

Russia's Outbound Investment Review System and Risk Prevention and Control for Chinese Investors

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Abstract

The frequent emergence of uncertainties in the world has increased the risks for Chinese investors. Russia has implemented an outbound investment censorship system to protect national security and economic interests. At the same time, China has recently strengthened economic and trade cooperation with Russia, but most investors are unfamiliar with Russian politics, economy, laws, policies, especially in the tax, labor, choice of partners and other key issues lack of understanding, foreign investment in the existence of the potential risks, Chinese investors invest in Russia also need to carry out risk prevention and control, in order to protect their own interests and to avoid potential risks. This paper starts from the Russian foreign investment review system, analyzes the risk of Chinese investors, and tries to talk about the risk prevention and control measures for Chinese investors, so as to provide reference for Chinese investors to prevent and control the investment risk in Russia.

Keywords

Outbound investment; review system; risk prevention and control.

1. Introduction

As one of the important economies in the world, Russia has rich natural resources and huge market potential, attracting the attention of many international investors. As an important economic partner of Russia, China's investment in Russia continues to expand. However, Russia's strict review system for foreign investment requires Chinese investors to fully understand and comply with relevant regulations before investing in order to reduce investment risks.

2. Overview of Russia's Foreign Investment Review System

The Russian Outbound Investment Review System is a system for the Russian government to regulate and review outbound investments. According to relevant Russian laws and regulations, foreign investors are required to declare their investment plans to the Russian government and undergo a review. The content of the review usually includes the nature of the investment project, the amount, the source, and the background and intention of the investor. Based on the results of the review, the Russian government will decide whether to approve the investment and whether measures to restrict or prohibit the investment are required. The outbound investment review system covers a wide range of fields, including but not limited to energy, finance, military industry, communications, infrastructure and other industries. In particular, the level of scrutiny is more stringent on investment projects involving Russia's national security and critical infrastructure. It is very important for Chinese investors to understand and comply with Russia's outbound investment review system. When considering an outbound investment, Chinese investors need to fully understand the relevant laws and regulations, and make declarations and reviews according to the actual situation. In addition, Chinese investors

should conduct comprehensive due diligence to ensure the legality, compliance and feasibility of the investment project in order to avoid risks and losses caused by the outbound investment review system. It should be noted that the Overseas Investment Review Regime may be adjusted due to changes in the policy and political environment. Therefore, Chinese investors also need to pay close attention to relevant policy developments to understand and adapt to the changes in a timely manner.

3. Risks of Chinese investors investing in Russia

Chinese investors need to pay attention to some risks when investing in Russia, among which the common risks are: political risk, legal risk, economic risk, tax risk, labor risk, the risk of choosing partners, etc. The following is a description of the specific content of these risks:

3.1. Political risk

As a geopolitically important country, Russia's foreign policy and diplomatic relations may have a direct or indirect impact on overseas investment. For example, Russia's strained relations with other countries and sanctions such as the more sensitive Russia-Ukraine conflict may adversely affect Chinese investors' outbound investments. There may be changes in Russia's policy environment, including investment regulatory policies, foreign investment regulations, and industry access. Adjustments to these policies may have a direct impact on Chinese investors' outbound investments, such as restricting or prohibiting foreign investment in certain industries. Political factors may affect the implementation of laws and judicial independence, which may have an impact on Chinese investors' outbound investments. The Russian outbound investment review system may involve national security considerations. Chinese investors may face the risk of national security scrutiny and regulation when involved in sensitive industries or projects. This may result in the rejection or restriction of investment projects or face stricter regulatory requirements.

3.2. Legal risks

There are significant differences in the legal systems of Russia and China in terms of legal regulations. As an independent judicial sovereign state, the authorities of the Russian Federation do not have an independent regional legal system, and different regions will design their own regulations according to the different characteristics of their respective regions, which leads to the legal system of the Russian Federation there are obvious regional differences [Zhang Bo, Zhang Xinyue, Zhu Mingxin. "Current situation, comparison and prospect analysis of agricultural trade between Liaohu and Russia under the background of "Belt and Road" [J]. Economic Perspectives, 2017, (4).

] And The Russian legal system is relatively complex, and there may be uncertainties in the interpretation and implementation of laws. Investors should have a detailed understanding of Russian laws and regulations, especially investment-related laws, as well as relevant judicial practices, in order to avoid legal risks, and should be fully aware of relevant laws and international treaties: such as the Law on the Procedure for the Entry of Foreign Investments in Business Organizations of Strategic Significance for the Safeguarding of National Defense and National Security of the Russian Federation, the Multilateral Convention on the Implementation of Measures Relating to Tax Agreements to Prevent the Transfer of Tax Base Erosion, and other relevant provisions involving Chinese investors' The Law on the Procedure for the Organization of Businesses of Strategic Significance for the Entry of Foreign Investment in Russia for the Purpose of Safeguarding National Defense and Security There are differences in business customs and legal culture between China and Russia. Investors should understand Russian business customs and legal culture and properly handle contracts, transactions and disputes with Russian partners in order to avoid legal disputes and losses.

