

Ways and methods of attracting foreign investors in cross-border joint business of the Far East Russia.

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Summary. On the boundary of the XXI century geopolitical changes in the Far East Russia are largely influenced by the structure of international relations with a growing emphasis on regional relations, and in this, Russia has suffered tremendous changes: 70% of the Russian border remained insecure and unreliable, the neighboring states was three times larger, so, increased importance of the Asian component. Russian Far East region compared with other regions most eager to lift its economic well-being and this has all the levers for cooperation with foreign countries and serves to strengthen Russia and Asia-Pacific region.

Subject of research - economic and management relations arising in the process of formation and development of joint business in the border areas of the Russian Far East.

Goal- development of ways and methods of attracting foreign investors in joint cross-border business of the Far East Russia.

Methods of research - desk research.

Main results - research in the field of foreign investments in the economy of the Far East Russia.

The scope of the results - management, government programs of international cooperation.

Conclusions - provides the analysis of the existing data on the investment climate in Far East Russia, reflects the dynamics of foreign investment in the Far East, developed the best ways and methods to attract foreign investors in joint ventures in the Far East Russia.

Key words: foreign investments, cross-border business, economic condition, Far East Russia, Asia-Pacific region, international projects, infrastructure.

The main text. Investment cooperation means a key of stabilizing the further economic development of each country. Investments by their nature are an integral part of modern economic relations that are constantly evolving and require further study. At the same time, an important feature of the investment can be seen as an opportunity to ensure its sustainable development through the various sectors of the economy and, ultimately, the whole society - for both donor and recipient countries.

In general, the ways and methods used by foreign investors in investing are determined by the fact that foreign capital seeks to:

a) control the using of invested funds (control structures, which were invested money) and, if possible, to insure them against possible hostile actions by the Russian partner;

b) if it is possible, to ensure the independence of your project on the economic situation of the Russian partner company;

c) put relations with the structure that controls the invested money to Western standards;

d) to minimize the inconvenience of the Russian financial and tax system, customs barriers (in this area foreign companies are using the same methods as Russian). [3,4]

Speaking about the investment climate of the Far East of Russia is very important to note that at the present time, the number of loss-making enterprises in the Far East region accounts for nearly 47% of the economic crisis in the region have risen particularly sharply in direct investment. So don't need to talk about the significant influence of foreign capital to the changing economic situation in the region, besides a number of factors seriously hurdles to the flow of foreign

investment. In particular, there are controversial Russian relations with the countries of the Asia - Pacific region, which negatively affect the territorial disputes, the increasing competition from the Asia-Pacific region in the field of transport, insurance services, etc.

However, the Far East is one of the most attractive regions in Russia for foreign investors. Many experts point it rich but undeveloped natural resources, a huge energy potential, and other conditions for dynamic development.

Encouraging foreign investment in the economy of the Far East requires, mainly, the creation of an investment climate is not less attractive than in the neighboring countries of Asia Pacific region. Conditions which may intensify the investment activity in the Far East, are the creation of the necessary infrastructure, the development and adoption of the normal legal framework, granting by administration the greater autonomy of foreign trade activities, the sequence of public policy, guarantee of return on invested capital, the stability of the exchange rate.

On the administration of territories and regions lies the development of regional programs to attract investment to the identification of the most important and socially significant projects, bringing them up to the level of international requirements, as well as the general advertising. Development of feasibility studies for investment projects is difficult by uncertain political situation and economic policies that affect the stability of Russian enterprises and increases the commercial risk. But, nevertheless, only in the Amur region developed more than fifty investment projects, and in the Sakhalin region 's investment program includes more than forty industrial projects with the participation of foreign capital. [5]

A variety of forms are using to attract foreign capital to the region's economy:

- foreign direct investment,
- placement of overseas bonds and loans of regional administrations across state lines.

Preference is given to foreign direct investment. Their advantages that along with raising capital transferred know- how and best management practices. Foreign investment, in addition to economic problems, solve social problems (for example, the problem of employment): most actively created joint ventures to ensure a steady flow of foreign direct investment. According to the calculations of the Institute of Economic Research of the Far Eastern Branch of Russian Academy of Sciences Far East is concentrated 10% of all foreign direct investment attracted to the economy of Russia , and their volume per capita increases almost twice the figure of Russia as a whole. [6]

In some areas of the region there is a tendency of creating joint business with major share capital. In Khabarovsk region an average volume of foreign investment, accounting for one joint venture, closes to \$ 1 million. It should also be noted that the proportion of enterprises wholly controlled by foreign investors, increasing in Russia and that sort of trend in the Far East. Far East has 2661 registered companies with foreign capital.

