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The review “Russian Economy. Trends and Outlooks” has been published by the Gaidar Institute since 1991. This is the 42th issue. This publication provides a detailed analysis of main trends in Russian economy, global trends in social and economic development. The paper contains 6 big sections that highlight different aspects of Russia’s economic development, which allow to monitor all angles of ongoing events over a prolonged period: global economic and political challenges and national responses, economic growth and economic crisis; the monetary and budget spheres; financial markets and institutions; the real sector; social sphere; institutional changes. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts confirming the conclusions.

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6.4. Transnational corporations' participation in the Russian economy and foreign investments regulatory policies¹

Foreign companies' declining interest in the Russian economy in the 2010s was accompanied by rather cautious activities of foreign investors which had already entered the Russian market. Sluggishness of foreign companies' activities in Russia can be substantiated not only by slowdown of economic growth rates, but also a lack of progress in liberalization of foreign direct investments regulation. To rekindle investment activities in the Russian economy again, it is necessary to revise investment policies, switch over to the single nondiscriminatory policy in respect of foreign and Russian investors and combine the policy aimed at underpinning mid-sized projects with the one aimed at supporting investments in strategically important sectors, including fast-growing industries and short-term cycle sectors.

Transnational corporations (TNC) are the sources of not only financial resources, but also technologies and managerial know-how facilitating the

¹ This section was written by: *Simachev Yu.*, Candidate of Technical Sciences, Director for Economic Policy, Director of the Center for Structural Policy Studies, NRU HSE; *Fedyunina A.*, Candidate of Economic Sciences, Leading Researcher of the Center for Structural Policy Studies, NRU HSE; *Kuzyk M.*, Candidate of Economic Sciences, Deputy Director of the Center for Structural Policy Studies, NRU HSE.

integration of national economies into global value chains.¹ It is customary to assess the participation of transnational companies in host economies in terms of inflows of foreign direct investments (FDI). The advantage of such an approach consists primarily in the fact that the data on them are more available and easier to verify. The downside of the approach is that the FDI data do not show the scale of economic activities of companies with FDI in a host economy.²

In the international and Russian scientific literature, there is a large number of papers assessing spillovers from foreign direct investments on companies' activities in a host economy on the basis of macroeconomic data. So, they identified negative spillovers from FDI for Russian companies in 1990s,³ positive horizontal spillovers;⁴ negative vertical spillovers⁵, as well as nonlinear horizontal and vertical spillovers.⁶ In addition, some papers point to spillover effects from FDI on technological modernization of Russian manufacturing industries and the expansion of Russian non-oil and gas exports.⁷

The variety of the received results can be probably explained by the findings based on the meta-analysis which reveals weak sustainability of the observed spillover effects; this can be related in particular to a "publication shift", that is, expectations of reviews and authors' determination to stick to the previous results.⁸ This suggests that spillover effects from transnational corporations are

