

RPTSS 2018
International Conference on Research Paradigms
Transformation in Social Sciences

PROBLEMS OF BUSINESS IN RUSSIA

V.V. Moiseev (a)*, V.V. Ogneva (b), K.N. Lobanov (c), T.S. Bolkhovitina (d)

*Corresponding author

(a) Shukhov Belgorod State Technological University, 46 Kostyukova St., Belgorod, 308012, Russia,
din_prof@mail.ru

(b) Russian Presidential Academy of National Economy and Public Administration, Orel and Bryansk
Russian Federation, 302028, Orel, Boulevard Pobedy, 5A
ognevavv@yandex.ru

(c) Belgorod Law Institute of the Ministry of the Interior of Russia named after I.D. Putilina Belgorod, 308012,
Russia, lobanov-pol@yandex.ru

(d) Russian Presidential Academy of National Economy and Public Administration, Bryansk branch
Russian Federation, 241050, Bryansk, Gorkogo Street, 18

Abstract

Under Western sanctions, a sharp drop in prices for oil and other commodities, Russia has found itself in a difficult political and economic situation. President Putin, addressing the Federal Assembly on March 1, 2018, paid special attention to the importance of the economic development of our country, pointing out not only the shortcomings that existed, but also defining main directions of work for the next six-year term in this field. To this end, Putin offered "supporting high-tech companies in every possible way, building favorable environment for start-ups, rapid introduction of new developments into production," and creating a convenient infrastructure, comfortable tax regimes, and protect intellectual property.

To ensure sustainable economic growth, the president proposed increasing investments to 25 percent of GDP and direct them to modernization and technological re-equipment of industries, renewal of industry. "We need to ensure the highest dynamics here, to reach a level where on average every second enterprise carries out technological changes during the year," the head of state said (The President of the RF, 2018). To fulfill these and other tasks which the head of state set out in his message to the Federal Assembly in March 2018, it is required to increase the pace of Russia's socioeconomic development, joint efforts of the authorities and business. Business is known to be able to develop its production, build new plants where favorable conditions are created. However, the practice shows that necessary conditions for business have not yet been created in Russia.

© 2018 Published by Future Academy www.FutureAcademy.org.UK

Keywords: State policy of reindustrialization, Western sanctions, raw materials economy, import substitution.



1. Introduction

President of the Russian Federation V.V. Putin, speaking with the next message to the Federal Assembly on March 1, 2018, paid much attention to the problems of business, its relationship with the authorities, law enforcement structures. "In order for the economy to work in full force, we need to radically improve the business climate, ensure the highest level of entrepreneurial freedom and competition ... We should remove everything that allows unscrupulous, corrupt officials and law enforcement agencies to exert pressure on the business. The Criminal Code should cease to be an instrument for resolving economic conflicts between legal entities" (The President of the RF, 2018). However, it is incorrect to believe that after such public statements by the head of state, all the main problems of relations were completely solved. For example, there are still no clear and unchanging "rules of the game", the investment climate is far from favorable, and the legal framework does not properly protect the inviolability of private property. Director of the Institute of Modern Economics Nikita Isayev believes that changes in the economy are possible only if there is political will of the head of state (FLYNEWS, 2018).