Among the subjects of the Russian Far East, Sakhalin region continues to maintain its leading position in attracting foreign investment due to the implementation on the territory of major projects related to the development of oil and gas deposits. In 2009, it had 68.4 % of the total volume of foreign investments and almost 79.11 % of the total foreign direct investment in the Far East, while the overall volume of foreign investment in the Sakhalin region decreased by 7.5 % compared with 2008 and amounted to 5,768 billion dollars. Second subject in terms of attractiveness for foreign capital in 2009 (with a total investment of 1,117.7 million dollars, or 13.2% of the total volume in the Far East) was the Republic of Sakha. In Primorsky region was noted the catastrophic decline (about 10 times) the volume of attracted foreign capital, and the flow of foreign investments into the economy of the Republic of Sakha has increased by almost 70 %.

In 2009, there was a significant inflow of foreign capital in the Chukotka Autonomous District (932.8 million dollars), which put it on third place in the Far Eastern territories in terms of attraction (with a share of 11.1 %). The positive dynamics of foreign investment observed in the Amur region - an increase of 54% and the Khabarovsk region - by 10%. [9]

China and South Korea, have been actively making direct investments, buying up assets and lending to large companies abroad, including in Russia. The presence of rich natural resources, the need for the creation of a modern infrastructure and processing facilities of the Far Eastern regions of the exercise involves substantial investment. The greatest activity in this area has shown the Chinese side - in addition to issuing large loans for the construction of a branch from the East Siberia - Pacific Ocean to Daqing China is interested in securing the Russian resource sector. It was promoted in 2009 approved the «Program of Cooperation between the Far East and Eastern Siberia of the Russian Federation and the North-East China in 2009-2018», it proposes concrete investment projects for Chinese business.

Active interest in the resource and service sector of the Far Eastern regions shows Korean business groups: in 2010 to a request by the Korean Ministry of Regional Development was drawn up and submitted to the «List of regional investment projects with the possible participation of South Korean companies» in which are named Far Eastern regions. Interest in the implementation of the investment in traditional industries of specialization of the economy of the Far East began to show as well the Japanese side.

The smallest share of investment in the Far Eastern regions, compared with Japan and the Republic of Korea, has China. Enterprises with Chinese capital are characterized by small size, small investments in fixed assets, the predominant use of Chinese labor. In total foreign investment of the Far East, China's share did not exceed 0.8 % in 2007. The main activities attractive to Chinese investors are wholesale and retail trade, catering, as well as the creation of small enterprises in the extraction and primary processing of wood. In addition, in recent years has

increased the activity of the Chinese side in the acquisition of rights to geological exploration and development of Russian mineral deposits.

Officially, China, Korea and Japan show a clear interest in the joint implementation of major resource projects on the Russian territory. There is only a superficial commitment to the implementation of huge investment, but in reality, these countries do not push and do not provide significant joint initiatives. On the other hand, the Russian side suggests that countries to invest in less profitable or small-scale projects. Investment proposals were shaped by the authorities of subjects of the federation on the request of the Ministry of Regional Development of Russia, their scale and significance is lower than the projects of large companies. This refers to the attraction of foreign capital the largest Russian companies for the joint implementation of projects due to limited share of foreign investors in exploration, production of oil and gas resources, and federal projects, competence of distribution which has only the Russian government. Therefore, in the medium term, the massive flow of investment in the economy of the Far East of Russia is unlikely to be. [2]

During the first half of 2011 in the economy of the Far East Russia was received 5.7 billion dollars of foreign investment, with the growth of almost 2 times to the corresponding period of 2010, but it is only 6.5% of all foreign investments attracted in Russia. The most attractive sector for foreign investors is mining operations, which is directed almost 90 % of their investments. Despite the flow of capital, the economy of the Far East is extremely inefficient, since the return on this investment is minimal. Now look at Figure 1 presented below in order to understand what happened in the early years, namely the dynamics of foreign investment in the Russian Far East in 2001-2009. [7]

