross Domestic Product

**COVID-19** – Coronavirus 2019

**RF** – Russian Federation

**U.S** – United States of America

**EU** – European Union  
**FDI** – Foreign Direct Investment  
**GNI** – Government National Investment  
**R&D** – Research and Development  
**GNP** – Gross National Product

## **1. Introduction**

The beginning of the third decade of the 21st century was marked by a new global economic crisis caused by the COVID-19 pandemic and affecting all areas of society.

An investment policy is an important component of the response to the pandemic. Therefore, states that are interested in attracting foreign investment directly into the national economy seek to create the most favourable conditions for investment activity, while forming such a legal regime that determines the basis for the activities of all foreign entrepreneurs in the conditions of the national economy.

The aim of the study is to analyze the relationship between foreign investment and economic growth in Russia.

In order to achieve the goal, the following can be defined:

- To investigate foreign investment as a factor of economic growth.
- To analyze the impact of foreign investment on the economic growth of Russia.

The object of the study is foreign investment.

The subject of the study is the process of analyzing the relationship between foreign investment and economic growth.

When writing this work used regulatory and legal materials, guidelines, instructions, as well as monographic and other publications.

The degree of development of the problem. The theoretical and methodological basis of the research is the studies of famous Russian and foreign scientists: I.A. Blank, S.B. Bogoyavlensky, S.N. Vorobyev, D.V. Domashchenko, R.M. Kachalov, I.Y. Lukasevich, L.N. Mamaeva, E.S. Stoyanova, B.P. Titarenko, A. Damodaran, J. Broad, J. Russell, etc.

The analysis of statistics and publications shows that despite the extensive elaboration of organizational and investment assessment issues, the provisions of the theory and methodology of investment management in the food industry do not meet the modern requirements of theory and

practice. Improvement of mechanisms of management of the process of investment financing is an actual scientific problem, which has practical and theoretical value for innovative development.

Structurally, the work consists of an introduction, two chapters, a conclusion, a list of references. The final stage of the work is the conclusions arising from the study of this topic.

The theoretical and practical significance of the study. The approaches proposed in the study allow assessing the effectiveness of investment projects in crisis situations. The discrete investment organization model proposed within the framework of the study allows us to determine the level of investment in the food industry in Russia, to analyze the effects of changes in state tax policy and macroeconomic parameters on investment activity.

## **2. Objectives and Methodology**

### **2.1 Goals and Objectives**

The main objective of the work is to describe what was happening with the Russian economy with the regard to foreign investment prior to the events of late February 2022, i.e., before the outbreak of the armed conflict in Ukraine. To be more specific, in his work, the author wants to analyse the extent to which foreign direct investment (from this moment on, will be referred to as FDI) has impact on the economic growth of the Russian Federation, how foreign direct investment prompts macroeconomic indicators to either go up and down and what is the general pattern of the relationship between FDI in Russia and its economic growth.

### **2.2 Methodology**

The methodological basis of the study is a systematic approach based on the study of a set of factors determining the development of foreign investment in the modern economy. The methodological basis is the basic provisions of economic science, general scientific methods of knowledge, induction and deduction, synthesis, logic, analysis, classification, analogy, as well as dialectical and empirical methods (observation, comparison). The use of the dialectical method allowed the author to analyze the theoretical nuances of foreign investment. Studies of Russian and foreign scientists were used.

In the studied sources of literature, the authors focus on the description of methods, algorithms and modelling processes. The main theoretical developments in the field of financial modelling began to evolve with the improvement of information technology, allowing to perform modelling in an automated mode. Among caveats and recommendations put forward by the authors, we'll especially underline that it's enough to use simple programs to build a qualitative model, as the main function of a program is to perform calculations. And main parameters of model quality depend on the actions and ideas of its creator.

Two conditions are necessary to implement high-quality modelling:

1. It is necessary to estimate the probability distribution of each of the main input variables that appear in the financial model.

2. The ability to implement the calculation of multiple outcome options.

For example, simulation modelling considers four basic types of scenarios:

1. good future market conditions (growth in demand and prices).
2. Stable business environment (preservation of existing trends).
3. Unfavorable (decrease of market capacity, growth of prices for raw materials and materials).

4. very unfavourable (significant unfavourable change of all factors).

When using the scenario method, it is often assumed that detailed forecasts of cash flow parameters will be made only for the most probable and stable scenarios. The parameters of the resulting cash flow are used as reference values, and the parameters of other scenarios are determined relative to them.

The preliminary stage of expert analysis is brainstorming and interpreting the largest list of advantages, disadvantages, opportunities, and threats. Interpreting or broadly interpreting what any article means is a must. This allows common statements and clichés to be highlighted in order to achieve common conditions.

The context of individual product types must be taken into account to determine the value of product loss. The stage of loss generation, is the type of loss at each stage.

The presented Thesis had been prepared using the information, data and analysis framed by the end of the year 2021. The next after this deadline developments couldn't be reflected in the analysis done.

### 3. Theoretical Part

#### 3.1 Definition and Mechanism of Foreign Direct Investment

Foreign Direct Investment or FDI is defined a form of investment done by a company or an entity situated in another country who owns an entire company or a share in another country. The importance and frequency of FDI related occurrences has significantly increased over the century due to the growing rate of globalization and the fact that companies started to interact with each other more often. Undoubtedly, it is quite evident that almost every state on Earth is dependent on another state thus creating a complicated economic environment where cohabitation is considered as a key factor to thrive and be successful.

However, before going into detail and assessing the potential effect of FDI on Russian Economy, it is essential to understand the mechanism that helps the author to suppose that the phenomenon of foreign investment might have any effect on the economic growth of a country at all.

Economic growth is related to the positive change in fundamental macroeconomic indicators. There are plenty of them such as unemployment, inflation rate, gross domestic product and balance of payments. However, the most fundamental indicator that is usually used for assessing an economic growth is GDP, standing for the gross domestic product. Nominal GDP expresses the monetary value of all goods and service produced within a given country over the time period of one year. There are plenty approaches to measuring GDP, but the author would like to concentrate on one specific one which views the GDP equation as it is described on the Figure down below.

$$GDP = C + I + G + NX$$

*GDP = Gross Domestic Product*

*C = Consumption*

*I = Investment*

*G = Government Spending*

*NX = Net Exports*

*Figure 1, GDP equation*

As it is possible to see it, one of the integral parts of the GDP equation is Investment and it is vital to explain the mechanism according to which it has any effect on the GDP and economic growth of a country (Giacomo D'Alisa, 2014).

Whenever a foreign company sets its foot into a foreign environment and starts conducting a business activity there, the company automatically becomes the subject to taxation and such companies, despite being registered overseas, are bound to pay taxes to the country where they are earning profit. Evidently, it is quite logical since they are offered a protection in a foreign country, so those companies have to give something back to the state in return for the protection offered. Hence, such a company does not only fill up the budget of a given state with revenue by paying income tax, but this company also produces goods in a foreign country, so the indicator of GDP goes up and, quite evidently, whenever the indicator of GDP goes up, it is fair to suppose that there is a positive change in the national economy and an economic growth is presumed.

On the contrary, there is another indicator and people using that one might argue about the presence of economic growth. This indicator is called GNP and it stands for the Gross National Product. This indicator measures the very same thing with one important note – it measures the value of goods and services produced by citizens of a given country. If, for instance, a Japanese company with Japanese workers is operating in Russia, the goods and services produced by them would form a part of Russia's GDP. However, according to the GNP index, there will be an increase in the GNP of Japan (Brezina, 2011).

$$GNI = GDP + (EX_{FS} - IM_{FS})$$

*GNI* = gross national income

*GDP* = gross domestic product

*EX<sub>FS</sub>* = money flowing from foreign countries

*IM<sub>FS</sub>* = money flowing to foreign countries

*Figure 2, GNP formula*

Hence, it is possible to see that there are various approaches to speculating about the possible economic growth and the effect that FDI has on this economic growth of a given state.

### 3.2 Theories of the Impact of Foreign Investment on Economic Growth

The most important factors in any country's economic growth process are commercial transactions and foreign investment. The opening of the market to economic growth is mainly due to the accumulation of natural capital and the transfer of technology.

“Foreign investment expands export opportunities in the host country and leads to increased foreign currency profits, mainly in developing countries. They also increase the provision of funds for domestic investment, encourage job creation, enhance technology transfer, and increase overall economic growth” (Sun, 2002). Foreign investment is becoming increasingly important in the current era of globalization. The world is becoming increasingly interconnected not only through international trade but also through the flow of capital.

International investment is divided into the following categories: foreign direct investment and foreign portfolio investment.

