

Foreigners Should Look Beyond the Headlines

By [Pavel Gagarin](#)

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One of the biggest problems facing Russia's attempt to modernize is the ability to attract foreign capital when Western investors perceive the business climate as being worse than it actually is. The Western media often depict Russia as a country completely permeated by corruption, high crime, unreliable financial institutions and no rule of law. To some extent this is true, but Western media and investors tend to exaggerate Russia's problems.

Russia's reputation in Britain is particularly bad. Dramatic incidents in Britain such as the polonium-poisoning death in London of former Federal Security Services agent Alexander Litvinenko or murder attempts against Russian businessmen certainly haven't helped.

A journalist friend from London recently tried to prepare me for a meeting with the British media. "Don't dare to be late by even five minutes when meeting with a reporter," she warned me, "or he will write in his story that Russians are chronically late. And under no circumstances should you praise the Russian government and president during the interview

or he will write that Russians constantly praise the Kremlin out of fear of reprisals."

And when this same acquaintance was preparing for a business trip to Russia, a British acquaintance asked her in all seriousness if she was planning to bring a bulletproof vest along.

Western investors frightened by reports they read in the Western media examine Russia through a magnifying glass, carefully searching for the problems they have so often read about. And of course, as with any self-fulfilling prophecy, they manage to find information that confirms their worst fears.

A similar phenomenon is well-known among medical students. After reading so much about all the many illnesses that can afflict the body, they often begin to imagine that they are actually suffering from some of the illnesses.

Russia is generally considered a high-risk investment market. Investors fear the abusive application of tax laws, arbitrary and punitive tax inspections and biased court decisions. Another major obstacle for foreign investors is the bureaucratic delays when they try to obtain dozens of useless permits.

Also at the top of the list of investor complaints are legal risks. The legal environment in Russia is generally portrayed as chaotic, and it is difficult to disagree with this assessment.

What's more, there are too many contradictions between federal and local laws, and there is a lack of laws governing holding companies and partnerships between state and private enterprises.

For example, Federal Law 39, "On investment activity in Russia carried out in the form of capital investments," was adopted in 1999 and is terribly outdated. Legislators regularly make cosmetic modifications to it, but the basic law remains unchanged. A 13-year-old law on investment in a country that is still developing a properly functioning market economy cannot possibly serve the needs of the present day.

Worse still is Federal Law 427, which introduced changes to the Land Code and came into force April 1. It made the investment climate in Moscow and St. Petersburg even worse than it already was.

According to those changes, major cities have the right to unilaterally cancel contracts with investors. Previously, this could be accomplished only through the courts, and the city was required to prove that a land developer had intentionally violated the terms of the contract.

The legal situation in Moscow is particularly difficult. The city lacks laws governing investment activity and partnerships between state and private enterprises.

Foreign investors are also deeply skeptical of the plan to move many of the government functions outside the Moscow Ring Road and double the size of the city. This will most likely only mean that the red tape and regulatory complexities that already hamper work in Moscow will only expand along with the city limits.

Nonetheless, under current conditions, it is difficult — but possible — to persuade foreign businesses to invest in Russia.

Given the impact that the unfavorable image of the country has on foreign investors, the only way to overcome the stereotype that Russia is unsuitable for doing business is through personal conversations.

Toward this goal, our company decided to conduct conferences in various European capitals under the heading "Practical Steps for the Foreign Investor in Russia."

During the discussions at those conferences, I conduct a type of psychotherapy session. I lay out all the problems and suggest ways of solving them. I explain to foreign investors that if they are determined, they can get around nearly any restrictive law without actually violating it. I also cite examples showing that corruption, excessive bureaucracy and various negative factors exist in all countries and not only in Russia, and offer case studies of successful projects carried out in Russia.

If the situation were as hopeless as it might seem at first glance, would the Renault-Nissan alliance have increased its share of equity in AvtoVAZ to a controlling stake?

Would other automakers have bothered to build their factories in Russia?

And would Coca-Cola have invested \$3 billion into its Russian business, or would ExxonMobil have signed a huge investment agreement with Rosneft that could easily reach tens of billions of dollars by the end of the decade?

And finally, is Moscow really the only city where investments in Russia can be made? In addition to the capital, there are a host of Russian cities with strong prospects, including Yekaterinburg, Krasnodar, Rostov-on-Don, Novosibirsk, Tomsk, Kazan and Nizhny Novgorod.

What's more, there are many suburbs that are located just outside the current Moscow city limits that offer attractive investment locations. They include Skolkovo, Krasnogorsk, Reutov, Balashikha, Khimki, Mytishchi, Odintsovo, Lyubertsy and Vidnoye.

Despite the bad publicity, more foreigners have begun to look at Russia differently over the past few years. And when I offer our company as a co-investor, they often agree to follow through with their desired projects. When foreign investors see that we are not afraid of investing in Russia, they are also less afraid to invest. This offers an excellent formula for success.

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