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## Foreign Enterprises in the Siberian Economy

**Abstract:** The purpose of the article is to identify the spatial character of foreign investment in Siberia where a considerable part of Russian export goods is produced for the markets of Europe and the Asia-Pacific region. A microeconomic approach was used, and the types and activities of enterprises with foreign capital were analysed. The main features were presented: the predominance of offshore investments, officially identified as foreign investment in the basic industries; increase in the share of investment into the mining industry and increasing dependence on China when moving east; high level of individual's investment in services with fast capital turnover and minimal capital costs which forms a specific survival environment in the border areas with Mongolia and China. Three patterns of foreign investment in the Siberia are identified – western, central and eastern. The western pattern is characterised by a diversity of donor countries and investment in processing industries, the central one is based on the offshore capital in energy and semi-product industries, and in the eastern pattern investment into mining and logging prevails. The last type of investment is not receptive to innovations and new technologies, conserves and deepens the resource specialisation of industry for Asian markets of raw materials.

**Keywords:** enterprises with foreign capital; foreign direct investment; legal entity; motives for investment; offshore companies; regional development

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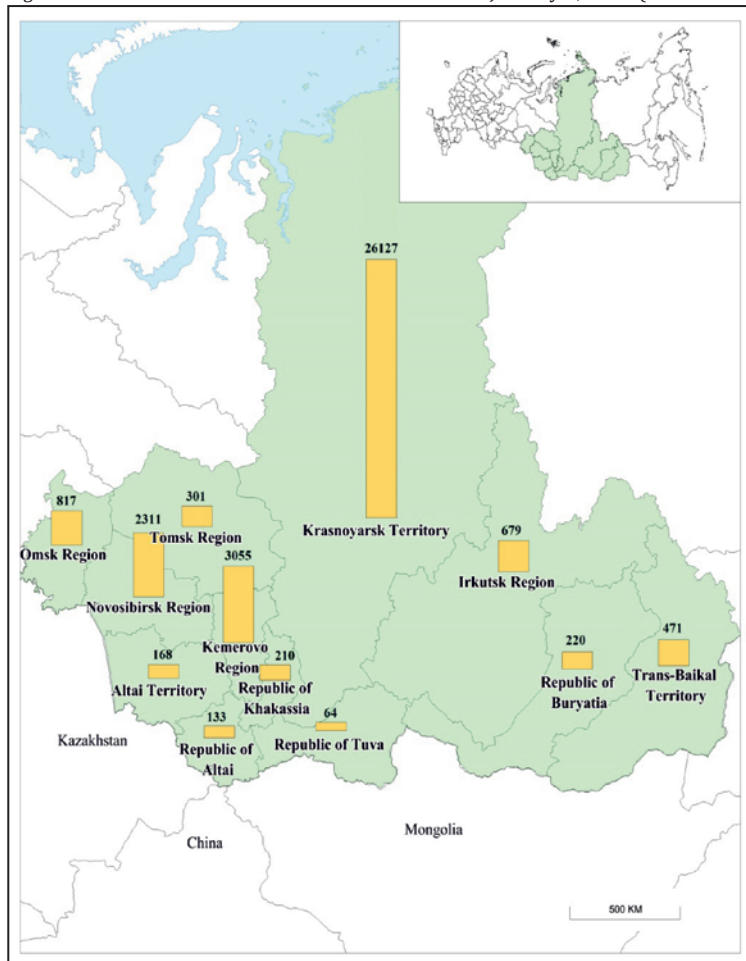
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## INTRODUCTION

Foreign investment plays a significant role in all countries that have undergone transformational shocks. Foreign capital made it possible to integrate post-socialist countries into the global economic system and features of the development of the investment process and its impact on the host economy are widely discussed in the literature (Piroznik, 2015; Choromides, 2018; Avioutskii, 2016; Demirbag, McGuinness, et al., 2015; Caputo, Pellegrini, 2016). Russia is the largest country with economy in

Figure 1. FDI balances in Siberian Federal District on January 1, 2018 (billion dollars)



transition and it accounts for 64% of such investments, since the opening of the Russian economy till 2017 (UNCTAD, 2018). Russia has a vast territory, and foreign investment plays a different role in various regions of the country for the development of the territory. A particular role belongs to Siberia, which has a significant natural resource potential with developed industry, constructed mainly in the post-war years. At present, Siberia's involvement in world economic relations is relatively low and, in terms of direct foreign investment, the Siberian Federal District (SFD) is inferior to most other federal districts, being ahead of only the Volga Federal District and the least developed North Caucasus and Southern Districts. According to the Central Bank of RF the balance of foreign direct investment (FDI) of the Siberian Federal District as of January 1, 2018 is \$34.4 billion or 6.5% of country's FDI (CBR, 2018). The specificity of integration of the Siberian regions with the outside world is also conditioned by geographical factors expressed in its relative remoteness from the main world markets and proximity to a limited number of Asian countries dominated by China. The leaders of the Siberian Federal District in attracting foreign direct investment are the Krasnoyarsk Territory, the

Kemerovo and Novosibirsk regions. On the other hand, there are subjects of SFD who receive very small amounts of investment (Figure 1).

