

Q&A: Moscow City Vies for Investors, Despite Ukraine Tensions

By [Nabi Abdullaev](#)

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Maxim Reshetnikov is trying to promote a positive image of Moscow.

Geopolitical turbulence or not, Moscow's City Hall will plod ahead with plans to double the share of private competitive investments into the city by 2025 to 30 percent of the total capital investments, from the current 15 percent.

Maxim Reshetnikov, 35

Education

2000: degree in economics and mathematics,
Ph.D. in economics, Perm State University

Career

2012 — present: Moscow government minister and head of the department of economic policy and development
2010 — 2012: first deputy chief of staff to the mayor of Moscow and Moscow government
2009 — 2010: various positions, Regional Development Ministry of Russia
2002 — 2009: various positions, Perm regional administration

Last year, \$35.3 billion was invested in Moscow. In 2025, the Russian capital aims to attract \$82 billion, and jump from 58th place in the Global City Competitiveness Index — where it was placed by the Economist Intelligence Unit in 2012 — into a slot between 30th and 40th.

This looks like an uphill battle, given the latest escalation of rhetoric and tit-for-tat economic sanctions between Russia and the West over Ukraine. Relations are at their lowest period since the Cold War, many commentators say.

Moscow — which in just more than two decades of capitalism has become a true global cosmopolitan city with some 12 million inhabitants — remains the hostage of federal government policies, both domestic and foreign, which have often served to keep potential investors at bay. The place is incredibly expensive and its active population wastes huge chunks of time in chronic traffic jams. Moscow is not also immune to Russia's general problem of weak institutions, resulting in a low level of property protection and an inefficient justice system.

Still, while it will be difficult to promote a positive image of Moscow, especially among foreign investors, in the ongoing standoff between Russia and the West, city officials argue that the fundamental conditions for doing business in Moscow have gone nowhere: the city remains the largest distribution market in Europe, it has developed infrastructure and a vast pool of high-quality human resources, including scientists. It also boasts a rich historical heritage and a relatively low crime level.

The city fathers want to realize their plan by luring private capital into spheres that have been traditionally funded by public money, such as health care and education, and improving the overall investment climate in the Russian capital.

The Moscow Times sat down with Maxim Reshetnikov, head of City Hall's Department of Economic Policy and Development, to find out how paying traffic fines improves the city's business climate, how the Moscow government plans to use the ongoing geopolitical crisis to concentrate on issues that remained on back burner when the city was awash with petrodollars and pumped up with a real estate boom, and why those who decide not to invest in Moscow will regret the decision in the longer term.

Q: How will the latest sanctions war influence Moscow's attractiveness for investors?

A: I will not call it a "sanctions war" yet. From the viewpoint of economy this situation should be studied both in the short term and the long term. In the long term, we are confident that

things will go back to normal. And what we at City Hall are doing and were doing to attract investors, we will continue doing. The fundamentals of doing business in Moscow do not change. Moscow, with its balance of profitability and risks, was and is an excellent place for investments for a long time and it will remain as such in the future.

In the short term, the biggest problem for investors is that it is hard to understand how the value of money is changing in Russia these days. Risks related to the uncertainty you called "sanctions war" are high today, and it is clear that the structure of markets will change. For example, vacant office space and shopping areas in Moscow are likely to grow. If a developer built an office or a shopping center using his own money, he can maintain the rental prices. But if he built it using a bank loan, he would have to sacrifice on the rental price in order to get money and pay back the loan. In any case, developers here will have to abandon the old super-profits and seriously think about the economic purpose of building property in Moscow. This is a normal, civilized process, and it did not begin with the "sanctions war"; it began after we decided to stop the outflow of capital in the offshore and started to change the tax laws.

One more thing. I mean our priorities. In previous cost-favorable years some of the key questions of city development in the interests of its inhabitants were missed. The city enjoyed oil and gas revenues, and there was a strong inflow of businesses into the city, leading to crazy demand for real estate — you could call it "easy" money for the city. The new Moscow government understands that the city doesn't need just any kind of real estate: we need real estate that creates new jobs for the citizens, and does not just complicate the transport situation. From the point of view of the interests of the city and its residents, we have changed our Urban Development Policy.

