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REASONS FOR THE DECLINE IN INVESTMENT IN THE RUSSIAN ECONOMY

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Abstract

The open question of the legitimacy of the origin of private property in Russia creates uncertainty among the owners in the legitimacy of their entrepreneurial activity in our country. The ongoing permanent process of redistribution of property in the interests of the closest circle of the leadership of our state forces the owners of property, which was often obtained by them in a semi-criminal way, to withdraw their capital abroad and legalize it there. To protect their property, Russian entrepreneurs register their enterprises in offshore zones. It is for this reason that it becomes possible for Western countries to seize our property located abroad. As a result, investments in the development of the Russian economy do not create the prerequisites for economic growth and improving the welfare of the population. The unwillingness of the state leadership to resolve the issue of property legitimacy gives our economy a semi-criminal character. The introduction in 2014 of personal sanctions against Russian officials and entrepreneurs from the president’s inner circle and sectoral sanctions by Western countries against leading enterprises and sectors of our economy, on the one hand, exposed these problems to the limit, and, on the other hand, created the opportunity and necessity to address the issue of repatriation of capital exported from the country and increasing, including due to this, the volume of investment in the domestic economy.

Keywords: Privatization, capital export, investment, innovations, sanctions.

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1. Introduction

In the historical competition between capitalism and socialism, as it is known, at the end of the twentieth century, capitalism won unconditionally. There are many theories that explain the inevitability of this very end of this competition. However, we are inclined think that the closest to understanding what happened is the famous American popularizer of economic science Dan Cryan. In his pamphlet “Capitalism in Comics: The History of Economics from Smith to Fukuyama”, he gives the following definition of capitalism: “Capitalism is not a short-term gain, it is an investment as the main source of even greater benefits in the future” (Cryan, 2017, p. 84). In this definition, the main thing for us is that the cornerstone of not only capitalist development, but also of the development of the state of any other formation is investment. Under socialism, the investment situation, frankly, was not entirely brilliant. It was this circumstance, mainly, that predetermined the collapse of building socialism in the USSR. The chief architect of market reforms in our country, Egor Gaidar, comes to the same conclusion. In his autobiographical book “Days of Defeats and Victories”, he notes among the main shortcomings of the socialist economy in our country: “... There is no mechanism for the continuous generation and selection of effective innovations, there are no effective incentives for full-fledged work, for improving the quality of products, scientific and technical progress” (Gaidar, 1997, p. 35). It should be recognized that in modern conditions, the investment situation in the Russian economy is also not glowing. That is why it is very interesting to identify the reasons for the decline in investment activity of business and the state in modern conditions.

2. Problem Statement

The integral indicator of the effectiveness of investments in the development of the state economy is the dynamics of changes in GDP. The growth of this indicator indicates an influx of investments, and a decrease indicates either the absence of investment, or their decrease. The change in the flow of investment in the Russian economy in the post-Soviet period can be judged by table 1, which reflects the dynamics of changes in Russian GDP in 2000–2018. From Table 1 we can clearly see that the average annual GDP growth in Russia over the past 10 years, from 2009 to 2018, did not even exceed one percent and reached only 0.89 %.

Table 01. The dynamics of changes in GDP and investment in fixed capital of enterprises in Russia in 2007–2018, in percentage (Lomskaya, 2018)

Years	Rate of change in GDP	Rate of change in investment
2007	8.5	42.2
2008	5.2	30.8
2009	–7.8	–9.9
2010	4.5	14.8
2011	4.3	20.6
2012	3.7	6.8
2013	1.8	0.8
2014	0.7	–1.5
2015	–2.5	–10.1
2016	0.3	–0.2
2017	1.6	4.4
2018	2.3	3.5

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One can find many reasons for explaining such a low growth rate of Russian GDP over the past ten years. However, we prefer the point of view of the best economist of the twentieth century, John Maynard Keynes, who argued that economic downturns occur when economic units begin to accumulate money, instead of putting them into circulation. For example, when a lot of money is accumulated in the hands of a small number of people, or when investors become too picky and start saving money instead of investing it.