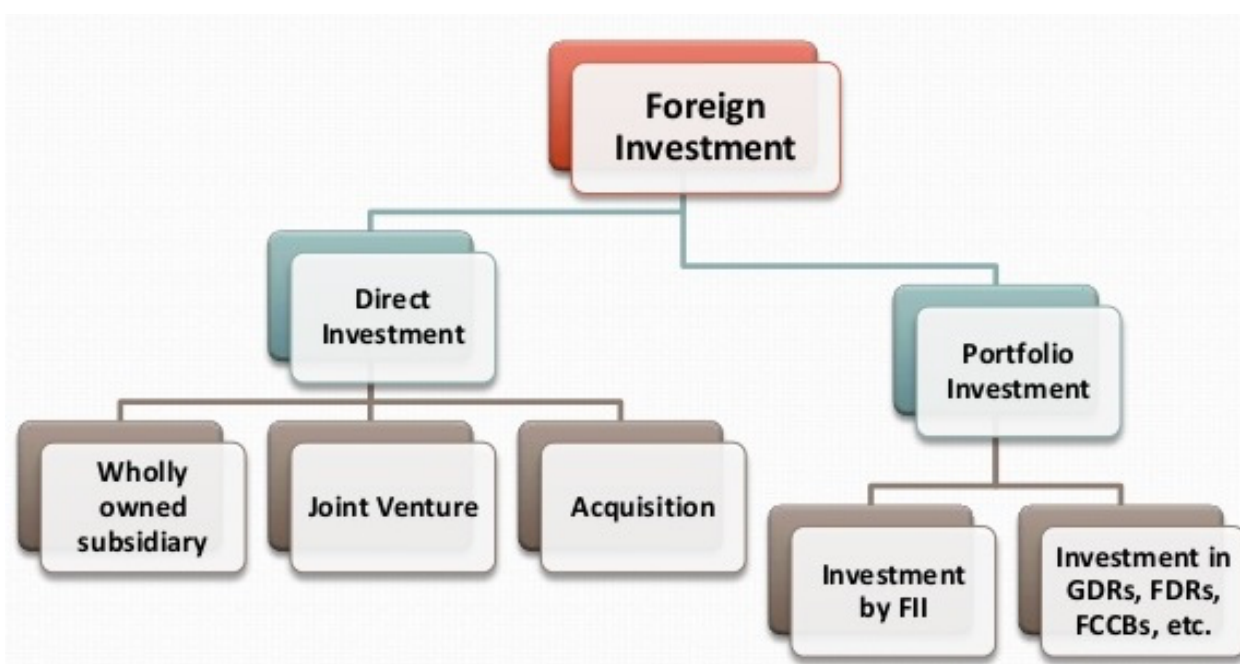


Figure 3, types of investment

In addition to these two, international capital flows also include commercial loans and official flows. An example of commercial credit is a bank loan to a foreign business or government. Meanwhile, official flows are various kinds of financial assistance from donor countries to other countries.



Foreign direct investment is a long-term investment and assumes control over the assets. Investors can adopt an organic strategy by building new production facilities. They can form joint ventures with foreign companies or create subsidiaries in the destination country.

Alternatively, investors can use an inorganic strategy. They acquire foreign companies in the destination country. This strategy works faster than organic growth. In addition, investors can also avoid competitive reactions from competitors in the destination country. Private equity profits come from dividends, royalty payments, retained earnings and management fees.

Foreign direct investment contains some advantages for both investors and destination countries. Some of the benefits of direct investment for investors are as follows:

First, direct investment is a way to develop business in the long term. Companies get better access to the market. They can use their core competencies to tap into target markets.

Second, investors can diversify their income. They do not depend on income from their home country. Direct investment is becoming increasingly important, especially when markets in the home countries have matured or contracted.

Third, investors can gain access to strategic resources. They open production facilities to take advantage of cheaper labour, proximity to raw materials, and lower taxes. They also take advantage of technological advances in the destination country.

Fourth, investors have complete control over the investment. Private equity allows investors to gain controlling shares. They actively manage the company in which they invest, so they are fully responsible for the risks and returns of the business. They can transfer technology, brand name, or managerial expertise to achieve the goal and maintain a competitive advantage in the destination country.

Fifth, investors can access potential funding sources in the destination country. They can perform roundabout manoeuvres, using a subsidiary to borrow from the local capital market and then repay the loan to the parent company.

Foreign capital creates more jobs, economic growth, and wealth in the destination country. At times, however, there has been some resistance to this. Foreign capital creates economic instability, especially through short-term shifts in capital flows.

Meanwhile, the advantages of direct investment for the destination country are as follows:

First, the inflow of foreign investment stimulates economic growth. When foreign investors build factories, it increases production, creating more jobs and income.

Second, the foreign direct investment provides a potential inflow of funds into the economy. It provides capital to finance new industries and develop existing ones.

Third, direct investment is a means of technology and knowledge transfer. It is important to improve the quality of resources and potential output in the economy.

Fourth, direct investment promotes competition. It reduces the monopoly power of local firms and stimulates innovation and efficiency.

Fifth, direct investment contributes to corporate tax revenues. Creating a subsidiary increases the number of companies and the taxpayer base from the business sector.

Sixth, direct investors typically have long-term commitments. Thus, it is less prone to reversals than portfolio investments. They are less likely to pull back at the first sign of trouble. (Gregorio, 2005)

Article 2 of the Law on Foreign Investments defines foreign investment as an investment of foreign capital in the object of entrepreneurial activity in the RF in the form of objects of civil rights owned by a foreign investor, if such objects of civil rights are not withdrawn from turnover or are not limited in turnover in the Russian Federation in accordance with the federal laws, including money, securities (in foreign currency and currency of the RF), other property, property rights having monetary value exclusive rights for the results of investment activity.

An investment policy is an important component of the pandemic response. Therefore, countries interested in attracting foreign investment directly into the people's economy strive to create the best possible conditions for investment activity. Foreign investment in the global economy is increasingly the engine of global progress and economic growth.

### **3.3 Review of scientific literature confirming the impact of foreign investment on economic growth. Factors of Influence of Foreign Investment on Economic Growth**

As in other cases, "FDI is an important vehicle for technology transfer, contributing to relatively greater growth than domestic investment; however, the higher productivity of foreign investment persists only when the host country has a minimum threshold stock of human capital". (Borensztein, 1998)

A study by Gunby, John and Robert Reed found that artificial intelligence has a weaker effect on economic growth than modern prices. "Artificial intelligence has a greater impact on per capita output growth than investment in U.S. states that have a minimum human capital threshold". (Tang, 2008)

Alvarado, Iñiguez, and Ponce investigated that "foreign investment positively and significantly affects products in higher-income countries, while levels are unequal and insignificant in higher-income countries". (Alvarado, 2017)

Assessment of investment attractiveness can be carried out in several stages and contain a number of directions. As a minimum, experts distinguish the following important aspects of

assessment: calculation of cash flow balance; assessment of economic efficiency; risk assessment; sensitivity analysis; assessment of social efficiency, etc.

E. Schislyaeva singles out the following main areas of economic calculations: "net discounted income, profitability index, internal rate of return, payback period". (A, 2018) The methodological recommendations (second edition) provide a basic scheme of performance evaluation, which includes 2 stages of evaluation. The scheme of the first stage is presented in Figure 1.1.

Figure 1.1 also shows that there are two main stages - evaluation at the level of the project as a whole and evaluation at the level of individual participants.

V.M. Ryabov notes that "evaluation of effectiveness examines the extent and effectiveness of the participation of the state, other businesses, various higher structures, as well as equity investment". (Rudyk, 2019)

Russian methodologies for assessing project efficiency are based on foreign developments of the World Bank and UNIDO (Figure 1).

