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Russian Investments in Belarus

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*Irina Yeremeyeva*¹

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Pan-European Institute**

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1 Introduction

Attraction of foreign investment is considered to be one of the priorities in the foreign economic policy of the Republic of Belarus. In addition to strengthening the joint investment potential, the National Program for Attracting Investment in the Economy of the Republic of Belarus for a period up to 2010 provides for further improvement of framework conditions (financial, political, institutional, managerial, and social) to attract maximum foreign investment which would help the technical and technological modernization of the Belarusian economy. The volume of necessary foreign investments over the period ending in 2010 is estimated at 13 billion USD. That is why the theme of the research work is very current.

One of the largest investors in the Republic of Belarus is the Russian Federation. The deepening of cooperation between Belarus and Russia is an objective process based on the will of the two countries. Russia has always been one of the main strategic trade partners for Belarus with high influence on domestic business development. That is why Russian investments in Belarus play a significant role.

The main goal of the research work is to analyze the investment climate of the Republic of Belarus and to show the share of Russian investment in the total foreign investment of Belarus.

The report presents the potential and features of the Republic of Belarus as investment opportunities for foreign investors and particularly for Russian investors. First, the investment opportunities of Belarus and the use of free economic zones as mechanism for investment are provided. Then, the main problems which limit inflow of direct foreign investment to Belarusian economy are analyzed. The last chapter is devoted to an overview of Russia's investment in Belarus and its influence. This paper also provides information on Russian investments in the banking sector of Belarus and examples of 10 Russian investment projects in the country.

2 Advantages and Disadvantages of Investment Cooperation with Belarus

2.1 *Investment Opportunities in the Republic of Belarus*

The priority of the state economic policy of Belarus is the creation of a favorable investment climate for the attraction and effective use of foreign investment.

Belarus offers potential investors such advantages as favorable geographical location in the center of Europe, favorable natural and climatic conditions, political and social stability, macroeconomic stabilization, qualified and relatively inexpensive labor force, high scientific, technical and industrial potential, a sizeable domestic market, legal and organizational framework stimulating investment process.

The Republic of Belarus is at the crossroads of main rail and motor routes, oil and gas pipelines, communications systems between Western Europe and Russian regions as well as Asian countries. By virtue of this, Belarus can become a base for foreign investors seeking to enter the promising markets of the CIS countries.

Facilities for competitive good's production for domestic and foreign markets are in place in Belarus. Belarus specializes in production of machinery, chemicals, petrochemicals, light industries, livestock breeding, flax and potato production. Belarus is a part of a common customs area with Russia. For a potential investor it means that by investing in Belarusian economy he gets a wide access not only to the Belarusian territory, but also to a very large Russian market.

Highly developed scientific and research facilities make it possible to conduct fundamental and applied research and development in various fields. The results of development activities of Belarusian scientists in the fields of laser and nuclear physics, nuclear technology, powder metallurgy, optics, software tools, biotechnology, etc. have received world recognition.

Six Free Economic Zones have been established in Belarus, where favorable economic conditions are provided through fiscal and customs preferences.

The Republic of Belarus is the only country among the CIS states which adopted the Investment Code – the fundamental document regulating not only domestic, but also foreign investment in the country. The Investment Code protects property rights of foreign investors, guarantees a business environment as favorable as for national

producers and sets for them special stimulating advantages in fiscal, customs and currency areas.

In summary, the list of advantages of investment cooperation with Belarus is:

- highly favorable geographical position (between the European Union and the Russian Federation);
- highly-skilled and relatively cheap workforce;
- highly developed scientific and industrial environment;
- developed network of transportation communication and infrastructure;
- no conflicts of regional or national character;
- low competition in many industries;
- privatization opportunities: 70% of Belarusian enterprises are directly or indirectly controlled by the state;
- export oriented economy (exports more than 60% of GDP);
- low crime and corruption level;
- 6 Free Economic Zones and High-Tech Park;
- National Investment Agency, Foreign Investment Advisory Council under the Council of Ministers of the Republic of Belarus.

All these make Belarus attractive and, most importantly, safe and profitable country for foreign capital investment.

2.2 *Free Economic Zones as a Tool for Investment*

The necessity for internal and external investment in the national economy in conjunction with the insufficient level of foreign investment has lead to the search of new mechanisms of attraction of external investments. The creation of Free Economic Zones (FEZ) is rather new and radical direction in the economic policy of Belarus. In many countries of the world they have been proven to be an effective mechanism to attract foreign capital. Foreign capital is especially important for Belarus which is in great need of investment that would help promote economic transformations. This direction requires significant research.

There are six FEZs in the Republic of Belarus. These zones provide favorable economic conditions through fiscal and customs benefits that promote investment.

Belarusian FEZs provide a number of advantages to investors:

Goeconomic location

Many of the FEZs are located on the borders with the Russian Federation, Poland, Lithuania, Latvia and Ukraine.

The well-developed transportation network that connects regions of Belarus with other countries makes the FEZs quite attractive for investors looking to setup production oriented towards export of their products and services to the consumer markets of Russia, the Baltic States, Scandinavia and Central Europe.

The existence of highly skilled work force

Another advantage of the Belarusian FEZs is the existence of highly skilled work force in all regions of Belarus. The system of vocational training and higher education consists of many state and none-state educational establishments. Traditionally the system of education specializes in the preparation of highly qualified workers such as seamstresses, fashion designers, cutters, industrial engineers and builders, as well as managers, economists, lawyers and foreign languages specialists. Thus, there is a real possibility to implement new state of the art technologies and modern production equipment with comparatively low financial investment.

The existence of rich raw materials and natural resources

Belarusian regions have abundant forests, unlimited water resources and large mineral resources.

Well-developed industrial complex

All six regions where FEZs are located have big industrial potential. The main branches of the industrial complex are light industry, machinery and machine-tool construction, electronic industry, wood processing, furniture production, food industry to name a few.

Tax privileges

The resident companies of the FEZs enjoy the following tax privileges:

- 100% exemption from profit tax on own products and services for the first 5 years from the moment of profit declaration and 50% in the years to follow;
- exemption from local dues (transport dues and dues on infrastructure maintenance) in the period of exemption from profit tax (for 5 years from the moment of declaration).
- 3% exemption from one profit tax;
- exemption from the real estate tax;
- reduction of wage tax rate from 4% to 1%.

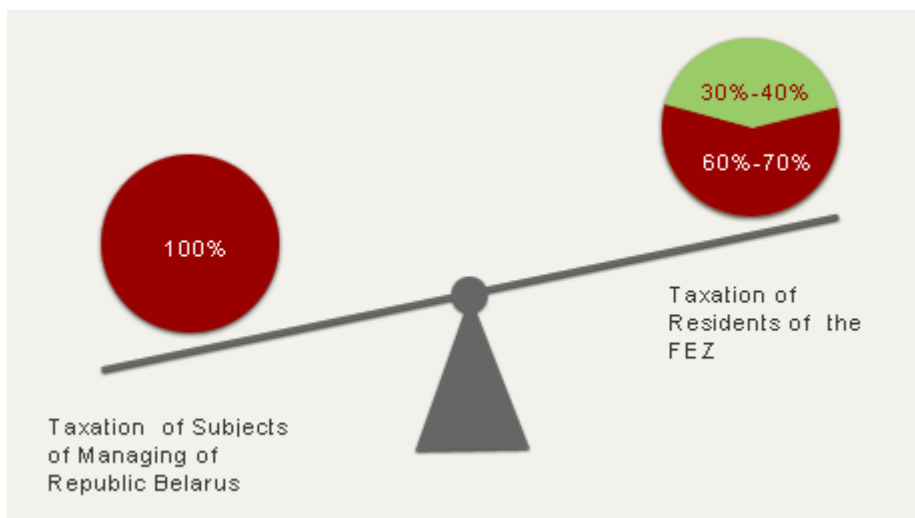
All taxes of FEZs can be divided into 3 groups (Table 1).

