

## Comparative Structural Analysis of Joint Venture in the Western and Eastern Regions of Russia

*Leonid Fedorovich Kolmykov and Natalia Nikolaevna Masyuk*  
Vladivostok State University of Economics and Service, 690014, Vladivostok,  
Gogolya street, 41, Primorsky region, Russia

**Submitted:** Aug 6, 2013; **Accepted:** Sep 3, 2013; **Published:** Sep 4, 2013

**Abstract:** Creating a new operating company for the implementation of certain production activities is a major feature of the joint venture, considered as a partnership in which each partner is actively involved in the decision-making process of the company. At the core of the joint venture is to unite the efforts and financial resources, material resources, profit and risk. Joint business contributes to the country's entry into the global economic management, as well as playing a significant role in the formation of market infrastructure and joint ventures are common to more advanced technology, high productivity, high return of profits, etc. All of these factors are undoubtedly positively affect the Russian economy. Difficulties and challenges of establishing foreign relations and joint ventures is closely linked to the general economic situation in Russia - the problem of equal participation of Russia in world trade, the creation of new global relations and global enterprises remains relevant.

**Key words:** Joint ventures • International cooperation • Foreign investment in fixed capital • The regional distribution of joint ventures • Production output (goods and services) • Structural analysis • Areas of joint ventures • Western and Eastern regions of Russia.

### INTRODUCTION

Joint venture - it is a common business activity of several partners, including partners from different countries. It is carried out on the basis of property belonging to them by the right of common ownership, as well as by virtue of other right allowing the joint use or disposition of the property.

In Western countries often uses the term "enterprise of joint ownership" to refer the joint venture, with the possible purchase of a stake in an existing company. This kind of businesses are set up on the basis of direct investment, namely long-term capital investment in an enterprise. An investor can be a as a physical or a legal person, or even the state.

On the territory of the Russian Federation joint ventures with Russian and foreign partners are created as manufacturing companies, trading companies, which operate on their own behalf, based on common ownership and in the interest of the joint entrepreneurs.

The activities of the joint venture in the Russian Federation are regulated by the Federal Law of 09.07.1999

# 160-FL "About foreign Investments in the Russian Federation". [1] On the basis of the Federal Law of 21.03.2002 # 31-FL "About the state Registration of Legal Entities" this company is officially registered in Russia with an indication that the business is created with the participation of foreign capital. [2]

Participants of joint ventures carry out their activities based on the contract according to the legislation of the Russian Federation and the statutes of the joint venture. The contract defines the mutual rights and obligations of the partners, contracts can take various forms, starting from classic contracts or rental contract agreement and ending by contract of establishing the joint venture with common property of partners, which determines the joint ownership of the created product. From the successful point of view particularly important of the joint venture are the records and the coincidence of national interests of the parties entering into a joint business relationship. [3]

Even with an overall reduction of production in the country, the output of products by joint ventures increased significantly.

Main countries which take part in economy of Russian companies

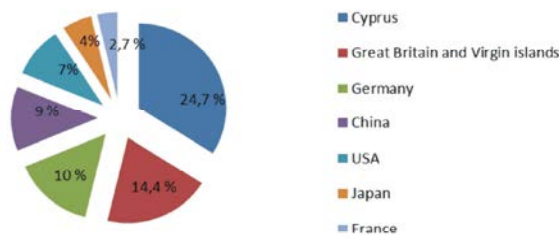


Fig. 1: Main countries which take part in economy of Russian companies

Table 1: The volume of foreign investments in the Russian economy, including foreign direct investment for 2011-2012.

Indicators	Billion dollars	Billion rubles
Total volume on 31.12.2011	7,86	127,2
- including direct investment	5,53	103,2
Total volume on 31.12. 2012	2,8	850,2
- including direct investment	1,88	653

The main part. In 2012 the Russian economy received 154,6 billion dollars of foreign investment, which is 18,9% less than the previous year. In 2011 the direct investment in Russia grew at an annual rate of 1,4% and reached 18,66 billion dollars. [4]

Countries of the foreign capital involved in the Russian companies are shown in Figure 1.