After the well-known authorities destroyed one of the most successful oil companies with an annual income of tens of billions of dollars, and its owners were sent to jail, the overwhelming majority of large Russian entrepreneurs began to register their companies abroad - in Cyprus, the Bahamas, the Maldives, in Switzerland and other offshore zones, thereby expressing a sign of mistrust of Russian jurisdiction. Registration of companies in offshore zones is beneficial for entrepreneurs for many reasons. Having registered in the Seychelles, Cyprus, Monaco, the Bahamas and other offshore companies, Russian companies minimize their costs. Offshore schemes allow you to evade many Russian taxes: (value-added, income of individuals, payment of various excises and duties, as well as from social payments to budgets of different levels. According to SM Mironov, leader of the party "Fair Russia", 70% of the Russian economy today is managed by offshore companies, which is confirmed by many facts. Thus, a controlling stake in the largest domestic steel company Novolipetsk Steel (worth \$ 13.3 billion) belongs to Fletcher Group Holdings Limited, based in Cyprus. The main owner of NLMK V. Lisin, who owns 82% of the combine, is at the top of the list of the richest businessmen in Russia. Its fortune in 2018 is estimated at \$ 19 billion. Another well-known Russian businessman O. Deripaska also keeps his assets away from his homeland. His United Company "Russian Aluminum" (UC RUSAL, United Company RUSAL, UC Rusal), the world's second largest producer of aluminum and alumina, is registered on the British island of Jersey. And the assets of R. Abramovich, whose personal fortune exceeded \$ 19 billion in 2017, are also placed abroad, mainly in off-shores (Moiseev, 2012). According to our calculations, over the past 10 years, Russian businessmen have been exported abroad, including offshore companies for more than \$ 680 billion or almost three annual Russian Federation's budgets. As a result of mass withdrawal of large Russian business to offshore, the Russian budget is not receiving hundreds of billions of rubles in taxes and fees.

With the help of offshore companies, Russian businessmen not only evade taxes, but also protect property from raider seizures, and from illegal criminal prosecution. Illegal criminal prosecution of entrepreneurs in modern Russia have been known for a long time, but radically to break the trend is not possible, the chances of facing a criminal case with Russian businessmen are quite large. In Russia, the institution of a criminal case against a businessman often ends in a reputational loss or loss of business. Businessmen are in danger of losing control of their case in the SIZO, where they can be kept for months

without a verdict and great progress in the investigation. Thus, the current practice of unlawfully instituting criminal proceedings against Russian businessmen is an integral part of the negative process - raiding, that is, the illegal seizure of profitable business. With the pressure of the law enforcement agencies, the authorities have been struggling for more than ten years, during which the head of state issued tough instructions on this issue. Thus, Dmitry Medvedev, being the president of Russia, in the summer of 2008, at a meeting with representatives of small businesses, directly stated: "In general, it is necessary that both our law enforcement bodies and the authorities cease to be a nightmare of business" (Medvedev, 2016). V.V. Putin also called on the supervisory authorities to stop the nightmare of business, reduce the number of unscheduled inspections of entrepreneurs.

Fulfilling V. Putin's instructions to stop the "nightmarish business", the Ministry of Economic Development in October 2012 drafted a bill proposing a fine of 200 thousand rubles and even imprisonment for up to 5 years of police for illegal criminal prosecution of entrepreneurs. The document caused widespread approval in the expert environment. After all, it was also proposed to include a number of articles of the Criminal Code, according to which policemen often set up businesses for businessmen, to the sphere of private-public accusation, where cases can only be initiated upon the application of the victim or his legal representative. Despite the wide support among lawyers and businessmen, this project remained, unfortunately, unclaimed. The same as the proposals of the head of the Investigation Committee A. Bastrykin. He notes that "the practice of investigating criminal cases on raids shows that in almost all cases government and local government officials provide assistance to raiders." According to him, there are cases when local authorities initiate deputy requests, distort the coverage of events in the media, and unscrupulous law enforcement officers also help the raiders: they initiate customs criminal cases, seize documents with shareholders' registers, and then make changes to them.

The fight against raiding in Russia is hampered not so much by legislative problems as by crime and corruption by state bodies. Practice shows that almost no seizure occurs without the participation of corrupt individuals in courts, notary offices, law enforcement agencies. Many entrepreneurs have to pay officials to protect themselves from raider attacks, in which corrupt individuals in power structures are involved in varying degrees. In fairness, it should be noted that the number of raider seizures of the profit-making enterprises of registered crimes on "economic" items has declined over the past five years, but at a slow pace. If in 2010 281.3 thousand "economic" crimes were recorded, then in 2011 - 240.2 thousand, in 2012 - 235 thousand, in 2013 - 225.2 thousand, in 2014 - 212.3 thousand (All, 2016, to protect the business!). However, in the last two years, a negative trend has again appeared. In 2016, according to the business ombudsman Boris Titov, 240,000 criminal cases on economic crimes were instituted. President Vladimir Putin was aware of the wrong policies of the authorities and law enforcement agencies in relation to business. At the meeting-seminar with the chairmen of the courts, he stated the following facts: "In 2014, investigative authorities instituted nearly 200,000 criminal cases on so-called economic composition. Only 15% of the cases ended in a verdict. At the same time, an absolute majority, 83% of entrepreneurs, where criminal cases were opened, completely or partially lost business. That is, they were pressed, robbed and released. " And this, of course, is not what we need from the point of view of the business climate" (Putin, 2015).