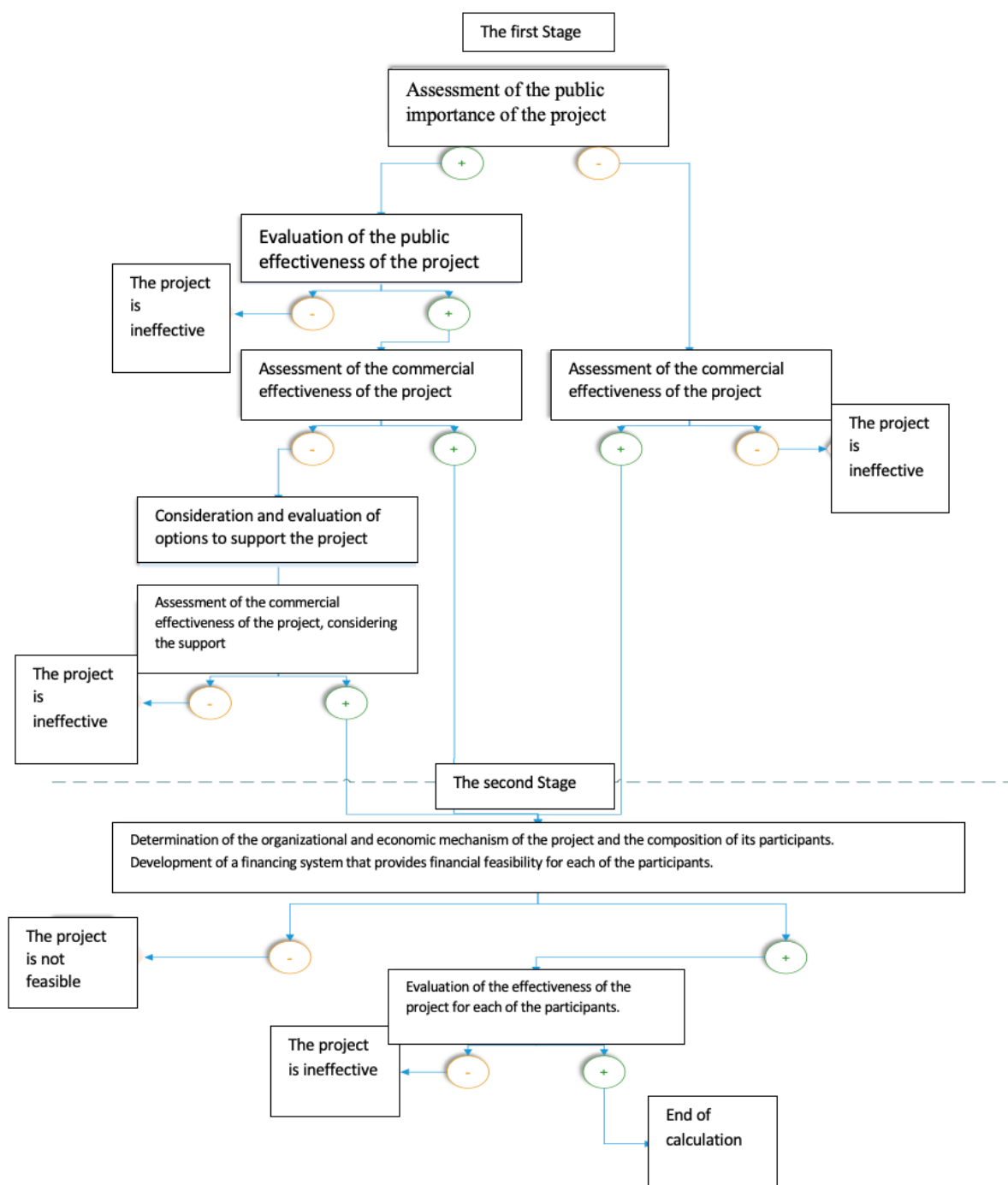


Figure 4, The basic scheme of assessing the effectiveness of an investment project. Source Spasskaya

I.H. Seyukov and V.P. Smolkin describe the mistakes often repeated by analysts when evaluating projects: "when making calculations, sometimes various technological, organizational, environmental and other indicators are not taken into account, cash flows are measured without taking into account inflation and the probability of an increase in fixed costs, forecasts are often made on optimistic assumptions, data on capital requirements are distorted, construction periods are downplayed, etc.". (Krapchatova, 2018)

In determining the economic efficiency should be guided by the following principles: compliance with the interests of the project investor, the key criterion - the net profit, the evaluation time interval is determined by the estimated period, necessarily simulate cash flows, it is necessary to take into account the specifics of the industry in Russia.

N.A. Khomyachenkova describes the following approaches to the assessment of investment attractiveness: "an approach that takes into account risk and uncertainty factors; an approach based on an integrated assessment of financial, budgetary and socio-social efficiency". (Fedotova, 2017)

N.A. Starostina gives a list of important principles that should be taken into account when evaluating effectiveness. These are "principles of comprehensiveness, adequacy, systematicity, objectivity, diversification, correctness, limited resources". (Makhovikova, 2017)

The article by M.S. Kuvshinova, N.S. Komarova and M.I. Bazhanova give "a method of integral assessment, in which various financial indicators are brought together into a single integral indicator". (Kirin, 2018)

In the author's opinion, it is not worthwhile to use either the risk and uncertainty method or the integrated method separately in the research process. The integral assessment method is not suitable, because it does not provide detailed information on the different areas of effectiveness. The other two methods should be combined. This is important because without assessing the main economic indicators it is impossible to assess the commercial efficiency, at the same time dry analysis of the numbers will not be enough - it will need to be supplemented by the analysis of risks and uncertainties.

An empirical study by Saki, Commodore, and Opoku, conducted in Ghana between 1997 and 2011, found that increasing the influx of artificial intelligence causes positive GDP growth in the long run.

### **3.4 Study of opinions on the impact of foreign investment on the Russian economy**

Foreign direct investment in the Russian economy has been steadily declining in recent years, while the inflow of funds abroad has been increasing. The main reasons are international sanctions, growth of crisis trends and aggravation of the geopolitical situation in the world. Under the new conditions, venture business is winning, and enterprises with foreign investment from China, India and South Korea are emerging. At present, it is extremely important to attract capital from abroad, and this requires special attention.

Investment in terms of macroeconomics is an investment in capital, money, and goods of individuals and entities owned by the state and municipalities. What does economics mean by investment in the microeconomic sense?

As noted, the microeconomic concept of investment will coincide with the macroeconomic in relation to the investment process carried out by the subject in its entirety.

Clarification of definition is necessary in case of a plurality of subjects of the investment process, in order to clarify the content of investment relations with each of them.

Monetary investments involving the receipt of funds of those who make them will be considered as investment investments in cases where the counter security of the investor (the creditor) by the debtor will be considered significantly greater than that provided by the investor (the creditor) of the debtor.

The role and place of investment are shown in Figure 2. (Blank, 2011)

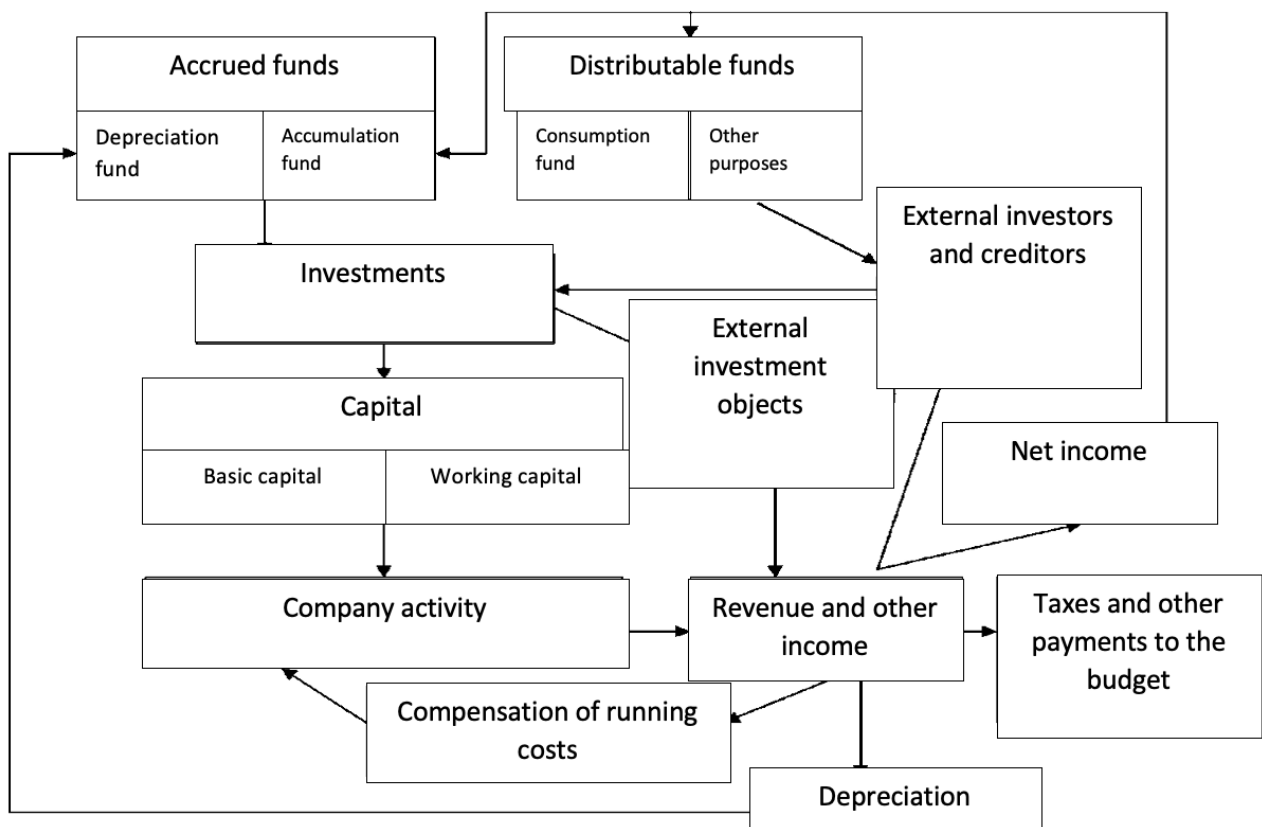


Figure 5, Circulation of capital

Traditionally, 4 main models of national investment system are considered at the global level:

- Euro-Atlantic,
- East Asia,

- alternative
- in the triple helix model.

These models generally reflect the features of investment processes (methods of financing, the main direction of investment, forms and methods of stimulation of investment activity, the degree of development of investment infrastructure objects).

The investment process is the process from the accumulation of investments to their actual use. It can be said that investment activity is the basis for the distribution of the main production assets of the company. The investment cycle (duration) includes one turnover of investments made by the company from the moment of accumulation of funds in the target object of investment to the moment of return on investment. As a rule, the investment cycle is the period between the investment of money in the object of investment and the full return to the investor or investors (considering the discount). Only after the return on investment the use of investment objects brings profit and increase investment capital.

