

# Foreign Direct Investment of Russia

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## 1. Problems with Statistical data

There are little data on foreign investment published by the Goskomstat, the State Committee on Statistics. The statistical yearbook contains the total foreign investment inflow in each year from 1995 and its breakdown by types, investing countries, industries and receiving countries. The breakdown by investment types is shown in the Table 1 and the definition of each category is shown in the Table 2.

**Table 1 Foreign Investment in Russia by types**

	1995	1996	1997	1998	1999	2000
<b>Total</b>	<b>2983</b>	<b>6970</b>	<b>12295</b>	<b>11773</b>	<b>9560</b>	<b>10958</b>
Foreign Direct Investment	2020	2440	5333	3361	4260	4429
Portfolio Investment	39	128	681	191	31	145
Other Investment	924	4402	6281	8221	5269	6384

Source: 'Financy Rossii 2000,' 'Sotsial'no-Ekonomicheskoe Polozhenie Rossii 2001.1,' Goskomstat

**Table 2 Definition of terms by the Goskomstat**

Foreign Investment:	All types of input of properties and intellectual valuables into business and other activities in the Russian territory aiming at receiving consecutive profits by foreign investors and overseas subsidiaries of Russian legal entities. Investments include direct, portfolio and others
Direct Investment:	Investments by juridical and natural persons that have full ownership of the enterprise or control no less than 10% of stocks or stock capital of the enterprise.
Portfolio Investment:	Purchase of stocks, bills and other securities, which consist less than 10% of registered capital of the enterprise.
Others:	Investment that does not fall in the criteria of the direct investment nor portfolio investment is called 'others,' which includes commercial credits, credits expended by foreign governments under guarantee of the government of Russian Federation, other credits (including credit of international financial institutions etc) and bank deposits.

Source: "Statisticheski Ezhegodnik 2000," Goskomstat

The data published by the Goskomstat does not give bases for the analysis of economic interdependence among the Northeast Asian countries. It lacks detailed breakdowns and wide coverage.

The first and the most critical problem is that only Japanese investment volumes are indicated in the structure by investing countries and there are no other countries in Northeast Asia (Table 3, Table 4). It is because the amount of their investment is still small. Even Japan accounts for only 2% of the accumulated FDI. We may conclude that the Northeastern countries have very insignificant relations with Russia in terms of foreign direct investment.

**Table 3 Foreign Investment to Russia by investing countries (million USD)**

	1995	1996	1997	1998	1999	2000
<b>Total</b>	<b>2,983</b>	<b>6,970</b>	<b>12,295</b>	<b>11,773</b>	<b>9,560</b>	<b>10,958</b>
USA	832	1,767	2,966	2,238	2,921	1,594
Germany	308	332	1,647	2,848	1,695	1,468
Cyprus	41	825	992	917	923	1,448
Netherlands	85	981	540	877	541	1,231
Switzerland	436	1,348	1,756	411	405	784
France	108	43	209	1,546	312	743
Great Britain	183	507	2,411	1,591	733	599
Sweden	63	157	72	146	70	308
Japan	75	22	139	60	42	117
Austria	81	200	378	83	43	N/A
Others	771	788	1,185	1,056	1,875	2,666

\*Amount of investment from Austria in 2000 is included in 'Others.'

Source: 'Financy Rossii 2000,' 'Sotsial'no-Ekonomicheskoe Polozhenie Rossii 2001.1,' Goskomstat

**Table 4 FDI to Russia by investing countries (million USD)**

	1995	1996	1997	1998	1999	Accum.*
<b>Total</b>	<b>2,020</b>	<b>2,440</b>	<b>5,333</b>	<b>3,361</b>	<b>4,260</b>	<b>16,125</b>
USA	638	914	2,231	1,170	2,104	5,468
Cyprus	N/A	N/A	866	403	370	3,224

Germany	200	247	331	328	330	1,255
Netherlands	48	31	86	610	516	1,152
Great Britain	77	107	452	205	178	982
Sweden	52	43	39	70	N/A	739
Switzerland	202	129	137	410	89	450
Japan	18	14	26	N/A	N/A	372
France	106	38	205	15	69	256

\* Accumulated volume by the end of 2000

Source: 'Financy Rossii 2000,' 'Sotsial'no-Economicheskoe Polozhenie Rossii 2001.1,' Goskomstat

Second, the statistical yearbook started to publish data of foreign investment from 1995. Before that there were only statistics on joint venture enterprises. In the period of 1992 – 1994 Russia was at the peak of economic turbulence in the transition process and the state's statistical system also experienced radical change in both methodology and organization. Therefore, there are no data before 1995 that is consistent with a current series of data. It makes difficult to analyze dynamics of foreign investors of activities in the country throughout the decade.

