Factors affecting Foreign Direct Investment (FDI) in Russian Federation

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Abstract: Recent years have portrayed that many countries globally have experienced growth and improvement in their economies especially in the form of foreign direct investment. Russia also is determined to achieve stability in its economy. Russian Federation has shown a dull performance in attracting foreign direct investment over the past few years. This research objective is aimed at finding the reason that why Russia is unable to attract foreign direct investment. This research identifies a number of reasons that are accountable for factors affecting FDI in Russia. The factors include low level of transparency, which is still a major issue in Russia, weak infrastructure that reduces the productivity of investments, inflation which is still remains as one of the main obstacles for investment in the Russia and finally the negative attitude of Gross Domestic Product (GDP) that has also discouraged the investors to work and setup their business in Russia.

Keywords: Foreign Direct Investment (FDI), Gross Domestic Product (GDP), Inflation.

1. Introduction

This chapter will basically be concentrating on Foreign Direct Investment (FDI), the role of Foreign Direct Investment in Russian Federation problem statement and its background as well as the objectives of this research. The purpose of conducting this research paper is to see the importance and effectiveness of Foreign Direct Investment (FDI) in Russian Federation. According to the book of United Nations: World Investment Report “Foreign Direct Investment (FDI) occurs when a firm invests resources in business activities outside its home country” (Ki-moon, 2013). Foreign Direct Investment (FDI) is an important aspect for the organizations to attain the benefits of globalization. FDI in Russia has a specific character. This specificity is determined by the complex relationship of Russian economy with the international movement of capital - relationships which have developed over twenty years ago, at the beginning of the transition period. Like other developing countries Russia also wants to attract more investors in order to obtain stable economic growth. According to Kozub (2014), Cyprus, UK and the Netherlands - are the most important geography of investment in the Russian Federation. These countries accounted for almost half of all foreign investment in the Russian economy in 2009. Total came to $ 103.8 billion foreign investment (14.2% lower than in 2007).

Russian Federation is the largest country in the world covering more than one-eighth of the Earth with the 144 million of population and with the 17,075,400 sq.km total land area. Russia is located in the northern Eurasia. The border countries are Finland, Ukraine, China, Mongolia Georgia, and etc (Denisenko, 2012).

Besides, FDI improves the gap between foreign exchange but also it provides job opportunities, technology and facilitate in stabilizing the economy. Thus, at that point Russia is taking many incentives to enhance FDI and is providing opportunities to create an investment friendly environment in the country. The incoming of foreign investment is less and is only limited to few sectors.

1.1. Statement of the problem

There is abundant amount of literature available on the subject of Foreign Direct Investment (FDI) and most of them focus on the issues of the impact of Foreign Direct Investment (FDI) in the developing countries. According to Khondoker Abdul Mottaleb (2013), “ By bridging the gap between domestic savings and investment and by enhancing knowledge spillover, FDI can play important role in industrial advancement and economic growth in the developing countries”. In the case of Russia as it is a developing country, the inflow of Foreign Direct Investment (FDI) is not
very significant. Russian Federation attracts investors because of its natural wealth, such as oil, gas, precious stones, metal, favorable location, however, despite all the advantages there are also an unfavorable conditions for foreign investors, such as corruption, undeveloped infrastructure, inflation rate and gross domestic product (GDP).

When it comes to Russian main biggest presentation problems, transparency is seen to be the number one issue at hand. As much as there is much welcoming from foreign affairs and contributions, majority of financial analysts in the country argue that the government of Russia is to be blamed as it does not offer enough support when it comes to show maximum commitment and worse comes when the default in promising to support is exercised. As a result of this, this has led the country is scoring very low rankings globally when it comes to transparency benchmarking, a scaling score of position 133 out of 176 countries in question. According to KPMG research, they concluded that among the total sum corruption happening in Russia in the business sector, approximately 40% of it comes from foreign investors in the country (Dierks, 2015). Translated in the consumer market, the percentage value even bloomed to a score of 60%. Generally, Moscow and St. Petersburg where most of the FDI indexing comes from the country managed to be seen as poor performers when it comes to corruption relativity (Dierks, 2015).