3.3. Economic risks

The economic environment and market conditions in Russia are different from those in China, and there may be currency fluctuations, inflation and interest rate risks. These factors may have an impact on Chinese investors' offshore investments, including the loss of capital exchange rate and the risk of debt default. The market environment and business culture in Russia are different from those in China, involving risks in terms of market competition, consumer demand and supply chain management. Chinese investors need to consider factors such as market awareness, market adaptability, and competitive dynamics when making outbound investments in Russia. Russia's economic and industrial policies may have an impact on Chinese investors' outbound investments, including tax policies, subsidy policies, and industrial access policies. Changes in policies may have an impact on the profitability and sustainability of investment projects.

3.4. Tax risk

Chinese investors should be aware that the tax laws and regulations of Russia and China are different and Chinese investors are required to comply with local tax laws and regulations when investing outside Russia. Failure to understand and comply with the relevant regulations in a timely manner may expose them to tax compliance risks, including non-fulfillment of tax performance obligations and failure to file tax returns as required. Certain investors may attempt to avoid their tax obligations by means of manipulating financial data or taking advantage of tax incentives, which may involve false tax filings, tax evasion, etc., and may face hefty fines and legal liabilities if discovered. Disputes and controversies with tax authorities may arise in the course of investments outside Russia. This may involve issues such as tax assessment, tax accounting, tax incentives, etc., which require investors to reasonably defend their rights and respond to them. Russia and China have different international cooperation rules and tax information exchange systems in the field of taxation. If Chinese investors fail to fulfill the relevant obligations in a timely manner in the process of offshore investment, they may face international tax cooperation risks, including being included in the blacklist of cross-border tax cooperation and facing tax investigations and penalties from other countries.

3.5. Labor Risks

Russia has a set of detailed labor law regulations, including regulations on working hours, wages and vacations. Investors need to understand and comply with Russian labor law regulations to ensure legality and fairness. When engaging in labor activities in Russia, the hiring of laborers requires the signing of an employment contract. Investors need to ensure that the contract complies with the law and protects their rights and interests. Investors are required to pay laborers on time, to ensure that wages are in line with the Russian minimum wage and to comply with the relevant wage payment regulations. Russia has a range of social insurance and welfare programs, including health insurance and unemployment insurance. Investors need to understand and fulfill the relevant insurance and welfare obligations to ensure that workers enjoy due protection. In the event of labor disputes, investors need to understand Russia's labor dispute resolution mechanism and negotiate and communicate with workers to seek settlement or resolve disputes through legal channels.

3.6. Risks of choosing a partner

There are a number of risks for investors when choosing a partner in Russia such as the partner may not be reliable enough to fulfill their contractual obligations or may not cooperate in the agreed manner. This may lead to damage to the investor's interests, or even lead to the failure of the cooperation project. The financial situation of the partner selected in Russia may be unstable and subject to credit risk. This may lead to the partner's inability to fulfill its contractual obligations or to make payments on time.

4. Risk Prevention and Control for Chinese Investors

In dealing with political risks, Chinese investors should actively establish good cooperative relationships with local governments, enterprises and relevant stakeholders, and ensure that stable communication channels are established with local partners in order to keep abreast of information on policy changes and risk dynamics. In addition, seeking professional legal and political consulting services and complying with local laws and regulations are also important steps to reduce political risks. Adopt a diversified investment portfolio, adjust strategies flexibly, etc. and seek professional help. These measures can help investors better cope with political risks and protect their investment interests.

Chang Cheng of Xi'an Petroleum University mentioned in the article "Research on Risk Management of S Company's Operation in Russia" that purchasing insurance is a more economical response to reduce the political risk of Chinese investment enterprises in their operation activities in Russia [Chang Cheng Research on Risk Management of S Company's Operation in Russia [D]. Xi'an Petroleum University, 2022, 06:54]. The author believes that the measure is also a good way to reduce political risk.