- 1 World Bank Group; IDE-JETRO; OECD; UIBE; World Trade Organization, 2017; Global Value Chain Development Report 2017: Measuring and Analyzing the Impact of GVCs on Economic Development. Washington, DC; World Bank; *Simachev Yu., Fedyunina A., Kuzyk M., Daniltsev A., Glazatova M. and Averyanova Yu.* Russia in Global Production // The 21st April International Scientific Conference on Challenges Facing the Economic and Social Development. Moscow: The NRU HSE Publishers, 2020. 1–147; World Investment report 2013. Global Value Chains: Investment and Trade for Development. UN, 2013.
- 2 Also, the volumes of investments from abroad also reflect a portion of the overall borrowed capital in capital assets, thus making it infeasible to measure the real contribution by foreign-owned companies in the host economy. The utilization of the data on FDI contribution across sectors fails to approximate the assessment of foreign-owned companies' contribution in these sectors.
- 3 *Sabiryanova K., Svejnar J., Terrell K.* Distance to the efficiency frontier and foreign direct investment spillovers // Journal of the European Economic Association, 3(2–3), p. 576–586. 2005.
- 4 *Kadochnikov S., Fedyunina A.* Spillover of Companies with Foreign Investments on Export Activities of Russian Firms in 2014–2016: the Size Matters // The Voprosy Ekonomiki. 2017. Issue No.12. pp. 96–119; *Fedorova E., Korkmazova B., Muratov M.* Spillover effects of the Russian economy: Regional specificity. Economy of region, 1(1), 139-149. 2016; *Yudaeva K., Kozlov K., Melentieva N., Ponomareva N.* Does foreign ownership matter? The Russian experience // Economic soft transition, 11(3), 383–409. 2003.
- 5 *Drapkin I., Lukyanov S.* External Spillover Effects from Foreign Direct Investments in the Russian Economy: The Outputs of the Empirical Analysis // The Voprosy Ekonomiki, (2), 97–113. 2019; *Yudaeva K., Kozlov K., Melentieva N., Ponomareva N.* Does foreign ownership matter? // The Russian experience. Economic soft transition, 11(3), 383–409. 2003.
- 6 *Drapkin I., Lukyanov S.* External Spillover Effects from Foreign Direct Investments in the Russian Economy: The Outputs of Empirical Analysis // The Voprosy Ekonomiki, (2), 97–113. 2019.
- 7 *Fedudina A., Simachev Yu., Kuzyk M., Averyanova Yu.* The Sectoral Specifics of Integration of the Russian Economy in Global Value Chains and Effects on the Structural Policy. The Journal of the New Economic Association, 47 (3), 106127. 2020; *Simachev Yu., Fedyunina A., Kuzyk M., Daniltsev A., Glazatova M., Averyanova Yu.* Russia in Global Production // The 21st April International Scientific Conference on Challenges Facing the Economic and Social Development. Moscow: The NRU HSE Publishers. pp. 1–147. 2020.
- 8 *Demena B., and P.A.G. Van Bergeijk.* A meta-analysis of FDI and productivity spillovers in developing countries // Journal of Economic Surveys, 31(2): 2017, 546–571; *Smeets R., & de Vaal, A.* Intellectual property rights and the productivity effects of MNE affiliates on host-country firms //

specific not only to the sector and host economy as a whole, but arise only in case of certain regulation and “adjustment” of the industrial policy.

The authors of this section do not set the objective of discussing and specifying spillovers from transnational corporations in the Russian economy. The goal of this study is to look at the role of TNC in a new way, assess the views of TNC and the government on regulation and outline the vectors of changes in government regulation of TNC in response to global trends and demands of foreign companies. The novelty of the approach to the analysis of TNC participation in the Russian economy consists in the fact that along with the utilization of the data on FDI inflows we follow the methodology¹ and use the AMNE OECD database on TNC participation in global output and creation of value added in national economies.²

6.4.1. The global distribution of FDI and TNC and Russia’s position in attraction thereof

In the past two decades, foreign direct investment flows in the global economy were characterized by high-profile periodization and country orientation. So, FDI flows to developed countries were more volatile and depended more on the macroeconomic situation than investment flows to developing countries (*Fig. 1*). It was particularly explicit in 2006–2010 with a slump during the global financial crisis of 2008–2009. A dramatic drop in the FDI flow to developed countries was justified by a sharp decrease in the number of mega-deals on mergers and acquisitions (worth over \$1 bn) which used to be actively transacted in the 2000s.

Overall, in transition economies FDI inflows depend the least on the global market situation, but Russia is an exception. In 1995–2002 when the Russian economy experienced a severe transformation shock, the volumes of inflow and outflow of investments were insignificant. Later on, amid high economic growth rates till the crisis of 2008–2009 the volume of investment flows increased a great deal (primarily because of the fuel and energy sector’s attractiveness to foreign investors). After the crisis, amid unsustainable and lower GDP growth rates as compared with the pre-crisis period, the volumes of investment flows failed to recover and fluctuated sharply depending on growth rates of the economy as a whole (*Fig. 2*).