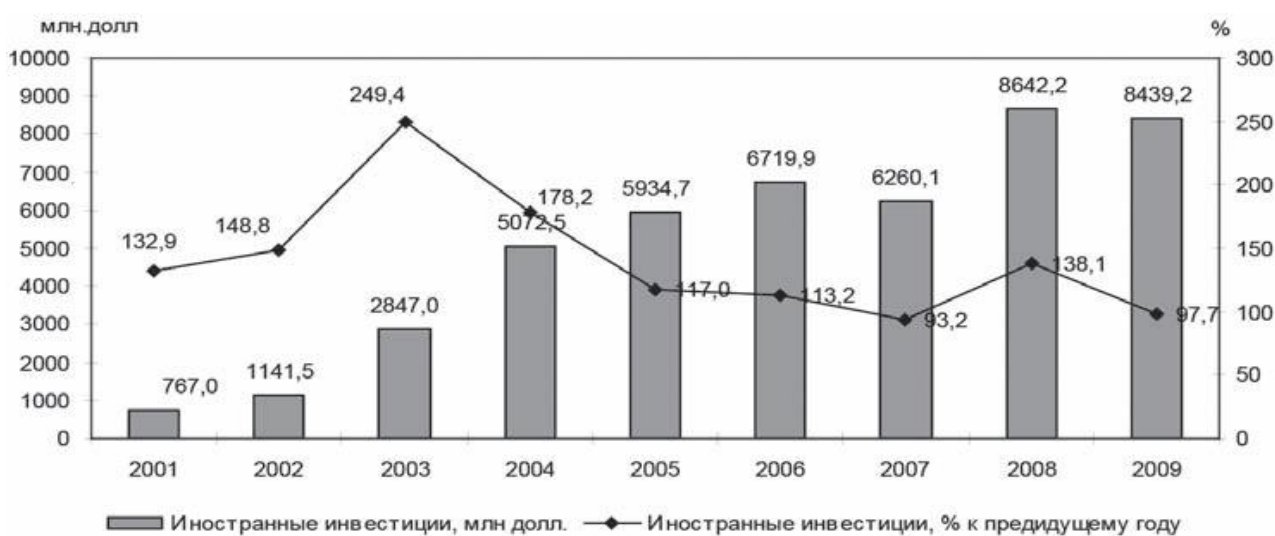


Figure 1 - The dynamics of foreign investment in the Far East Russia in 2001 - 2009

It can be concluded from Figure 1 that from 2001 to 2003 inflows of foreign investment was not very high - in 2003, they accounted for 2,847 million dollars. However, in the following years

can be seen a positive trend of capital investment - in 2006 increased investments to 6,719.9 million dollars, in 2008 - 8642.2 million dollars, and finally, in 2009 amounts the 8439.2 million dollars. Despite strong flow of foreign investments in the Far East region, unfortunately, not all the projects brought to their technical completion and exploitation. It is important to note the major investor countries, which play an important role in the economic development of the Russian Far East Russia, they are shown in Figure 2.