Moreover, the level of little transparency is also a nagging question when it comes to SME’s in the country. Thus, companies are advised surmountable to come up with integrity mechanisms to instill and distill due diligence when conducting any business venture in Russia.

Inflation in recent years is gaining momentum in connection with which Russia is running out of foreign investors who are willing to risk their own funds in the current difficult economic situation. According to chairman of the Central Bank of Russia Elvira Nabiullina (2015), foreign investors repelled by close cooperation with Russian economy’s high inflation, "There is, I think, a very interesting observation, based on the interviews I recently saw on foreign business. They have recently seen the obstacles for investment in the Russian economy and the main problem for foreign investors, as opposed to our investors, they set high inflation - 55% per say, the first reason which prevents investment in Russia - is high inflation”.

Moreover, Russia as a huge, with big number of population, landlocked country faces significant needs for infrastructure development. One of the most crucial among these needs is transportation system. Initiating and encouraging more cooperation in infrastructure development such as transportation system will increase access to and reduce the cost provision of these facilities, thereby lowering transactions costs, boosting trade and increasing the attraction of the region to foreign investors. Furthermore, poor infrastructure reduces the productivity of investments thereby discouraging inflows. (Ganelin and Vasin, 2014).

One of the main indicators of the national economy is GDP, namely, the value of the total market cost of goods and services produced for the year in all sectors of the economy. In other words, GDP is calculated as subtraction of imports from exports. Investors before deciding to finance in any country, they assess its investment climate, and one of the main factors influencing it, is a GDP. Russia’s economy has recorded its steepest decline in gross domestic product since 2009 as the slumping oil price and the economic sanctions imposed in 2014. As a result of a difficult process of adaptation to such a double-shock Russian economy plunged into a deep recession, which peaked in the second quarter of 2015. Moreover, Russia has a gradual rise in the unemployment rate - up to six per cent in the current year and the consumer’s expenditure reduced continually that remains this area close to stagnation until the year end 2016 (Shmatko, 2013).

1.2. Research objectives

This report is done to identify the determinants which are responsible for low Foreign Direct Investment (FDI) in Russian Federation over the past few years and to study that why investors are hesitant in investing in Russia. Therefore the objectives of this research are as follow:

➢ To explain and show the level of Foreign Direct Investment, affected by low level of transparency environment in Russian Federation.
➢ To examine the impacts of inflation rate on Foreign Direct Investment and recommend how to solve the problem of FDI and improve investment environment of Russia.
➢ To analyze the influence of weak infrastructure on Foreign Direct Investment of Russian Federation.
➢ To investigate the level of Gross Domestic Product (GDP) affecting the Foreign Direct Investment in Russia.

1.3. Significance and scope of the study

Foreign Direct Investment (FDI) is the main source of capital, technology for sustained economic growth and development. In the case of Russia, as it is a developing country, it is also considered to be an important source of capital financing. In comparison to the external researches published, there is a shift in focus on the FDI climate in question as this research further investigates measures on how to minimize and overcome the limitations exhibited in Russia
when it comes to FDI and attract more of positive FDI index rather than focusing on the advantages of having a good sense of positive climatic FDI. Simultaneously, this report will also be a platform which will help investors’ guidance in analyzing whether or not it is warrantable enough in terms of profitability when it comes to investing in the country.

The main objective of this research is to determine the factors that are responsible for low Foreign Direct Investment (FDI) in Russia. In order to perform this research the target group would be executive officers, businessmen and small sample of general people from different companies in Moscow and St. Petersburg. According to Kaoosoft survey software, minimum expected 68 questionnaires from the respondents for which 100 questionnaires would be circulated among them to draw a reasonable conclusion at the end. There are various factors discouraging the growth of foreign direct investment in developing countries. However, in Russia as it is a developing country the inflow of FDI is also discouraging. Investors, operating in capital city; Moscow and St. Petersburg will only be covered and the regional investors will not be covered by the research.