International Business Review, 25, 2016, 419–434; Meyer K., & Sinani E. When and where does foreign direct investment generate positive spillovers? A meta-analysis. // Journal of International Business Studies, 40, 2009. 1075–1094; Havranek T., & Irsova Z. Estimating vertical spillovers from FDI: Why results vary and what the true effect is // Journal of International Economics, 85(2), 2011. 234–244; Irsova Z., & Havranek T. Determinants of horizontal spillovers from FDI: Evidence from a large meta-analysis // World Development, 42, 2013. 1–15.

1 OECD. Multinational enterprises in the global economy. Heavily debated but hardly measured. OECD Publishing, Paris, 2018.

2 In accordance with this approach, a transnational enterprise is determined as a company where 50% +1 equity belong to a foreign investor. The data on the activities of transnational corporations are based on economic transactions (sales volumes, added value) and reflect the performance of companies with foreign investments regardless of the fact whether they were financed additionally by a foreign investor at a certain period of time.

Deemed as TNC output in host economies is gross output of companies whose ownership belongs to transnational companies and which are located beyond the borders of the home country where the transnational corporation is based.

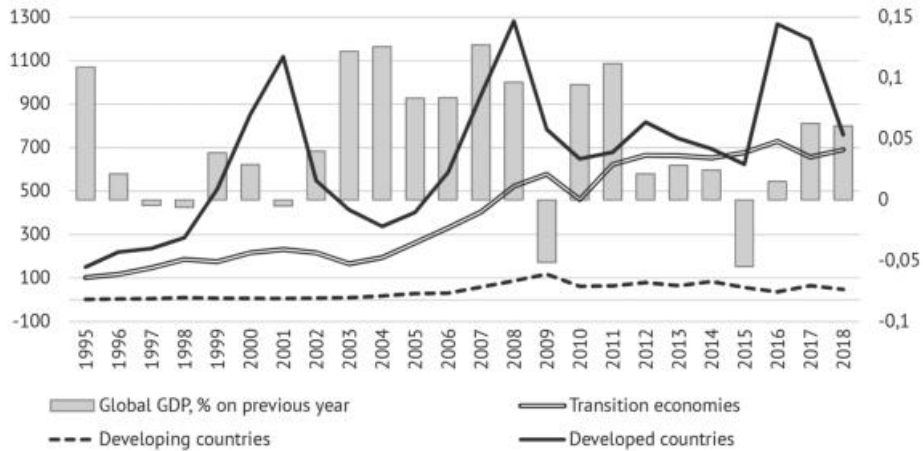


Fig. 1. FDI flow by the type of economies (billion US Dollars) and global GDP dynamic (right-hand axis)

Source: own calculations, UNCTAD data.

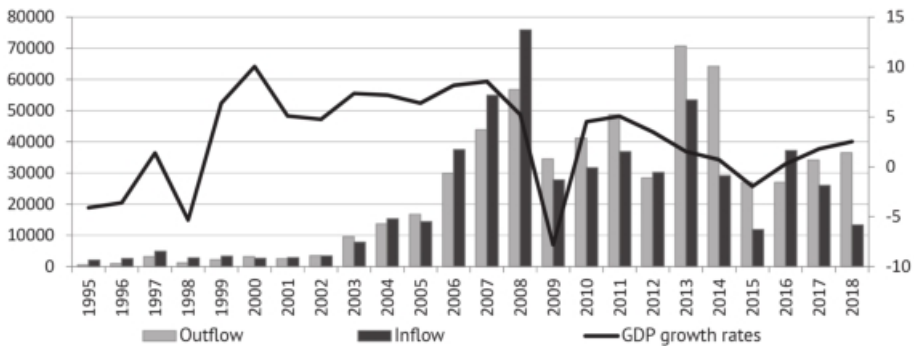


Fig. 2. FDI dynamic (million US Dollars) and GDP in Russia (growth on the previous year, %)

Source: own calculations, the data of UNCTAD and the Rosstat.

