

Effective Factors on Foreign Direct Investment in the Russian Federation

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Abstract

Economists consider capital as the engine of economic growth and development. In their view, attracting capital to support productive and infrastructural projects is one of the key factors in economic growth, especially in developing countries. Meanwhile, the role of foreign capital is highlighted for financing large-scale macroeconomic projects. According to the view of the economics experts, the increase in attraction of foreign direct investment in the host country is a function of two variables: The fundamental reforms in the upstream laws related to foreign investment, and the improvement of general economic indicators affecting the market and, consequently, affecting the capital market. Growth in GDP, lack of high volatility in inflation, low unemployment rate and business index are effective indicators for attracting foreign direct investment.

After the collapse of the Soviet Union, the Russian Federation faced a comprehensive economic crisis, in which all the major economic indicators were in a very unstable state. The positive economic effects of attracting foreign capital have persuaded the country's economic policymakers to pave the way for absorbing foreign capital by improving the fundamental rules and improving the indicators that affect foreign capital attraction. These reforms began in the late 1990s, and their economic effects appeared over the early years of the 21st century. These changes, in addition to improving the overall economic conditions of the country, also increased the attraction of foreign capital. The process of attracting foreign investment in the Russian Federation grew steadily since 2000, where the country with a capital investment of over \$ 170.2 billion in 2013, was able to take a major step towards financing its major macroeconomic projects.

The authors, with the hypothesis that “the model for attracting foreign investment in the Russian Federation was based on the correction of two factors of economic policy and economic structure,” carried out the present research, the results of which are reflected in this paper. This essay attempts

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to answer the main question: “What are the policies of decision makers in Russia that helped the crisis-hit economy to absorb the high volume of foreign investment after the 1990s after the collapse of the Soviet Union?” Sub-queries of the research are as follow: What are the factors for attracting foreign capital in general? What was the process of attracting foreign capital in the Russian Federation? What was the economic reform of the Russian Federation to attract foreign capital?

The results of this study strengthened the hypothesis and illustrated the effect of two variables of “economic policy” and “macroeconomic indicators correction” on the dynamics of attracting foreign investment in the Russian Federation since the beginning of the 21st century.

In the field of policy, Russia has enacted the upstream legislation on attracting foreign investment during the 90s on the agenda. Among the results of the formulation and promotion of these rules are the following: Legal definition of the concepts related to investment in a transparent manner, the objectives and priorities of attracting foreign investment, the establishment of legal regimes in accordance with international standards and method of guaranteeing the principle of capital and profits. Also, all the indicators that affect the attraction of foreign capital began to improve at the end of the nineties. Moreover, in reviewing the main indicators of the economy, GDP growth has been increasing since the year 2000 in Russia, although inflation has been accompanied by fluctuations, but this has slowed down, unemployment has declined, and the index of business has grown steadily annually.

It should not be ignored that part of the foreign investment is of domestic origin, that is, the economic activists withdraw their capital from the country and re-enter it in the form of foreign investment in order to avoid tax and other laws, Benefiting from the facilities that governments provide for foreign investment and Russia is no exception in this regard. But the point is that even with the deduction of these funds, foreign investment in Russia is a significant number. Another important point is that European countries with significant investments are among the top investor countries in Russia. The presence of European investors at the top of the foreign direct investment sector can be an indication of the acceptable security and profitability of investment in the Russian Federation.

The authors have tried to answer the main question of the research in a descriptive-analytical way using Russian, Persian and English resources, and in particular, relying on the upstream documents and laws of the Russian Federation and official economic statistics. Investigating the Russian Federation's model of attracting foreign investment may help the Islamic Republic's decision-makers to better attract foreign investment, especially in the current economic climate.

Keywords: Economic Policymaking, Economic Reforms, Foreign Direct Investment, Macroeconomic, Russian Federation.