Table 1 Taxes and Payments for the FEZ Resident Companies

Taxes and payments from which deductions are not made.
<ol style="list-style-type: none"> 1. Surplus value and excise tax on import of goods to the territory of the FEZ 2. Petroleum sale tax; 3. Real estate tax; 4. Profit tax for 5 years from the moment of profit declaration 5. Local purpose dues: <ul style="list-style-type: none"> ○ transport due; ○ maintenance and development dues for infrastructure of the city; 6. Single receipts due; 7. Duties on the imported goods to the territory of the FEZ.
Taxes and dues paid on preferential terms.
<ol style="list-style-type: none"> 1. 50% reduction of vat payments of realization of import-substitution production; 2. single due (1% instead of 4%) on fund wage pay; 3. profit tax 5 years later after the first profitable year of work (12% instead of 24%).
Full pay taxes and dues.
<ol style="list-style-type: none"> 1. Excises on produced goods (oil products ets); 2. Ecological tax; 3. Land tax; 4. Deductions to the fund of social protection of the population; 5. Profit tax; 6. Income tax from physical people of the Republic of Belarus.

Source: FEZ Administration, 2008

As a result the preferential tax treatment allows the investor to reduce the financial burden of an enterprise for 39-40% in comparison with other economical subjects in Belarus (figure 1).

Figure 1 Taxation of FEZs' Residents and Non-Residents

Source: FEZ Administration, 2008

The benefits come in effect on the first day of the month following the month of the agreement with the administrations of the FEZs on the conditions of business activity on their territory. During the period of the agreement no increase of range and rate of taxes is allowed. International double tax treaties are also valid in these zones.

Customs preferences

For every resident of the territory of Free Customs Zone (FCZ) there are customs preferences in accordance with state Customs committee of the Republic of Belarus for customs registration of imported foreign goods and also exported goods from its territory, which are the products of their own production.

The Regime of the Free Customs Zone is characterized by the following peculiarities:

1. When importing to the territory of a FCZ customs duties and taxes are not collected and measures of economic policy are not applied for:
 - o goods imported from outside the territory of Belarus or Russian Federation;
 - o goods imported from the territory of Russian Federation, goods from the third countries, put into free circulation in Russian Federation.
2. When exporting from the territory of a FCZ customs duties and taxes are not collected and measures of economic policy are not applied for:

-
- goods exported outside the customs territory of Belarus or Russian Federation (export regime is claimed) if they are self-made products and defined as produced on the territory of Belarus;
 - goods exported to the rest part of the customs territory of Belarus or to the territory of Russian Federation, which are self-made products and defined as produced on the territory of Belarus and import substitution products according to the range determined by the Government of the Republic of Belarus and coordinated with the President of the Republic of Belarus;
 - exemption from customs duties and taxes when exporting products by resident of the FEZs to Russian Federation is performed in the order stated by the Decree of the President of the Republic of Belarus 9.060.2005 No 262.

Self-made products of the residents of the FEZs are not subject to allocation and licensing when exported to the rest customs territory of Belarus and outside with the exception of products on which the Republic of Belarus has international obligations. There is a common customs space and the regime of free trade with the Russian Federation.

As a result of FEZs' privilege there are registered 269 enterprises. The leading enterprises of the FEZs are shown on the table 2.

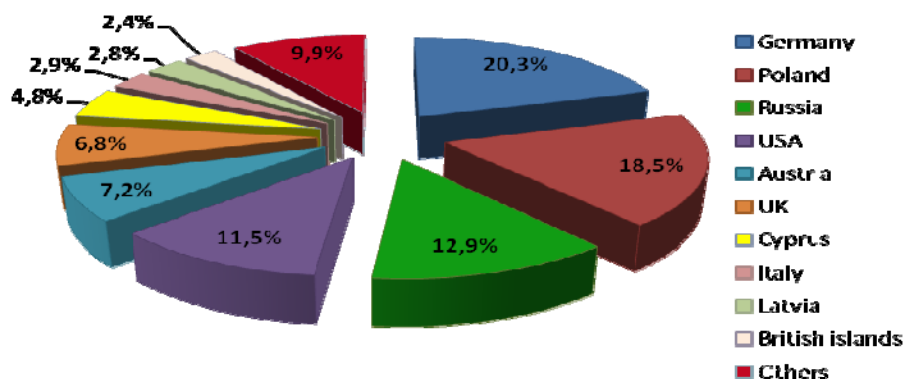
Table 2 Leading Enterprises of the 6 Belarusian FEZs

FEZ	Leading enterprises
FEZ Grodnoinvest	<p>UE Conte Calze (Belarus, Latvia, Great Britain). Manufacture of hosiery. Number of jobs: 493.</p> <p>JV Bigan Close Company (Belarus, USA). Production of made-up casing with flexographic printing. Number of jobs: 37.</p> <p>Elephant and Co. Joint LLC (Belarus, Sweden). Major repair of buses and trucks. Number of jobs: 34.</p> <p>Queenfood Joint LLC (Belarus, Poland). Meat processing. Number of jobs: 107.</p>
FEZ Mogilev	<p>TechnoTex Additional Liability Company (Belarus). Investments: USD 3.34 million. Production of industrial textiles and products thereof. Number of jobs: 65.</p> <p>Jockey Plastic Mogilev, Joint LLC (Belarus, Germany). Investments: USD 5.22 million. Production of plastic containers by injection molding. Number of jobs: 90.</p> <p>Mogilevsky Vagonostroitelny Zavod (Carriage-Building Works) Joint Close Company (Belarus, Russia). Investments: USD 7 million. Production of rolling stock. Number of jobs: 374.</p> <p>FE RePlus-M (Austria). Investments: USD 2.465 million. Reclamation of PET bottles. Number of jobs: 31.</p>
FEZ Vitebsk	<p>Vitella Foreign Enterprise of Vicos Narungsmittel GmbH (Germany). Chocolate production. Investments: USD 7.5 million. Number of employees: 62.</p> <p>Soyuz-Cable LLC Foreign Enterprise (Russia). Production of fiber optical cable. Investments: USD 8.6 million. Number of employees: 86.</p> <p>FORTEX Water Technologies JV (Czech Republic, Belarus). Production: equipment for waste water treatment and water preparation. Investments: USD 1.5 million. Number of employees: 150.</p> <p>Chess-Bel Foreign Enterprise (USA). Production of advanced motor gasolines. Investments: USD 8.1 million. Number of employees: 77.</p>
FEZ Brest	<p>JV Black and White LLC (Belarus, Poland, Russia). Furniture production. Investment: USD 6.5 million. Number of employees: 477.</p> <p>UPE ST&M (Belarus, Russia). Development and production of road-line machinery and compositions. Investment: USD 4.1 million.</p> <p>UE Gefest-Technique (Belarus). Production of household fuel-using equipment and kitchen air cleaners. Investment: USD 19.4 million. Number of employees: 549.</p> <p>JV Santa Bremor LLC (Belarus, Germany). Fish processing. Investment: USD 50 million. Number of employees: 2800.</p> <p>CJSC Involux (Czech Republic, Latvia). Production of office furniture. Investment: USD 15 million. Number of employees: 460.</p>
FEZ Minsk	<p>JV Alutex incorporated LLC (Latvia, Belarus). Production of components for rollup shutters.</p> <p>JV Mebelink LLC (USA, Belarus). Production of office furniture and chairs.</p> <p>JV Beltelecabel Close Company (Belarus, Russia). Production of cables.</p> <p>FE Belflexofarb (Cyprus). Production of flexographic and gravure printing inks.</p> <p>FE PrintTeam-Pack (England). Production of packaging based on offset printing.</p>
FEZ Gomel-Raton	<p>JV Gomelcabel (Republic of Belarus, Kyrgyzstan). Production of enameled wire, uncoated wires, aluminum and copper conductors.</p> <p>JV Becker-System LLC (Belarus, Russia, Germany). Production of high-quality products: windows, doors, stained-glass panels, window sections, furniture sections, and drip caps.</p> <p>JV Electroapparatura (Belarus, Russia). Production of low-voltage, switching and protection equipment.</p>