The main stages of investment are different:

- 1) Conversion of available financial resources into capital investments (costs), i.e. direct investments (i.e. investments) for the purpose of investment activity.
- 2) Conversion of investments into an increase in the capital value of the target object of investment, characterizing the final consumption of the investment and obtaining new value (in the form of a trusted target and production capacity).
- 3) Increase in the value of capital in the form of income (profit), i.e. Realization of the immediate goals of investment.

Based on the concepts of investment activities, traditionally distinguished the following stages of its implementation: "pre-investment stage, investment stage, project implementation and post-investment stage". (Limitovsky, 2018)

Conditions favourable to the implementation of investment activities in the food industry arise in the following cases:

- State establishment of tax regimes conducive to investment activity.
- Legal safeguarding of investors' interests.
- Possible use of natural resources on preferential terms.
- Improvement of investor's rating by means of advertising campaigns.
- Wide competition on the market.
- Loyal credit policy.
- The use of financial leasing mechanisms.
- Correlation with the rate of inflation of the company's fixed assets.
- Registration of own investment funds.

Investment activities are classified according to a number of characteristics:

- Direct investment - that is, direct investment in the production of goods or services or the development of the object of production.
- Loan activity - granting a loan or credit to a business entity in order to receive increased interest on the debt obligations in case of successful implementation of the project.
- Portfolio activity - through the purchase of a package of securities - does not involve the investor in the direct operation of the company, but only the receipt of dividends from the profits.

If considering the degree of participation in investment activities, the following can be distinguished:

- Direct - that is the investment of money in any currency.
- Indirect - by investing intellectual or proprietary rights.
- The most common real (financial) investment allows the investor to manage the organization.

Most citizens of the Russian Federation believe that foreign investment is primarily an inflow of foreign currency from abroad in order to make a profit in the future. But in fact, the picture is more complicated.

There may be not only monetary investments but also, for example, investments in intellectual property or property.

Foreign investors can be foreign branches of domestic firms or offshore companies owned by Russian oligarchs. It would be more appropriate to describe the concept of "foreign investments" as any assets (material and intellectual) that are invested by non-residents of the Russian Federation into the Russian economy for the purpose of financial gain.

Russian legislation, as far as organizational and legal forms of business are concerned, does not classify residents and non-residents of the Russian Federation. All investors wishing to register this or that form of business in the Russian state register of legal entities must follow the same laws and rules. This approach ensures that every entrepreneur can expect to receive foreign investment.



## 4. Practical Part

### 4.1 Methodology for Financing Investments in Russia

After the 2008-2014 crisis, the structure of the Russian economy changed dramatically. "At present, the effects of oil and gas complex growth and improvements in the economic situation are significantly weakened and in the long term cannot exceed 1.5% of gross domestic product growth.

#### The structure of Russia's Exports 2014

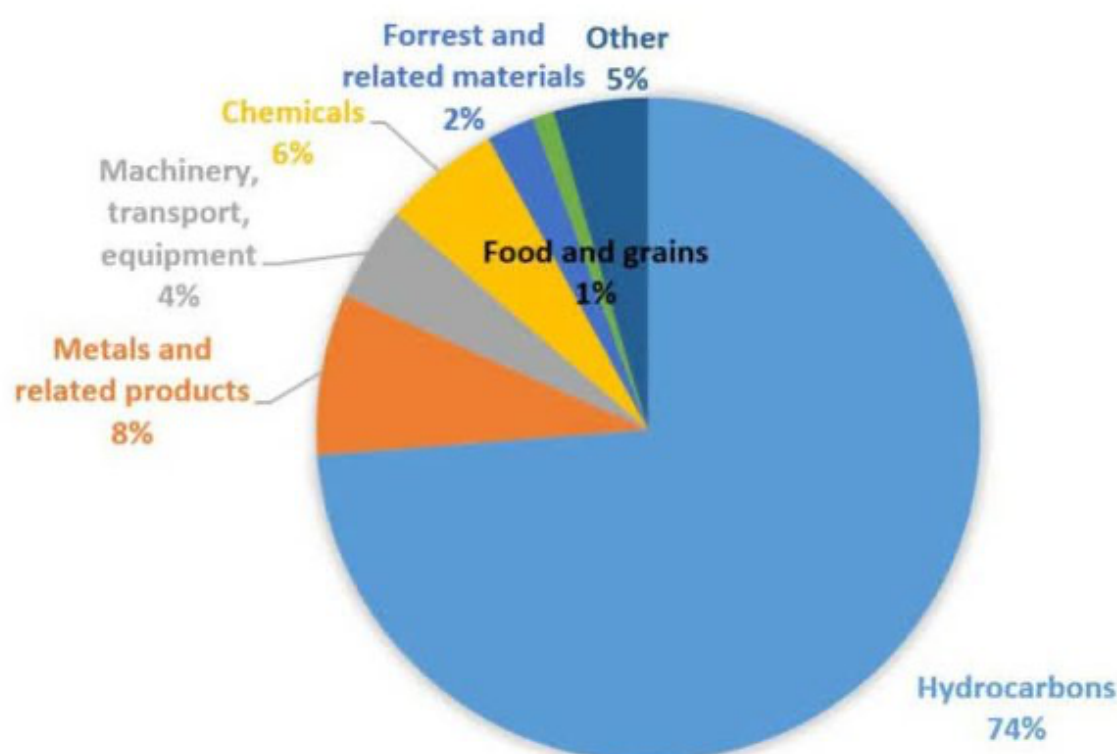


Figure 6, structure of Russian exports in 2014. Source: Statista

The contribution of employment and capital accumulation is estimated at 1.3-1.4%, but the employment effect is assessed as negative due to a significant reduction. The role of innovative growth scenarios increases significantly. It is estimated at 1.5-1.8% in the scenarios of innovative development and accounts for more than a third of the projected economic growth.

Investment is first and foremost an investor's view of the future. In addition to improving the operating environment, investors need to reduce uncertainty and risk, particularly through the principles established by law: predictability, transparency, credibility and accountability. Finance

is one of the main criteria for corporate performance, including in the area of commerce. Thus, financial activities (finances and cash flow within a company) are a source of business support. The source of goods and commercial flow is financial flows". (Federal State Statistics Service, 2020)

The movement of goods and services and finance takes place in such areas as fixed assets, raw materials, labour, production indicators, the state of trade in services, the market for buying and selling, and the financial market. The complex system of monetary circulation is directly linked to the source of finance.

Russia's judicial system remains heavily biased in favour of the state, leaving investors with little recourse to litigate with the government. Despite ongoing efforts to fight corruption, the high level of corruption among officials exacerbates this risk.

In February 2019, a prominent U.S. investor was arrested in a commercial dispute and remains under house arrest. In addition, Russia's import substitution program imposes local content requirements that create advantages for local producers.

Finally, Russia's actions since 2014 have led to numerous EU and U.S. sanctions that limit business activity and increase spending (Figure 3).

Measure	Year	Index/Rang	Website Address
TI Corruption Perception Index	2019	27 of 180	<a href="http://www.transparency.org/research/cpi/overview">http://www.transparency.org/research/cpi/overview</a>
World Bank Report on Doing Business	2019	28 of 190	<a href="http://www.doingbusiness.org/en/rankings">http://www.doingbusiness.org/en/rankings</a>
Global Innovation Index	2019	46 of 129	<a href="https://www.globalinnovationindex.org/анализ-индикатор">https://www.globalinnovationindex.org/анализ-индикатор</a>
U.S. FDI in the partner country (millions of dollars, historical stock market positions)	2018	\$14,795	<a href="https://apps.bea.gov/international/di1usdbal">https://apps.bea.gov/international/di1usdbal</a>
GNI per capita of the World Bank	2018	\$10,230	<a href="http://data.worldbank.org/индикатор/NY.BHП.РСАР.СD">http://data.worldbank.org/индикатор/NY.BHП.РСАР.СD</a>

Figure 7, Key Indicators and Rating. Source: World Bank

U.S. investors need to enforce U.S. sanctions in full, including against Russia in Ukraine, election interference, other malicious cyberattacks, human rights abuses, chemical weapons use, and illicit trade with North Korea, Syria, and Venezuela. In 2020, the turbulence and uncertainty caused by COVID-19 caused foreign direct investment (FDI) in Europe to decline by 13% from 2019 to 5,578 inward investment projects.

Despite this, foreign companies still view Europe as one of the most stable, skilled and developed regions in the world for long-term investment.

Reflecting long-term optimism about Europe as an investment destination, 63% of respondents believe Europe's attractiveness will improve over the next three years.

With 141 FDI projects in 2020, Russia ranked eleventh among Europe's top 20 investment destinations. FDI projects in Russia declined by 26% year-on-year (191), reflecting a broader trend across Europe: the average decline in European countries with negative FDI growth was 21%.

The number of FDI projects attracted by Russia in 2020 was close to the number in 2014, with international investors undertaking fewer projects than they would have in more favourable market conditions. The COVID-19 pandemic, combined with fears of imminent sanctions, had the greatest impact on their decisions.

As in 2019, Germany topped the list of the largest investors in the Russian economy 2020. Half of the German funds were invested in agri-food production, reflecting the growing attractiveness and profitability of the sector. Germany has always been among the leading countries investing in Russia.