This situation can hardly be considered acceptable for the domestic economy. That is why in December 2016 the head of state signed a law that tightens the punishment for initiating a criminal case against a knowingly innocent businessman if the goal was to interfere with business or he eventually stopped working. And for the safe enrichment of the 1990s and the 2000s, support was required from the power structures, which legally and politically protected from competitors and the "punishing sword of justice". This officially - under oath and under the protocol - told the High Court of London in October 2011, the dollar billionaire Roman Abramovich, received such support from the Russian government. According to the version voiced by Roman Abramovich in the course of the London court, he gave Boris Berezovsky a large sum - more than 2 billion 500 million dollars - for supporting his business at the political level (The guardian, 2011). In the conditions of constant pressure on the business, which are far from the normal investment climate, the empowered entrepreneurs should receive additional powers to resolve conflicts between businessmen and authorities. Otherwise, more and more businessmen will withdraw their business from Russia's jurisdiction to offshore, and offshoring of the Russian economy will become irreversible. Today offshores become a real obstacle to the formation of a normal business climate in the country, reducing the level of confidence in its economy from foreign partners and investors. Therefore, President V. Putin repeatedly stated that the state needs to support domestic business, create such conditions that it is profitable to invest in the domestic economy and industry. According to Vladimir Putin, nine of the ten significant transactions concluded by major Russian companies, including those with state participation, are still not regulated by Russian laws (Olson, 1998). To do this, it is necessary to create comfortable conditions for doing business in Russia, to reduce corruption in public authorities, etc.

Corruption in the Russian Federation complicates not only normal business conduct, but also distorts the functioning of all political and economic mechanisms, including competition, hinders social reforms and modernization of the national economy, causes serious anxiety and distrust in state institutions in Russian society. Corruption in Russia has become a way to enrich the powers that be. Granting exclusive rights and benefits to business (for export and import, taxes, licensing, etc.) is a breeding ground for corruption. New political and socio-economic conditions have become fertile soil for illegal enrichment of those who, by virtue of their official powers, distribute various kinds of quotas, issue licenses, conduct tenders for government purchases, etc. The main incentive for corruption and its main reason is the possibility of obtaining benefits related to the use of power. The annual aggregate income of Russian corrupt officials is constantly growing and has already reached, according to some estimates, \$ 300 billion (Moiseev, 2015). Thus, the corruption component in Russia has become a critically dangerous problem. According to opinion polls, 90% of Russian businessmen do not believe that their business in our country can be successfully managed without corruption links. This fact was confirmed at a meeting in the Administration of the President of Russia (Business, 2014, without corruption?). With the close interaction of government and business in Russia, so-called business corruption has increased. The multiple growth of bureaucracy in Russia, the great number of necessary, few necessary and useless instructions, rules, instructions, regulations, orders, regulations and other products of creativity of inventive bureaucrats make it very difficult to conduct business in our country. Under the terms of doing business, Russia is on the 120th place in the world. "When there are too many such regulations and restrictions," the researcher M. Olson notes, "sooner or later the private sector (since all or almost all of its representatives have incentives

to violate anti-market facilities or bribe officials) makes the government corrupt and ineffective" (Mancur Olson, 1998). Practice shows that Russian businessmen, in order to create favorable conditions for their company, are looking for workarounds and strive to use bribes to create acceptable conditions for themselves and their business. Thus, one of the good reasons why Russian authorities are seriously affected by corruption is that almost all private entrepreneurs have incentives to violate numerous laws, regulations, restrictions, trying (and quite successfully) to overcome illegal ways bureaucratic obstacles on the path to profit. In 2017, according to the world's corruptness rating, Russia occupies an odd 135th place out of 182 states and is among the most corrupt states in the so-called "zone of national shame" (Russia in the Corruption).