Source: National Investment Site of the Republic of Belarus (<http://www.invest.belarus.by>)

As we can see, there are lots of Russian capital in FEZs' enterprises and companies. The Russian Federation constitutes only 12,9% of total foreign investment in Belarusian FEZs (figure 2).

Figure 2 Foreign Investors in the Belarusian FEZs



Source: National Statistical Committee of the Republic of Belarus, 2009

The Republic of Belarus guarantees investment's protection and other property rights of an investor. It provides the following guarantees to FEZs' investors:

- Equal rights and possibilities for the implementation of investment intentions and projects.
- Protection from discrimination and other illegal restrictions or actions regarding the rights of all managing subjects of all countries of origin and legal forms.
- Guarantees of property owners' rights regarding the use of profits from the investment activity, free disposal of the capital and property.
- Unhampered transfer of incomes abroad including in foreign currency received from the investment activity in FEZs.
- No interference in the managing activity of a company with foreign investment on the part of the state bodies is possible.
- Independent ownership and disposal of the results of the investment activity.
- The right for the return of a share in the property of a company.
- Equal protection of rights and legal interests of investors.

All guarantees are secured by the Law of the Republic of Belarus "On the free economic zones", the Edict of the President of the Republic of Belarus "On the free

economic zones on the territory of the Republic of Belarus”, Edict of the President of the Republic of Belarus dated June 9, 2005 Nr 262 "On some issues of the activity of the free economic zones in the territory of the Republic of Belarus" and the Investment Code of the Republic of Belarus.

We can see that Belarusian FEZs play a big role in attracting direct investment into the economy. They are organized for creating new innovative export-orientated enterprises. There is great demand for FEZ residents and at the same time there are favorable economic conditions through fiscal and customs preferences. Creating the FEZs is the right economical policy of the Belarusian Government.

2.3 *Ways to Improve the Investment Climate in Belarus*

Evaluation of the territory investment attraction is the main aspect of any investment decision making. The more complicated the situation in the country is, the greater investor experience and intuition is needed to consider the investment proposals. Investment climate - generalized characteristics of social, economic, organizational, legal, politic prerequisites, predetermining advisability of investing in this or that managing system.

The history of comparative evaluations of investment attraction or investment climate has been happening for more than 30 years. Japan and some other countries use descriptive methods. The USA publishes "annual statistic cards", which includes 4 generalized indexes of investment climate: economic investment effectiveness, business vitality, potential of territory development and the main constituents of taxation policy.

The position of the Republic of Belarus and other CIS countries in foreign rating lists is comparatively low. Unlike the former USSR that occupied 17th place after Italy and Taiwan according to the economic journal "Euromoney" of 1988, no former Soviet republic could occupy the list of 50 countries with most favorable investment climate. This is the main reason for the foreign investment deficit and flight of private capital abroad into more favorable regions.

It should be noted that the methodology of the investment climate evaluation is far from being perfect. A considerable part of climate assessments are mainly subjective. It is also important that investment climate as any management system is characterized by dynamism and is constantly changing for the better or for the worst.

In order to attract investments and to maintain sustainable economic growth in the country, its macroeconomic environment must correspond to the some of main criteria:

- annual level of inflation should be within 10-40%, in perspective the rate of inflation should not exceed 10%. The annual level of inflation of the Republic of Belarus was 14% in 2008;
- zero budget deficit, at the transitional stage - not more than 3%. In Belarus the budget deficit was 1,9 %. And in 2009 the Ministry of Finance developed budget with zero deficit;
- state debt should not exceed 60% of GDP. In Belarus this indicator was 6,3% in 2008;
- government expenditure should not exceed 30% of GNP. In Belarus, officially – 18%;
- official foreign exchange reserves should be maintained at a level of minimum four-month import, they should exceed total (state and private) short-term external liabilities as well as should make up as minimum one third of the state external debt. In Belarus – two-month import;
- direct taxes and contributions to the system of social security should not exceed 20% of GDP. In Belarus this indicators is two times higher than 20%.

The Government of the Republic of Belarus makes a lot for creation of an attractive investment climate. However, despite all reasonable efforts, in this area there are many problems to resolve.

After the Investment Code was adopted in 2001 in the Republic of Belarus, the legal situation for investment activity was greatly improved. Yet some draw-backs remain such as the inconsistency of normative legal acts, inconsistency and controversial character of some legal norms. Belarusian legislation is very difficult for foreigners, not corresponding to European standards. This factor complicates the decision to invest in Belarusian economy.

There are also some problems which limit inflow of direct foreign investments to Belarusian economy:

1. The role of administrative barriers concerning many parties of enterprise activity are great: registration, placing, licensing.

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2. Low level of independence of Belarusian companies and enterprises makes considerable impact on acceptance of investment decisions.
 3. The big share of state property.
 4. Not adjusted property relations (in particular, landed property), that excludes mortgaging guarantees.
 5. Nonconstancy of customs treatments.
 6. A low level of development of numerous elements of market infrastructure, weak development and a high deterioration of an industrial and transport infrastructure.
 7. Insufficient information available to foreign investors on possible volumes, branch and regional directions of investment and weak access to databases about domestic manufacturers.
 8. Backwardness of financial system, in particular, the institutes focused on long-term investments. In the country there are practically no investment funds to accommodate resources (primarily small private investors).

All these factors make Belarusian investment climate not so attractive, especially for European investors. It is necessary to finish up the formation of legal base in the field of tax, credit, currency, custom regulation of investments and provide foreign investors with stable, favorable conditions for business.

3 Russian Investments in Belarus

3.1 *The Analysis of Russian Investments in Belarus in 2008*

In the year 2008, the Republic of Belarus attracted 6.52 billion USD of foreign investments. In comparison to 2007 the volume of investment increased 1.2 times (table 3).

