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**FOREIGN INVESTOR'S STRATEGIES IN THE CONTEXT OF**  
**THE INFORMATION AND INNOVATION PARADIGM**

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***Abstract***

Russia became open to foreign investors at the end of the 20th century, helped by the transition to a new economic system and the liberalization of foreign economic relations connected with these processes. In the process of interaction, we can observe changes in foreign investment strategies. Existing theories explain this situation in terms of foreign investors' interest to resources. However, at the present stage, the picture is changing, and the introduction of the information and innovation paradigm with digitalization as the key element makes foreign investors reorient their business to new industries and innovative activities. Another important factor is the measures taken by the national economy in the framework of the investment policy. In this article, the author proposes to analyze changes in the strategies of foreign investors in the Russian economy, as well as to suggest investment policy directions that can contribute to the reorientation of foreign investors' strategies from resources to information and innovation approach.

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**Keywords:** Digital economy, foreign investor strategies, information and innovation paradigm.



## **1. Introduction**

In the context of globalization of the world economy and the emerging information and innovation paradigm, where the digitalization of the economy is a key element, investigation of the impact made by the current processes on changes in the foreign investor strategies is of great interest from a scientific and analytical point of view. Both foreign and domestic literature pays a lot of attention to the influence of foreign investments on development, especially in countries with transitional economies, that explains the relevance of this study. It is interesting to observe how the emerging economy initially attracts foreign investors with its labor and natural resources; then they begin to invest in the manufacturing sector of the economy, then to the service sector, gradually changing their tactics and business strategy. An important factor is the investment policy of the state, which has a direct impact on the strategic behavior of a foreign investor.

## **2. Problem Statement**

It is of scientific interest to analyze changes in the strategy of a foreign investor under the information and innovation paradigm in the Russian economy.

## **3. Research Questions**

This determines the need to consider the following questions in this study.

- The concept of information and innovation paradigm and its main derivatives.
- Foreign investor strategies abroad.
- Foreign investor strategies in the Russian economy during the transition period.
- Features of foreign investor strategies in the Russian economy in the context of the emerging information and innovation paradigm.
- The investment policy of the country when interacting with a foreign investor.

## **4. Purpose of the Study**

In connection with the foregoing, the main goal of this research is to identify the main tenets of the information and innovation paradigm and its derivatives, as well as to determine the directional influence of the processes on foreign investors' strategies in the Russian economy.

## **5. Research Methods**

This article uses general logical research methods: analysis and synthesis, analogy, generalization; structural-logical, comparative, and statistical methods. The analysis of literary sources is carried out using scientific methods: content analysis of Internet resources, problem-oriented search for sources in electronic library systems; analysis of literary sources of the Web of Sciences scientometrical database, their assessment and interpretation.

## 6. Findings

Approaches to assessing the strategic behavior of a foreign investor are considered in foreign and domestic literature. Thus, in foreign practice, foreign investors' strategies are explained in the concepts of OLI, the "investment path of development" by J. Dunning, who argued that their choice is shaped by a number of factors, in particular, ownership of certain assets, availability of resources in the host country (Sharmiladevi, 2017). In analyzing the strategies of foreign investors, Russian scientists largely investigate the factors of attracting them into the Russian economy by creating a favorable investment climate (Ryazanova, 2014).

However, it is interesting to note that in modern conditions the strategies of a foreign investor are changing. In particular, attention should be paid to the changes taking place under the influence of the processes of informatization and digitalization of the world economy, i.e. in the context of emerging information and innovation paradigm. The information and innovation paradigm is a combination of certain conditions and factors that in some way affecting social relations, change their essence, form a new look. On the one hand, the influence of the information and innovation paradigm is manifested through the growing number of enterprises operating in the field of information and communication technologies (ICT). In the period from 2010 to 2015 the number of companies engaged in such technologies in the compiled UNCTAD's list of the 100 largest multinational enterprises has more than doubled. The assets of such enterprises grew by 65%, and their operating income and employment increased by about 30% against the background of stagnation of these indicators in other enterprises of the first hundred. The value of digital multinational enterprises, including companies involved in the creation of Internet platforms, e-commerce and digital content, is also growing rapidly (World Investment Report, 2017). On the other hand, it is important that investments are directed to new areas of activity, they are looking for a new application of financial resources associated with high technologies, the creation of innovative goods and services.