Over the past two decades, German companies have carried out 418 projects, more than in the other European countries covered by the research.

China and the U.S. shared second place in 2020, with 15 projects each, 32% and 25% less than a year earlier. As with German investors, more than half of U.S. companies invested in the agri-food sector. U.S. companies operating here emphasize the continued importance of Russia to their business: Russia is a leading emerging market, and a presence here is a strategic decision for many international players.

China remains focused on high-tech, with electronics taking the lead in software and IT services as the most attractive sector for Chinese investment in 2020.

Italy climbed from seventh to third place, doubling the number of projects in Russia from six to 13, and is now reclaiming its title as the leading investor in the Russian economy after reducing its portfolio of projects in 2019. Machinery and equipment attracted more than half of Italy's investment.

India and Sweden were among the top 10 investors in Russia for the first time in a decade.

Manufacturing remained the most attractive activity for foreign investors in Russia. The number of manufacturing projects was unchanged from 2019 at 107, mainly due to investors from Germany, China, Italy and the United States.

The number of sales and marketing projects declined as many companies were less active on the media and promotion fronts during the pandemic.

Thanks to eight projects, including three from India, business services--for the first time ever--were in the top three, ranking third in popularity in 2020.

Industries: Agri-food tops the rankings for the sixth consecutive year.

The agri-food sector remained the largest sector attracting foreign investment in Russia, with 42 projects announced in 2020. Among the key factors contributing to its attractiveness were import substitution initiatives and the food embargo imposed in 2014. Germany and the U.S. were the main investors in the agri-food sector.

Machinery and equipment were the second largest sector for investment, mainly from Italy, Germany, the US and China.

Furniture, wood, ceramics and glass, chemicals, plastics and rubber shared the third and fourth places.

Moscow and the Moscow region remained the main destinations for foreign investment in Russia. The largest number of projects were created by France, Germany and the United States. A year earlier, France was also the largest investor in Moscow and the Moscow region, investing in 16 projects.

The most attractive industries in Moscow and the Moscow region were machinery and equipment and agri-food products. Moscow and the Moscow Region have always been a magnet for investors and business activity. Thanks to its developed infrastructure, extensive market and high positions in the national investment rating<sup>2</sup>, Moscow and the Moscow Region continue to be attractive investment destinations.

There were 16 FDI projects in St. Petersburg and the Leningrad region, with Germany as the main investor.

The third-largest investment destination was Tatarstan, where 10 projects were announced in 2020 (+11% year-on-year). China was the leading investor in the region, investing in manufacturers and suppliers of electronics and vehicles. Since 2015 Tatarstan has been in the top three regions with the best investment climate and has been ranked first three times in the National Investment Ranking of the ASI.

Kaluga region is also a leader, with furniture, wood, ceramics and glass being the largest sector attracting foreign investment.

## **4.2 Trends in attracting foreign capital to the Russian economy**

In 2020, direct foreign investments decreased fourfold and amounted to \$8.6 billion. Of these, \$9.2 billion were foreign investments in Russian investment projects (Figure 4).

	2010	2015	2018	2019	2020
Direct investment	9'448	15'232	22'592	-	-
To Russia	43'168	6'853	8'785	31'975	9'245
From Russia	52'616	22'085	31'377	21'923	5'722
According to the Bank of Russia. Data are presented in accordance with the asset/liability principle. The sign "-" means decrease.					

Figure 8, Dynamics of direct investments of the Russian Federation. Source: Bank of Russia

Over the past ten years, investments in the Russian economy became minimal for foreign investors in 2015, following the events in Ukraine, the global crisis, and the imposition of economic sanctions against Russia. There was a total of 6, 8 billion dollars. (Figure 5)

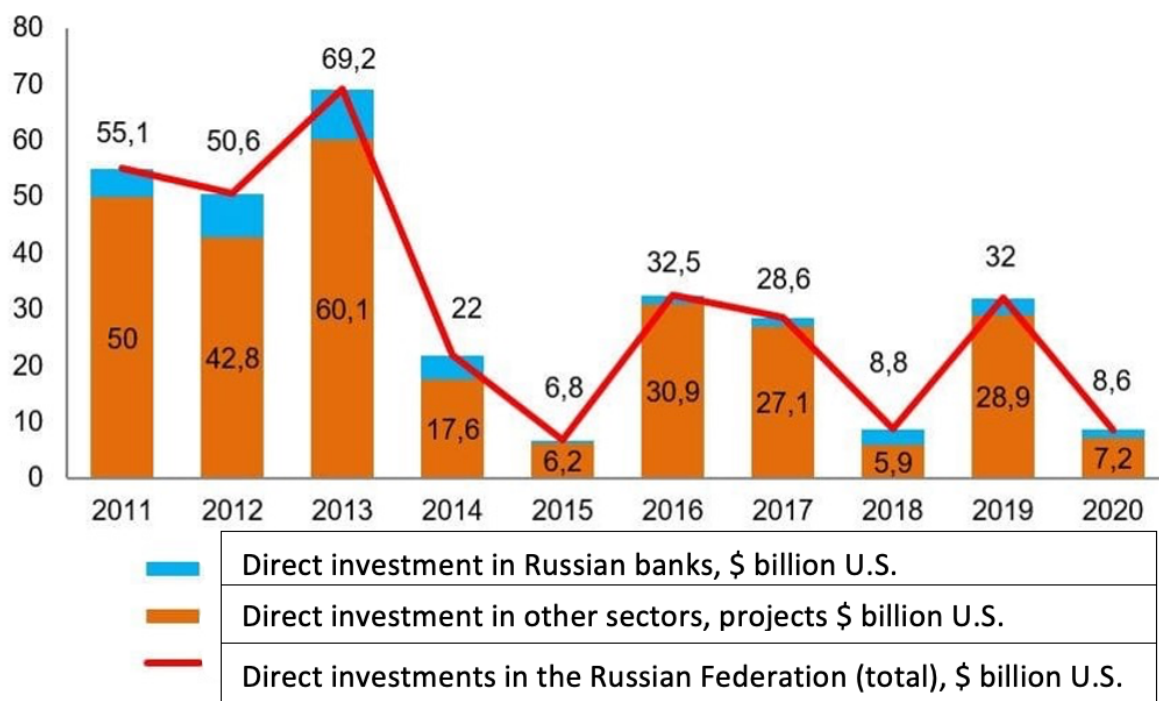


Figure 9, Dynamics of Foreign Direct Investment in Russia, \$ billion. Source: Rosstat

The volume of FDI in 2020 decreased fourfold, the number of projects decreased by 26.1% to 141 projects. The maximum number of projects to receive money from foreign investors in the project 2017-238 (Figure 6).

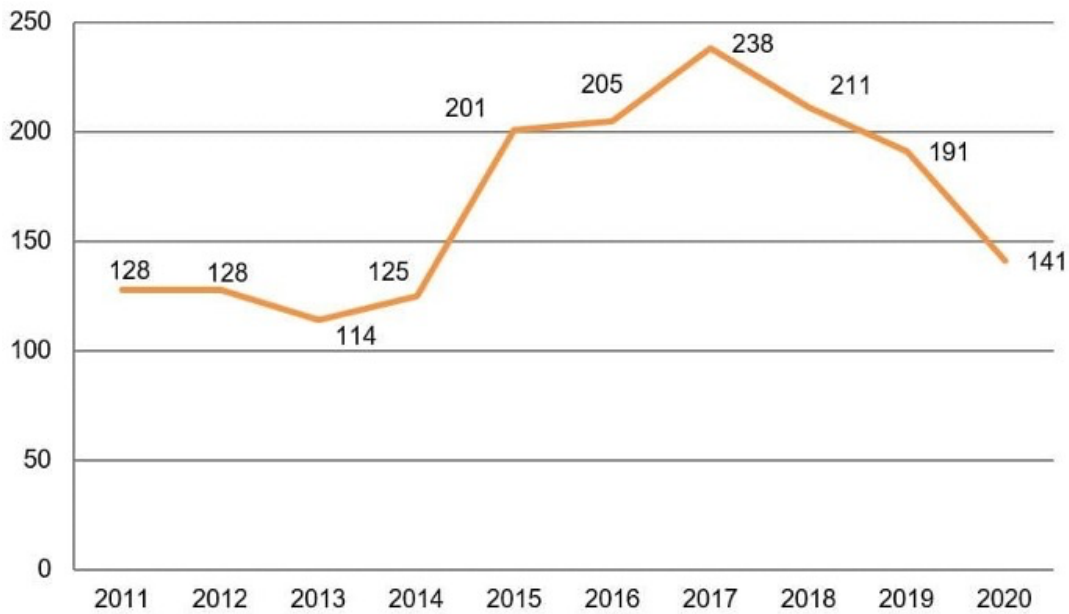


Figure 10, Dynamics of the total number of foreign direct investment projects in Russia, pcs. Source: Rosstat

The leaders among foreign investors directly financing Russian investment projects are Germany, China, and the United States. In 2020, Germany financed 26 projects (compared with 36 in 2019), mostly from the agricultural sector. The development of Russian agricultural exports abroad exceeded imports in 2020.

China sponsored 15 Russian projects in 2020, compared to 22 in 2019.