Table 3 Dynamics of Foreign Investments in 2004-2008, million USD

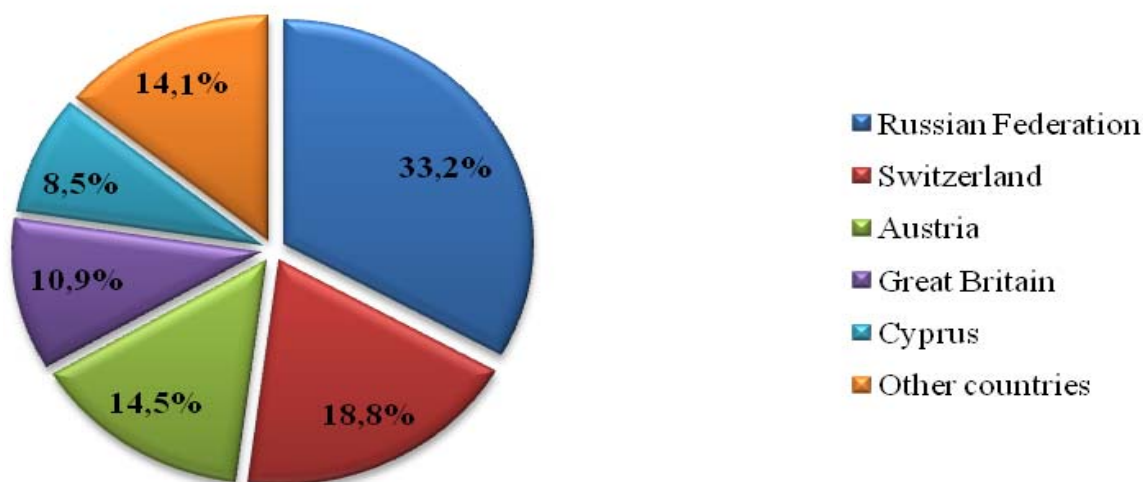
	2004	2005	2006	2007	2008	Index
Total investment	1517,381	1816,169	4036,054	5421,864	6525,857	1,20
Direct investment	859,176	451,303	748,594	1313,471	2279,822	1,74
Contributions to authorized capital	100,787	54,200	73,296	183,390	280,418	1,53
Loans from direct investors	568,141	325,310	595,650	786,093	1527,481	1,94
Leasing	0,362	1,324	1,497	4,256	4,560	1,07
Other	189,884	70,467	78,149	339,731	455,964	1,34
Portfolio investment	0,391	0,246	3,224	2,233	1,695	0,76
Other investment	657,813	1364,619	3284,235	4106,160	4244,339	1,03
Trade credits	185,284	263,060	436,828	427,597	506,139	1,18
Loans	152,880	1091,319	2814,101	3634,210	3738,200	1,03

Source: The statistical report of the National Statistical Committee of the Republic of Belarus, 2009

As we can see the structure of importing capital to Belarus is not effective. It's because of most of foreign investment are the share of other investment, especially loans (being 65% of all total investment). It's necessary to remember all credits and loans contribute to debt growth, which is negative tendency. That's why there is a need for full control in using these credits.

It is better to look at foreign investment from the standpoint of the countries investing into the national economy because the cooperation has resulted in mutually advantageous conditions.

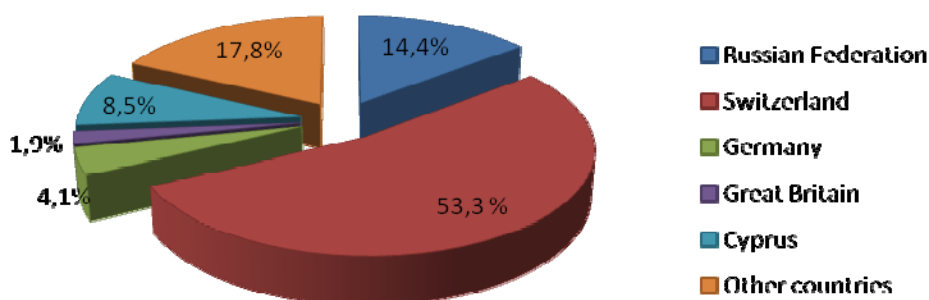
The major investing countries to the Republic of Belarus are on the figure 3.

Figure 3 The Major Investing Countries to the Republic of Belarus

Source: Ministry of foreign affairs of the Republic of Belarus, 2009

As we can see on the share of Russian Federation there is 33,2% of the total influx of foreign investments. Switzerland takes the second place and its share is 18,8%. Then goes Austria (14,5%), Great Britain (10,9%) and Cyprus (8,5%).

But if we take only direct investment the situation will be different. The major direct investors and their share presents on the figure 4.

Figure 4 The Major Direct Investors to Belarus

Source: Ministry of foreign affairs of the Republic of Belarus, 2009

Switzerland is a leader between direct investors and its share is 53,3% of the total influx of foreign direct investments or 1215,7 million USD. Russian Federation is on the second position – 14,4% or 328,5 million USD. Then goes Cyprus (8,5% or 263,1

million USD), Germany (4,1% or 93,7 million USD), Great Britain (1,9% or 42,2 million USD).

It's necessary to note, Russian companies have invested substantial amounts of capital through third countries and offshore investment units. Switzerland, Cyprus and United Kingdom are among the most popular target countries, to which the Russian companies have established their investment subsidiaries. For instance, the continuously high rank of Switzerland and Cyprus among the investing countries to Russia is widely believed to indicate the existence of investment units of Russian origin in Switzerland and Cyprus. In other words, Russian entities utilise investment companies registered to Switzerland and Cyprus, through which funds are either brought back to Russia in form of FDI, to obtain tax and other benefits offered to foreign investors, or, alternatively, reinvested in other countries especially in the CEE region. Certainly, Switzerland and Cyprus are not the only country through which Russian capital is trans-shipped.

According to the balance of payments of the Republic of Belarus with the Russian Federation 2000–2008 the share of direct investments is about 25% of total Russian investments in Belarus. The considerable part of direct investments is related to the joint creation of the Russian Open Society "Gazprom" with the Belarus-Russian enterprise on the basis of the property of Open Society "Beltransgaz" and acquisition in the accounting period of 12,5 % of a share holding of this enterprise.

75% of the rest investments belong to other investments (loans and credits) from Russian Federation to Belarus. The main part of credits and loans of non financial organizations involves a period of one year or less. In the IV quarter of 2008 the Government of the Russian Federation has granted a long-term, 1 Billion dollar loan to the Government of Belarus.