The most affected by corruption are such spheres and activities as export of non-ferrous and rare-earth metals, timber, other export goods, imports of alcohol and some food products, and other foreign economic activities; privatization, licensing and registration of business and commercial structures; bank crediting; land relations; auto business and vehicle operation; financial, sanitary-epidemiological, fire-prevention and other control of the activities of business and commercial structures. Today, there is practically no government body whose corruption services would not be in demand in business. A feature of modern corruption in Russia is that it is consistently expanding its zones of influence, at the expense of new, previously sufficiently protected from it spheres, in particular, law enforcement and higher echelons of power, which makes it particularly dangerous. In order to combat corruption, the specialists suggest minimizing the contacts of the official with the customer of the state service, applying a widely advertised "electronic government" that is not yet fully operational. It was proposed to ensure a broader representation of state and public structures in the President's Council for Combating Corruption. A number of recommendations concern the improvement of the system for investigating cases of corruption, the development of a legal institution for the confiscation of corrupt incomes, and the tightening of the liability of legal persons for corruption offenses (President of the Russian Federation, 2012). So far, in this regard, Russia has a serious lag from the Western counterparts. Moreover, having signed the UN Convention against Corruption in 2003, Russia refused to ratify five of its basic articles, including Art. 20, which provides for confiscation of property of corrupt officials for illegal enrichment. Thus, the lack of political will, the non-use of political mechanisms that have proven themselves in other countries, in the presence of corruption niches created in huge numbers in the current Russian legislation (according to some estimates, more than 10,000), allow officials to extract unprecedented income from their own posts. Corruption today has become the main source of income for a certain part of federal, regional and municipal leaders, representatives of legislative bodies and political parties, has become the main motive for making managerial decisions.

Thus, in relations of power and business in Russia, quite a lot of acute problems have accumulated, which President V. Putin must solve in the new six-year term if he intends to realize his election promises and tasks formulated in his next letter to the political and economic elite with whom he spoke on March 1, 2018.

2. Problem Statement

One of the main issues of this research was the issue of topical issues of the relationship between business and government in Russia. The authors made an attempt to analyze the shortcomings in this area relating to corruption, lobbying, criminal prosecution of businessmen, etc. To remedy this situation, it is necessary, in our opinion, to change the forms and methods of state management of the economy. Specific directions, forms and methods of public administration, including such important sphere as state regulation of the economy are determined by the nature of the relationship between government and business in this particular period. Economic forums are one of the forms of effective interaction between government and business. The fact that there have been a lot of different subjects in the subjects of the Russian Federation over the past few years, both in terms of objectives and composition of participants in economic forums, shows that the dialogue between the authorities and business is happening more and more often. Leaders of the largest domestic companies and regional leaders, heads of regional government bodies can openly discuss issues of stimulating innovation activity in the framework of forums to upgrade the regional economy, to talk freely about taxes, labor resources and investments. All this cannot but contribute to mutual understanding, development of common views and common approaches to solving urgent problems of social and economic development of regions and the country as a whole.