It is interesting to consider the experience of China, which gradually moves from a global manufacturing factory to a global innovation power. The main components of this movement are education, patenting, the Internet, fundamental research. The country has a competent policy in the field of education aimed at training bachelors in the natural sciences and engineering, establishing world-class universities, and growing research potential. The "Thousands of Talents" program that has been developed and implemented in the People's Republic of China fosters the recruitment of talented young people from all over the world and creates opportunities for making a breakthrough in key technologies or increasing the country's potential in high-tech industries. China is becoming a global leader in patent applications, including patenting the inventions of its own citizens. In 2014, China published 920 000 patent applications, or 34.6% of all patent applications in the world, which is significantly more than in the United States and Japan (Berger, 2017). All this could not but affect the strategies of foreign investors. Initially, their interest in China was focused on locating industrial enterprises in regions with cheap labor force; however, with the Chinese economy growing rapidly, the investment policy of the PRC is shifting from the amount of attracted foreign investments to their quality. At this point, foreign investment projects with the three most important properties are encouraged: high technology, high level of resource savings and environmental safety (Nikulina, 2014).

In modern conditions, it is important to consider the particular strategies of a foreign investor in the Russian economy, whether Russia is embedded in the processes of the information and innovation paradigm, which industries are preferable for foreign investors, and whether their strategy has changed at the present stage. Let us discuss these questions in more detail. In the early stages of investing in the Russian economy, i.e. in the period of market reform and liberalization of foreign economic relations, foreign business invested in the resource sectors of the Russian economy. This applies to oil, coal, gold, etc. According to expert estimates, foreign investors were motivated by the opportunity of expanding their strategic presence, including mutual projects. In addition, they were interested in the growth of hydrocarbon reserves and increased efficiency. Along the way, they were able to balance the portfolio of assets (Frolova, 2016). This period was marked by the activity of such large companies as Shell, Exxon Mobil, British Petroleum, Royal Dutch Shell, ConocoPhillips. Thus, it should be noted that foreign investors have opted for the resource strategy to penetrate the Russian market. Beginning with the year 2000, resource sectors of the economy are still of interest to foreign investors; however, one can observe their gradual transfer to manufacturing and services sectors. In manufacturing industry, priority is given to metalworking, mechanical engineering, woodworking, and food processing. As for the services, consumer sector, namely retail and financial activities, takes the lead. Here we can mark the appearance in Russia of such large foreign companies as Ford, Peugeot, Toyota, Rimbunan Hijau Group, etc. By 2012, the share of manufacturing in the total amount of foreign direct investment received was 31.8%, and in 2013 it increased to 53%. In the food industry there were such foreign companies as Coca-Cola and Nestlé; in the retail sector acted large trading networks Auchan, Metro, etc. In the financial sector, we can mark the activities of such foreign banks as Societe Generale, CitiBank, etc. Thus, foreign investors' strategy was reoriented towards production and consumer activities.

The total volume of foreign investment in the Russian economy is presented in Table 01.

**Table 01.** Total foreign direct investment in the Russian economy in 1990-2000, billion dollars (UNCTAD Handbook of Statistics, 2015, 2016, 2017)

Investment type	1990	2000	2005	2010	2013	2014	2015	2016
Foreign direct investment: Inward flows	---	5.9	30.7	63.6	84.5	56.5	35.0	68.0

In the modern conditions of globalization of the world economy and the development of the information and innovation paradigm, we can observe processes of reorientation of foreign investor activity to new areas of the Russian economy. The service sector still occupies the largest share and is represented by such sectors as wholesale and retail trade, transport and storage, information and communications, financial activities, and real estate transactions, which in general makes up about 50% of all direct investments. However, there has been an increase in information and communication. Thus, the balance of foreign direct investment in this industry in 2010 was \$ 782 million; in 2017, an increase of 6 times to \$ 4,611 million was observed.

Thus, based on the above, we present the strategies of foreign investors in the Russian economy in Table 02.

**Table 02.** Strategies of foreign investors in the Russian economy

Foreign investor strategy name	Properties
Resource strategy	Penetration into the Russian market by investing in resource sectors: oil, gas, coal, gold mining
Production strategy	Investing in manufacturing areas: metalworking, mechanical engineering, woodworking, food processing
Consumer strategy	100% participation of foreign capital in the wholesale and retail trade. Participation of foreign investors in banking

From the data in Table 02, it is clear how the strategy of foreign investors in the Russian economy is changing, gradually transforming from a resource strategy to a consumer one.