In fact, in Russia there was an incredible concentration of national wealth in the hands of a small part of the population. As calculated by the experts from the Higher School of Economics and Vnesheconombank's Institute for Research and Expertise, this part of the population is only three percent. These people in Russia own 89 % of all financial assets, 92 % of all term deposits and 89 % of all cash savings (Kostikov, 2019; Popov, 2019). Thus, according to John Maynard Keynes, the volume of investment in the Russian economy will depend on the desire or unwillingness of this particular three percent of the population. In relation to Russia, this handful of our fellow citizens does not intend to make investments aimed at the development of the Russian economy. This is suggested by the volume of capital export abroad in the period from 2007 to 2018, which is reflected in table 2.

Table 02. Net import / export of capital by the private sector of Russia (banks and other sectors) in the period from 2007 to 2018, in billions of dollars

Years	Net import / export of capital by the private sector	Net import / export of capital by banks	Net import / export of capital by other sectors
2007	81,7	45,8	35,9
2008	–133.7	–56.9	–76.8
2009	–56.1	–30.4	–25.8
2010	–34.4	15.9	–50.3
2011	–80.5	–24.2	–56.4
2012	–56.8	23.6	–80.4
2013	–60.3	–17.3	–43.0
2014	–152,1	–86.0	–66.1
2015	–57.0	–34.2	–22.9
2016	–18.4	1.1	–19.7
2017	–25.1	–23.3	–1.7
2018	–63.3	–32.6	–30.8
TOTAL – import	81.7	86.4	35.9
TOTAL – export	–737.7	–304.9	–473.9
TOTAL	–656.0	–218.5	–438.0

The well-known Russian economist, head of the department of international markets and capital of the Institute of World Economy and International Relations of the Russian Academy of Sciences, Mirkin (2018), laments the scale of capital export from Russia. According to his data, the accumulated export of capital from Russia exceeds by $ 300 billion the stock of investments received by Russia from abroad. This money has been withdrawn from Russia. Ten years ago, the picture was the opposite. The world is now receiving investments from us, and not vice versa.

A merciless critical assessment of the investment situation in our country after the privatization is given by Nobel Prize winner in economics Joseph Stiglitz in his article “Who Lost Russia?”, where he writes, in particular: “Keeping money in Russia meant investing in a country located in a state of deep depression, and the risk of not only making low profits, but also the confiscation of assets by the new government, which sooner or later will express well-founded doubts about the "legitimacy" of the privatization process. Anyone who is smart enough to be the winner in the privatization race will be smart enough to put their money in the fast-growing US securities market or transfer them to a safe place in classified accounts in offshore banks. To do this, it was not even necessary to risk and leave the country, and therefore it is not surprising that billions of dollars “flowed” abroad” (Stiglitz, 2004).

It will be fair to say that the problem of increasing investment concerns not only the leadership of our country. According to the famous Russian newspaper Vedomosti, over the past 18 years, the average rate on companies' profits has decreased by a quarter – from 28.6 % in 2000 to 21.4 % in 2018. Even if we exclude countries where income tax is not levied (12 jurisdictions), the decrease was significant – up to 24 %. During this time, the rate was lowered by 76 countries, only 12 left it unchanged, and another six countries raised it. And, if back in 2000 the corporate tax rate exceeded 40 % in 12 countries, in 2018 it remained at that level only in India, but only with regard to profit from dividends. These conclusions were reached by analysts at the Organization for Economic Co-operation and Development, who analyzed revenues in almost 100 countries.