As international experience shows, this form of interaction between government and business, such as public-private partnership (PPP), can become an effective means of establishing close mutually beneficial relations in the economy and social sphere. Public-private partnership (in foreign public and political literature - public-private) implies cooperation between business and government structures, regional corporations and state enterprises aimed at achieving common social and political goals, solving pressing social and economic problems through agreements, contracts, concession agreements on interaction. Public-private partnerships are widely spread abroad, and, above all, in Western Europe. The goal of PPP is to combine public and private resources to use them most effectively and to maximize the benefits of joint activities for all parties to the partnership, as well as to address some of the tasks set for the state and the private sector, respectively. The need for the formation of public-private partnership in our country is quite clearly indicated by Presidents D. Medvedev and V. Putin in a number of their public speeches. Thus, in the Message of the President of Russia Dmitry Medvedev to the Federal Assembly of the Russian Federation on November 30, 2010, it was stressed: "We need to encourage and make maximum use of the mechanism of public-private partnership" (President of the Russian Federation, 2010). In June 2017, President Vladimir Putin instructed the government "to work out a mechanism for public-private partnership for infrastructure" (Putin, 2017). For each party, the benefits of PPP can be its own. So, for the state, PPP can be a tool for attracting extra budgetary funds that will enable it to fulfil its obligations. One example of the state's obligations can be the effective implementation in various sectors of projects that are of significant importance for society: reducing unemployment, improving the level of economic indicators that confirm the effectiveness of investing in projects implemented in Russia. The private sector can solve such tasks as profit from joint activities with the state, access to objects owned by the state, or other benefits, such as benefits, budget funds for business development, stability, overcoming barriers to access to markets for services (works) and other. Also, for business, one of the main incentives is return on invested capital or return on investment, as well as guarantees of return on invested capital. Thus, public-private partnership

as a form of interaction between government and business in Russia is gaining momentum and in the long term it should become an organizational and institutional combination of efforts and resources of the state and private business with a view to implement socially significant projects.

3. Research Questions

In this study, the authors consider the following tasks:

1. To identify shortcomings in the relationship between government and business and outline ways to overcome them.
2. To analyze the reasons for the flight of domestic businessmen and their capitals to offshore and other countries of the world.
3. To analyze some forms and methods of effective interaction between business and government in the face of Western sanctions.

4. Purpose of the Study

The aim of the research is to reveal the problems that Russian businessmen face when doing business in their country, including when they enter into relations with authorities.

5. Research Methods

In this study, the following methods are used: 1) a comparative method that compares the relationship of power and business in Russia and China, some other developed countries; 2) systemic and structural-functional approaches make it possible to form a holistic and objective view of the state of relations between government and business in Russia, highlighting both the positive aspects and the existing shortcomings; 3) The institutional approach allows us to analyze the role of the president, the government, law enforcement and other authorities in the implementation of state policy regarding business representatives in Russia.

6. Findings

1. In the new economic conditions at the state level, recognition of business as an active creative force of the society is necessary, and entrepreneurship is an important part of the country's economic growth, welfare, quality of life and national security. The state should give an open, clear and long-lasting signal to society that entrepreneurship is a benefit for both the Russian economy and citizens.

2. The federal and regional authorities should finally understand that the entrepreneurial potential can be realized only in the case of guaranteed inviolability of private property, stability of tax policy, fiscal and regulatory conditions, and also with the interest of regional and local authorities in the development of entrepreneurship, mutual understanding and cooperation of the authorities and business, their common responsibility for social and economic development of the country.

3. Despite the less favorable conditions for doing business in Russia than the developed countries of the world, domestic businessmen, acting within the limits of the anti-Russian sanctions, with the support of the power institutions, are achieving significant results in modernizing production and introducing the latest achievements of science and technology in their enterprises. This is evidenced, among other things, by the

successes in the production of precision weapons, aircraft and shipbuilding, and other branches of the economy.

4. Thanks to the achieved mutual understanding between the authorities and the business community, attempts by the US and its allies to drive a wedge between the authorities and big business, including those who were included in the so-called "Kremlin list" failed, experts predict that Americans can seize property and business accounts from a blacklist to quarrel with the power of a large business or that oligarchs close to the Kremlin, influenced the change in Russia's foreign policy, including on issues related to Ukraine.

5. However, it would be a mistake to believe that in the relations of power and business in Russia all problems are solved. The level of corruption is still high, there is no guarantee of inviolability of private property, as evidenced by raider seizures of lucrative enterprises involving law enforcement agencies, Russian courts and other authorities, and the number of arrests of businessmen in economic crimes exceeds two hundred thousand a year.

