Forest investment in the Russian part of the economic corridor China-Mongolia-Russia

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Abstract. The activity of foreign and joint ventures in the Russian part of the economic corridor is analysed. The enterprises with foreign capital play an insignificant role in the economy of the border regions now in comparison with the developed Siberian territories. Most of the foreign enterprises are registered by individuals, which reduces the innovation potential of investment and contributes to the import of labor. The main donor countries are China and Cyprus. The prevalence of Chinese investors is noted especially in the Zabaikalsky kraj where they dominate in most types of activities. Mongolia is the closest neighbor of this zone but its investors are represented in Buryatia only. Investments in wholesale trade and construction prevail with high concentration of production in coal and metal ore extraction. Such an industry structure hampers the flow of new technologies and the growth of human capital. Prospects for the growth of foreign investment are connected with the expansion of resource extraction including forest resources and their primary processing for export as well as the development of transition activities in the area of the expected economic corridor. It requires a purposeful state and regional policy of attracting investment into technological areas of communications and transport.

1. Introduction

The Russian zone of the presumed economic corridor includes several frontier subjects of Eastern Siberia (Zabaikalsky kraj, Republic of Buryatia, Republic of Tyva and the Republic of Altai) as well as the adjacent territories - Khakassia, parts of the Irkutskaja oblast and the Krasnoyarsky kraj, which may also be affected by this project. Specificity of interaction of these territories with the outside world is caused to a great extent by geographical factors, expressed in its comparative remoteness from the main world markets and proximity to a limited number of Asian countries with domination of China.

The idea of developing the economic corridor offers new opportunities for the prospects of the Russian territory adjacent to the border. The access to foreign markets and integration into global economic chains are mainly conditioned by attracting new investment. In the current institutional system of distributing the results of economic activity the peripheral regions of the country have low investment opportunities. Therefore, the problem of attracting funds from abroad is principal especially for territories with a resource orientation of the economy, which is typical for most subjects of the Siberian Federal District (SFD). According to the data of the Central Bank of Russian Federation on foreign direct investment (FDI), all the border regions of Eastern Siberia lag behind...
other subjects of the SFD. Krasnoyarsky kraj and Irkutskaja oblast are among the leaders in attracting investment from abroad.

To understand the role and possibilities of investing from abroad it is necessary to answer some questions - where the investment has come from till now, who are investors, in which sectors of economic activity do they concentrate, what is the effect of them for the regional economy, and what needs to be done in order to increase their impact on the area development in the future.

2. Data and Methods
In most cases foreign investment in Russia is analyzed in macroeconomic terms – its volume and structure by countries and regions [1]. The official statistics of foreign investment in the regional context is incomplete and 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 (FDI) only, i.e. giving at least 10% of the shares or authorized capital of an organization registered in the country. The Central Bank of RF adheres to this approach in open statistics. Meanwhile, the share of foreign direct investment is relatively small. In 2013 it was only 15.3 % for Russia and 13.5 % for the Siberian Federal District, since the structure of such investments is always dominated by "other foreign investment" (commercial and other loans). However, FDI refers to a relatively stable and efficient part of the transboundary financial flow for the local economy, therefore, their dynamics and factors affecting the level of fundraising are important for the socioeconomic situation and prospects for the development of regions.

A significant part of the investment coming to the regions is not allocated by country of origin in the open statistics of the Central Bank. The volume of unallocated investment, including confidential data, in 2017 was 87% for the Zabaikalsky krai, 97% for Buryatia, 80% for Tyva, and 100% for the Altai Republic. Under the circumstances a more detailed analysis of foreign investment in the region for explaining their motivation and possible prospects can be carried out at the microeconomic level, based on the activities of enterprises with foreign capital.

Data on the enterprises with foreign capital were provided by the national agency of economic information "Prime". These enterprises included two categories - foreign enterprises, i.e. fully owned by foreign investors, and joint ventures where foreign companies and citizens own a part of assets. Foreign enterprises are formed by legal entities or individuals, and this is important for assessing development prospects, since a significant part of the enterprises formed by individuals implements the import of labor more than the import of capital. Despite the fact that amount of enterprises owned by legal entities is significantly smaller throughout the country, the effect for the economy and its export potential is expected just from the foreign companies and transnational corporations.

The indicators of the enterprises include the volume of revenue and income (2016), the type of activity and the country from which the capital has arrived. Based on the volume of revenue, the role of foreign enterprises in the regional economy was analyzed, as well as the concentration of production in large enterprises with annual revenue of more than 100 million rubles.