For Russia it is typical that the FDI outflow volume prevails over the FDI inflow volume as economic growth rates dynamic gets worse; it became explicitly clear in periods shortly after the global crisis 2008–2009. This points indirectly to the probable orientation of a larger volume of FDI in the Russian Federation to the needs of the domestic market whose potential demand was contracting during economic growth slowdown. At the same time, the upward trend of Russian capital flight abroad consolidated because domestic market investment opportunities were shrinking. The dynamics of FDI inflow and outflow were formed most probably under the impact of investment demand fluctuations and domestic

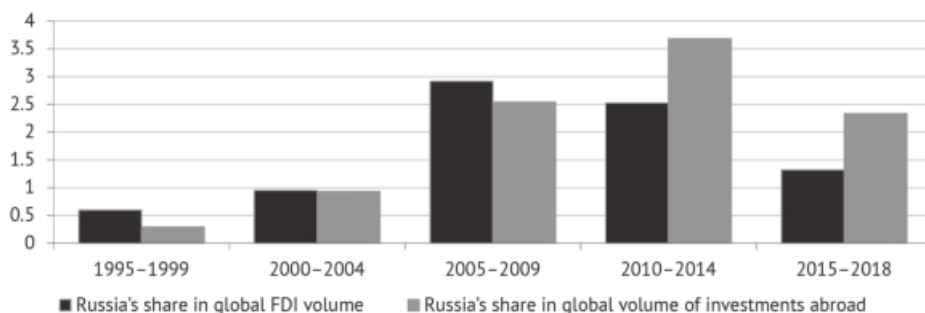


Fig. 3. Russia's share in global FDI, %

Source: own calculations, the data of UNCTAD and the Rosstat.

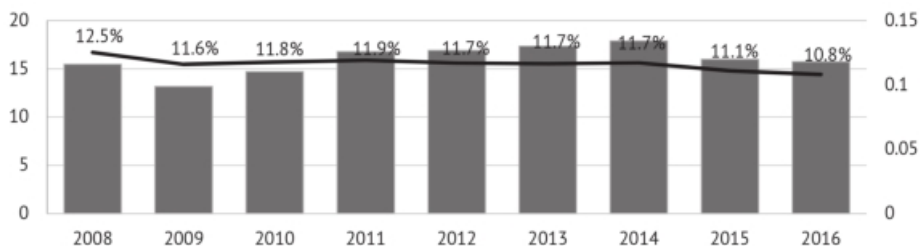


Fig. 4. TNC contribution to host economies' gross output, 2008–2016, trillion US Dollars and % of global output

Source: own calculations, OECDAMNE data.

market opportunities, rather than considerations regarding the development of international production.