2. Literature review

According to Tatyana Naumova, (2013) “Foreign Direct Investment has an increasingly important role in the development of capital deficient of the developing countries. This is because it is not only a stable source of foreign inflows, but it also helps in technological transfer and employment generation. The inflow of Foreign Direct Investment to the developing countries is a good sign for them to attain economic growth and achieve sustainability in their economy.

The standard definition of foreign direct investment is given by the organization for economic cooperation and development, OECD (2013), defines as cross border investment by a resident entity in one economy with the objective of obtaining a lasting interest in an enterprise resident in another economy. The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and also a significant degree of influence by the direct investor on the management of the enterprise. Ownership of at least 10% of the voting power represents the influence by the investor.

Additionally, based on the report offered by Günther Schülze et al,(2013) it stated that there is a cognitive negative relationship between low level of transparency and FDI in Russia. This analogy came as a result of myriad indices put into study in the quality of institution. There is likelihood that any kind of infiltration of corruption emerges when focal government is frail and where administrators can get rewards autonomously from each other. The rewards are for the most part gathered by the diverse specialists who contemplate just own addition, thus the low level of straightforwardness will not have any effect on FDI in light of the fact that the payoff has no association with financial specialists and it is autonomous from each other. This can be considered as decentralized low level of straightforwardness and transparency. Concentrated low level of straightforwardness implies that lone a solitary specialist in the economy gather rewards and bribes.

Roman Panov (2013) in his study found that low level of transparency does significantly reduce the level of inflow of the FDI. The growth of corruption negatively affects FDI in developing countries, such as countries with high levels of corruption are less attractive for foreign investors, therefore, these countries are losing one of the sources of economic growth.

According to Ryabykh (2012), he states that this rate of inflation is considered as an intermediary to gain in the level of macroeconomic soundness in a specific nation. It is otherwise referred to as unbridled expansion trigger negative over a specific nation through multiplier-impact by making unsteadiness in a nation. High inflation in one nation can start the other nation's monetary dependability by worldwide exchange and globalization through multiplier-impact. Henceforth it is said that expansion rate that goes about as a monetary marker for the nations over the world. At the point when a nation experiences high or higher rates, it completes an indication of practical pressure in the nation and demonstrates the legislatures’ powerlessness to adjust off its financial plans and with disappointment of the administration’s strategies in balancing out the level of expansion in the economy.

As a result, there is a negative relationship between inflation rate and foreign direct investment. Meaning that, when inflation rates are high individuals or businesses try to reduce the level of risk taken due to unforeseen losses. Thus, resulting in low foreign direct investments inflows and vice-versa; creating a negative relationship to be established between inflation rate and foreign direct investment. Another
research conducted by Osterwalder (2014) was set to determine the factors behind foreign direct investments inflows in 38 developing countries ranging from the year 2006 to the end of 2015. This was done to analysis of a cross sectional econometric model. He found out that inflation has a negative relationship thus rendering a low inflation rate will only by then attract foreign direct investment in any country. Majority of other researchers (Dryabina, 2011) also did the same survey and found out the same negative relationship between these two said variables.

Voloshin, (2015) found that poor infrastructure has a noteworthy element in disheartening FDI in creating nations. Russia is a landlocked nation at long separation from ports and fundamental world commercial centers. This issue makes a trouble to the trading of merchandise. Despite the colossal interest in transport base in current years, fringe intersection is still feeble. Furthermore, Taxes methods are mind boggling and inconsistently acknowledged, bringing about high exchange costs and long postpones in remote exchange systems. These conditions limit access to an enhances set of outside commercial centers, which makes Russia powerless to antagonistic propensities in the economies of its trading accomplices, particularly with the Russian Federation.