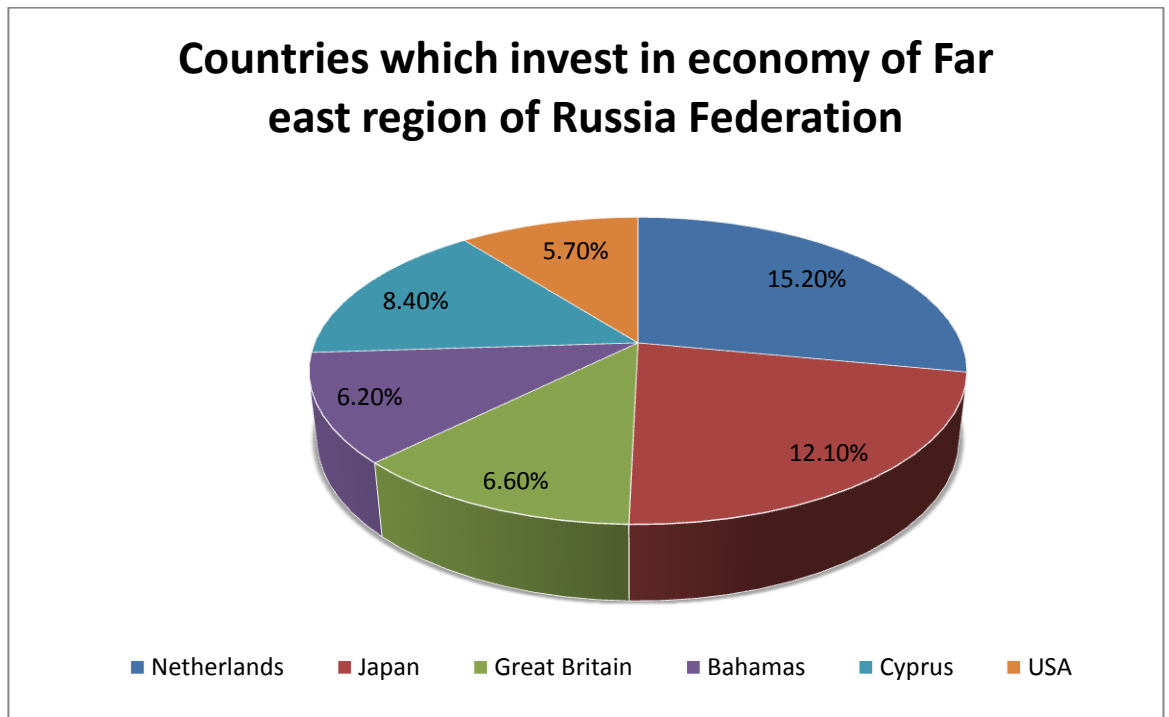


Figure 2- Geographical structure of foreign investments in the Far East of the Russian Federation in 2011.

The main investors in the Far East in early 2011 are the Netherlands - 15.2%, Japan - 12.1%, Cyprus - 8.4, Great Britain - 6.6%, Bahamas - 6.2% and the United States - 5.7 %. In the strategic aspect the investments are the key element in determining the solution of complex problems of development and modernization of the Russian economy. And most of all, to achieve sustainable economic growth and enhance the competitiveness of Russian production in the domestic and global markets. In order to understand the dynamics of foreign investment, the following Figure 3 reflects the volume of foreign investment in the economy of the Russian Federation from 2000 to 2010. [1]

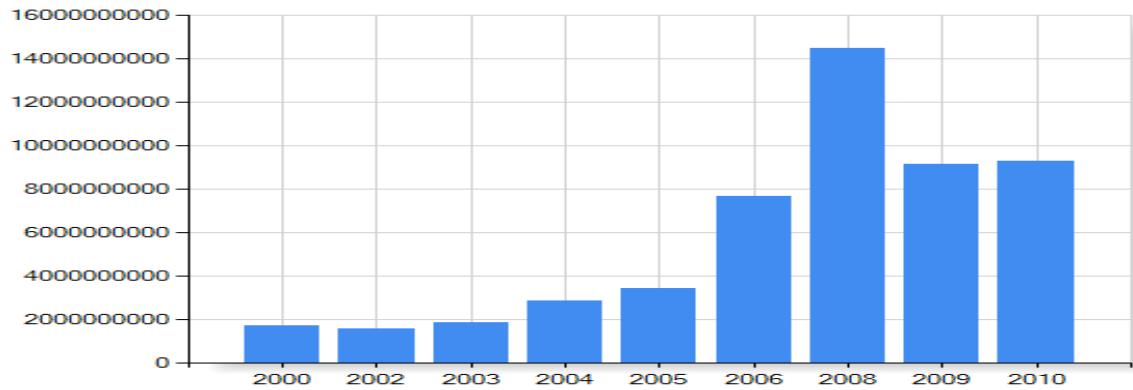


Figure 3- The volume of foreign investments to the Russian economy in 2000-2010 (in dollars)

As we can see in Figure 3, the most active contribution of foreign investment in the Russian Federation took place in 2008, there were invested a little more than 14 billion dollars. In 2009-2010, there has been significant decrease of investments; the ratio is almost equal to the sum of 8 billion dollars. Foreign investment (this was because of the global financial crisis) the smallest inflow of foreign investments can be seen from 2000 to 2003 - less than 2 billion dollars.

A distinctive feature of the investment of developed countries is their sectoral focus - a large share of investment goes to the high-tech and financial sectors. Currently in Russia the most attractive to foreign investors are those industries that are related to the exploitation of natural resources and have good export potential (metallurgy, oil and gas, forestry, chemical industry) , and those that have a non-monopolized domestic market (food processing, consumer goods).

At the moment, requires long-term sustainable investment in the economy of the Far East region, not in order to restore only the necessary amount in the economy, but also to conduct a comprehensive upgrade, providing the possibility of competitive domestic products. As the experience of recent years, inertial development of this process does not give the desired results. Need a clear economic policy of active promotion of the investment process and to attract foreign investors , as well as coordination of efforts of government and business in the implementation of the goal with a rigidly defined by mutual obligations and the specific results to be achieved by the actions of joint ventures. [8]

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