The paper discusses the spatial differences in the nature of investment, the origin of capital and kind of activities where foreign enterprises are concentrating, the patterns in their allocation and what are the prospects for strategic interaction with the countries of the Asia-Pacific region, both for the Eastern part of the country and for the country as a whole.

## RESEARCH METHOD

In the analysis of foreign investment, most attention is usually paid to macroeconomic indicators – its volume and structure by countries and regions. The official statistics of foreign investment in Russia is unstable in recent years. Since 2014 the Federal Service of State Statistics of Russia has stopped publishing data on the volumes and structure of inbound foreign investment, presenting indicators on foreign direct investment only, as well as the Central Bank of Russia, although the structure of foreign investments is always dominated by “other foreign investment” (commercial and other loans). Besides, the Central Bank does not allocate a significant part of the investment coming to the regions by country of origin for confidential reasons. For example, the share of investment not distributed among donor countries for the Krasnoyarsk Territory on January 1, 2018 is 65%. Also, in the open statistics of the Central Bank some of the regional information on FDI is not distributed by type of activity.

Under these conditions, it is more practical to analyse the role of foreign investment in the economy of Siberian regions on the basis of information on the activities of enterprises with foreign capital. They give an idea not only about the macroeffect, but also show the problems of interaction between economic agents in a particular territory. The work is based on empirical methods using the functional approach. The subject of the research is a variety of enterprises with foreign capital and their relationship with the host economy of the regions within the borders of the Siberian Federal District (SFD). At the end of 2018, two regions from SFD were transferred to the Far Eastern Federal District, however in this paper the SFD is analysed within the previous boundaries.

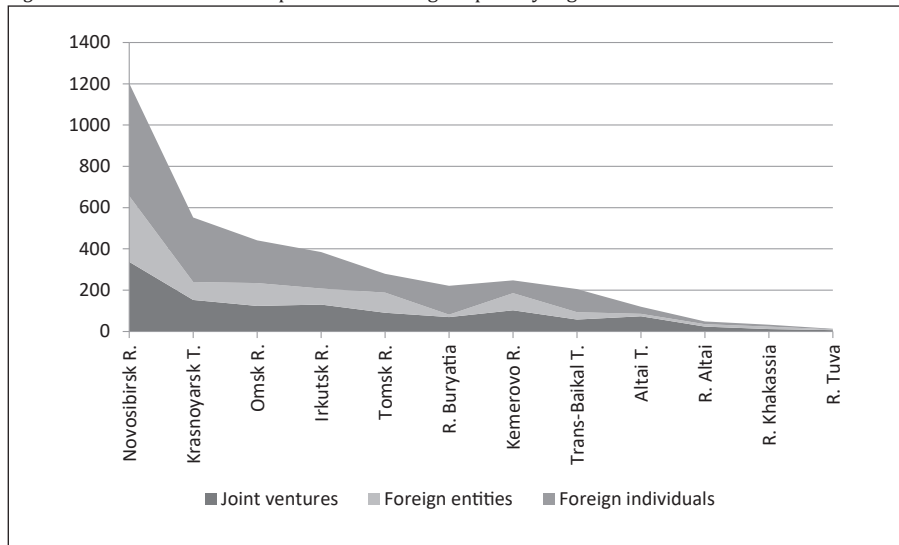
Two categories of such entities were distinguished – foreign enterprises, fully owned by foreign investors, and joint ventures where foreign companies and citizens own a part of assets. The special attention was paid to type of investor, since an effect for import of new technologies and raising of export revenues is expected mainly from transnational corporations and other foreign companies, while a considerable part of the enterprises formed by individuals brings about the import of labour more than the import of capital, since these investors work themselves in Russia.

Data on the enterprises with foreign capital were provided by the national Agency of economic information “Prime” (AEI, 2017).

## RESULTS AND DISCUSSION

At the end of 2016 about 4,000 enterprises with foreign capital operated in the Siberian Federal District, two thirds of these were purely foreign enterprises; joint ventures with Russian economic actors were two times fewer. The Novosibirsk region is

Figure 2. Distribution of enterprises with foreign capital by regions of the Siberian Federal District



Source: AEI “Prime” (2017)

distinguished by their total number (Figure 2). But the share of all these enterprises in the output of the regional economy is small and varies by about 1%. Enterprises owned by legal entities are two times fewer, but they are larger in output and number of employees, therefore they determine the character of the FDI impact on the regional economy.

