



OECD-Russia Roundtable

IMPROVING THE QUALITY OF FOREIGN DIRECT INVESTMENT IN RUSSIA POLICIES, GOOD GOVERNANCE, AND INTERNATIONAL AGREEMENTS

19 June 2002, 16.00-18.30
Centre for International Co-operation
Fontanka Emb. 21, St. Petersburg

Overview

Foreign direct investment (FDI) is widely recognised as a powerful engine, and major catalyst, for development and the global integration process. At the present time, as global FDI levels show signs of decline the competition among nations, particularly in transition and emerging countries, to attract more and “quality” FDI will become ever stiffer. Thus, promoting investment effectively and rooting it in the national economy have become a matter of great importance to governments all over the world.

Russia has great potential for FDI absorption. But, to date it is largely untapped. Following the major financial and economic crisis of 1998 and early 1999, the Russian economy has rebounded impressively. In the two-year period of 2000-2001, Russian GDP and fixed capital investment grew by close to 15 and 25 percent respectively. The reduced political and macroeconomic risks, coupled with some positive changes in the policy environment and the implementation of the government’s ten-year reform plan, have resulted in tangible improvements in the business environment for investors, domestic and foreign alike.

However, the existing level of FDI in the Russian economy remains far short of the huge needs. The low level of FDI in Russia is not due to the lack of opportunities, but mainly to its difficult climate for private business and investment. The cumulative figure for FDI in Russia from 1991 through December 31, 2001, represents \$18.2 billion, or only 5 percent of domestic fixed capital formation. These totals may be compared with FDI in China of \$46 billion in 2000 alone, more than \$200 billion in the United States in 2001, and global totals of \$1,270 billion in 2000, and an anticipated \$760 billion in 2001. In cumulative terms, the largest investors in Russia by the end of 2000 were Germany (17.1 percent), the United States (15.6 percent), and Cyprus (14.9 percent). Most of the FDI went to the fuel, food, trade, catering, and transport sectors.

Foreign investors are often overwhelmed by a number of disincentives and barriers including, *inter alia*: a changing tax regime; unpredictability and lack of co-ordination in government policies; poor public governance and rule of law; unsatisfactory corporate governance practices;

inadequate bilateral investment treaties; absence of contract law; constant and unforeseen changes in legislation affecting foreign investors; no clear property rights; and absence of International Accounting Standards.

Every aspect of host countries' economy and governance practices has repercussions for the investment climate. Some countries obtain more growth for a given amount of FDI than others. While many circumstantial reasons explain this, policies make an important difference in performance. Better policies not only bring in more capital, but they tend to strengthen the foreign capital-domestic investment relationship and convince the foreign investor to reinvest its gains. Good governance and internationally recognised rules, disciplines are a crucial pre-requisite for well functioning markets and, hence, for attractive investment conditions and a sustainable allocation of investment capital.

Cross-border partnerships, between local and regional governments as well as between enterprises, are also a potentially powerful economic development tool in ensuring that local economies can benefit from the process of globalisation. Promoting cross-border partnerships has particular application in Russian regions in particular in Northwest Russia.

The OECD has been co-operating with Russia since 1992 to enhance policy dialogue on a number of key areas including foreign investment policy and promotion. In this context, a major FDI Policy Review of Russia was published last year. The OECD and Russia will continue to share standards and experiences, building particularly on OECD's distinctive methodology, which relies on a peer review process, recommendations from governments with diverse perspectives and cultures, and monitoring of process, as well as on OECD's close ties with the business community and other stakeholders.

Objectives

The main purpose of this Roundtable is to discuss the emerging investment challenges and opportunities in Russia over the next few years with main stakeholders. It will also identify the next steps for co-operation in the field of foreign direct investment aimed at further strengthening the existing investment dialogue between the OECD and Russia.

Draft Agenda

19 June 2002

16.00-16.30	<p>How to attract “quality” investment to Russia?</p> <ul style="list-style-type: none"> • <i>OECD Perspective</i>, Mr. Mehmet Ögütçü, Head, Non-Members Liaison Group, DAF/CMIS, and OECD Global Forum on International Investment • <i>Russian Government Perspective</i>, Ms. Lubov Sovershaeva, Deputy Representative of the President in North-West Russia • <i>Business perspective</i>, senior OECD-based business representative
16.30-16.45	<p>Why is public sector and corporate governance crucial for foreign investors? <i>OECD Home Country Perspective (to be confirmed)</i></p>
16.45-17.15	<p>Expectations of the private investors</p> <ul style="list-style-type: none"> • <i>Industry Perspective</i>, Mr. Oliver Wieck, East-Committee of the German Economy • <i>Linkage between FDI and domestic enterprise development</i>, Mr. Nikolai Gordeev, Vice President, NIKOIL Bank, Russia
17.15-17.45	<p>Regional policies to attract investment and cross-border regional co-operation</p> <ul style="list-style-type: none"> • <i>OECD best practices of investment promotion and regional development</i>, Mr. Mehmet Ögütçü, Head, Non-Members Liaison Group, DAF/CMIS, and OECD Global Forum on International Investment • <i>The role of regional investment promotion agencies</i>, Mr. Slava Khodko, Director, St. Petersburg Centre for International Co-operation, Russia, Mr. Vladimir Blank, Deputy Head of Pskov Oblast Administration, Russia • <i>Regional cross-border co-operation</i>, Mr. Alexey Ignatiev, Director, Trans-frontier Co-operation Program in Russia, EastWest Institute
17.45-18:15	<p>Discussion and follow-up <i>Introduction</i> by Mr. Mehmet Ögütçü, Head, Non-Members Liaison Group, DAF/CMIS, and OECD Global Forum on International Investment</p> <p>“Food for Thought”</p> <ul style="list-style-type: none"> • <i>What are the implications for competition for FDI in Russia in the context of globalisation?</i> • <i>What are the impediments to “quality” investment attraction to Russian regions? What should be done?</i> • <i>How to increase the competitiveness of Russian regions to attract more and better investment?</i> • <i>What steps should be taken to better “embed” foreign investment in the regional economy instead of creating foreign “enclaves”?</i>

	<ul style="list-style-type: none"> • <i>What is done to facilitate cross-border co-operation between Russian regions and neighbouring OECD countries to stimulate enterprise and investment promotion on both sides of the border?</i> • <i>What steps have been taken on federal and regional level to improve the legal framework for FDI, in particular with respect to Land, Civil, Tax and Customs Codes?</i> • <i>What are the implications of the creation of 7 administrative districts with respect to the elimination of some of the differences of regional/federal legislation and implementation practices affecting investors?</i> • <i>To which extent best international FDI practices in good governance and transparency correspond to Russian federal and regional practices? What are the priorities for further reform?</i> • <i>What is the role of the Russian and NorthWest Russia Investment Promotion Agency and what steps should be taken to improve the co-operation between the IPAs, regional authorities and private sector in order to attract “quality” investment to Russian regions?</i>
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Documentation:

- Issues paper on Improving the Quality of Foreign Direct Investment in Russia, Policies, Good Governance and International Agreements;
- The Investment Environment in the Russian Federation, Laws, Policies and Institutions;
- Cross-Border Co-operation for Enterprise and Investment in the Northwest Region of the Russian Federation.

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