Investors from the United States and China will invest in 15 Russian projects in 2020, compared with 20 in 2019. Despite the reduction in the number of projects, foreign direct investment from the United States increased 3.3 times in 2020 compared with the previous year. Direct investment was unaffected by sanctions and difficult geopolitical relations (Figure 7).

Source: EY European Investment Monitor

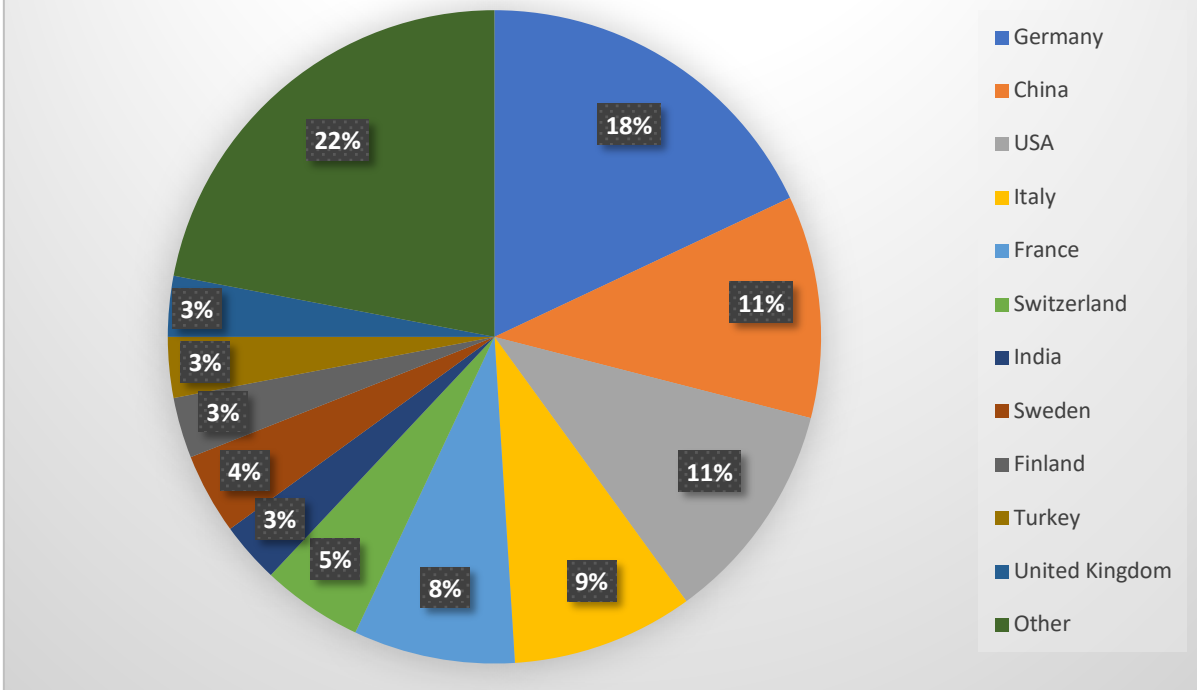


Figure 11, Structure of Investor Countries by Number of Projects in Russia, %. Source: Word Bank

In 2020, Russian production will be financed by investors from Germany, the United States, China and Italy. Due to the slowdown in business activity, investments in marketing projects will decrease by 80% in 2020. Many companies have begun to spend fewer resources on advertising and promotion (Figure 8).

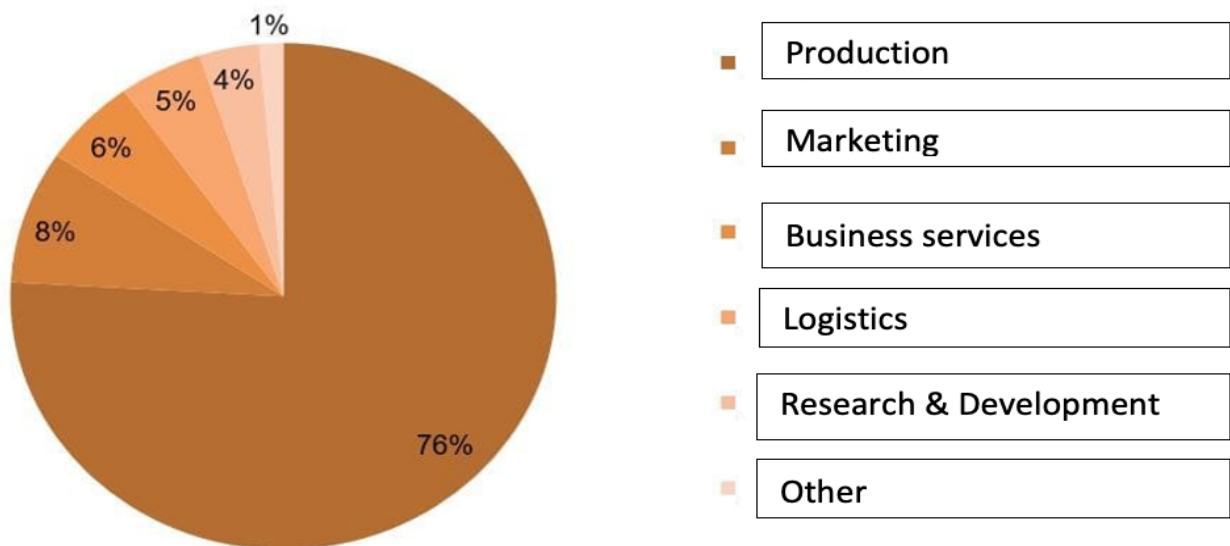


Figure 12, Sectoral structure of foreign direct investment in Russia, %. Source: Word Bank

Another important sector attractive to foreign investors is business services. In 2020, foreign investors financed eight projects in this sector. Half of these projects are concentrated in the largest financial centres of Russia-Moscow and St. Petersburg.

### 4.3 Assessing the Impact of Foreign Investment on Russia's Economic Growth

For a comprehensive, effective government policy on FDI, it is necessary to maximize the benefits associated with the attraction of foreign capital and minimize the negative consequences.

One of the urgent problems that need to be solved quickly, because of the high activity of competitors, which largely depend on the inflow of FDI, and the realization that the mechanisms of inflow work effectively. Looking at the dynamics of foreign investment inflows, which lasted until 2014, it can be concluded that the country has begun to receive funds corresponding to the country's high potential. Speaking about the current economic situation in Russia, it is safe to say that it is unstable due to the imposition of sanctions against Russia by a number of Western countries, the fall in world oil prices and the weakening of the ruble. It is worth mentioning that increase in investment activity is an important tool of economic recovery and stimulation of economic development of the country.

Russia has a huge investment potential, which, unfortunately, is not used.



There is a special index of the attractiveness of UNCTAD, or as it is called the index of investment potential of the host country, which includes 4 basic factors of investment attractiveness of a region or country:

- Market attractiveness (market size, level of GDP, GDP per capita, GDP at PPP, market potential).
- Price and quality of labour, in particular their availability (labour productivity and quality of labour).
- Availability of natural resources.
- Availability of necessary infrastructure (transport, energy, communications).

The main disadvantages of the investment climate in the Russian Federation include:

- Political and economic factors.
- Ambiguity of legislation, contradiction and ambiguity of specific laws, imperfection of legislation in general.
- Imperfection of the tax system, associated with high costs for business.
- Satisfactory system of public administration, high level of development of oligarchic structures, the practice of production decisions of administrative bodies in favour of interested persons, coordination of departmental interests, aggravated by unclear and imperfect legislation, the pressure of bureaucracy for political reasons.
- Prosperity of bribes, bureaucracy, paper tape, the pressure of criminal structures and inability to protect them.
- The small role of the banking sector in the investment process, the difficulty of obtaining credit for small and medium-sized businesses.
- Imperfection of information.
- Lack of opportunity for large investors to participate in the management structures of companies.
- Insufficient work of the judicial system.

## 5. Results and Discussion

### 5.1 Policy of Attracting Foreign Investments into the Russian Economy

In 2020, the volume of foreign direct investment in Russia decreased fourfold compared to 2019.

Foreign investments coming into the country's economy are called direct investments, portfolio investments, etc.

By 2020, Russia will rank eleventh in Europe by the number of foreign direct investments and projects. In 2020, foreign investors will finance 141 Russian projects, down from 2019. Because of the coronavirus outbreak and the global crisis, several investment projects in Europe are down 21% in 2020. Globally, the figure is even lower-the global decline in investment was 42% (Figure 9).