The largest number of foreign companies is expected to be concentrated in the wholesale – more than 800 and almost half of them are in the Novosibirsk region, an unofficial capital of Siberia (Table 1). The same is true for joint ventures. Retail follows wholesale but the number is significantly lower. In the third place is the construction, followed by car trade and harvesting and processing of wood.

Table 1. Number of enterprises in leading sectors

Activity	Foreign enterprises	Joint ventures	Regions of concentration
Wholesale	811	358	Novosibirsk (498), Omsk (161), Krasnoyarsk (132), Irkutsk (106)
Retail	185	69	Novosibirsk (89), Krasnoyarsk (46), Chita (26), Omsk (25)
Construction	177	55	Novosibirsk (75), Krasnoyarsk (38), Omsk (24), Ulan-Ude (22), Chita (22)

Source: AEI “Prime” (2017)

This distribution cannot be compared with the amount of invested capital, because, as mentioned above, the Central Bank publishes data with a significant proportion of unallocated investments. But in terms of the cost of production the leaders are industrial enterprises. These enterprises are inferior in quantity, but they determine the high concentration of production created by foreign capital, where legal entities prevail.

Table 2. The largest foreign entities operating in Siberia

Legal entity	Country of registration	Output in 2016 (million rubles)	Activity
Eurosibenergo	Cyprus	31,766	Power generation
SUEK-Krasnoyarsk	Cyprus	21,630	Coal mining
Vtorresourcepererabotka	Cyprus	19,018	Waste and scrap
Metalloenergofinance	Luxembourg	13,299	Electricity trading

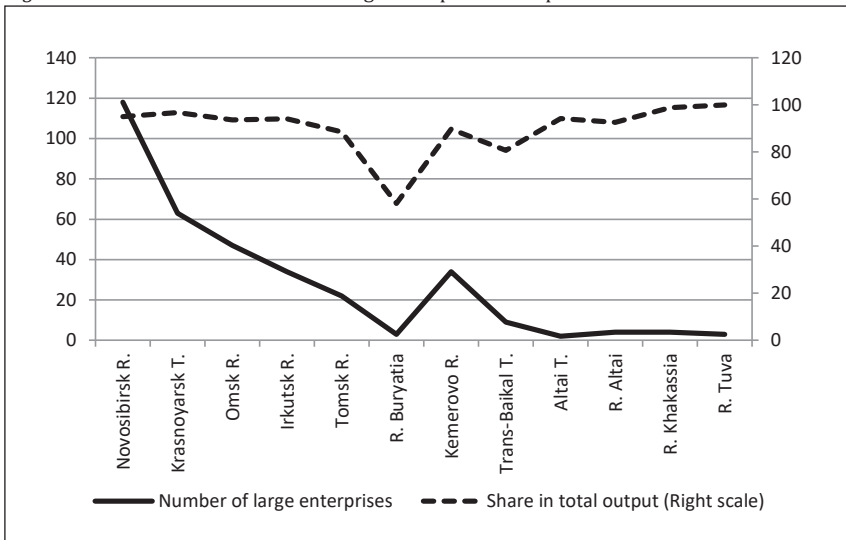
Source: AEI "Prime" (2017)

In most regions a high level of production concentration is provided by industrial enterprises with annual revenues of more than 1 billion rubles (Tuva – 100%; Khakassia – 92,8%; Krasnoyarsk Territory – 86%; Kemerovo Region – 82,7%; Irkutsk Region – 80%). Figure 2 presents data on large enterprises of the SFD, to which were attributed those with the annual revenues of more than 100 million rubles in 2016. This share is significant everywhere except in Buryatia, but three enterprises here also provide more than half of the revenue of foreign enterprises.

It is important to highlight the business services which determine innovative development – telecommunications, software, information technologies. There are lot of them in software – 40 foreign enterprises and 29 joint ventures, but they are spatially concentrated in the western part of Siberia – in Novosibirsk (half of the total account), Tomsk and Omsk. There are also several ventures in Krasnoyarsk and Irkutsk. Other kinds of business services are not numerous and are placed more evenly throughout the Siberia. In the rest of the services, the abundance of all types of real estate firms in almost all regions is striking. Individuals' enterprises predominate in trade and construction, but there also large ones.

The contribution of various countries to investing in Siberian economy is characterised by the predominance of offshore companies. The greatest enterprises of main

Figure 2. Level of concentration in foreign enterprises – output more than 10 million rubles



Source: AEI "Prime" (2017)

industrial regions belong to offshore companies – Cyprus, Seychelles, British Virgin Islands etc. (Tab. 2). They include all the leading branches of industrial regions – energy in the Irkutsk region and the Krasnoyarsk Territory, coal industry in the Kemerovo regions that were constructed in the Soviet period.

