

Chapter 9

Non–Arctic Countries of Asia and Russia: Investment Collaboration in the High North

Mikhail Khudzhatov

Peoples' Friendship University of Russia, Russia

ABSTRACT

The Arctic is characterized by a significant potential in terms of mineral resources, raw materials, hydrocarbons, and energy. In the North, mining and extractive industries are booming, but the expansion of exploration in the severe climate conditions requires the use of advanced technologies, many of which have not been developed and adopted in Russia. For this reason, there is a need to promote investment activity in the Arctic. This chapter discusses the most effective customs instruments for the attraction of foreign investments, identifies critical problems in the sphere of development of investment collaboration between Russia and non-Arctic countries of Asia (China, Japan, and the Republic of Korea), and offers practical solutions in the field of investment collaboration in the High North.

INTRODUCTION

China, the Republic of Korea, and Japan have been increasing their roles in the Arctic Council and actively performing their scientific, economic, and political activities for the development of the Arctic and its resources. China is one of the major actors in the Arctic among the Asian states. The interests of China in the Arctic include economic, research, and geopolitical issues (Komissina, 2015). The Republic of Korea aims at the strengthening of the relations within a cooperation with Nordic countries, development of research activities, the establishment of a new model of economic collaboration in the Arctic, and enhancement of legal and institutional infrastructure in the region (Cherkashin, 2016). For Japan, one of the major interests in the Arctic is the utilization of the Northern Sea Route (NSR). Involvement in the Arctic issues proceeds also from the state and big companies interested in the access to the deposits

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of natural gas and oil (Kurmazov, 2015). Russia is interested in the attraction of foreign investments to ensure the development of its Arctic zone.

There are various measures of state regulation aimed at attracting foreign investments. However, investment policies vary in developed and developing countries. In the former ones, financial instruments prevail, while the latter ones predominantly employ fiscal mechanisms. Being an economy in transition, Russia utilizes various fiscal instruments to attract foreign investments. One of the major advantages of such tools is that the state can influence the volume of financial resources disposable for investing without involving direct budgetary expenditures. Fiscal mechanism of investment promotion combines tax and customs regulations. Tax tools include:

- Tax credit, a deduction of investment expenses from a profit tax with a condition of using a credit for subsequent investments;
- System of investment discounts applied in a form of a reduced tax rate similar to the tax credit scheme;
- Accelerated depreciation, an increased part of a profit allowed for depreciation and is thus exempted from taxation.

In general, tax instruments are rather effective in the attraction of foreign investment. They are widely used for the promotion of investments in the USA, the EU, China, South Korea, Japan, and other developed countries.

Customs regulations are aimed at maintaining a favorable economic environment for domestic production, the one based on the principle of fair competition and aimed at the achieving of scientifically grounded development goals.

In the context of the promotion of economic development by means of the increased flow of investments, customs regulations is a priority area. Such regulations allow indirect promotion of investment activity by regulating the level of prices and influencing the final expenditures of the investors. In addition, use of customs tools to stimulate foreign investment does not pose a threat to economic security since a state retains a sufficiently high level of control over the particular sector or industry.

BACKGROUND

In the system of the economic policy of Russia and China, the Arctic is considered as a basis of sustainable development of Russia-China relations. Both countries raise a claim to the exploitation of natural resources of the Arctic. At the same time, China tries to obtain a role in the determination of a political framework and the legal basis for future activities in the Arctic (Konyshev & Sergunin, 2013).

According to Karlusov (2012), China's priorities in the Arctic include:

- Study of the atmosphere, hydrosphere, and biosphere;
- Establishment and maintenance of the permanent research stations;
- Launch of the large-scale industrial development of mineral resources;
- Development of biological resources of the Arctic Ocean;
- Establishment of transport and logistics system.

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