About half of all foreign investment in Russia comes from Cyprus. According to Rosstat, in 2011 the volume of investments from Cyprus to Russia was the equivalent of 78.2 billion dollars, which is almost four times higher than the GDP of Cyprus.

Investors are industrialized countries with a market economic system and a great experience in the field of investment, so altogether in the field of international cooperation. It is, first of all the countries that follow a policy of deep integration into the world economy, the search for new markets and new forms of economic survival. Table 1 shows the volume of foreign investments in the Russian economy, including foreign direct investment for 2011-2012.

In the whole Russian Federation the distribution of joint ventures in the spheres of the economy is different from the branch of their distribution by region. A big part is working in the industry - 21%, working in construction - 7%, the catering and trade - 43%, then follows transportation and telecommunications. More than half of the volume of production in rubles which takes 57% - are industrial products.

There are imports of textile industry products and engineering in Russian joint ventures. A significant portion of the total imports (11%) of joint ventures in Russia comes from the United States and about 7% of the goods are imported from Germany. [5]

Statistics and history of joint ventures in Russia. In Russia at the beginning of 2012 in the National Register counted about 22 thousand joint ventures of which more than 10,000 people were working in the service sector (84%). The average number of employees amounted 4 million and the volume of goods (works, services) at current prices in 2011 amounted to 434,6 billion rubles, or 7% of industrial production.

At the same time, the provinces are now beginning to operate a joint venture in the field of mechanical engineering, which have more time for the development of new products. Therefore, the investment slowed to Moscow, which led to the fall of the importance of the capital. It is interesting to note that while this was happening, in reality increased the relative importance of St. Petersburg. In 1995, St. Petersburg was a place a concentration of 7,14% of joint ventures in Russia and in 2000 it concentrated already 11,3%. [5]

Figure 2 shows the characteristics of the volume of the proceeds of foreign investments into the Russian Federation from 1995 to 2011 (in billion dollars).

As can be seen from Figure 2, in 1995-2000 there was a slight level of investment of foreign capital in the Russian economy. In 2006-2008 foreign investors are beginning to show an active interest to the Russian economy by investing money in various spheres of activity. In 2009 there is a decline, but in 2011 again increasing the process of the contribution of foreign investment in Russia.

The main partners of Russia are the Western European countries, like Germany, Finland, Austria, Hungary, Italy. The share of American companies is 17% and Eastern Europe - 13%. [4]

According to the statistics priority in the selection of partners - is industrially developed capitalist countries, cooperation with them can realize the basic goals and objectives. Slight mutual interest to establish joint ventures with partners in Eastern countries explains by economic difficulties, lack of modern technology, education, numerous deficiencies. [6]

The territorial distribution of joint ventures is uneven. Foreign firms are more interested in establishing joint ventures in those areas where there is infrastructure, better living conditions for the foreign specialists. In this regard, was the idea of creating zones of the joint venture.

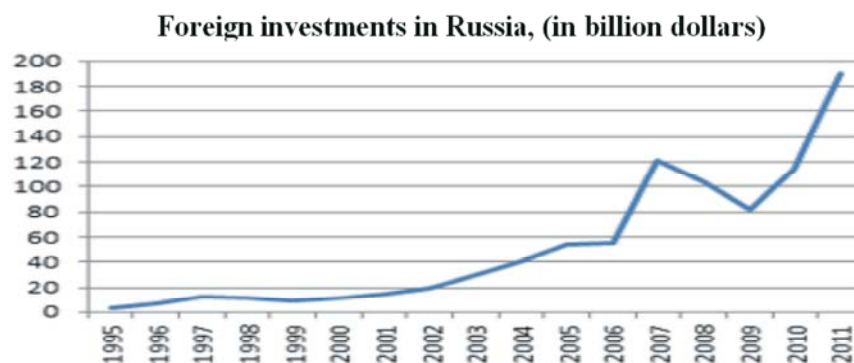


Fig. 2: The proceeds of foreign investments into Russia from 1995 to 2011

However, the joint enterprise needs further improvement and expansion of participation of foreign capital.

Structural analysis of joint ventures in the North-West Federal District. North-West Federal District (hereinafter - NWFD) is one of the most economically developed regions of the Russian Federation, which produces 10% of Russia's GDP. It also provides 11% of all Russian industrial production and 6% of agricultural production. Population of the district is almost 13,6 million people, 83% of which live in urban areas (the highest level of urbanization among federal districts).