Khegai, (2014) says that there is a positive impact of weak infrastructure on Foreign Direct Investment (FDI). The Russian transport system is a vast net of roads and railway systems, waterways and air routes. The transportation system of Russia has a different development level in its regions, reflected by the communications routes index of overall length and density, which varies in more than ten times in different territories. The transport-logistic system is poorly developed. Among the main disadvantages of the Russian transportation system are the low technical and technological levels. The development of the state economy is impossible without resolution of the main transport system problems. The development of the transportation complex is a first-priority task, which affects the growth of the Russian economy and the improvement of the living standards of the population.

The International Monetary Fund (IMF) (2013) defines Gross Domestic Product (GDP) as the broadest quantitative measure of a nation's total economic activity. More specifically, GDP represents the monetary value of all goods and services produced within a nation's geographic borders over a specified period of time. In addition, IMF defines developing country by using a flexible classification system to differentiate from a developed countries whereby 3 criteria are used:

- One, per capita income level;
- Two, export diversification whereby oil exporters that have high per capita GDP would not make the advanced classification because around 70% of its exports are oil; and
- Three; degree of integration into the global financial system directly or indirectly.

Barro (2012) analyses there is no significant relationship between gross domestic product (GDP) and foreign direct investment (FDI) and states, that the growth rate of real per capita GDP in around one hundred countries with the terms of trade as an independent variable. He concludes that a rise in the terms of trade enhances economic growth.

### 2.1. Research framework

The study used methods to collect the primary data which are qualitative methods, namely focus questionnaires. The sampling is a probability sampling, where author has clear picture who are the respondents. The variables are mainly categorized into two, namely; dependent and independent.

An independent variable is the variable you have control over, what you can choose and manipulate. It is usually what you think will affect the dependent variable. In this research paper, the independent variables are low level of transparency, inflation rate, and weak infrastructure.

A dependent variable is what you measure in the experiment and what is affected during the experiment and it responds to the independent variable. In this research the dependent variable Foreign Direct Investment (FDI).

![Figure: 2.2 Conceptual framework](image-url)

- Low level of transparency
- Inflation
- Weak infrastructure
- GDP
- FDI
3. Descriptive analysis

In this particular study the data that will be collected through questionnaires and evaluated with the help of computer software referred as Statistical Package for Social Sciences or IBM SPSS statistic version 19 and Microsoft Excel. Moreover, in order to obtain the results, statistical analysis that has been chosen to process this quantitative and qualitative research is Pearson Correlation Coefficient and Multiple Linear Regression Analysis. Yet before proceed to use these methodologies to test the hypothesis, the student researcher will be conducting a normality and validity test of Shapiro-Wilk and Chronbach Alpha to find out normality and the reliability of the data. Besides, Kaiser-Meyer-Olkin (KMO) is conducted by the researcher to examine appropriateness of variables. In addition, the time-series analysis will be used to explain the secondary data and to monitor the situation of variables during the specific period chosen by the researcher.

3.1. Data validity and reliability test

Table: 3.1 Data validity and reliability test

<table>
<thead>
<tr>
<th>General Variables</th>
<th>No. of items</th>
<th>Range</th>
<th>Cronbach Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Correlation between low level of transparency and FDI in Russia</td>
<td>4</td>
<td>1-5</td>
<td>.850</td>
</tr>
<tr>
<td>Correlation between weak infrastructure and FDI in Russia</td>
<td>4</td>
<td>1-5</td>
<td>.868</td>
</tr>
</tbody>
</table>