However, the Russian economy under the development of the information and innovation paradigm, with digitization of the economy as its core, needs to attract foreign investors into innovative areas of activity. It is noteworthy that the digital economy is of great importance for investment, and investment, in its turn, is extremely important for digital development.

Currently, the development of a new investment policy is correspondingly important. Although there is an established world practice of working out strategies for the development of the digital economy (DE), the problem lies in the fact that these documents pay little attention to attracting foreign investors. Thus, the People's Republic of China adopted the “Plan for the Development of Artificial Intelligence of the New Generation”, which is aimed at developing and researching digital technologies. In leading Western countries, for example, in the UK, in the development strategy of the digital economy, the main tasks are: building a digital infrastructure, engaging a business in the digital economy, achieving leadership in the digital business, improving the quality of services for its citizens on the Internet, and ensuring security in cyberspace. The United States places greater emphasis on the development of the Internet, where the main directions of development are: free and open Internet to expand international trade, trust and security, innovation and new technologies in DE (Veduta & Dzhakubova, 2017). Russia is no exception, and in our country the program “Digital Economy of the Russian Federation” has been developed. The main goal of the program is to create a favorable organizational and regulatory environment for the effective development of the institutions of the digital economy, with the important elements at the expense of which the program is implemented is the state, national business and civil society (Program for the Development of the Digital Economy of the Russian Federation, 2017).

However, in the above documents, both in foreign and Russian practice, no attention is paid to attracting foreign investment in innovative areas. Therefore, when building relations with foreign investors for the Russian economy, an important and necessary step is to create conditions for attracting investments so that their strategies gradually change towards information and innovation.

This can be done in several ways, the first of which is the creation of new innovative enterprises with 100 percent foreign capital, joint ventures, etc. The second way is the attraction of investment resources to innovative projects (venture capital, grant financing). A promising direction could be the establishment of territories with a special regime, where investment in “digital”, innovative sectors of the economy will be made.

Table 03 presents the directions of investment policy in the Russian economy to limit / stimulate foreign investors in various types of economic activity.

**Table 03.** Investment policy aimed at the formation of a new foreign investor strategy in the Russian economy

Name of the foreign investor strategy	State investment policy
Resource strategy	To limit foreign investors in the resource sector, joint ventures with a larger share of Russian participation are planned. There are restrictions on foreign participation in certain types of economic activity.
Production strategy	Attracting foreign investors to the machine-building industries through preferential taxation, investment tax credits, etc. Creating (localizing) manufacturing industries together with a foreign investor in the Russian Federation.
Consumer Strategy	Russia's accession to the WTO – the liberalization of foreign economic relations - the reduction of customs duties, the admission of foreign investors in retail trade. Equity participation of foreign investors in banking.
Information and Innovation	Attracting investment resources to the “digital”, innovative areas through the creation of joint ventures, territories with a special mode of activity.

Based on the data given above, we can conclude that the strategies of foreign investors change, but often the investment policy of the host state can play an important role. In the Russian economy, the investment policy, of course, exists and is developing, but at the present stage it should be organically integrated into the ongoing processes of the emerging information and innovation paradigm.

## 7. Conclusion

Thus, based on the study, it is necessary to draw the following conclusions:

- In modern conditions in the global economy, an information and innovation paradigm is being formed. The core of the information and innovation paradigm is the digitalization of the economy.
- The ongoing changes directly affect the activities of foreign investors. On the one hand, there is an increase in the number of established enterprises in the field of high technologies, Internet platforms, etc. On the other hand, one can see a reorientation of business strategies from resource-oriented to information-innovative paradigm.
- An example of such a change is Russia's economy, which is characterized by the activities of foreign investors, starting with a period of market reforms. In the period mentioned, the strategies of a foreign investor are primarily resource-based. Subsequently, one can observe their change to production and consumer strategies. For the Russian economy, however, it is important that the foreign investor strategy shift to information and innovation paradigm, where the key element is to reorient them to invest in the development of digital technologies

and information sectors of the economy. At the same time, it will be important to transform the investment policy, which involves the introduction of certain incentives in the form of tax deductions, investment loans, the establishment of special economic zones, etc.

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