

INVESTMENT RELATIONS BETWEEN RUSSIA AND THE EUROPEAN UNION IN TERMS OF POLITICAL AND ECONOMIC SANCTIONS IMPOSITION IN 2014

Барышников Павел Юрьевич

Финансовый университет, Москва, Россия

E-mail: baryshnikoff@inbox.ru

Recent events in Central and Eastern Europe, namely the conflict in Ukraine, largely determined trade and economic relations between all countries in whole Europe. Especially it concerns economic relations between Russia and the European Union. European economic sanctions and Russian trade embargo influenced investment relations between Russia and EU countries, particularly economic relations with EU leaders-Germany and France.

Investment relations between Russia and Germany

Both trade and investment cooperation between Russia and Germany were traditionally key and defining areas of bilateral relations. In 2013 Germany took 7th place in terms of total foreign investments in Russia (\$9.1 billion. [4, p.47]). However, in terms of foreign direct investment (FDI) in the Russian economy Germany ranked on the 2nd place after Cyprus. The number of German companies operating in Russia has increased significantly over 2013 and currently constitutes about 6,200 organizations. It is the largest foreign business community in Russia [10, p.10].

Main German sanctions against Russia were applied in the area of the military cooperation. In March 2014, German defense concern "Rheinmetall" suspended the execution of a military contract with Russia worth 120 million. This decision has caused a great damage to "Rheinmetall" and German defense establishment as a whole. Moreover, Germany has stopped export of defense and military production in Russia.

In addition to the economic losses, these sanctions have led to the fact that the defense industry of Germany is reluctant to cut its' production. It leads in turn to a reduction of workplaces. According to Armin Papperger, the chairman of "Rheinmetall" and the head of the union of the defense industry in Germany, "under current circumstances, in the absence of state orders and prohibitions on trade with other countries, we have no choice but to move production abroad" [6].

European sanctions against Russia also affected other sectors of the German economy. It concerns dual-use goods, banking and financial sectors, as well as suppliers of equipment for the oil and gas industry.

Russia's share in German exports is seemingly small - only 3.5% [2]. However, it is important to realize the whole complexity and activity of Russian-German cooperation. In recent years, after the start of construction of the Nord Stream (gas pipeline from Russia to Northern Europe) Germany is an important distribution center for Russian gas. German companies are co-owners of the project and, in addition, many German loans have been attracted in the Russian economy. Therefore, the position of the key economy of Europe relative to cooperation with Russia will be the same - continue under any circumstances. This is required by the German economy and the largest business structures such as "BASF SE", "Siemens", "Volkswagen", "Adidas" and "Deutsche Bank". They openly oppose the wider economic sanctions against Russia. [7] At the same time, the political rhetoric of the ruling circles may vary.

Thus, from the applied sanctions suffer both German and Russian sides. Germany in its turn had a greater risk of loss of income because German investments in Russia exceed the amount of

Russian investments in Germany several times. Anyway, the implementation of most investment projects with German capital, which have started before the Ukrainian crisis, continues and goes in time.

Investment relations between Russia and France

France is also one of the key European investors in the Russian economy and is ranked on the 6th place (in 2013 were invested \$10.3 billion. [2]). Today in Russia they perform about 1 200 French companies and about 7 000 companies from France carried out foreign trade operations with Russian partners.

France is among countries that imposed the least number of economic sanctions against Russia. France had officially announced that the delivery of the first of the two pre-ordered helicoptercarrier “Mistral”-“Vladivostok” is suspended [5]. Most of the military cooperation with Russia including military visits and joint exercises were stopped as well [9]. However, later it was found out that the supply of helicoptercarriers has not been canceled or suspended and the execution of projects just occurs with a slight delay.

Not only French defense industry but also French agricultural industry suffers from the introduction of reciprocal economic sanctions. Share of French agricultural products exported to Russia accounts for 11 %. Thus, the fall in prices of agricultural goods can lead to the growth of unemployment and increase of costs for products' utilization.

French banks in Russia also deal with a significant factor of risk. Total amount of loans given to the Russian customers reached in 2013 36,505 billion. In case of cessation of financial transactions between countries and freeze of assets, French investments would “stuck” in the Russian economy.

Therefore, from the imposed sanctions suffer both Europe and Russia. However, European investments in Russia exceed many times Russian investments in Europe so Europe carries much more risk of non-profits and non-return of capital invested than the Russian side.

Prospects of investment relations between Russia and Europe in the conditions of imposed sanctions.

Some economists hold an opinion that Ukrainian conflict should be defused on the regional level and try to influence it internationally is not the way forward. Thereupon the press regularly reports the public statements of politicians, calling for a cancellation of sanctions against Russian individuals and legal entities.

However, today plans of European investors do not change. Especially it is related to regional and non-state projects. Representatives of European business claim that they continue consider Russia as an important strategic partner of the EU and don't plan to stop investment relations with Russia. They demand from governments of both sides to protect interests of foreign investors and cancel economic sanctions.

Thus, the investment climate in Russia (except investment climate in Crimea and Sevastopol) hasn't become worse significantly. However, the risks for both foreign Russian investors have grown considerably generally because of political uncertainty in the near-term outlook.

Источники и литература

- 1) Минчичова В.С., Барышников П.Ю. Эволюция и перспективы привлечения инвестиций ведущих европейских держав в российскую экономику. // Финансы. Деньги. Инвестиции. – М.: ООО «Фининформсервис НИКА», 2014. - №1 (49). С. 29-38.

- 2) Официальный сайт Федеральной службы государственной статистики РФ, URL: www.gks.ru
- 3) Посол Франции в России: в ЕС час экономических санкции против России пока не настал - интервью "Интерфаксу" посла Франции в России Жан-Морис Риппера, 5 июля 2014. URL: <http://www.interfax.ru/384004>
- 4) Россия' 2014. Статистический ежегодник // Федеральная служба государственной статистики РФ (Росстат), 2014.
- 5) Франция выступила за снятие санкций с России. – М.: «Аргументы и Факты», сентябрь 2014. URL: <http://www.aif.ru/money/economy/1340603>
- 6) German arms industry threatens to shift production – Deutsche Welle, 20 September 2014. URL: <http://www.dw.de/german-arms-industry-threatens-to-shift-production/a-17936688>
- 7) German Businesses Urge Halt on Sanctions Against Russia – The Wall Street Journal, 1 May 2014. URL: <http://online.wsj.com/news/articles/SB1000142405270230394810457953598396wsj&url=http%3A%2F%2Fonline.wsj.com%2Farticle%2FSB100014240527023039481045795359>
- 8) Germany suspends Rheinmetall military contract with Russia – Deutsche Welle, 19 March 2014. URL: <http://www.dw.de/germany-suspends-rheinmetall-military-contract-with-russia/a-17508373>
- 9) La France annonce la suspension de sa coopération militaire avec la Russie. - Le Figaro, 21.03.2014. URL: <http://www.lefigaro.fr/flash-actu/2014/03/21/97001-20..>
- 10) Russland 2013 Licht & Schatten. Jahresbericht der Deutsch-Russischen Auslandshandelskammer (AHK) // Deutsch-Russische Auslandshandelskammer. 2013.