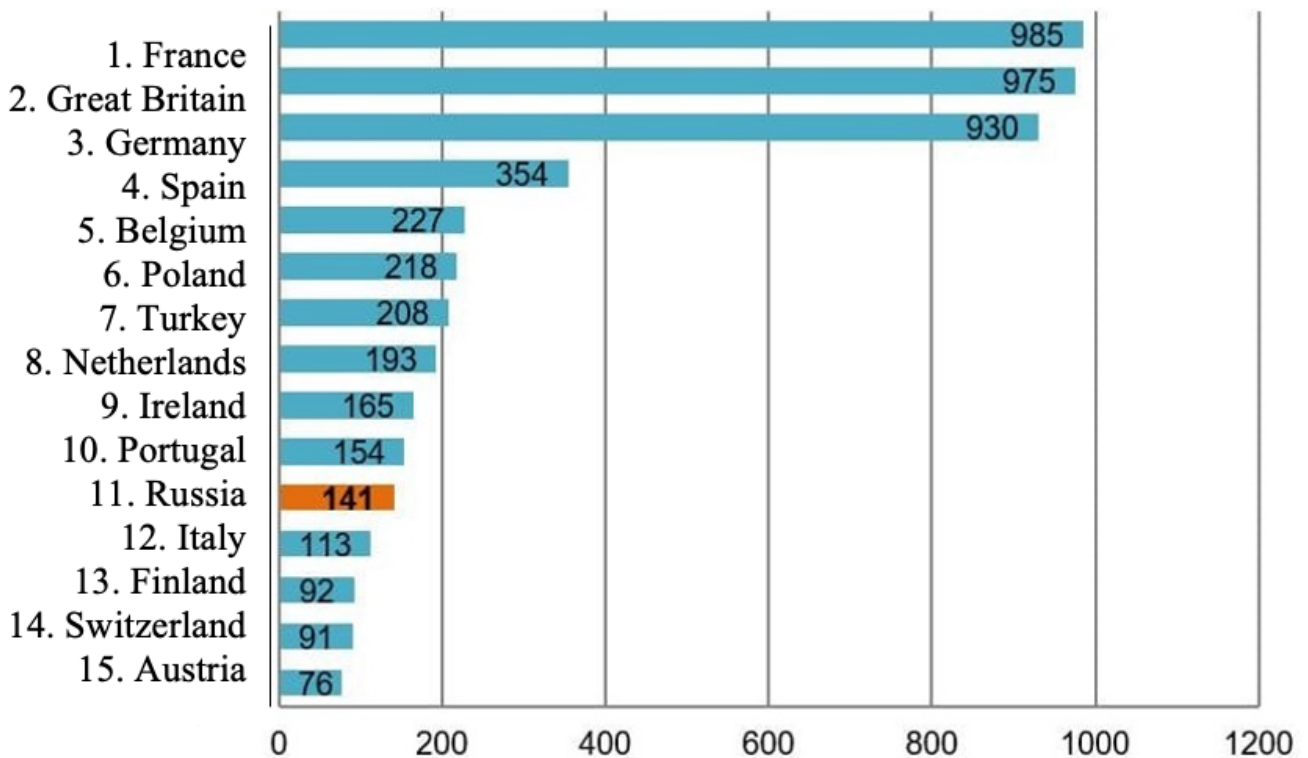


Figure 13, Top 15 European countries by the number of foreign direct investment projects, pcs. Source: Rosstat

In 1Q2021, direct FDI in Russia was \$4.7 billion, compared to \$4.1 billion in the same period in 2020. -\$4.1 billion. Against the background of last year's record-low base and due to the recovery of business activity, FDI in the Russian economy is projected to increase in 2022.

Despite Western sanctions, Russia remains one of the most attractive countries for investment, not only in Europe but all over the world. Most of the "delicate" sectors of finance remain in the agricultural sector.

Russia has one of the lowest public debts in the world thanks to oil and gas revenues, which directly form the basis of the federal budget, as well as a significant amount of liquid assets in the form of the National Welfare Fund.

The level of the debt burden directly affects the level of financing of investment projects in a particular country. Public debt is determined by the country's place in the ranking of the most attractive investments in GDP.

Russia's monetary policy in the next two years may create even more attractive conditions for the inflow of foreign investors: low-interest rates in other countries.

High investment activity was observed in Yamalo-Nenets, Chukotka Autonomous Districts, Republic of Sakha (Yakutia), Tatarstan, Karelia, Perm, Leningrad, Lipetsk, Samara and Tambov regions, where investments in fixed assets were made by more than 90% of organizations.

Among RF subjects with high investment, activity is the Republic of Kalmykia, where 63% of organizations, the Penza Oblast (71%), Altai and the Ivanovo Oblast (75%).

The greatest investment activity was shown in the production of tobacco products, crude oil and natural gas (100% of organizations invested in fixed assets), chemistry and chemical products, metals (99%), mining of coal, iron ore, medicines and materials used for medicinal purposes (98%).

It is expected that by 2022 75% of organizations will increase investment activity or maintain it at the same level.

Investment activity largely depends on the economic situation of the organization. Managers of 88% of the organizations assessed their financial situation in 2021 as "good" and "satisfactory".

About half of the respondents forecast the financial situation in 2022.

The main source of capital investment in 2021 for many organizations.

The organizations produce tobacco products, crude oil and natural gas, coal, chemicals and chemical products, Coke and oil products, medicines and materials (Figure 10).

<i>Indicator</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>
Indicator of the organization's own funds	83	82	84
Amount of credit and borrowed funds	26	28	28
Amount of budget funds	7	4	5
Number of foreign investments	1	1	-
Others	6	6	5

No answer	14	15	13
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Figure 14, Sources of investments in fixed capital as % of the total number of organizations. Source: Rosstat

Credit funds are most actively used by organizations engaged in the production of rubber and plastic products, wood processing and the production of wood and cork products, except furniture, straw production and weaving materials (42%). In addition, these funds were used for water treatment and distribution, as well as for the removal of pollutants.

In 2022, as in the previous year, 83% of investment organizations are going to use their own funds. The use of credit and borrowed funds accounts for 30% of organizations, budgetary funds - 5% of organizations.

The main purpose of capital investments is to replace worn-out equipment and machinery, this was indicated by 69% of respondents. Investments to improve production efficiency, such as automation or mechanization of the existing production process were made by 52% of enterprises, energy-saving - 39%, reduction of production costs - 37% and introduction of new production technologies - 34% of respondents. Investments in environmental protection were sent by 31% of organizations (Figure 11).

	201 9г.	202 0г.	202 1г.
Insufficient demand for products	22	20	20
State of the technical base of the organization	25	26	26
The imperfect legal and regulatory framework, regulating investment processes	38	38	36
The existing taxation regime investment activities	38	39	36
Price fluctuations on the global energy market	39	42	43
The economic situation in the world market	42	48	46
The complicated mechanism of obtaining loans for implementation of investment projects	46	48	47
Parameters of exchange rate policy in the country	49	53	51
High percentage of commercial credit	56	58	57
Investment risks	60	60	61
Lack of own financial resources	62	61	61
High inflation in the country	64	65	66

The economic situation in the country	64	69	68
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*Figure 15, Distribution of organizations by assessment of factors limiting investment activity, as a percentage of the total number of organizations. Source: Rosstat*

The main reason limiting investment activity in 2021 was the uncertainty of the economic situation in the country. Also among the reasons limiting investment activity, managers of organizations noted high inflation (66%), lack of funds and investment risks (61%), high interest of commercial credit (57%), exchange rate policy parameters in the country (51%), a complex mechanism for obtaining credit for investment projects (47%) and the difficult economic situation in the world (46%).

Information on the assessment of factors limiting investment activity in the context of constituent entities of the Russian Federation and types of economic activity.

## **5.2 Government support measures to attract foreign investment**

Currently, in order to attract investment in the economy of the Russian Federation, the federal executive authorities have developed an improved mechanism of a special investment agreement (SPIK 2.0).

Increasing and creating long-term demand for goods, jobs, services and intellectual property rights, increasing the efficiency of using state or municipal property, as well as the competitiveness of local goods, works and services on Russian and international markets.

In order to improve the conditions for business participation in the development of developed infrastructure and in November 2018, the Government of the Russian Federation submitted a draft federal law "On Amendments to Certain Legislative Acts of the Russian Federation to Improve Public-Private Partnership Mechanisms" to the Government of the Russian Federation. The rules of the bill are designed to increase the attractiveness of GCHP mechanisms and increase the inflow of private investment in infrastructure development in the implementation of long-term investment projects.

In addition, the Ministry of Economic Development of Russia has systematically implemented methodological recommendations for the implementation of PPP projects, including concessions, in order to provide systematic assistance to state authorities, local government and the business community.

In 2018, crude oil and natural gas companies (76% of companies), at least metal ore companies (39%). Up from 2018), which had a significant impact on the tobacco industry. Up to 89 from 70% of businesses), metalworking (up to 72 from 69%), and automobiles, some of which also showed one of the most significant rises (up to 62 from 40%). Less activity in this market was shown by clothing and leather and leather goods companies (22% and 23%, respectively).

The data obtained from the respondents' estimates of the state and movement of fixed assets in 2019 were mainly related to the existing age structure of fixed assets. It should be noted that the changes in the age dynamics of fixed assets censorship indicate insufficient measures taken as part of production restructuring. In particular, over the last year, the dynamics of the occurred adjustments were determined with low intensity. For example, according to the survey, the average age of machinery and equipment in industrial enterprises was 10.7 years, compared with 10.2 in 2018. Very low volatility persisted in the last ten years of operation, with 2019 results of 22 and 17.6 years, respectively. (Federal State Statistics Service, 2019)

About 80% of respondents noted that the main sources of investment in fixed capital are own funds. At the same time, as last year, more than half of the respondents (49%) intend to increase their own production at their own expense. 50% of the questions concerned the

application of this mechanism. Difficulties with lending, including the assessment of the level of availability of long-term loans and investment funds, which 50% of respondents assessed as "low".