Now, when the situation in this sense is becoming more demanding, it is vital for us to really speed up the development of industrial production in the city. We have unique advantages, and I believe that in several years new competitive industrial production could become a more attractive business than real estate development in Moscow. I mean high-tech production — electronics, pharmaceuticals, replacing imports with domestic goods, IT, machine-building.

The city is ready to help here: we have large industrial zones within the city limits and they are used inefficiently, meaning there is an opportunity for smart businesses there. The companies that work in these zones enjoy preferential tax rates, moreover Moscow is capable of offering tax breaks to future investors — we can afford this. Economic, tax preferences are within the competence of city authorities, and for us this would not mean big budget losses.

Another crucial factor for any industrial production is the price and availability of infrastructure at the start. In Moscow, we have an excess of all kinds of infrastructure. Across the city, the infrastructure systems are on average used to only 50 percent of their capacity. We just need to devise smart terms for businesses to pull this infrastructure into use. For example, this could be reduced rates for connecting to the electricity and water supplies. I stress, these support measures are aimed at industrial production, not commercial projects.

In short, I understand the current business concerns. But this is about business that has not yet decided to come to Moscow. At the same time I see that foreign businesses, which already

operate in Moscow, feel fine. Moreover, many of the largest multinational corporations tell us today that if they had to choose where to go, they would have chosen Moscow.

Q: How do you think the developments will affect the mood of foreign investors in the city economy?

A: I tend to believe that today all large investors are kind of expats for any city or country because they are all deeply integrated into international business. And, frankly, Moscow businesses do not differ much from foreign ones in their demands and expectations. Furthermore, the perception of national borders or national origin are now increasingly blurred. Muscovites, people who go abroad three or four times a year, already know how foreign cities operate. For example, having paid parking in city centers is normal, and that most of the population in foreign cities travel around not in private cars, but using public transportation and taxis.

I think that the foreign investors who have already started doing business in Moscow will stay here. Those who were planning to enter [the market] have put their plans on hold for now, calculating the risks.

But what is more important for us is the capital raised here in Russia but kept under foreign jurisdiction. Over the past 15 years, vast money has been made in Russia, some of it has already been brought back from, say, Cyprus. Some of it has been put on ice, as its owners look around and see that there are not so many brilliant opportunities to invest abroad, and this money could also return to us.

Many foreign investment funds and companies invest in commercial real estate in Moscow, as profitability is very high by international standards. In Moscow, the pay-back period for such real estate is seven to 10 years, which is unthinkable fast by European standards. Now, the new situation will normalize this. The pay-off period will grow by two-three years. Super-profits will be gone, and for some developers who were not used to paying taxes that will be unpleasant, but for the "civilized" business, for normal foreign business nothing changes, and it should be borne in mind.

Q: In its investment strategy for 2014-2025, the Moscow government counts on local high-quality human capital as a key factor of its competitiveness. With the increasing influx of outsiders onto the Moscow labor market and reported rapid degradation of education quality, do you really believe it will remain so?

A: We have a 7 million-strong labor market in the city, any professionals at all levels can be found here. And of course, educated Muscovites have higher salary demands.

I recently talked to people from Avtoframos [a Russian car-making company based in Moscow]; they said if they had to start their business again they would do it in Moscow. First, because of the existing infrastructure, second, because of personnel. Yes, salaries are higher here but there are minimal infrastructure costs in Moscow. Also, salaries may be lower in some other places in Russia, but you will not find enough qualified personnel there.

I have identified the industries where high added value is created and which can therefore pay higher salaries. To develop these sectors, we also need to help the labor market

by bolstering the number of personnel on offer in these fields.

Take IT specialists. Those who just do programming should not necessarily be in Moscow, but those who manage IT projects and set tasks for others should stay in Moscow and work here.

