

THE INFLUENCE OF FOREIGN CAPITAL ON THE NATURE OF THE DEVELOPMENT OF RUSSIAN ECONOMY AT THE TURN OF THE XIX-XX CENTURIES

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In the current conditions of the development of Russian economy, there is an urgent need for a systematic (comprehensive) study of the directions, forms and methods of activities of Russian government, aimed at attracting and rationally using of foreign capital, connected with the need of the country to participate in world economic processes. Nowadays a thoughtful and versatile study naturally induces the need to use the historical experience of the political elite of the country in the sphere of attracting foreign capital in a difficult situation in economy, which is largely connected with raw material. The article concretizes the role of foreign capital in the process of renewal and development of the productive capacity of the national economy. Particular attention is paid to the mechanisms of attracting of foreign capital into the national economy as an interconnected and interdependent set of measures to regulate them. The article shows that foreign investment activity was an integral element of the overall economic policy, as well as its inclusion in the world economic relations as a full-fledged participant in the commodity exchange.

Keywords: Foreign capital, modernization, S.Yu. Witte, investments, monetary reform, the all-Russian market, mixed companies.

INTRODUCTION

The inflow of investments, both foreign and national, is vitally important for an exit from the modern social and economic crisis. The interests of Russian society, on the one hand, and foreign investors, on the other hand, do not directly coincide. Russia is interested in restoring, renewing its productive capacity, conducting an anti-import policy, and introducing Western management culture into Russian society. But foreign investors are interested in a new bridgehead for profit at the expense of Russian vast domestic market, its natural resources, skilled and cheap labor force, the achievements of Russian science and technology and even its environmental carelessness. Therefore, an extremely importance is given to rational, flexible state regulation of this process, taking into account the needs of the national economy.

METHODS

Using factual materials, B.F. Brand (1898) showed the general content and direction of the policy of attracting foreign capital into the economy of the Russian Empire.

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The researcher I.F. Gindin (1948) made an attempt to study foreign capital on the basis of archival materials. A great deal of attention to the study of quantitative indicators and their dynamics was paid in the publications of N.G. Strumilin (1948).

In the late 1930s, the thesis about semi-colonial dependence of Russia on foreign capital turned into scientific dogma, putting an end to the study of the role of foreign capital. This role began to be reduced to the subordination of Russian economy and the enslavement of the country by Western European capital. The fundamental work of P.I. Lyashchenko (1956) was published within the framework of this concept. In the second half of the twentieth century soviet historians began keenly to discuss the problem of foreign capital against the backdrop of a general discussion about the economic prospects of the development of Russia. At that period foreign capital began to be studied in cooperation with domestic capital, taking into account historical features. The qualitative analysis of the features of the functioning of foreign capital and its impact on the socio-political and economic development of Russia came to the forefront. V.I. Bovykin (1990) argued that the active foreign trade policy of the Russian government contributed to the revival of the interest of foreign merchants to trade with Russia. Neither revolution nor war turned off international trade and industry ties with the participation of the Russian Empire. Western capitalism, which grew on the basis of the domination of private-property, market relations, was in touch with Russian society. In Russia in the first half of the XIX century the capitalist market invaded in such economic environment, where free, unregulated economic relations and relations with the state were only emerging.

RESULTS

In the second half of the XIX century important changes were observed in the economic development of Russia and in its relations with the world market. Capitalist relations were established in the agrarian system of the country.

A single all-Russian market of agricultural products was formed. The share of agriculture in national income was about 58%, industry - 16, transport - 3, trade - 10% (Bogolepov, 1907). In the Russian industry machine production prevailed over manual production. Textile and flavoring were its main branches. Each of them accounted for up to one-third of the total cost of industrial products. The growth rates of the mining and metalworking industry were accelerated. The backbone of the railway network was created in European Russia. The railways contributed to further deepening of the social division of labor, linking the agricultural areas with industrial centers and major ports and water transport arteries. In the 1880s, the railways rushed to Western Siberia, Central Asia, Transcaucasia (Razumov, 1991). A number of favorable circumstances contributed to the development of foreign economic relations of Russia in the first post-reform decades. First of all, they included protectionist customs taxation of imported goods,

increasing the length of railways, industrial construction, development of postal, telegraph and telephone communications.

The policy of attracting foreign investment in post-reform Russia provoked conflicting assessments. Broader possibilities for studying the problem appeared in connection with profound changes in the socio-political development of our country, enriching the methodology of scientific research. They are as follows:

- expansion of the possibilities of methodological interpretation of the essence, forms and prospects of foreign investment in the Russian economy during the period of liberal-bourgeois reforms;
- justification of the investment logic and historical results of this process;
- establishment of a real balance of the scale of investment and the needs of national-state interests in the process of developing of industrial potential of Russia (Migulin, 1913).

The industrial development analysis determined that, Russian economy did not possess the necessary amount of free capital, despite certain internal savings. In order to prevent the transformation of Russia into a market for the distribution of manufactured goods of more developed European powers, Russian government was to continue the forced industrialization of the country by attracting foreign capital. In the post-reform period 1870-1900 the main reason for the financial expansion of foreign capital was the desire to maximize profits. Foreign capital developed the Russian market, promoting the realization of its financial interests. The study of foreign components of the bourgeoisie in Russia, the allocation of a foreign component in the business world shows the geography and scale of foreign investment (Finanztransaktionen & Aussenpolitik, 1985).