7. Conclusion

Thus, the study showed that Russia has not yet created favorable conditions for doing business. In terms of doing business in the world ranking Doing Business, Russia in 2017 ranked 35th, although it rose by 5 positions (Russia, 2017, rose). The difficulties of doing business in Russia are exacerbated by the tightening of Western sanctions. This was especially reflected in the business owned by O. Deripaska, which in 2018 was included in the list of new US sanctions. After the publication of new orders of President Trump in April, UC Rusal shares on the Hong Kong Stock Exchange fell by 50%. Investors refused to support the company's money, which fell under new US sanctions (Deripaska, 2018).

To the political leadership of Russia to improve the business environment, it is advisable to turn to the experience of Japan, China, Singapore, and other developed countries of the world in order to creatively use it in their country. Both China's experience, and the Japanese and Singaporean "economic miracle" have convincingly shown that by creating a favorable investment climate, caring for comfortable conditions for entrepreneurs, providing them with all possible support, the state not only achieves impressive results in the economy, but also significantly improves political stability in society, the level and quality of life of its citizens.

Alexei Kudrin, the ex-Minister of Finance of Russia and the head of the Center for Strategic Research (CSR), called the "immediate launch of public administration reform" as the main task of the newly victorious President V. Putin and the future government, since the current system of state administration "is not capable of solving problems, facing the country" (Kudrin, 2018).

The authors of the article express the hope that President Vladimir Putin will use his new six-year term as a head of the state to change the relationship of power to business for the better, to reduce corruption and raiding, to reduce the outflow of capital to offshore so that by joint efforts of the authorities and business, creatively using international experience, to bring Russia to a number of prosperous countries in the world.

Acknowledgments

The work is realized in the framework of the Belgorod State Technological University named after V.G. Shoukhov.

References

- Deripaska, (2018). Rusal Deripaska fears default due to US sanctions. URL: <http://www.forbes.ru/milliardery/359791-rusal-deripaski-opasaetsya-defolta-iz-za-sankciy-ssha>
- FLYNEWS (2018). Expertstold about the gloomy future of Putin's economy. URL: <http://flynews24.ru/page/69285>
- Kudrin, (2018). Kudrin has given Russia two years to carry out key reforms. URL: <https://rns.online/economy/Kudrin-otvel-Rossii-dva-goda-na-provede-nie-klyuchevih-reform--2018-03-21/>
- Medvedev, (2016). Medvedev urged to abandon the "carpet bombing" of business. URL: <https://www.rbc.ru/economics/30/09/2016/57ee3d959a7947e685c07bc4>
- Moiseev, V.V., (2012). Offshore economy. *Man and work*, 8, 35-36.
- Moiseev, V.V., Guzairov, V.Sh., & Vasneva, V.A., (2015). On Question about Struggle Against Corruption in Russia. *The Social Sciences*, 3, 265-272.
- Olson, M. (1998). *The rise and decline of peoples. Economic growth, stagflation, social sclerosis*. Novosibirsk: Ekor.
- President of the Russian Federation, (2010). Message of the President of the Russian Federation Dmitry Medvedev to the Federal Assembly of the Russian Federation" URL: http://economy.gov.ru/minec/activity/sections/econreg/aboutecon/doc20101130_013
- President of the Russian Federation (2012). The President's Address to the Federal Assembly. URL: <http://kremlin.ru/events/president/news/17118>
- Putin. (2015). Putin: Only 15% of cases on economic crimes reach the court. URL: <https://rg.ru/2015/12/03/prestuplenia-site.html>
- Putin, (2017). Putin instructed to finalize the draft program "Digital Economy" in terms of funding. URL: <http://tass.ru/pmef-2017/articles/4340547>
- The guardian. (2011). The feud of Russian oligarchs reached the London court. URL: <https://inosmi.ru/europe/20111004/175529901.html>
- The President of the RF (2018). The President's Address to the Federal Assembly. URL: <http://kremlin.ru/events/president/news/56957>