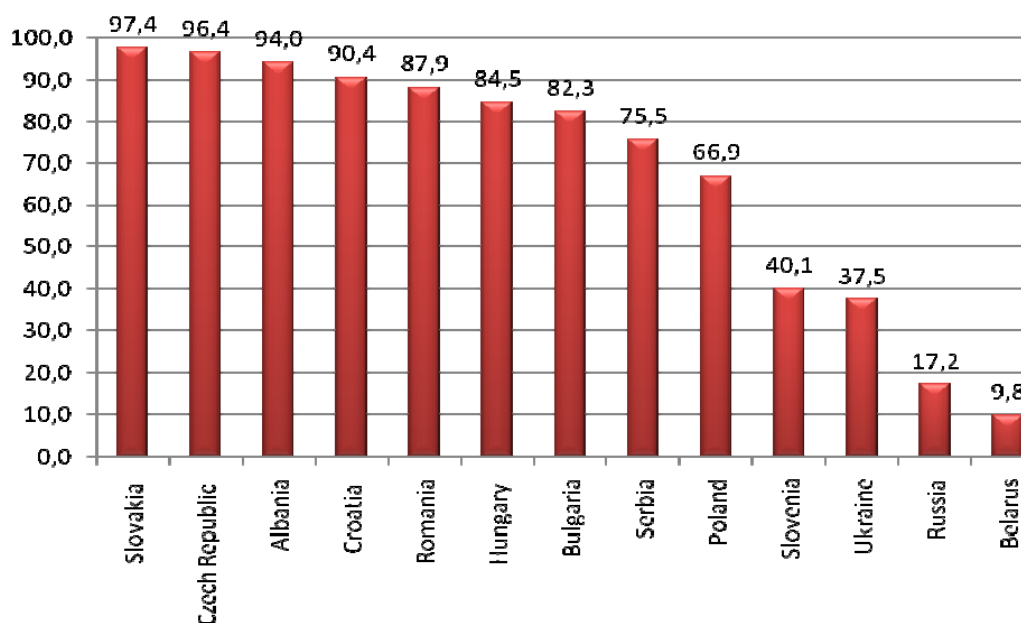
As we can see, almost half of all investment involving the Republic of Belarus belongs to the Russian Federation and that is due to the official policy of Belarus. Russia is the largest partner for Belarus in the economic and political fields. In terms of trade, two-thirds of Belarusian exports go to Russia. And Russian investors know the conditions of Belarusian market, law and traditions well. That's why they are not afraid to invest in Belarus.

3.2 Russian Investments in Banking Sector of Belarus

The process of attraction of foreign resources in the bankink sector is directly linked with the privatization of the bank sector of the country. The privatization process of the Central Eastern European countries is practically finished.

The privatization level in all Central Eastern European countries is high enough, exceeding a mark of 65 %. An exception make only Slovenia - 40,1 %, and also the CIS countries: Ukraine - 37,5 %, Russia - 17,2 %, Belarus - 9,8 % (Figure 5).

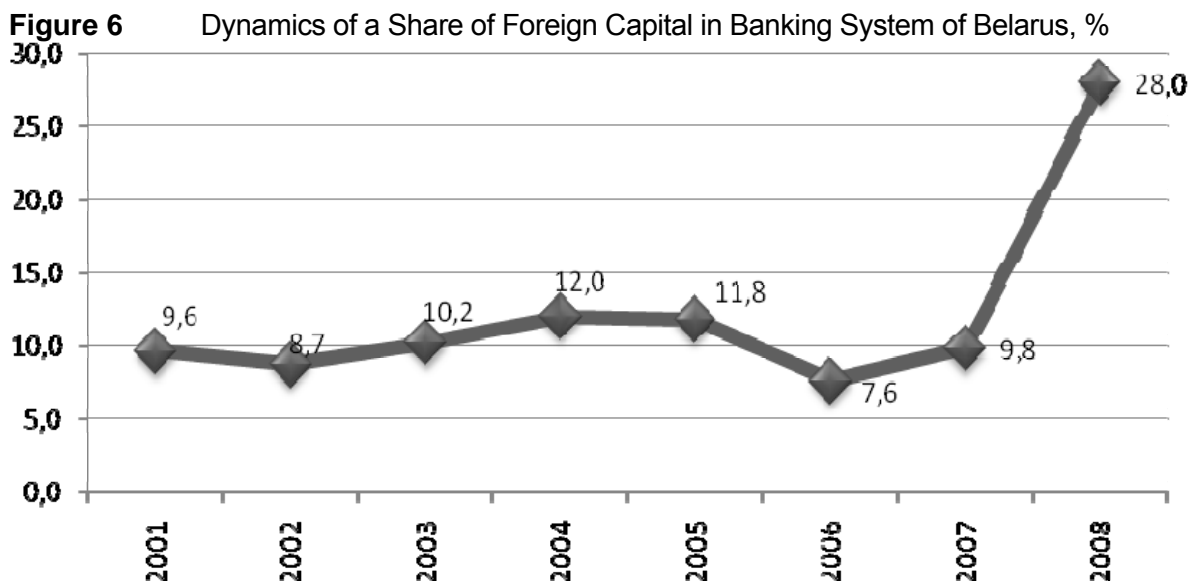
Figure 5 The Share of Foreign Capital in Bank Sector of the Central Eastern European Countries on 01.01.2008, %



Source: National Bank of the Republic of Belarus, 2008

The foreign capital is present in the banking system of Belarus for a long time. However the volumes of such capital were significantly low until 2008 - within 10 % from total actives. In 2008 the given indicator has reached record level in 28 % (Figure 6).

The Rapid growth of the share of foreign capital in 2008 is connected with acceptance of the decision of National bank of the Republic of Belarus to increase a quota of foreign capital from 25 % to 50 %.



Source: National Bank of the Republic of Belarus, 2009

As of January 1, 2009, foreign capital was part of the authorized funds of 24 out of 31 Belarusian banks. In 18 banks the share of foreign investors exceeded 50% (in 7 banks the share amounted to 100%, in 11 – from 50% to 100%, besides, in two banks only one share was owned by residents of the Republic of Belarus). The banks' authorized funds are comprised of capital from more than 10 countries including Russia, Austria, Ukraine, the Great Britain, Kazakhstan, Poland and some others. According to the balance of payments of the Republic of Belarus with the Russian Federation in 2008 Russian Federation has invested 221,5 million dollars to the Belarusian banking system.

The most significant transactions on banking capital sale to foreign investors in the Republic of Belarus from 2007 for 2008 are in table 4.

There are also 3 more banks with Russian capital on the territory of the Republic of Belarus: "Bank Moscow–Minsk" JSC, CJSC "BelRosBank", Belorussian–Russian Belgazprombank JS.

The foreign bank "Moscow-Minsk" was established on the basis of an affiliate of the "Mosbiznesbank" and registered on April 7, 2000. The "Moscow municipal bank - Bank of Moscow" was its founder. The Russian capital share in the authorized capital of the bank "Moscow-Minsk" accounts for 100%. The priority areas of its activity are the following: the promotion of further economic relations between Belarus and the Russian Federation and the attraction of Russian investments into Belarus.

Table 4 Transactions on Banking Capital Sale to Foreign Investors in the Republic of Belarus (2007-2008)

Object of sale	The buyer	The country of the buyer	Share fraction, %	Deal value, mln.USD
Slavneftebank	VTB	Russia	50%	25
Belvnesheconom-bank	Vnesheconom-bank	Russia	65%	30
Mezhtorgbank	Alfa –Bank	Russia	39%	12
MTB	Horizon Capital	USA	32%	21
Atom-Bank	Delta Bank	Ukraine	100%	20
International Reserve Bank	Dogmat	Ukraine	90%	N/A
SomBelbank	Getin Holding	Poland	75%	N/A
Lorobank	Home Credit Bank	Czech Republic	100%	N/A
Golden Taler	Fransa-Bank	Libya	99%	12
Priorbank	Raiffesen Bank	Austria	50%	30
AstanaExim Bank	Turan Alem Bank	Kazakhstan	50%	N/A
Paritetbank	AFK Systema	Russia	51%	N/A
Expected transactions				
Belarusian Industrial Bank	N/A	N/A	N/A	
Belinvestbank	N/A	N/A	Controlling	
Belarusbank	N/A	N/A	N/A	
Belagroprombank	N/A	N/A	N/A	
BPS-Bank	N/A	N/A	Controlling	

Source: Banks reports, 2007-2008.