Table 3.1 shows the reliability of the necessary data to test Hypothesis 1 using the Chronbach Alpha methodology. The output of the Alpha is 0.850 and the alpha based on standardized items is 0.877 which are compute from 4 data items. So, it means the necessary data to test hypothesis 1 is considered good and reliable to use. Furthermore, table 3.1 shows the reliability of the necessary data to test Hypothesis 3 using the Chronbach Alpha methodology. The output of the Alpha is 0.868 and the alpha based on standardized items is 0.882 which are compute from 2 data items. So, it means the necessary data to test hypothesis 3 is considered good and reliable to use. Besides, the reliability of necessary data to test Foreign Direct Investment (FDI) - Dependent Variable using Chronbach Alpha methodology is illustrated in table 3.1. The output of the Alpha is 0.693 and the alpha based on standardized items is 0.692 which are compute from 4 data items. So, it can be concluded that the necessary data to test the Dependent Variable (FDI) is considered questionable and reliable to use.
Olkin (KMO) measure of sampling adequacy in the table above is 0.837 which indicates that a factor analysis of the variables is a good idea. Finally, it can be concluded that overall output of the reliability of variables in this research using Chronbach Alpha methodology, is 0.980 which are computed from 20 data items and considered as an excellent and reliable to use.

3.2. Normality test

Table: 3.2 Inflation and Growth rate in Russia

<table>
<thead>
<tr>
<th>Year</th>
<th>Inflation rate (%)</th>
<th>Growth rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>9.0</td>
<td>8.2</td>
</tr>
<tr>
<td>2007</td>
<td>11.9</td>
<td>8.5</td>
</tr>
<tr>
<td>2008</td>
<td>13.3</td>
<td>5.2</td>
</tr>
<tr>
<td>2009</td>
<td>8.8</td>
<td>-7.8</td>
</tr>
<tr>
<td>2010</td>
<td>8.8</td>
<td>4.5</td>
</tr>
<tr>
<td>2011</td>
<td>6.1</td>
<td>4.3</td>
</tr>
<tr>
<td>2012</td>
<td>6.6</td>
<td>3.5</td>
</tr>
<tr>
<td>2013</td>
<td>6.5</td>
<td>1.3</td>
</tr>
<tr>
<td>2014</td>
<td>11.4</td>
<td>0.7</td>
</tr>
<tr>
<td>2015</td>
<td>12.9</td>
<td>-3.7</td>
</tr>
</tbody>
</table>

Source: Adopted and Adapted from inflationinrussia.com (2015); data.worldbank.org (2015)

Table: 3.3 Normality test

<table>
<thead>
<tr>
<th>General Variables</th>
<th>Statistic</th>
<th>Range (years)</th>
<th>Shapiro-Wilk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relationship between inflation and FDI in Russia</td>
<td>.941</td>
<td>1-10</td>
<td>.570</td>
</tr>
<tr>
<td>Relationship between gross domestic product (GDP) and FDI in Russia</td>
<td>.924</td>
<td>1-10</td>
<td>.380</td>
</tr>
</tbody>
</table>

Source: Computed from Secondary Data

Figure: 3.1 Normal Q-Q plot of Inflation Rate

Figure: 3.2 Normal Q-Q plot of GDP growth rate

Table 3.3 shows an assessment of the normality of the necessary data to test Hypothesis 2 using the Shapiro-Wilk methodology. From Shapiro-Wilk to detect normality error, Shapiro-Wilk statistic is .941 and its p-value is .570 and is higher than 0.05 significant level, so the null hypothesis is not rejected which means there is no normality problem, because there is not enough evidence to conclude that your data do not follow a normal distribution, so the error terms are normally distributed. Besides, the Q-Q plot of Inflation Rate in the figure 3.1 above also demonstrates the circles close to the line and it explains that the data is considered as normal. However, table 3.3 shows an assessment of the normality of the necessary data to test Hypothesis 4 using the Shapiro-Wilk methodology. From Shapiro-Wilk to detect normality error, Shapiro-Wilk statistic is .924 and its p-value is .387 and is higher than 0.05 significant level, so the null hypothesis is not rejected which means there is no normality problem, so the error terms are normally distributed. Also, the Q-Q plot of GDP illustrated in the figure 3.2 above clarifies that the circles close to the line and it explains that the data is considered as normal.