In order to cope with legal risks, Chinese investors should seek professional legal services and consultation, cooperate with local law firms, understand and comply with local laws and regulations, and develop compliant investment strategies and contract management systems. In addition, maintaining good cooperative relationships with local governments, enterprises and relevant stakeholders, and keeping abreast of information about legal changes and risk dynamics are also important means to reduce legal risks. In addition, the author suggests that the foreign economic management department should set up a professional department to review foreign trade laws in different countries and regions to solve the problem of insufficient understanding of foreign laws by foreign investors, or set up a professional qualification examination for foreign laws in the lawyers' profession, so as to urge foreign lawyers to systematically master the legal systems of different foreign countries and provide more professional legal services for Chinese investors.

In order to cope with economic risks, Chinese investors should conduct sufficient due diligence and risk assessment, understand the macroeconomic environment, political situation and industrial structure of Russia, and formulate risk management strategies. In addition, establishing a good cooperative relationship with local partners and understanding the actual situation and business environment of the local market are also important means to reduce economic risks. The international financial market has a certain unpredictability, the national economy is still in the doldrums, the trend of capital flight continues unabated, and Russia's economic interests are seriously affected [Cheng Min. Status Quo, Problems and Countermeasures Suggestions of Heilongjiang Province's Economic and Trade Cooperation with Russia under the New Situation[J]. China economic and trade guide,2019(4):33-37.] Therefore, in order to solve the economic risks of Chinese investors in Russia, it is necessary to conduct sufficient market research, diversify risks, and maintain the ability to learn and adapt. These measures can help investors reduce economic risks and increase the probability of investment success.

(iv) In order to minimize tax risks, Chinese investors can take the following measures:

Investors should establish a tax compliance team and hire professional tax consultants or accountants to help investors understand and comply with Russian tax regulations. Strengthen tax communication and cooperation, keep abreast of the latest tax policies and requirements, and fulfill tax declaration and payment obligations in accordance with the law. Seek double taxation avoidance to avoid double taxation between China and Russia. Be aware of the transfer pricing rules and capital weakening regulations in Russia for connected transactions to avoid anti-avoidance investigation of corporate income tax tax risks. According to the tax law of the

Russian Federation, if a non-resident enterprise does not constitute a permanent establishment in Russia, it can apply for preferential treatment [See “Tax Guide for Chinese Residents Investing in Russia” issued by the International Taxation Department of the State Administration of Taxation.

Tax Guide for Chinese Residents Investing in Russia

The tax guide for Chinese residents investing in Russia]. Investors are advised to consult professional tax advisors or lawyers before making an investment to understand the specific tax regulations and risks, as well as to take appropriate measures to minimize the risks.

(e) In order to reduce labor risks, Chinese investors can take the following measures:

The investor should have an in-depth understanding of the labor laws and regulations of the target country including an understanding of the labor contract, working hours system, remuneration packages, labor protection and other regulations, and strictly comply with the relevant laws and regulations. Chinese investors should establish a compliant labor relationship with their employees, sign labor contracts that comply with local laws and regulations, and ensure that the contents of the contracts are clear and unambiguous to protect the rights and interests of both parties. Pay attention to the protection of workers' rights and interests in the target country, including the payment of wages, limitation of working hours and vacation system. Ensure that employees enjoy legal rights and interests, and actively participate in and support local labor rights and interests protection activities. Shall provide employees with necessary training and education to help them understand and comply with local labor laws and regulations, and raise their awareness of laws and labor protection. It shall maintain good communication and cooperation with employees, establish an open and transparent communication mechanism, promptly understand employees' needs and feedback, and resolve labor disputes and problems.

(vi) In order to reduce the risk of choosing partners, Chinese investors can take the following measures:

Before selecting a partner, investors should conduct adequate due diligence, including assessing and verifying its credit history, financial status, and operating ability. Consult professional legal and business advisors to understand the legal and policy environment in Russia, as well as the background and credibility of potential partners. Sign a clear contract with the partner, specifying the rights and obligations of both parties, including the mode of cooperation, allocation of responsibilities, and payment methods. Establish an effective cooperation monitoring mechanism to regularly track the progress of cooperation and identify and solve problems in a timely manner. “Don't put your eggs in one basket” Consider working with multiple partners to diversify risks and reduce dependence on a single partner. Although risk is inevitable, when choosing partners, investors should fully assess the risks and benefits, and take appropriate measures to reduce the risk.

5. Conclusion

This paper mainly discusses Russia's outbound investment review system and Chinese investors' risks and prevention and control. By analyzing Russia's outbound investment review system, we can see that the system plays a certain role in restricting and regulating the investment activities of foreign investors in Russia. At the same time, Chinese investors face a series of risks in overseas investment activities and need to carry out effective risk prevention and control. Russia's outbound investment review system is an important factor for Chinese investors to pay attention to and carry out risk prevention and control. Chinese investors should fully understand the review system of target countries and take corresponding measures to prevent risks and protect their investment interests.

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