Joint Belarus-Russian "Belgazprombank" was registered in 1998. The Bank provides complex service to the gas sector enterprises in Belarus and participates in the Programs of debt restructuring on Russian gas supplies. Issuer's shareholders: Gazprom (Russia) – 33.91%; Gazprombank (Russia) – 33.91%; the Republic of Belarus represented by the Ministry of Economy – 8.63%; Beltransgaz (Russia - Belarus) – 23.50%; other shareholders – 0.05%.

CJSC "BelRosbank" was registered in 2003. Russia's Rosbank is the biggest shareholder with a 99.99% stake. The Bank specializes in crediting enterprises of the real sector of the economy and the power sector, including Belarusian power plants. Today Belrosbank has a considerable financial potential what meets the requirements of the National Bank of the Republic of Belarus on the minimal size of the regulatory capital that became valid on January 1, 2009 for the banks attracting personal deposits.

Besides, Rosbank has opened a long-term credit line to Belrosbank at the amount of 40 million USD, 20 million USD of which have already been provided to the Belarusian bank. As of January 1, 2009 the total volume of the loans granted by Rosbank made up

283 million USD. Apart from supporting its subsidiary, Rosbank provides direct lending to Belarusian companies. The major purpose is to strengthen Belrosbank's positions as a universal financial institution in all business segments: corporate, small and medium-sized business, cooperation with individuals.

As we can see on the territory of Belarus there are 7 banks with Russian capital. It's about 23% of total banks. And Russia has invested about 200 million USD to the Belarusian banking system last year.

3.3 10 Russian Investment Projects in Belarus

Gazprom Project

In May 2007, Russian Gas Giant "Gazprom" and the Belarusian government's State Property Committee signed agreements to turn the Belarus state-owned gas pipeline company Beltransgaz into a Russia-Belarus joint company. Beltransgaz handles both the transit of Russian gas to European Union countries and the internal distribution of Russian gas in Belarus.

Under the sale-and-purchase agreement, Gazprom acquired a 50% stake in Beltransgaz for 2,5 billion USD. The deal has become the largest investment offer in the history of independent Belarus. Payment would be completed in four annual installments from 2007 to 2010.

Gazprom would pay the 2.5 billion USD for the 50% stake in four installments of \$625 million each: the first by June 1, 2007, then by February 1 of each year in 2008, 2009, and 2010. With each payment, Gazprom will be acquiring a 12.5% stake in Beltransgaz, completing the 50% takeover by March 1, 2010.

The shares of Beltransgaz that would be sold to Gazprom may not be disposed of or otherwise encumbered before the transaction has been completed. The agreement rules out the possibility of Belarus issuing a "golden share" at would give Belarus a veto.

Itera Company Projects

The ITERA Oil and Gas Company was established in 1992. This Russian company is implementing two projects in Belarus: Minsk City and the construction of a multifunctional business centre in downtown Minsk.

The project Minsk City includes eleven phases and would take 12 years to complete. Minsk City is a super advanced "city within a city" to be built in the centre of the Belarusian capital on an area as large as 318 hectares. There are plans to build 3 million square meters of housing there by 2020 along with social infrastructure, including nine kindergartens and seven schools. There would be a total of 550,000 square meters of office space including an 80-story skyscraper and a 200,000 square meter shopping and entertainment center. Minsk City will have a well-developed road network, with all kinds of surface and underground transportation available. The project will allow 60,000 Minsk residents to move into new homes. The project is outstanding from the architectural and aesthetic points of view. During that time a business center will be built where the old Minsk airport is. The Minsk City project is five times as large as its Moscow counterpart. The project is evaluated at 5 billion USD.

ITERA's second project in the Belarusian capital would consist of dwelling housing project and two skyscrapers by 2012. The two office skyscrapers will be the city's highest buildings. The project is evaluated at 650 million USD.

JSC Slavneft Project

JSC Slavneft was founded in 1994 under the ordinance of Government of Russia and Belarus. The State Property Committee of the RF owns 55,27% of Slavneft's shares, the Russian Federal Property Fund (RFPF) owns 19,68% and the Ministry of the State Property of the Republic of Belarus owns 10,8%.

The Company sells oil products of its refineries through affiliated sales companies. Slavneft has 82 petrol filling stations and 12 oil storages throughout Belarus.

Starting with 1995 the "Slavneft" company in cooperation with enterprise "Mozyr ORP" and "Belneftehim" began the reconstruction of the Mozyr oil refinery plant (ORP). The reconstruction is completed. There were four stages with the fourth stage being the most expensive. It included the construction of a complex of catalitical cracking with 2 million tons per year output, that allowed to achieve the depth of oil conversion of 83-84%.

Currently the amount of "Slavneft" investments into the project is more than 156 million USD.

In the end of 2002 the Belarusian government sold its 10.835 percent stake in the company Slavneft for 6.595 billion rubles (212.74 million USD) to Russian Sibneft. Belarus sold its stake for 12.804 rubles (about 41 cents) per share.

Atomstroyexport Project

Joint Stock Company Atomstroyexport is the Russian Federation's nuclear power equipment and service export monopoly. It belongs to Atomenergoprom holding with 49.8% of shares owned by Gazprombank.

Russian company Atomstroyexport signed an inter-government agreement with Belarusian government on the construction of the Belarusian nuclear power station.

Belarus' nuclear power plant will be built at the Ostrovetskaya site in the Grodno region. The choice was made after the examination of the Ostrovetskaya, Krasnopolyanskaya and Kukshnovskaya sites.

Belarus plans to construct a 2,000 MW nuclear power plant with the first stage to be introduced in 2016 and the second one – in 2018.

A nuclear power plant can make Belarus' energetic more balanced. After the launch of a nuclear power plant with 2 thousand megawatt production capacity it will take over more than 14% of total volume of electricity produced in the country and will be able to influence the initial costs of electricity production in Belarus. The experts stated that involvement of nuclear power into energetic balance of Belarus is one of the important issues of energy security of Belarus.

The cost of the construction of the Belarusian nuclear power station would be 3,5 billion USD.

Univest-M Projects

The Univest-M group of companies was founded by the Univest consulting and trading GmbH in Belarus in 2001. It is the biggest supplier, processor and exporter of oil products in the country and is one of the largest operators in the Belarusian real estate market.

In the Belarusian market the Univest-M group of companies (Rosneft operator) is represented by several organizations, which are: the Univest-M foreign company, Joint-

Stock Company UninvestStroyInvest Ltd and the foreign private trading unitary company "Bella Rosa Rest".

The Uninvest-M group of companies is not just the leading supplier, processor, and exporter of petroleum products in the Republic of Belarus, but also one of the major players in the Belarusian real estate market.

The Uninvest-M group of companies is a reliable partner in the area of tilling-based refinery of hydrocarbon raw materials for the largest enterprises of the country: "Naftan" OJSC, "Mozyr' Refinery" OJSC, and Polimir OJSC. This standing has been achieved due to the long-term expertise, professionalism and meticulous work in the field of trade of oil and oil products on the part of the Uninvest-M group of companies.