St. Petersburg has the highest concentration of small and medium-sized businesses. Trade between North-West and the United States of America totaled about 4 billion dollars from January to September in 2011 (5% of the total foreign trade turnover in the district). U.S. companies have invested more than 3 billion dollars in the economy of NWFD and 640 million dollars in the economy of St. Petersburg.

The main investors are: International Paper, Ford, GM, Conoco-Phillips, Caterpillar, Phillip-Morris, Kraft Foods. USA is the fourth largest trading partner of NWFD after China, Germany and the Netherlands.

In Vologda region is located the second largest Russian producer of ferrous metals Severstal company and in the oil-rich Nenets autonomous district is a joint venture of Conoco-Phillips (with an investment of 400 million dollars) and Rosneft Polar Lights, which produces about 5 million barrels of crude oil per year. The economic development of other regions of the NWFD stands behind - Murmansk, Arkhangelsk, Pskov region and Republic of Karelia showed growth below the national average, even in a period of overall economic recovery.

Industrial production has played a leading role in the economy of the NWFD, accounting for more than 1/3 of its GDP. The most important industries of the district are: mechanical engineering, metallurgy, chemical and wood

processing industry. Other important sectors of the economy - wholesale and retail trade (15% of regional GDP), transport and communications (11%) and construction (8%). Industrial output in 2011 rose by 5,3%, slightly more than the national growth rate of 4,7%. The highest growth in industrial production was recorded in Kaliningrad region, where it reached 18%.

In January - September 2011 the foreign trade turnover in the NWFD grew by 42% to 79,2 billion dollars. Exports amounted to 40,4 billion dollars and imports- 38,8 billion dollars.

In the first six months of 2011, investors have invested more than one billion dollars of foreign direct investment in the NWFD. The main beneficiaries of these investments were St. Petersburg (377,9 million dollars.) and Arkhangelsk region (292,1 million dollars). [7].

Having considered in details trade relations and economic relations between the U.S. and NWFD, it is clear that the United States play an important role in the economy and trade of NWFD. St. Petersburg also has a significant number of leading U.S. investors, including: Coca-Cola, PepsiCo, Procter and Gamble, Wrigley, GM, OTIS, Oracle, HP, Citibank.

#### Smaller American Investors Work In:

- Vologda (Greif Bros. Corporation, manufacturer of steel drums and plastic bottles);
- Pskov (Alliance-PMF, joint venture of Alliance Windings Equipment and local electro-mechanical factory);
- Novgorod (Kraft Foods; DS Controls, joint venture of Dresser Industries and Solenoid Valve, joint venture of Curtiss Wright Flow Control).

The main goods exported to the USA are fuel, metals and fertilizers, the basis of imports from the USA are cars, machinery, meat, tobacco.

The processes of globalization have formed a new international context of the existence of the North-West of Russia. There is a "blurring" of the boundaries and change the direction and intensity of trade, technological, financial, intellectual and labor flows. As a result, has changed dramatically the environment for functioning formed at an early stage of economic systems and the socio-economic structure of the North-West of Russia. There are new opportunities to combine resources, mobility of which largely determined by the size and attractiveness of realized economic, political, humanitarian and ecological projects. [8,9]

Development of joint ventures in the Far East of Russia. Currently started the active output of entrepreneurs in Far East to foreign markets. Japan is now the third most important trading partner of the Russian Far East. In 2012, the trade turnover of Far East Russia and Japan totaled 8,4 billion dollars, which is 1,4 billion dollars more than in 2011. Perspective branches of cooperation between Russia and Japan are energy, transportation, engineering, agriculture and fishing industry. At present time there is only one factory in region which produces Japanese cars - a joint venture of Russia «Sollers» and Japanese «Mitsui», which manufactures car brands - Mazda and Toyota.

In August 2010 Companies «Sollers» and «Mitsui» formed a joint venture - "Sollers-Bussan", the parties currently owned by 50% of the shares of the joint company (LLC registered in Vladivostok).