In the opinion of Lilia Ovcharova, Director of the Institute for Social Policy of the Higher School of Economics, lowering tax rates on profits leads to an increase in resources for investments, but they are concentrated in the hands of rich people and the middle class, which increases inequality in society. This conclusion is confirmed by the results of studies by Surksha Nallaredi and Juan Carlos Suarea Serrato of Duke University and Ethan Ruan of Harvard Business School: a 1 percentage point reduction in the income tax rate in the USA increases the share of 10 % of the richest Americans in household incomes by 0.94–1.5 percentage points, and 1 % of the richest derives 80 % of the benefits (Kholiavko, 2019).

Thus, the fate of investments in the Russian economy is in the hands of this particular three-percent portion of the population of our country. And it is precisely this very rich stratum of Russian citizens, is involved, as can be seen from Table 2, in the export of capital in unprecedented volumes from Russia. Following the logic of an apt expression of John Maynard Keynes, we can conclude that in our country there is a complete lack of “incentive to invest” among entrepreneurs (Keynes, 2011). Ella Paneiakh, associate professor at the Higher School of Economics, is convinced that the main reason for the unpatriotic behavior of the Russian elite is its insecurity from the arbitrariness of the Russian security officials. In her opinion, in any case, with the current connection of courts with law enforcement agencies, the decision on the guilt of the person involved is made not only long before the trial, but even before the formal investigation begins. Arrests in the elites are due to the fact that now the status of the elites is no less affected than the rest of the public. That is why conflicts of any kind in the elites are now resolved through criminal cases and figuring out exactly which conflict (dissatisfaction of the boss or the machinations of a competitor) led to this particular arrest is a meaningless exercise (Paneiakh, 2019).

We can argue that it is the fear of losing what has been earned or, let’s be honest, stolen in Russia that forces the majority of Russian oligarchs and officials to transfer their financial resources abroad, so as not to lose them as a result of another redistribution of property in our country or its loss as a result of an attack from side of the siloviki. In this case, there is nothing left but to bet on attracting public

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investment. In table 3, we reflect the share of the state in the structure of investments in fixed assets in Russia in 2010–2018. The total amount of government investment includes investments from the federal, regional and local budgets.

Table 03. The state's share in the structure of investments in fixed assets in Russia in 2010–2018 (Kholiavko & Adamchuk, 2019)

Years	Total amount of state investment, in trillions roubles	State share of all investments in fixed assets,%
2010	1.3	18.2
2011	1.6	18.0
2012	1.7	17.9
2013	1.9	19.0
2014	1.8	17.0
2015	1.9	18.3
2016	1.9	16.5
2017	2.0	16.3
2018	2.0	16.3

Table 3 shows that over the past six years, the volume of state investment in fixed assets of Russian enterprises has remained almost unchanged – 1.9–2.0 trillion rubles, but the state’s share of all investments in fixed assets is declining and in 2018 is 16.3 %. It seems that in Russia, including the state, there are no financial resources necessary for investment. President of the Free Economic Society of Russia and Director of the S.Iu. Witte Institute of New Industrial Development Sergei Bordunov believes that Russia has enough money even for the most ambitious projects, what’s only needed is to increase the confidence of both the population and business in the investment infrastructure. According to his information, enterprises and organizations keep almost 28 trillion rubles on accounts and deposits with banks. The population keeps almost the same sum in banks only, also having cash savings. Individuals are almost not represented on the Russian securities market. In this case, one must take into account the excess liquidity of banks that they hold on deposits with the Bank of Russia. There are also colossal, under $ 500 billion, international reserves. According to Sergei Bodrunov, at least half of all these funds could be invested in the real sector (Zubkov, 2019).

As for the accumulation of Russian international reserves, then, according to a group of authoritative economic experts, it has lost its meaning. This is exactly what the Academician of the Russian Academy of Sciences, Scientific Director of the Institute of Economic Forecasting Viktor Ivanter, the Deputy Director of the INP Alexander Shirov, and the head of the Laboratory for the Medium-Term Forecasting of the Reproduction Processes of the INP Mikhail Gusev believe. They are convinced that the maximum value of international reserves can be estimated as the total value of external debt, and he minimum value –as the volume of critical (not possible to be replaced by domestic sources) imports. The first value is $ 454 billion, the second at the end of 2018 was at the level of $ 148 billion:

– equipment ($ 57.4 billion);
– high-tech raw materials and components ($ 53.9 billion);

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– agricultural products and food ($ 24.8 billion);
– pharmaceutical products ($ 11.9 billion).