Today, the demand for such people is way higher than the local job market offers. I do not agree with your assessment that education in Moscow has degraded, but we truly need to further develop it. For example, mathematics education in Russian schools is well-known in the world, but we shall develop math education in universities and colleges, invite professors, open new relevant academic departments. We have the Moscow State University, Moscow Institute of Physics and Technology, Bauman University and other top world level math schools for this.

Q: What about the Moscow city government's investment plan priorities: health care, education and utilities? How can foreign investors inch in and succeed in these sectors?

A: In these sectors we believe that private investment should supplement state money. For example, Moscow's standards of public health care and education are the nation's best. In terms of the money we spend on them and the organizational efforts we undertake, they look very decent.

In the meantime, we understand that there is a "high demands" segment — not just among expats but also among Muscovites — whom we cannot and, perhaps, should not serve within the limits of average standards.

For that reason, the city is developing a private education sector. In the past two years we have auctioned off 23 schools and kindergartens where investors — paying a symbolic rent of one ruble to the city — do maintenance and repairs and then use the facilities to teach children. We have also launched a program in Moscow to develop schools whose graduates get IB [International Baccalaureate] certificates that qualify them to enter foreign universities.

As for health care, its commercial segment started to develop earlier and now we have several networks running large facilities — they all have Western capital, Western management, Western doctors. These networks are growing, and private investors are opening several big hospitals and health centers in Moscow. Recently, we launched a concession with an Austrian-German investor to build a cardiological facility in Moscow. We give health investors land plots, help them to connect to infrastructure and propel them through bureaucratic hurdles, because here we are working to change the fact that a lot of people go for medical treatment from Moscow to Germany or Israel and spend their money there.

As for the utilities sectors, here we concentrate on buying technologies, largely from abroad, and on leasing equipment.

Q: To what extent do you think the risks related to poorly performing institutions in Russia have a negative effect on foreign investors?

A: Over the years, investors — who are in fact a cosmopolitan crowd — should have developed the understanding that investment opportunities abroad are quite limited while Russia

offers an excellent return for their money. For many of them it is their home country. Of course, sometimes there are problems with rules here, but everyone has already learnt how to work in this environment.

There has always been a drastic difference in assessments of the situation in Russia between those who have never run a business in Russia and get their information from the foreign media — they may still believe that they could be attacked by a wild bear on the Red Square — and those who have worked here: They acknowledge risks as understandable and manageable, with profitability offsetting these risks for them.

In any case, I am quite convinced that institutions such as separation of powers or free press cannot be imported, they should be developed on local soil. And I do not believe that fundamental change can happen instantly, as some — even the most sincere and good — will. Thinking that once you write them down in the Constitution, they should start effectively working would be naive. All these years, institutions have been developing. And my personal assessment is that the institutions — say, the judicial branch — have strengthened over the past several years. The influence of the notorious siloviki [former and active security and law enforcement officials using their agencies' clout to extort gains from businesses — MT] has dwindled. I am not saying that everything is perfect, but with the new team coming to City Hall, the situation has improved.

These institutions are part of our society. If society in general has little respect for the law, one should not expect an honest judiciary in it. But I believe that step by step it is improving. I will tell you a paradoxical thing: as soon as we start regularly paying parking fees and fines, the judiciary will become more independent. As soon as all ministers start paying fines — and we in the Moscow government do pay them — the system will become a little better.

Our answer to the harshening of external conditions can be only the strengthening of internal institutions, developing competitiveness. We don't have any means to compensate the losses to business other than to create a normal environment, to freeze tariffs, to lower transaction costs, including for registration and licensing, to legalize migrant labor by making rules simpler and more transparent, and to run transparent tenders for the city.

Today, the Moscow authorities are able to focus on priorities and know how to achieve our goals. And from this point of view I know that, if I were a foreign investor, I would be very sorry in the future in not taking advantage of the opportunities offered by Moscow today.

See also:

[Q&A: Sunday Defense Watchers 'Outgun' Think Tanks](#)

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