Company Sollers in Russia produce UAZ cars, Isuzu and SsangYong. Russia also operates a joint venture FordSollers. Sales of Toyota cars in Russian market in 2012, compared with 2011 increased by 28% to 153,047 thousand pieces. Sollers Group increased its sales last year in Russia by 14,5% to 100,196 thousand pieces.

The company "Sollers-Bussan" has started mass production of cars under the Toyota brand in Vladivostok in the first quarter of 2013. Planned volume of production - about a thousand cars per month. Power of joint ventures to produce Toyota cars is 25 thousand cars in a year. [10]

Leaders of Russia and China agreed on a program of cooperation between the regions of the Far East Russia and northeast of China for 2009-2018. In accordance with this program, the Russian territory will be mainly generated by the production of mining and transportation of minerals, the production of electricity and in the Chinese territory - the production of high-tech products.

Government of the Russian Federation and China will support the implementation of projects included in the program under the current in each of the sides of the law.

## CONCLUSION

In this article was performed a comparative analysis of joint ventures in the North West and East of Russia, the basis of study was to obtain information about the total number of joint ventures in the Russian Federation and which countries are the main investors in the Russian economy at the present time. Of course, the joint venture should be established to maintain economic relations with foreign countries, as investing money in the company, this specificity allows to create a productive relationship in the future collaboration, if both parties will have a success.

Projects (enterprises), promising good prospects for growth and profits, often perceived by a foreign company as an investment, even if it does not own the asset. In otherwise, projects (enterprises) in which growth prospects are uncertain, foreign partners are considering how sales activities, even if the assets are their property. [11]

Findings. Almost all of the last decade in economic and political life of Russia was not favorable periods for development of production and investment. Therefore, the rate of formation and growth, the extent of attracting foreign capital, in a variety of industries are unsatisfactory. Russia loses capital, which has more successfully invested abroad, exported from the country and lost for our economy. For a country with such large market, marketing, large scientific-technical potential of natural resources, skilled and cheap labor force such a situation is catastrophic. Russia may be one of the main objects of the application of foreign capital in the world, but the instability of the situation in the country, the economic crisis, rising unemployment, domestic budget deficit, the lack of the ruble in the world market as a serious convertible unit prevents attract foreign capital in the Russian economy. Besides, we all know the imperfection of Russian legislation.

This problem is by the side of procedure of registration the foreign investment. The same applies to the tax laws - they are relatively high and investment preferences are too limited and small, local lending poorly organized, sometimes to the complete lack of it, also there is no access to the stock activity, information about potential points of investing also too difficult to access. Of course, the main problem is the lack of insurance against political and economic risks. [12]

## REFERENCES

1. Federal Law of 09.07.1999 # 160-FL "About foreign Investments in the Russian Federation".

2. Federal Law of 21.03.2002 # 31-FL "About the state Registration of Legal Entities".
3. Ilchenko, A.N., 2007. Problems of joint business in Russia: internal and external factors // *Successes of modern science*, pp: 270-275.
4. Website of the Federal State Statistics Service. Date of views - 05.05.2013. <http://www.gks.ru/>
5. Kapustin, N.S., 2012. Key questions of development the joint ventures in new economy // *Russian entrepreneurship*, 18(216): 24-28.
6. Buchel, B., C. Prange, G. Probst and C.C. Ruling. 1998. *International Joint Venture Management Learning to Cooperated and Cooperation to Learn*. John Wiley and Sons (Asia) Pte Ltd, Singapore, pp: 104-106.
7. Lynch, R.P., 1999. *The Practical Guide to Joint Ventures and Corporate Alliances*. Wiley, New York.
8. Beamish, P.W., 1995. The characteristics of joint ventures in developed and developing countries. *Columbia Journal of World Studies*, 18(2): 5-10.
9. Kogut, B., 1991. Joint ventures and the option to acquire. *Management Science Journal*, 37: 19-33.
10. Official website of auto company «Sollers». Date of views - 16.05.2013. <http://www.sollers-auto.com/ru/information>
11. Pan, Y. and D.K. Tse, 2002. The hierarchical model of market entry modes. *Journal of International Business Studies*, 31(4): 35-40.
12. Legros, P. and S.A. Matthews, 1998. Efficient and nearly-efficient partnerships. *Review of Economic Studies*, 68: 600-603.