The average value of the necessary reserves, which provides fending off risks in relation to domestic debt and two-year financing of critical imports, is about $ 300 billion. It is just not needed to have more – in the conditions of a floating exchange rate, there is no need to spend foreign exchange reserves to maintain the ruble exchange rate, and in case of new sanctions access to a significant part of the reserves (except for the gold reserve, which is all stored in Russia). How this happens can be seen in the examples of Iran, Venezuela and several other countries (Ivanter, Shirov, & Gusev, 2019). Meanwhile, as can be seen from table 4, this value is actually significantly exceeded.

Academician Viktor Ivanter and his colleagues link the reduction in international reserves to the need for increased investment. They are confident that, for example, in 2018, investment in fixed assets could be further increased by 2 to 3 percent of GDP. In 2019–2021, only this measure would allow to increase the accumulation rate from the current 21.4 % to 23 percent of GDP. Victor Ivanter believes that these funds should be directed, first of all, to support the procurement of high-tech imported equipment. This proposal is aimed at overcoming the technological backwardness of our economy. It will be fair to say that we also considered it possible to overcome our technological backwardness mainly through the acquisition of imported high-tech equipment in the West. It was in this that we saw the main danger of personal sanctions introduced in 2014 against the inner circle of the Russian president and sectoral sanctions against individual industries and enterprises belonging to them (Shalamov & Ageeva, 2018).

Table 04. International reserves of Russia in 2007-2019, in billions dollars (International reserves of Russia: 1993–2019)

Date	International reserves
01.01.2007	303.732
01.01.2008	478.762
01.01.2009	426.281
01.01.2010	439.450
01.01.2011	479.379
01.01.2012	498.649
01.01.2013	537.618
01.01.2014	509.595
01.01.2015	385.460
01.01.2016	368.399
01.01.2017	377.741
01.01.2018	432.742
01.01.2019	468.495
March 2019	489.5

Meanwhile, among Russian scientists there is a completely different point of view on overcoming the technological gap between Russia and the Western countries. The President of the Free Economic

Society of Russia, Sergei Bordunov, already mentioned by us in this article, notes that since 2014 a trend of powerful pressure on the Russian economy from the outside has emerged. But even before that, as it is emphasized by Sergei Bordunov, there were many restrictions on Russia's access to Western technology. There were cases when high-tech equipment was not sold to Russia, because it would make it possible to produce products of a level that did not suit our competitors. And this is quite natural, because whoever owns the technology dominates the world market. The story of the ban on the purchase of Opel by Sberbank in 2009 is one of the most famous examples. If 70–80 % of technologies present on the market are imported, this means not only that added value is created abroad, but also that they can pull the plug on Russia at any time. Sergei Bordunov is sure that the main resource is knowledge implemented in high-tech products. Sustainable GDP growth, leading to an increase in the quality of life and the country's role in the world, is possible only with accelerated technological development (Zubkov, 2019).

Unfortunately, the number of companies and enterprises engaged in technological, organizational or marketing innovations in Russia has been declining over the past few years, as can be clearly seen from table 5.

Table 05. The number of companies and enterprises engaged in technological, organizational or marketing innovations in Russia in 2010–2017, percent of the organizations surveyed (Beliakov, 2018 Zubkov, 2019)

Years	Number of companies
2010	9,5
2011	10,4
2012	10,3
2013	10,1
2014	9,9
2015	9,3
2016	8,4
2017	8,5

Exactly the same trend is observed in the dynamics of changes in the share of innovative goods in industrial exports of Russia in 2010–2017, which can be clearly seen from table 6. Over the period from 2013 to 2017, the share of innovative goods in the volume of industrial exports has been constantly decreasing from 13, 7 % in 2013 to 7.1 % in 2017 or almost doubled. These two tables, 5 and 6, to a certain extent disprove the opinion of Sergei Bordunov that, before the introduction of personal and sectoral sanctions in 2014, the supply of high-tech equipment was restrained by the countries of the West. The data in the tables above show that the current containment of high-tech equipment supplies to Russia began precisely after the imposition of sanctions, which immediately affected Russian innovations.