3. Results
In the analyzed four border regions of the Russian Federation, 512 enterprises with foreign capital were registered in late 2016, of which 341 were foreign and 171 joint ventures. Only 63 foreign enterprises are formed by legal entities and 269 by individuals (table 1).

Most economic indicators show lagging of border regions from northern industrial neighbors in the zone of the economic corridor, among them - the effectiveness of foreign investment in the regional economy and per capita, the importance and return on sales of joint ventures. All regions are characterized by a high degree of concentration of production at large enterprises. Some features are noticeable in Tyva with the least number of foreign and joint enterprises, which are represented by several large units in the extractive sector.

The largest number of enterprises with foreign capital is registered in wholesale trade (60 foreign entities and 30 joint ventures) followed by construction, and then by retail trade (table 2). So the
priority activity in the zone of the planned corridor is rather intercountry mediation in the supply of goods to local markets than the trade itself. But the share of wholesalers in the sectoral structure of enterprises in the border regions is half as much as in the Siberian Federal District as a whole (15% vs. 30%). The share of builders is higher (13% vs. 9%), as well as of retail dealers. Besides, more significant in the border zone is such activity as the provision of food and beverages - 6% versus 3.5%.

Table 1. Enterprises with foreign capital in the zone of economic corridor in comparison with the industrial regions of Eastern Siberia

|                         | Zabaikal. kraj | Rep. of Buryatia | Rep. of Tyva | Rep. of Altai | Irkutsk oblast | Krasnoyars. kraj |
|-------------------------|----------------|------------------|--------------|---------------|----------------|-----------------|
| Total revenue of        | 2215.9         | 9072.0           | 9736.0       | 1863.6        | 69334.2        | 680396.7        |
| enterprises with foreign capital in 2016, mln rubl. |               |                  |              |               |                |                 |
| Total revenue per 1 thousand people, mln rubl.     | 8.4            | 2.3              | 30.7         | 8.3           | 28.8           | 236.7           |
| Revenue to GRP ratio (%) | 3.5            | 1.1              | 18.7         | 4.0           | 6.5            | 38.5            |
| Number of foreign enterprises | 154           | 154              | 7            | 26            | 256            | 404             |
| The share of foreign enterprises registered by legal entities (%) | 23            | 8                | 57           | 42            | 30             | 22              |
| Return on sales | 24.6          | 16.1             | 75.6         | –15.3         | 17.0           | 50.0            |
| of foreign enterprises (%) |                |                  |              |               |                |                 |
| The share of large units in total revenue of foreign enterprises (%) | 81            | 58               | 100          | 92.6          | 94             | 97              |
| Number of joint ventures | 53            | 69               | 6            | 25            | 130            | 153             |
| The share of joint ventures in total revenue          | 36.9           | 33.5             | 0.4          | 18.4          | 47.7           | 82.9            |
| Return on sales of joint ventures (%)         | 19.9           | 25.2             | -30.0        | 9.5           | 53.1           | 50.9            |
| The share of large units in total revenue of joint ventures | 86.7          | 84.6             | 0            | 79.4          | 97.4           | 99.7            |

Table 2. Priority activities for foreign capital (by the number of enterprises)

|                         | Zabaikalsky Kraj | Republic of Buryatia | Republic of Tyva | Republic of Altai | Total |
|-------------------------|------------------|----------------------|------------------|-------------------|-------|
|                         | foreign          | joint                | foreign          | joint             |       |
| Wholesale               | 18               | 6                    | 30               | 10                | 12    |
|                         | 28               | 9                    | 19               | 6                 | 1     |
| Retail                  | 20               | 6                    | 12               | 3                 | 0     |
| Extraction of mineral resources | 19            | 6                    | 3                | 2                 | 1     |
| Provision of food and beverages | 10            | 1                    | 15               | 8                 | 0     |
| Logging                 | 5                | 2                    | 9                | 8                 | 1     |

So in this zone the diversification of foreign companies' activities takes place due to infrastructure and intermediary branches, which are most accessible for individual business with minimal investment. Therefore, the share of enterprises created by foreign citizens in this zone was 79%, i.e. more than three quarters, while in Siberia this share was 61.5%.
As to industrial production, a significant presence of enterprises with foreign capital is observed in extraction of mineral resources and logging. The processing industry in this zone is relatively developed in Buryatia only, but there are practically no foreign or joint ventures with complex and composite production. The mining industry is represented by extraction of metal ores in Zabaikalsky kraj (19 foreign enterprises and 3 joint ones) and coal mining in the Republic of Tyva at three large enterprises. The largest is the foreign enterprise "Baikalrud" in Zabaikalsky kraj, owned by the Chinese company "Central Asian Silver Polymetal Group Ltd." and developing the Noion-Tologoy deposit of polymetallic ores.

