

Deep recession of nineties in russia economics essay

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In the period of 2000-2006 the growth of Russian economy was mainly driven by private consumption. Old industrial capacities were able to serve the consumption level due to increase of production quantity in the same industry not by the building up new capacities. With the level of FDI/GDP 20-22% Russia made possible to renew equipment base in industries to make its products more competitive in the world market. The situation changed after 2006 as FDI started to grow and play more important role for the growth of Russian economy. Having considerable share in total investments, FDI have big impact on sustainability of growth of the Russian economy.* Source www.worldbank.org Origins of investments As it was written above after 2006 there was sudden increase in FDI to Russia, logical questions pops up. Who is behind these investments? If we take a look at the Table N Then it will become obvious that most part of the capital is coming through the " tax heaven" countries. I would rather conclude that the part of the capital is actually Russian capital which was transferred to that countries because of taxation issues. Table shows us the investment exporters in to Russia. It is interesting to see that being a smallest country in EU Cyprus is the biggest investor with the share of 19% of total investments in 2008 it means that Cyprus invests 1/5 of the total investments in to the Russian economy. It should be mentioned that Cyprus, Virginian Islands and Luxemburg are the countries with low taxation rate so called offshore zones. In the same time it could be concluded that many multinational companies keep their money in such countries due to taxation issues and investment from that countries in to the Russia does not mean that investor originate from there. As it mentioned above it even Russian companies keep their free money in

offshore and often invest them in to Russian economy. Other important donors are Netherlands and UK and Germany, in comparison with investors from Cyprus or Luxemburg, this investors more tend to have domicile in mentioned countries and their relationship with Russia are result of good politic and economic conditions between their countries and Russia.

Germany, Holland and UK form almost 40% of all investment to the Russian economy. As it was mentioned today political and economical relationship between these countries are in good level. There are many German and UK MNE's opening their Greenfields in Russian territory as production in Russia means not only cheap resources and labor force but it also huge market and possibility to expand to CIS countries. If we take a level higher and look not donor countries but donor regions it becomes obvious that main investment donor for Russia is European Union as it invests yearly more the 80 % of the total capital inflowing in to Russian economy. In the same time it should be mentioned that Asian as well as Latin American + USA investments have not so big impact on Russian development Russian economy. So in which sectors Russia is attracting these FDI's? Table N Investment inflow in to Russian Economy by sectors in %* Source: www. gks. ru -Federal state Statistics Service Today it is normal tendency in many developing and developed countries that share of service sector is increasing rapidly. Each year more and more new services brought to the market and Russia is not exception. Russian Service sector is growing dramatically and attracting big share of the investments. According to Russian Federal Statistic Service the share of Service sector in total investments was 57, 8 % in 2007 and it has positive tendency to increase. And it seems to be that most attracting for the foreign

investors is the wholesale, retail and repair activities. Manufacturing sector is on the second plays after service attracting about 25% of Total foreign direct investments yearly. It should be mentioned that manufacturing activities are very diversified in Russia beginning with production of food and beverages ending with chemicals and metal production. Different regions are rich with different raw materials and resources and give company possibility to exercise the competitive advantage of using these resources. Here we could mention that investments are going mainly to metallurgy sector and residual investments are distributed proportionally. Mining and quarrying sector is one of the profitable sectors not only in Russia but also in all resource rich countries. But statistic shows us some break down from positive trend that continued until 2004. In 2005 investors decrease their investments to this sector more the double times. It was impact of Yukos affair[2]. Investment are always exposed to risks let it be economical, financial or political risk, and if economical and financial risk are in some level predictable and surmountable, political risk is unpredictable and has more serious consequences. So after Yukos case many investors unwillingly invested to this sector but due to development of legislation in favor of investors right the situation is changing recently and the investments volume in mining and quarrying sector is recovering.