3.3. Time-series analysis

Table: 3.4 Inflation and Growth rate in Russia

<table>
<thead>
<tr>
<th>Year</th>
<th>Inflation rate (%)</th>
<th>Growth rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>9.0</td>
<td>8.2</td>
</tr>
<tr>
<td>2007</td>
<td>11.9</td>
<td>8.5</td>
</tr>
<tr>
<td>2008</td>
<td>13.3</td>
<td>5.2</td>
</tr>
<tr>
<td>2009</td>
<td>8.8</td>
<td>-7.8</td>
</tr>
<tr>
<td>2010</td>
<td>8.8</td>
<td>4.5</td>
</tr>
<tr>
<td>2011</td>
<td>6.1</td>
<td>4.3</td>
</tr>
<tr>
<td>2012</td>
<td>6.6</td>
<td>3.5</td>
</tr>
<tr>
<td>2013</td>
<td>6.5</td>
<td>1.3</td>
</tr>
<tr>
<td>2014</td>
<td>11.4</td>
<td>0.7</td>
</tr>
<tr>
<td>2015</td>
<td>12.9</td>
<td>-3.7</td>
</tr>
</tbody>
</table>

Source: Adopted and Adapted from inflationinrussia.com (2015); data.worldbank.org (2015)
The Time-series statistic illustrated in the figure 3.3 shows the inflation rate in Russia from 2006 to 2015. The inflation rate is calculated using the price increase of a defined product basket and the Laspeyres formula is generally used for calculation. As you can see, Russia’s inflation rate in the year 2008 has actually fallen from its rate last year of 13.2 percent because In 2006 Russia’s inflation rate was 9.0% and its interest rate was 10%. Raising its interest rate reduced inflationary pressure from 2008 to 2010 but in part, it has lowered consumer expenditure which in turn, reduced aggregate demand. Moreover, the trade balance of goods has been experiencing a rapid increase since the beginning of the millennium, with the exceptions of 2007 and 2009 due to the global economic crisis. This allowed Russia to export more goods than it imported. This high trade balance of goods resulted in a low inflation rate in 2012, the lowest recorded inflation rate since 2004. Also, the 2015 upsurge in inflation is driven by the accelerated consumer price adjustment to the weakened ruble because of the falling world oil prices and western sanctions towards Russia, a faltering economy and large capital flight.

Figure 3.4 demonstrates the time-series analysis of Gross Domestic Product (GDP) growth rate for the period of 2006-20015. Following a period of strong GDP growth in the early 2000s the Russian economy experienced a severe decline in 2009. Russia’s GDP contracted by 7.8% in that year, and was the biggest GDP decrease of the G20 countries. The drastic drop in growth was primarily related to a sharp decrease in oil prices in 2009, heavily affecting the Russian economy, which is highly dependent on oil and gas exports. On top of this, the ruble came under selling pressure and the availability of bank loans declined. In 2010, GDP growth partially recovered mainly due to favorable oil prices. However, the economy has not recovered as quickly as other emerging markets, with growth for 2013 expected to slightly decrease to approximately 3.3%. Furthermore, the World Bank stated that there are five reasons behind the expected slowdown. Firstly, the forecast price of oil has been lowered to USD 102.0 from USD 105.8 a barrel this year. Secondly, the foreign economic environment is not as favorable as expected. Thirdly, economic activity in Russia itself has declined. Fourthly, inflation is rising more quickly than originally envisaged. And finally, investment growth is weak.

### 3.4. Pearson Correlation

Table 3.5 Pearson Correlation analysis to find relationship between low level of transparency and FDI in Russia

<table>
<thead>
<tr>
<th></th>
<th>Corruption</th>
<th>FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Correlation</strong></td>
<td>1</td>
<td>.791**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td>N</td>
<td>68</td>
<td>68</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).