The majority of respondents (64%) were willing to invest for three to five years, and 16% of respondents were willing to invest for six to 10 years. Only 5% of organizations were willing to invest for more than 10 years. Delving deeper into this issue, 73% of entrepreneurs believe that the maximum acceptable bank loan rate should be less than 10%. However, the number of businesses (from 15 to 20%) willing to lend in the range of 10.1% to 12% per annum has increased compared to 2018.

Because of the COVID-19 epidemic, FDI flows to Russia fell 70% from \$32 billion in 2019 to \$10 billion in 2020, according to the Junkethad Global Investment Trends Tracker in 2021. In 2020, FDI was \$447 billion. In addition to the epidemic, weak international demand for crude oil and price conflict have driven prices to historically low levels and impacted investment in the sector. However, the Russian Federation remains the largest recipient of FDI in the region, accounting for more than 40% of the flow. FDI inflows turned negative in the first quarter of 2020 due to significant domestic loan repayments, but gradually recovered in the following quarters. New capital investment fell 31%, recovering in the second half of the year from the initial decline. The main investors in 2020 were major countries such as France, Turkey, the United Kingdom, and the United States. In addition, there are many countries in the Russian Federation, including Russia and Finland. The main industries receiving FDI are mining, finance and insurance, wholesale and retail trade, administration and services, and real estate.

The dynamics and key factors of economic growth, as well as the sectoral structure, determine the level of innovative development and the national structure of Russia.

For a long time, the Russian economy developed at the expense of the raw materials sector, directly at the expense of the oil and gas sector, since it provided the bulk of export revenues and accounted for the balance of payments of the country (Figure 12).

Indicator	Share in value-added in %
Manufacturing industry	14
Mining and quarrying	10
Transport and communications	7
Construction	6
Forestry, fishery	5
Production and distribution of electricity, gas and water	3

Housing and communal services	2
Trade, finance, education, etc.	54

Figure 16, Sectoral structure of Russia's GDP. Source: Rosstat

High prices for natural resources for a long time did not stimulate the development of high-tech industries.

Statistical data show that industries associated with the intensity of R&D expenditures still play an important role in the structure of GDP (Figure 13).

Industries	Total	Share	Share to 2014 vol.
Minerals	216 101	63%	62%
Crude Oil	89 576	26%	58%
Natural gas	41 844	12%	76%
Metals	33 014	10%	82%
Machinery, equipment	25 386	7%	96%
Chemical products	25 338	7%	87%
Food	16 181	5%	85%
Lumber	9 832	3%	84%
Other	50 589	15%	-
Total exports	343 427	100%	69%

Figure 17, Structure of Russian exports 2020. Source: Simina

### Government Programs

The innovative strategy "Russia 2020" defines a general system of measures necessary to implement the goals of the strategy. However, the success of each strategic document often depends on how well-developed the plans and roadmaps are used to implement it.

The efficiency of formation and spending of the state budget of Russia is realized through a system of state programs. The state program is a set of measures aimed at the implementation of priority tasks of state policy in various areas. Currently 41 state programs are being implemented (united into 4 blocks): "new quality of life", "innovative development and modernization of the economy", "ensuring national security", "regional development", "effective state". The group "innovative development and modernization of economy" includes 18 programs aimed not only at maintaining the leading position of the Russian economy in the raw materials markets, but also at the formation of a competitive innovation economy.



The creation of high-tech industries contributes to the development of the transport network, in which the interaction of regions, as well as the national innovation system, is provided by the state program "Creation and development of the innovation centre "Skolkovo" ".

Conclusion of Chapter 2. Russia's economy and innovation potential are fully developed, there are many state programs, and they are all being implemented. In addition, Russia takes good experience from foreign countries, including China, for its own development and cooperation in various innovative programs.

However, the previous model of economic development, symbolized by the "Made in China" brand, can no longer guarantee the maintenance of sustainable growth rates. The future of the Chinese economy is related to the development of scientific and technological capabilities and the innovation system.

The formation of a new economic model based on knowledge-intensive production, the outflow of technology rather than raw materials, the formation of new markets and technological trends and ensuring itself a leading position in them - this is the future of Russia.

The Russian investment policy is characterized by a pronounced focus on creating favourable conditions for investments by private investors in the Russian Federation. The rapid pace of formation of the legal framework for systematic and comprehensive work in support of investments by private investors is due to the current economic crisis caused by the COVID-19 epidemic. Thus, the private interests of foreign investors and the public interests of the country are closely linked.

## **5.2 Government support measures to attract foreign investment**

The development of the economic and political situation led to a fundamental change in the situation in the field of FDI, both in terms of volume, dynamics and consequences for the Russian economy after the beginning of the military conflict between the Russian Federation and Ukraine in February 2022. As a result of this armed intervention, most countries in the world have imposed strict sanctions on the Russian Federation, affecting the full range of economic, financial and foreign trade relations. In addition, a number of foreign investors from advanced economies have decided to leave Russia as an area of their business and investment activities. This situation will, of course, be reflected in the further development of the entire Russian economy and will have the negative impact on its economic and social development. For this reason, it is not possible to assume that foreign investment will have a positive impact on the economic growth of the country in the next future, which was outlined in the previous chapters of this bachelor's thesis.



## 6. Conclusion

Within the framework of the conducted research, the following conclusions can be made. Foreign legal entities have the right to buy land, but they have some restrictions. Russian legislation establishes two main boundaries of land ownership by foreigners. The first relates to foreign ownership in border areas or other large territories. The second restricts the importation of agricultural land to more than 50%. However, foreign entities can own farmland on a leasehold basis. Almost always foreign corporations lease land for up to 49 years-maximum possible terms. The law on foreign investment gives guarantees to foreign investors and commercial organizations. The law prohibits nationalization unless it is designed to protect the national interest. The company can appeal against this decision and immediately receive compensation.

At the regional level, there is a risk that local authorities will interfere or fail to enforce any court decisions.

The legislation of the Russian Federation establishes various types of incentives that can be used by legal entities. Effective incentives include regional incentives, special economic zones, and incentives for specific projects, such as the Skolkovo Innovation Center. They propose tax exemptions for property, land and transport. They propose to exempt property, land and transport from taxes.

The legislation of the Russian Federation establishes various types of incentives that can be used by legal entities. Effective incentives include regional incentives, special economic zones, and incentives for specific projects, such as the Skolkovo Innovation Center. They usually offer exemption from property, land and transport taxes, exemption from customs duties and VAT.

The world economy today is undergoing some crucial structural changes, and those things called the "global economy" are being formalized:

- Foreign economic ties are significantly outpacing national economic complexes in the dynamics of then-growth.
- Informatization is penetrating deeper and deeper into all spheres of human existence.
- Global financial markets are developing with ever-growing intensity.
- The past year has witnessed a significant increase in the role of the oil and gas complex in global development.

At the moment, unfortunately, Russia's role in all these processes is extremely insignificant. Russia today faces the real threat of being pushed back behind the scenes of world socio-economic development for decades. It should be borne in mind that the country has enormous potential for growth, not only because of its enormous natural resources, oil and gas but also because of its very

high level of education, science and culture, as well as all that now forms a very tangible economic category - human capital.

Russia's development strategy should be long-term and should be based on consensus in political and intellectual circles and business circles. Oriented in the future toward building a modern market economy in accordance with the conditions of global competition, it should correspond to the national customs and traditions of Russia. It can confidently be said that in 20-25 years Russia will be able to reach the level of the most developed countries in a number of major indicators of economic, social and technical development.

The strategic goals of the development of society and the state, as well as the national economy, can be achieved only with a sufficiently high rate of GDP growth, including the rate of growth of industrial and agricultural production.

Russia's positive future should be based only on the further development of the country's industry, which determines, on the one hand, the level of investment activity and the technological renewal of production. Only industry can provide a significant improvement in the quality of life and create conditions for a favourable change in living conditions through the mass construction of affordable housing.

Therefore, it is necessary to stimulate the economic growth of the Russian industry. It is now possible to "break through" the crisis, restore industrial cooperation, ensure high economic growth, and successfully address the really important issues of the country's structural and technical modernization.

However, at the end of the following narrative, it is wise to mention the fact that due to the occurrences that took place between the Russian Federation and Ukraine in the late February, it is quite fair to assume that the level of foreign direct investment into the Russian economy will reach incredibly low values due to the tendency of criticizing the unlawful act of attacking another sovereign country done by Russia.

Hence, the breakthrough that was mentioned in the section above is not likely to happen and, on the contrary, is quite likely and it would be fair to suppose that the country's economy will start its free fall since export and imports are restricted, the central bank is under sanctions and has no mechanisms to somehow influence the liquidity.

All in all, the future does not look so bright for the country who became the main subject of the analysis performed by the author unless the government changes its vector of expansion and aggression into something relatively peaceful and based on the mutual cohabitation and cooperation among neighboring countries, as well as the European Union and the United States. After all, international cooperation and peaceful politics stimulate foreign investors since they

become assured that nothing could happen with the assets that they might be having inside of a given country.

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