But there are a lot of entities that are not created by offshore companies, in which the real FDI is presented. Germany is the leader in Western part of Siberia in forming both foreign and joint ventures. Its presence is going down to the East. It should be noted that in Western Siberia there are comparatively many German enterprises not only in industry, but also in the trade supplying industrial equipment. Here also the US and Kazakhstan are sporadically present. There are many Chinese enterprises in Siberia, but most of them are individual businesses in the tertiary sector. In Novosibirsk, the centre of Siberia there are about 130 Chinese enterprises, in the Krasnoyarsk Territory – more than 180, in Buryatia – 135, in the Trans-Baikal Territory – more than 90. At the same time, the number of enterprises formed by Chinese legal entities is increasing in the eastern direction. There are no such enterprises in Novosibirsk, in the Krasnoyarsk Territory there are 6 of them, in the Irkutsk Region – 5, and in the Trans-Baikal Territory – 13. The Trans-Baikal Territory is developing precisely by the Chinese industrial capital.

In Buryatia and in the Republic of Altai the Mongols are added to Chinese investors, and in Western Siberia they are forced out by the citizens of Kazakhstan and of other states of the Central Asia, Belarus and Ukraine. Some of the peculiarities include the abundance of Mongolian firms in Buryatia, declaring consulting services in the field of business with zero or insignificant revenue.

At the same time, the weak representation of Japan and South Korea should be noted. Their enterprises are rare and it is impossible to conclude about their impact on the regional economy. Meanwhile, these are the countries with a high level of development closest to Siberia, which have not joined the sanctions against Russia. Currently, Japanese firms are cooperating with the Irkutsk Oil Company, but co-processing has not yet begun.

## CONCLUSIONS

In the analysis of foreign investment, considerable attention is paid to the motives for investing abroad, and they usually refer to goals that are set by international and transnational corporations. A. Tobolska (2014) brought together various approaches to their justification, which are mainly based on the four goals identified by Dunning (1994), from which orientation on decrease in cost of production and expenses on a labour (Domanski, 2000) are most often allocated.

Different combinations of investment incentives are characteristic for different parts of Siberia, according to which three types can be distinguished – western, central (offshore) and eastern ones. The first type of investment is characteristic of the Western part of Siberia, where incentives to search for economic efficiency in investments in industrial processing are fairly represented, as well as the search for markets, as evidenced by the concentration of intermediary firms, including wholesale trade. Among the West Siberian regions only Novosibirsk and Tomsk Regions have an obvious non-primary export structure, although the role of foreign investment is not decisive.

However, even in Novosibirsk Region the share of fuel in exports is increasing, while that of mechanical equipment and computers is declining.

On the contrary, the foreign enterprises in the central part of Siberia which includes the Krasnoyarsk Territory, the Kemerovo and Irkutsk regions form the base for regional economies. This area has a high industrial potential, which came under the control of offshore firms during the privatisation process. In this case, the traditional factors of investment placement associated with search for natural resources or local labour force overlap with the motives of the opposite nature, forcing to withdraw property rights in foreign jurisdiction. The main reasons for leaving into foreign jurisdiction are tax reductions, avoiding a raider distribution of property, but it is also a concealment of business owners. And here is a set of institutional problems resulting in absence of mechanisms for accumulating investment potential in regions with developed industry.

The eastern type of investment mainly focuses on the search for raw materials for processing outside the country receiving the investment. However, it should be added that there is an increased share of interest in real estate and other assets, which is concentrated in the sector of individual entrepreneurship, whose share is highest in the regions bordering on China and Mongolia – Buryatia and Trans-Baikal Territory. This phenomenon is aimed not so much at development, but at the joint survival of both representatives of the host country and countries of investors – China, Central Asia or other post-Soviet republics. This type of investment does not contribute to technological renovation of production and creates additional challenges for development, since the Chinese resource investment projects are followed by the workforce from China which often causes discontent among the local population. These projects raise many environmental concerns as well (Glazyrina, Lavlinskii, 2017).

The prospects for the development of the Eastern part of Siberia are determined by two circumstances. First of all it is the China's activity in the promotion of a megaproject "One belt – one way" where one of proposing economic corridors is to go to Transbaikalia through Mongolia. This project will strengthen the dependence of the border regions of Siberia along with Mongolia on the Chinese economy. The project promises new cross-border investments, but they are more likely to go to transit infrastructure to facilitate export flows.

Secondly, the transfer of the Eastern Siberian regions to the Far Eastern Federal District will strengthen their peripherality in relation to the industrial potential of central Siberian regions. It will also lead to dependence on the Chinese market, since Buryatia and the Trans-Baikal Territory are less competitive to attract investment from Korea and Japan compared with the Far East regions. All of this may contribute to the disintegration of the Eastern part of the country as a whole.

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