Basically the first hypothesis consists of reviewing whether the low level of transparency has affected the environment of Foreign Direct Investment in Russian Federation. The data that has been collected by performing Pearson correlation shows that the value of r=0.791 and significance level of .000 means that there is a strong positive correlation between low level of transparency and FDI. Thus, it can be concluded that the null
hypothesis is rejected. Based on the previous study, it has been agreed with Roman Panov (2013) on the influence of corruption on stating that low level of transparency does significantly reduce the level of inflow of the FDI.

Table: 3.6 Pearson Correlation analysis to find relationship between weak infrastructure and FDI in Russia

<table>
<thead>
<tr>
<th>Infrastructure</th>
<th>FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>.873*</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
</tr>
<tr>
<td>N</td>
<td>68</td>
</tr>
</tbody>
</table>

** Correlation is significant at the 0.01 level (2-tailed).

The second hypothesis basically to examine whether the weak infrastructure has affected the environment of Foreign Direct Investment in Russian Federation. The data that has been collected by performing the Pearson correlation shows that the value of $r=0.873$ and significance level of .000 means that there is a strong positive correlation between weak infrastructure and FDI. Therefore, the Pearson Correlation on the table above leads to the fact that the null hypothesis is rejected and, moreover, researcher agrees with Voloshin, (2015), stating that poor infrastructure has a significant factor in discouraging FDI.

4. Research findings

This chapter basically elaborates more on the results obtained from the primary data and the secondary data, in relation to the objectives of the research which were discussed in chapter one hence it provides a general understanding of the research on the factors affecting Foreign Direct Investment (FDI) in Russian Federation.

4.1. Multiple regression analysis

Table: 4.1 Multiple Linear Regression Model Summary to find the relationship between inflation and FDI in Russia

<table>
<thead>
<tr>
<th>R</th>
<th>R²</th>
<th>Adjusted R²</th>
<th>SE</th>
<th>F Value</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>.641</td>
<td>.411</td>
<td>.338</td>
<td>.7784</td>
<td>5.593</td>
<td>.036</td>
</tr>
</tbody>
</table>

Level of Significance: 5 per cent

FDI= (0,150) Inflation +1,485

It has been revealed from the above econometric analysis that multiple linear regression model was tested to find whether there is no relationship between inflation rate and FDI in Russia. The data analysis using Regression analysis shows that the significance level is 0.036 which is below 0.05 and considered as significant. $F$ ratio is 5.593 which show that it is statistically significant at 5 per cent level of significance. Moreover, coefficient of correlation ($R$) value is .641 which describes a feasible relationship between variables and coefficient of determinant ($R^2$) .411 describes the level of transparency in the model for the variation of Foreign Direct Investment. Moreover, the beta value is a positive value which indicates that there is a relationship between inflation rate and FDI in Russia hence null hypothesis should be rejected. In addition, it has also been agreed with Osterwalder (2014) declaring in his research, that there is significant relationship between inflation rate and FDI in Russia.

Table: 4.2 Multiple Linear Regression Model Summary to find the relationship between GDP and FDI in Russia

<table>
<thead>
<tr>
<th>R</th>
<th>R²</th>
<th>Adjusted R²</th>
<th>SE</th>
<th>F Value</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>.503</td>
<td>.253</td>
<td>.139</td>
<td>.7264</td>
<td>6.489</td>
<td>.039</td>
</tr>
</tbody>
</table>

Level of significance: 5 per cent

FDI= (0,113) GDP +1,485

In order to evaluate whether or not there is a relationship between the gross domestic product (GDP) and FDI, the Regression analysis will be calculated. The data analysis shows that the significance level is .039 which is below 5 per cent and considered as significant. Furthermore, $F$ ratio is 6.489 which show that it is statistically significant at 5 per cent level of significance. Moreover, coefficient of correlation ($R$) value is .503 which describes a possible relationship between variables and coefficient of determinant ($R^2$) .253 describes the gross domestic product in the model for the variation of Foreign Direct Investment. Furthermore, the Beta value is 0.077 and considered as a positive value which indicates that there is a positive relationship between gross domestic product (GDP) and FDI in Russia hence null hypothesis should be rejected. In fact, it has been agreed with Barro (2012) stating that GDP had found to have a significant, positive, and economically important impact on Russia’s FDI inflow.