Uninvest-M also dispatches oil products to bulk buyers from its own petroleum storage depot "Lisichki", which is located 3 km away from Gomel and has all relevant capabilities for the uninterrupted access to both railway and motor transport.

Additionally, Uninvest-M carries out development of production territories and administrative buildings, aimed at their transformation and modernization with subsequent use as new office and/or trade facilities.

List of projects of the Uninvest-M group of companies, being under implementation, includes the following:

- Residential compound "Kaskad"
- Business-Center located 13, Z. Byaduli Street
- Trade and Entertainment Center in Brest
- Residential compound in Minsk district

The list of projects implemented by the Uninvest-M group of companies includes:

- Business-center located 7, B. Khmel'nitskogo Street
- "SLAVINASPORT" hotel, in Zhlobin, Gomel' region.
- Involvement in "ProStore" hypermarket construction in Minsk.

The restaurant business is one of the areas of activity of the Uninvest-M group of companies. Favorable location, professional service and warm and cozy atmosphere are characteristic of the "Bella Rosa" restaurant and the "Limoncello" cafeteria. This

business development is guided by the key principle: the highest level of service provided.

In 2005-2007, over 100 million USD were allocated for the implementation of investment programs in the territory of the Republic of Belarus.

The foreign private production and trading company Uninvest-M will invest 350 million USD in the construction of a residential compound "Kaskad" in Minsk. The residential compound is one of the large-scale construction projects in the centre of the capital. The compound will occupy 16 hectares and will include 125,000 square metres of housing, social, transport, trading, sports and educational facilities.

The Uninvest-M company has already invested around 39 million USD in the national and city budgets to develop the site. The first house is slated for completion in the end of 2009. The residential area will be delivered in 2015.

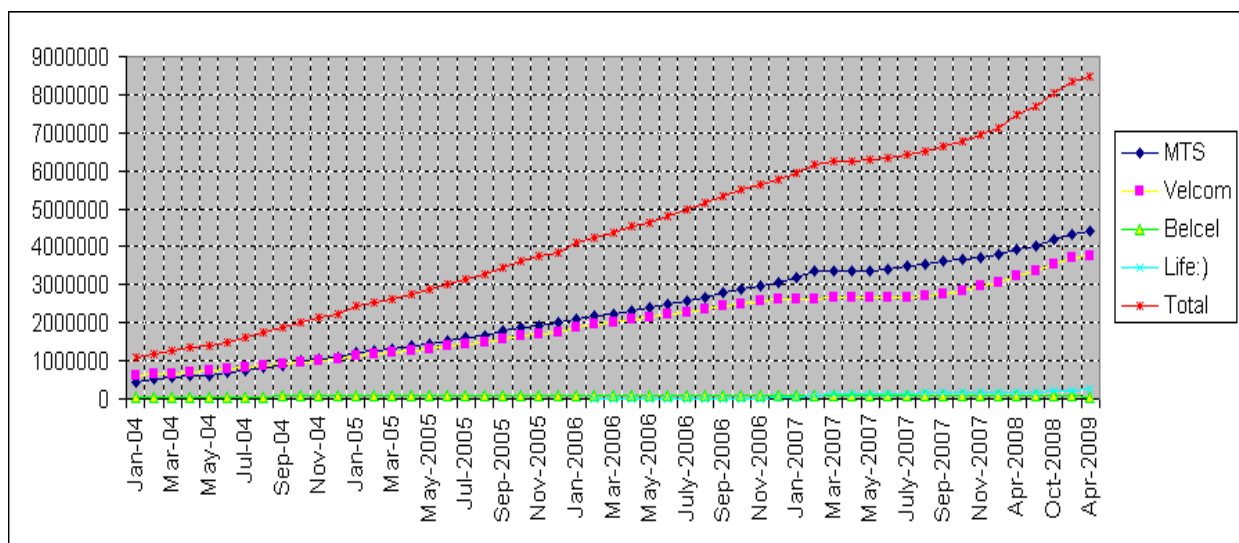
This project is designed for middle class of city dwellers. The price will be approximately 1,200-1,300 USD per 1 square meter.

All projects of Uninvest-M group need investment about 1 billion USD.

Mobile TeleSystems Project

The Joint Belorussian-Russian limited liability company "Mobile TeleSystems" (JLLC MTS) has been providing GSM 900/1800 mobile phone services to Belorussian customers since June 27, 2002. JLLC MTS was founded by the Republican unitary enterprise "Mezhdogorodnaya Svyaz" (Belarus) — 51%, and OJSC MTS (Russia) — 49% of the charter capital.

After 6 years of successful operating in Belarus the company has become a leader among the mobile operators in terms of the number of subscribers (figure 7), network infrastructure and service coverage. Since September 2004 the MTS JLLC has had the largest number of subscribers, and since the end of 2005 - the best infrastructure network providing the highest quality of communication. At present the MTS coverage zone includes 94% of the territory of the country with more than 98% of the population.

Figure 7 Belarusian Mobile Subscribers on April 1, 2009

Source: <http://www.e-belarus.org/images/belarusmobileusers.gif>

MTS uses one of the world's best billing systems, which ensures accuracy, transparency and efficiency of subscriber accounts. MTS subscribers can use Automatic Subscriber Services (ASSA), as well as Internet-based Subscriber Services to manage their account balances, add or cancel additional services via Internet.

MTS services are available to subscribers in all regional centers, as well in over 70 districts and other cities of Belarus. The company offers its Belorussian subscribers a discount on roaming in 58 regions of Russia and Ukraine, as well as reduced rates for international calls to these countries.

Russia's MTS has already invested 5,3 million USD in Belarus and 32,1 million USD in its joint venture subsidiary. Both companies have had to pay high license fees - 10 million USD (Russian MTS) and 11 million USD (joint MTS). The whole investment in telecoms infrastructure in Belarus has become 318 million USD.

Russian Lukoil Projects in Belarus

In 2006 LLK-International (100% subsidiary of JSC LUKOIL), and JSC Naftan, have signed in Novopolotsk, Republic of Belarus, documents of incorporation to establish a joint venture – limited liability company LLK-Naftan to produce and sell additives and motor oils under the LUKOIL brand.

The LUKOIL Group has contributed 11,46 million USD in cash assets to the joint venture capital while JSC Naftan's share includes production facilities, buildings,

structures and installations, technological equipment, tank farms and other real assets. Each party will have a 50% share in the joint venture limited liability company LLK-Naftan.

The joint venture will ensure implementation of new technologies for production of modern cost effective additives, research and development activities to test and define tolerances for oils based on new additives and will serve as an important step in the development of cooperation between JSC LUKOIL and JSC Naftan.

The joint venture will be based on an integration of JSC Naftan's production capacities and work teams, and JSC LUKOIL's new technologies and developed sales network.

The key goals and objectives of the joint venture limited liability company LLK-Naftan are:

- to meet JSC Naftan's and JSC LUKOIL's demand in additives for production of commercial oils;
- to secure investments in production capacities;
- to develop highly advanced technologies, offer new additives to be used in modern highly efficient oils in order to increase the competitive advantage of oil produce.