As the reasons of the financial expansion of foreign capital, the following factors can be considered:

- territorial proximity and a large-scale labor market in post-reform Russia;
- noncompetitiveness at the initial stage of industrialization of Russian entrepreneurship;
- the presence of the national wealth of the Russian Empire, both in absolute value and per capita;
- the policy of attracting foreign capital, conducted by the government of the Russian Empire at the end of the XIX century.

The introduction of foreign capital was objective. It promoted the formation of a new ideology of entrepreneurial activity, new rules for financial and economic partnership. The use of foreign intellectual capital, increased the level of technological culture and labor productivity as well, contributed to the expansion of the economic outlook of Russian bourgeoisie. However, the historical prospects of that process turned out to be limited. The activities of foreign entrepreneurs had

negative consequences for Russia, which were expressed in the export of raw materials abroad, and the spread of corruption in the bureaucratic environment. Of course, foreign investors did not pursue the goal of harmonious development of Russian economy. Profit became the determining motive for participation in the distribution and control over the resource market (Gindin, 2007). Foreign capital sought the most favorable conditions for itself. The policy of the Russian government was aimed not only at attracting foreign investment, but also rational distribution of them for the purpose of systemic capitalist transformation of the economy of the country.

An analysis of the dynamics of attracting foreign capital before 1914 shows that the acceleration of the pace of economic development coincides with the stages of the greatest inflow of capital.

In 1870 - 1900 a purposeful policy of attracting foreign capital was pursued in Russia. "The Regulations on Fees for the Law of Trade and Other Fisheries"^[11] of January 1, 1863 formally abolished the old principle that only Russian merchants had the right to trade and industry and every person had the right to be engaged in trade and industry in Russia. Just one legislative enactment of that rule was a huge step forward in the implementation of policy with the attraction of foreign capital. The monetary reform of 1895-1897 also created conditions for the development of credit and attracting foreign capital.

Since 1900 mixed companies have become the most profitable form of foreign capital participation in the Russian economy. At the beginning of the twentieth century, more than 80% of foreign capital were directed to joint ventures established under the Russian charter. The composition of the owners was diversified: owners of private, unincorporated enterprises in trade, mining and other industries; shareholders who owned unallocated companies, which were foreign and mixed with the Russian ones; funders of joint-stock companies, as individual investors, as well as participants of foreign firms and banks. As a result of cooperation between foreign and domestic entrepreneurs, international production complexes such as the Russian-Asian Corporation and the International Russian Syndicate emerged. Over 20 years of the operation of private foreign investment in Russian economy, the trend towards their dissolution in domestic capitals determined, and the slowing influx of foreign investment began to take an impersonal form.

The objective growth of the inflow of foreign capital to Russia raised the question of foreign investment in Russian society. Among pre-revolutionary Russian politicians and economists there was no common view about the role of foreign capital. Some researchers and economists S.Yu. Witte (1991), B.F. Brandt (1898), P.L. Migulin (1913), V.S. Ziv (1914), P.V. Ol (1925), I.I. Janzhul (1884) considered investments of foreign capitals to be the only means of raising the productive forces of the country. Some authors considered that mean as the only one. Many authors simply denied the positive significance of foreign investments in the

development of Russian economy. The resistance to foreign investment was especially evident in the Committee of Ministers, where V.K. Plehve and P.L. Lobko were the ardent opponents.

The argument of supporters and opponents of the use of foreign capital, which began in the XIX century, continued in the first decade of the twentieth century. We see the same arguments of supporters and opponents of attracting foreign investment into Russian economy in the modern press even nowadays.

The protection system was aimed at the development of domestic industry and organically included the import of foreign capital. In order to stimulate the activities of foreign enterprises, certain changes were made in the tax legislation. In general, Russian legislation, while giving the broadest opportunities for the entrepreneurship of foreigners in Russia, nevertheless imposed restrictions in those sectors that relied on domestic capital or sectors that were of military-strategic importance. So, the Russian government consistently defended interests of the state while pursuing a policy of attracting foreign capital.

DISCUSSION AND CONCLUSION

Capitalist development of Russia in the second half of the XIX century was complex and proceeded unevenly. It was due to many reasons. The need for industrialization of Russia, accelerating industrial development, sharply put for the Russian government the task of attracting foreign capital. Internal resources for industrialization were not enough. The only civilized way to accelerate industrial development of Russia was seen in attracting foreign investment. The state of the Russian Empire sought to create a legislative base for foreign investment, which would not allow foreign capital to take the leading positions in the economy. The need to attract foreign capital was determined by the position of Russia in the second half of the XIX century. The modernization process in the Russian Empire was proceeding at a rapid pace. That was also facilitated by the orientation of the government toward intensification of economic development. The constant movement of capital from more developed countries into less developed ones was one of the most characteristic phenomena of the economic relations of states during the period which is under review. According to B.F. Brandt's opinion the reason for that phenomenon was firstly, the natural aspiration of investing capital profitably, and, secondly, the conscious economic policy of the state which was interested in such a movement of capital. Attracting foreign capital to the country, the government tried to create such a legislative base for foreign investment, which would not allow foreign capital to take the leading positions in the economy of the country. Foreign capital came to the country in the form of direct investments, government loans and through the sale of securities on the European stock market.

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