Table 06. Dynamics of changes in the share of innovative goods in industrial exports in 2010 –2017, in percent (Ionova, 2019)

Years	Share of innovative goods in industrial exports, %
2010	4,5
2011	8,8
2012	12,1
2013	13,7
2014	11,5
2015	8,9
2016	8,4
2017	7,1

There is another factor in containing investment in the Russian economy, which we consider necessary to mention in our article. According to Rector of the Russian Economic School, Ruben Enikopov, the classic studies of the 90s already demonstrated that one of the most important obstacles to economic growth is the extremely high level of corruption, which negatively affects the level of investment (Enikopov, 2019). In this regard, we cannot but note one very interesting fact. Back in 2013, a book by Evgenia Pismennaia "The Kudrin System. The Story of Putin's Key Economist." Was published. This book describes the outstanding role of Alexei Kudrin, who served as Minister of Finance and First Deputy Prime Minister of the Russian government, in the development of the modern Russian economy. However, all the merits of A. Kudrin are completely written off by the following fact cited in the book of Evgenia Pismennaia: "Kudrin could not prevent the growing wave of givebacks. Over the past ten years, they have grown from 5 to 70 %, as people who are familiar with the state order system tell" (Pismennaia, 2013). Even with a solid administrative and political weight, A. Kudrin was powerless to stop the redistribution of budgetary resources into the pockets of domestic high-ranking thieves. In such a state, it is extremely difficult to shape the investment climate.

Thus, the main problem of increasing the rate of economic growth in Russia is the urgent need to increase investment, ensuring its high growth rates.

3. Research Questions

The object of the study conducted in this article is the problem of increasing the volume of investments in the Russian economy in order to ensure high growth rates of the Russian economy.

4. Purpose of the Study

The aim of the study conducted in this article is to formulate concrete proposals for ensuring the growth of investment in the Russian economy.

5. Research Methods

When working on this article, the following methods were used. In preparing the study, methods of collecting information, mainly statistical, were used. In the course of the research conducted in this article, statistical and mathematical methods were applied, which was confirmed in the presentation of the research results in the form of tables (Mannheim & Rich, 1997).

6. Findings

In the course of the study conducted in this article, problems that hinder the implementation of investments in the Russian economy, including those of an innovative nature were identified,. In this regard, the following measures are proposed for our country.

Firstly, it is necessary to put a barrier to the theft of monetary resources of the federal budget, while simultaneously increasing its expenditures on the development of innovative technologies.

Secondly, to take all measures, including political, economic, cultural, sports, and others aimed at the abolition of personal and sectoral sanctions imposed on Russia by Western countries. If this is not done, then Russia is doomed to autarky and technological lag due to the restriction of access to modern innovative technologies.

Thirdly, to organize systematic work on the repatriation of capital exported from Russia, using the threat of the seizure of Russian monetary resources abroad in connection with the imposition of sanctions as an incentive for their return to their homeland.

Fourthly, to limit the interference of power structures in the economic life of the state in order to redistribute property in their own corrupt interests.

Fifthly, to increase funding for scientific and higher educational institutions, primarily in the field of engineering.

Sixth, to reduce taxes on domestic business, which will provide an opportunity to increase investment in the Russian economy.

7. Conclusion

The implementation of the proposals formulated in this article gives our state the opportunity to increase investment in the domestic economy, including that of an innovative nature, and to ensure economic growth that provides for an increase in real incomes of the population.

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