5. Conclusion

This research was analyzed to identify the factors affecting Foreign Direct Investment (FDI) in Russian Federation. For this purpose, the existing literature review has been presented to show
dependence of FDI from different characteristics and factors that guided the federal and regional authorities in the development of policies to attract investment. By using its own strength such as country location, availability of natural wealth, market size, Russia has colossal potential for attracting Foreign Direct Investment. However, in absolute terms, foreign investment climate remains very low and clearly not meets the needs of the Russian economy because low transparency level, high inflation rate, weak infrastructure and inefficient gross domestic product serve as one of the main obstacles faced by the investors. So, the unfavorable investment climate leads to the fact that some Russian companies refuse from foreign funds, since their use, taking into account the high taxation and customs duties.

With the help of the provided information and statistic analyzes presented in this research paper it can be concluded that based on this information, the purpose of this work, has been significantly achieved. Based on the findings of this research, the researcher is in the position to provide various recommendations.

6. Recommendation

The analysis of factors affecting FDI allowed to understand that in order to increase the flow of FDI in Russia government must focus on improving the gross domestic product (GDP), enhancing infrastructure and reducing the inflation and corruption in the country. According to the research, corruption has the most significant impact on FDI comparatively to other variables. Corruption has moderate correlation with FDI having a value of 0.867 whereas the other factors having significantly below compare to it. Therefore, it can be recommended that in order to boost the flow of FDI in Russia and to rebuild investors’ confidence, the government has to form specific anti-corruption measures such as enhancing the law enforcement system or the weakening of the impact of corruption on politics which would be able to reduce corruption in the country.

Currently of FDI, attracted to the regions of the Russian Federation, is not in a good condition. Therefore, it is recommended to the government to change the nature of the Russian economy from the mining production towards the development of high technology and service sectors, that is why the main objective of the investment policy should be not to build-up the volume of FDI, but to make changes in the structure of investments attracted towards high technology. To change the nature of attracted foreign direct investment towards high technology and information it is recommended to improve the investment climate and investment image of Russia and its region such as being more open on information about investment opportunities in Russia, or improving the efficiency of trade representatives.

In the current market economy, production and economic activity of the company is not possible without the use of borrowed funds. The use of invested funds allows the company to increase the turnover of working capital, and the amount of committed business transactions and reducing work in progress. In order to attract the investment funds from foreign countries, the company has to be attractive for investors. Therefore, it is recommended for the companies in Russia to analyze carefully and prepare a good financial model. The best thing is to engage a consultant, which immediately makes it as convenient for investors. Furthermore, it is recommended for the companies to draw-up a good business plan, if it is a start-up company and they are in need of foreign investors. Drawing up a business plan, you need to set clear goals and outline practical ways to achieve them. The proper written business plan is not only the key to the heart of the investor, but also a guarantee that your business will grow successfully.

With the continued investment crisis in Russia, one of the priority tasks of the government is to attract foreign capital. Thus, it is recommended to the government to improve an investment promotion policy. It describes the Administration commitment and method of attracting foreign investors. This should consist of the major activities that Russia will concentrate on, the strategies the Government will take to stimulate investment, strategies the Government will take to develop the investment condition and it should deeply explain how facilitation and coordination of investment promotion strategy is going to be achieved at the federal and regional levels. Moreover, it is recommended to Russia to take into consideration the practices of other well-developed countries like United States of America (USA) or Canada in order to achieve effective coordination.

In addition, based on the above analysis and research, it is also recommended that investment related to the government institutions should enact policies that are investor friendly and financial mature. This includes market friendly policies such as minimal intervention from the government on the private space which will incentivize investors to invest foreign direct investment into countries as the outcome is not controlled by the government, but rather by free market forces.
7. References


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