Two types of activity are prevailing in the service sector: consulting on management issues and engineering and technical design. The first one is the phenomenon of Buryatia: there are 28 enterprises of this kind formed by citizens of Mongolia. Perhaps in this case, a more significant role is played by additional activities of these ventures, which include trade, processing of telephone calls, warehousing services, public relations and others. The second type - engineering and technical design - is distributed primarily in Zabaikalsky kraj. Modern business services, important for innovative development, are represented by two joint ventures in telecommunications only.

The largest enterprises of the zone total 19 foreign units with an annual revenue more than 100 mln rub. and 9 of them belong to foreign companies, incl. two from China, four from Cyprus, and by one from Australia, the United Kingdom and Panama. Remaining units belong to citizens of China (8), of Tajikistan and Lithuania. Joint large enterprises include 2 units in the telecommunications service - with an American company in Zabaikalsky Kraj and with a company from Cyprus in Buryatia, 2 - in trade with Belarus and China, one in construction with the Chinese side and one in the financial sector - with Cyprus. In Tyva, almost all the foreign capital is invested in three large coal mining enterprises with founders registered in offshore.

4. Discussion
In general, the area of the economic corridor is dominated by representation of Chinese companies and citizens - founders of business, as well as by investors from offshore both for large and small companies. The wide presence of offshore capital is typical for the whole of Siberia, but in the zone of economic corridor it is less than in other regions. The predominance of China is typical for Zabaikalsky kraj and gradually decreases from east to west. In Buryatia the presence of Mongolian founders, mostly citizens rather than companies, is noticeable, investors from Kazakhstan appear in the western part of the corridor zone.

A recipient region usually expects the inflow of capital and new technologies and business practices that accompany it, as well as the growth of human capital [2]. In this zone the activity of enterprises with foreign capital does not give grounds for expecting technological development of production, since foreign investment goes mainly to infrastructure activities or to redistribution of basic industries earnings. This type of relationship with the global markets which is characterized by a small volume of foreign investment and a low proportion of products supplied for export can be called peripheral. A structure of activity of enterprises with foreign capital is aimed mostly at the survival rather than at the expansion and the term "survival" refers also to foreign citizens.

J. Dunning singled out 4 goals for investing abroad, which include the search for raw materials (natural resources), for new markets, for increasing efficiency and for acquiring assets [3]. The first incentive connected with the need to obtain raw materials is prevailing for most Siberian regions and its role is gradually increasing in the border regions including new plans to supply timber to China, which cause disaffected reactions among the local population. The acquisition of assets in the regions analyzed, including real estate, is more relevant for citizens of Mongolia and Central Asia. The sales market is also important for investors, what is reflected by the abundance of investments in trade and intermediary activities.

Prospects for the expansion of foreign investment are largely determined by China. A. Kuznetsov [4] identifies the two most likely trends in relations with China: increasing exports of raw materials and semi-finished products and strengthening transit functions of the territory, including output at
enterprises with Chinese capital for further supplies to the west. The second trend is currently being discussed in the framework of the plans for the development of the China-Mongolia-Russia economic corridor, and the expected growth in FDI during implementation of this trend provides a certain risk for this area since it can facilitate the export of profits generated here.

5. Conclusion

The development of transit infrastructure probably will not change the specialization of this territory, and foreign corporations will continue to invest primarily in resource projects. The developed regions of the Irkutskaya oblast and the Krasnoyarsky krai, mentioned in the beginning of the article, will be more attractive for investments into processing industry then the zone of corridor. But attracting foreign investment in infrastructure will allow developing on-site service for maintaining future flows where new forms and scales of intermediation, the sophistication of technologies in communications, transport and other spheres will be required. Regional economies should focus on increasing exports of infrastructure services, which can become an alternative to the export of natural resources of the territory.

And the target for successful development in the corridor zone is to increase the degree of involvement of residents of this zone in international investment projects through stimulation of joint venture creation. Local residents need the help of the state for such a joint participation so that the considerable part of profits from new industries formed with the foreign capital could remain in the zone of corridor and contribute to its development.

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