At the initial stage the joint venture limited liability company LLK-Naftan will generate an output of 20 to 25 ths. tons of additives per year. It is planned to step up production to 40 ths. tons per year by 2010.

Belmarket Project

Belmarket, one of the first large retailers in the country, will increase competition in the local retail sector and improve operational efficiencies.

Belmarket is being established as a start up project, using the similar experience in creation of the Russian food store retail leader – Perekryostok. Stores are opened in Minsk, regional centers and municipalities. Belmarket uses the most popular format, that is of a moderate discounter which was successfully tested by the Russian Pyaterochka (together with Perekryostok comprises X5 Retail Group, the largest food store retail group in the CIS, controlled by Alfa-Group). The Project began in 2007.

Belmarket acquires rents and builds convenience stores in residential blocks. The network offers the best national servicing standards and the best "value for money" balance, employs modern retail trade technologies, equipment, and a trading IT platform unique for Belarus. Throughout 2008, the company opened 29 stores out of a planned 128 outlets.

Alfa Group has invested 16 million USD for developing supermarket chain in Belarus.

Russian Group RESO Projects

The Russian Group RESO is a holding with actives in the field of insurance, health services, leasing, developer and managements of actives. Russian Group RESO has appeared in the Belarus market in 2001 after the purchase of the Belarusian insurance company "Brolli". At the end of December 2007 the Russian Group RESO purchased a 100% stake of the Belarusian Insurance Company JSC "AIVeNa".

In addition to that, the RESO Group intends to develop others businesses in Belarus. On the territory of Belarus the leasing company RESO-LEASING has started becoming successful. The company also has plans to construct a big hotel compound in Minsk (the investments in the project are estimated at EUR 100 million), a hypermarket (EUR 25-30 million of investments). Possible projects include the construction of one or two auto saloons and a big car service centre for the clients of the insurance companies "AIVeNa" and "Brolli" (EUR 10-20 million of investments).

Total sum of planned investments - 150 million USD. Thus already an order of 10 million USD company has enclosed to Belarus.

The Project "Baltika" - "Krynitsa"

The project "Baltika" - "Krynitsa" has appeared in the centre of the loud scandal which has received wide publicity not only in Belarus, but also in Russia. Each side publicly considers itself right and of failure of arrangements accuses the partner.

In April, 2001 the management of Russian company "Baltika " has agreed with the government of Belarus about beer factory "Krynitsa" purchase.

Part of the arrangements was that the St. Petersburg manufacturer invests up to 50 million USD in "Krynitsa" within two years, and the Belarusian government issues

additional shares and gives "Baltika" controlling shares of "Krynitsa" (50-percent-plus-1-share).

Baltika began the "Krynitsa" modernization without signing the necessary agreement with the government. They invested 10,5 million USD on purchasing and installing the equipment. After this Belarusian government has changed the form of co-operation. According to the new project of agreement of privatization of the Minsk beer factory, the Belarusian government agreed to transfer to Brewing company "Baltika" of 50 % plus 1 share in three stages, instead of two as it was supposed earlier.

The first stage was to transfer to Russians 30 % of Shares, that adequately of "Baltika" investments for the sum of 24,5 million USD (11,15 million USD - in the form of the long-term credit and 13,35 million USD - on account of payment of additional issue). At the second stage when the volume of investments will increase to final under this project 50 million USD, "Baltika" will not receive 50 % + 1 share. For this sum Belarus is ready to give it only 37,9 % of "Krynitsa" shares.

Besides the prolonged terms additional conditions were brought in a new variation of the agreement. The annual investments of the company in agriculture (on a returnable basis) should reach 2 million USD by 2003 and should increase to 5 million USD by 2005. In addition to that, "Baltika" should guarantee the financial stability of "Krynitsa", develop social sphere at factory, and invest 2,65 million USD in constructing of Belarusian ice palace at stadium "Tractor".

In case of failure to fulfill any point of the agreement "Baltika" must transfer 5% of its share to Belarusian government that automatically deprives Russian company of the control over "Krynitsa".

The company management has a rather negative view of the offer of the Belarusian side. There has been no progress on this project since 2001.

Term of credit return to brewing company "Baltika" has come on May, 31st, 2002, however the debt has not been returned. "Krynitsa" ignores the decisions of the International commercial arbitration court of the Trade-industrial palace of Russia to return a 10,7 million USD loan that took from "Baltika". In August, 2003 "Krynitsa" has returned to "Baltika" only 5 % of a debt. All property of "Krynitsa" has been placed as collateral against the debt to "Baltika".

In December, 2003 the government of Belarus has allocated to "Krynitsa" a loan (at the expense of means of the republican budget under 7 % annual) at a rate of 10,831 million USD for repayment of a debt of Russian brewing company "Baltika".

As a result the whole debt has paid for two days till the next analysis in business court about arrest of property of the Belarusian factory.

4 Conclusion

Belarus is opening to the world and attempting to become a modern economy integrated into the world economy and more. Over the last years the country has done a lot to improve business and investment climate. According to the sixth annual report Doing Business 2009, published by the World Bank and the IFC, the Republic of Belarus entered the list of ten top regulatory reforming countries. From June 2007 to June 2008, Belarus made improvements in six out of 10 indicators of regulatory reform to take the fourth place in the list of top ten regulatory reformers. The main changes concerned corporate law, privatization and taxation. An important factor for potential investment was the fact that in 2007 Belarus was assigned a sovereign credit rating which confirms the stability of the social and economic development of the country. The country moved up a full 30 slots, from 115 to 85, in the overall ease of doing business.

Favorable geographical position, highly-skilled workforce, low competition in many industries, lots of privatization opportunities, low crime and corruption level are only some of advantages of investment cooperation with Belarus. Several important presidential decrees and government resolutions have been adopted concerning improvement of the investment climate. These include abolition of the "golden share" right, gradual abolition of the ban imposed on trading securities acquired during preferential privatization, announcement of the first list of enterprises to be privatized.

Six Free Economic zones have been established in Belarus, where favorable economic conditions are provided through fiscal and customs preferences. Income tax and value-added tax for the residents of Free Economic Zones are two times lower than elsewhere throughout the country. The income of the residents of Free Economic Zones for their own production is tax exempt for 5 years from the moment of the declaration of the income.

However there are still several problems which limit of foreign investment attraction. For investment climate improvement it's necessary to finish up the formation of legal base in the field of tax, credit, currency, custom regulation of investments and provide foreign investors with stable, favorable conditions for business.

Governmental efforts have resulted in outstanding growth of FDI inflow (a fivefold increase). Within the past few years many foreign strategic investors have entered the Belarusian market. The largest investor is Russian Federation. In addition to the large volume of investments, what makes Russia a significant investor in Belarus, is the

nature of its investments, more often than not targeted to the strategic sectors of target economies. Besides being the prominent energy and raw-material supplier to Belarus, Russian companies hold some stakes in oil, natural gas, and power companies in the region. The investments in the strategic natural resource-based sectors often provide Russia with significant economic and political leverage in the target country. Many Russian investments are directed towards to the banking and building sectors of the Republic of Belarus.

As a result, there is a huge potential for foreign companies in almost any market segment of Belarus. And the Belarusian market is opened not only for investors from Russia as the largest energy supplier, but also from Europe, USA, China and all other world countries.

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