We tried to get data that could substitute the Goskomstat's data from other organizations and found it difficult.

## 2. Brief history of foreign investment into Russia in 1990's

The wave of FDI in Russia started in Gorbachev's period after the Law on Joint Ventures with Firms from Capitalist Countries was passed. This law allowed only establishing joint ventures between domestic and foreign firms. In July 1991, the new law on Foreign Investment in Russia was adopted, which continued to be effective after the collapse of the USSR at the end of 1991. The law allowed foreign companies to establish their full-owned subsidiaries in Russia. The initial inflow of foreign investment was very slow. According to the statistics of the Goskomstat, there are only 2533 foreign-owned firms operating at the end of 1992. In the first half of the last decade of 20<sup>th</sup> century economic chaos disturbed foreign investors to come into Russia. Macroeconomic instabilities and lack of liabilities in counterparts in Russia discouraged them. At the same time, the government tended to protect the most vital part of its industry from foreign investors. Under the Russian Privatization Program, foreign companies who wanted to participate in the privatization of strategic state enterprises, including oil, gas, strategic commodities and nuclear materials, needed to get

permission from the governments that determined the issue in less transparent way, case by case.

In the second half of 90's, as macroeconomic situation was getting better in some extent, foreign investment started to grow. In 1997, when the Russian economy gained a slight growth of GDP (0.4%) first time for the transition period since 1992, both foreign investment total and FDI as a part recorded the peak in the Russia's history. Meanwhile, 'Other' investment included short-term speculative money, which mainly flew into the short-term state bond (GKO) market. Vulnerability of the GKO market is regarded among critical factors that triggered the Russian financial crisis in August 1998.

Table 5 illustrates geographic distribution of FDI in Russia, focusing on its Far East. As shown in the table Moscow had been a dominant recipient of FDI until 1998 and still absorbs a large portion of the total amount. However, in 1999 Sakhalinskaya Region surpassed the capital city. Actually, the amount of US\$ 1 billion was the largest among the all 89 subjects of the Russian Federation. The main factor is acceleration of oil and gas fields development projects on the Shakhalin shelf. There are two projects, Sakhalin I and Sakhalin II, which started commercial production in 2001 and 1999 respectively. They are those of a few projects working on so-called Production Sharing Agreement scheme. Law of Production Sharing Agreements was adopted in 1995 and amended in 1998. There had been nominated around 20 oil and gas fields by summer 1999.

**Table 5 FDI to Russia by Received Regions (Thousand USD)**

	1995	1996	1997	1998	1999
<b>Russian Federation Total</b>	<b>2,020,247</b>	<b>2,439,759</b>	<b>5,333,403</b>	<b>3,360,768</b>	<b>4,259,710</b>
Moscow City	1,024,173	1,031,888	4,117,916	803,255	787,590
<b>Far Eastern Region</b>	<b>126,864</b>	<b>242,496</b>	<b>195,695</b>	<b>249,984</b>	<b>1,096,723</b>
Republic of Sakha (Yakutia)	5,243	7,839	9,798	871	438
Jewish Autonomous Region	31	342	452	-	50
Chukot Autonomous District	-	-	-	-	-
Primorsky Territory	23,172	65,460	60,924	46,084	19,867
Khabarovsk Territory	33,254	77,851	11,606	14,819	24,734
Amurskaya Region	924	1,025	318	414	2,260
Kamchatskaya Region	836	1,848	1,921	7,181	42
of which Koryak Autonomous District	-	344	1,438	7,146	-
Magadanskaya Region	13,785	45,231	61,630	48,690	26,948
Sakhalinskaya Region	49,619	42,900	49,046	131,925	1,022,384

Source: 'Finansy Rossii 2000,' Goskomstat

Russia and China agreed to work out a joint feasibility study of a gas pipeline project from Kovykta gas field (Irkutsk Region) to China. There are other oil/gas field development projects in Far East. Generally, economic cooperation in energy sector has a great potential.

Along with energy or fuel industry, food processing industry and trade and restaurants are among the traditional recipients of FDI. These industries do not need a large amount of investment and could expect relatively stable cash inflow, even when Russian economy suffered from shortage of money for settlements and barter trades played a significant role in business transactions. They still remain to be attractive sectors for foreign investors.

#### References

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