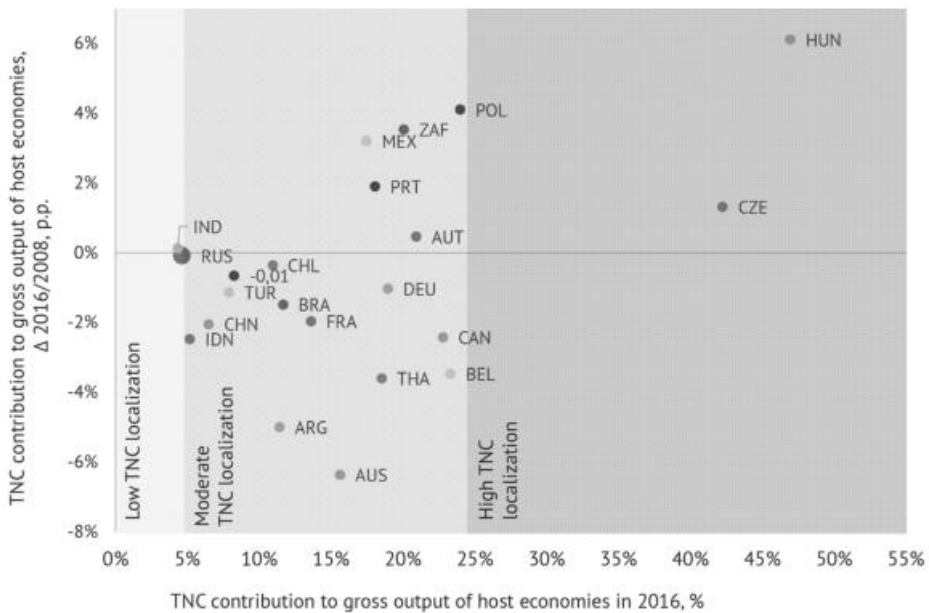
In terms of Russia's participation in the global market of foreign direct investments, it can be stated that the share of Russia as a FDI recipient increased before the crisis of 2008–2009 and surpassed the share of Russia as an investor-country on the FDI market. After the global financial crisis, the situation changed: the FDI inflow to Russia shrank and Russia's share in attraction of FDI decreased considerably, while the investment outflow increased; this is related sooner to capital flight. Importantly, after 2010–2014 the share of Russia as the exporter of capital in terms of FDI was growing in the world amid the reduction both in the FDI inflow and overall volume of investments in capital assets in Russia (*Fig. 3*).

By estimates, in the 1970s there were about 7,000 transnational corporations, while by the year 2000 their number was equal to 38,000 and by the end of the 2000s the number of non-financial transnational corporations amounted to 82,000 with over 200,000 international subsidiaries.¹ Despite exponential growth in the number of transnational corporations, they still make a modest contribution

¹ OECD. Multinational enterprises in the global economy. Heavily debated but hardly measured. OECD Publishing, Paris. 2018.

to global output: in 2016 host economies produce only 11% of global gross output (Fig. 4). In 2000–2016, growth in TNC gross output had the specifics of its own. In 2000–2008, host economies saw a higher expansion of TNC output as compared with the national one. In that period, TNC gross output increased from \$7 trillion to \$16 trillion, while the share of TNC in gross output rose from 11% to 14%. The global financial crisis affected considerably the contraction of TNC output in absolute and relative terms and slowed down considerably TNC future growth rates so that the same level of output was achieved only by 2011–2012, while TNC output growth rates amounted to the mere 2% in 2008–2016. For reference, in the same period global output of national companies which were not transnational corporations was growing faster and was equal to 20% in 2008–2016.

The OECD countries are the main host economies for TNC. In 2016, transnational corporations which entered the OECD countries’ markets produced about 70% of TNC global output. A slight decrease in contribution of TNC in OECD countries to gross output of these companies from 77% to 70% in 2008–2016 was justified by redistribution of TNC interest to BRIC countries. Early in the 2000s and 2008, the BRIC countries accounted for less than 10% and 11% of TNC output in host economies, respectively, while in 2018, for 6%.



Note. Low localization – up to 5%, moderate localization – from 5% to 25%, high localization – from 25%.

Fig. 5. TNC contribution to gross output of host economies by the country in 2008 and 2016

Source: own calculations, OECDAMNE data.

Amid slowdown of growth rates of TNC output, there are a few countries in the world which can be called attraction points for transnational corporations. For instance, Hungary and the Czech Republic stand out prominently in terms of TNC concentration in the economies. Both the economies are actively integrated in global value chains and are a kind of production bases for EU countries. In term of TNC concentration, Hungary and the Czech Republic are followed closely by Poland, another Post-Soviet economy with mostly similar structural specifics and level of economic, scientific and technological development.

Among other countries which increased TNC contribution to gross output was Mexico, the country which had served for long a number of North American markets; South Africa, the only BRIC country with a positive contribution to TNC output, as well as Portugal and Austria.

Russia and India had a very low TNC concentration (slightly below 5% as per the data of 2016) and demonstrated virtually zero growth in TNC contribution in 2008–2016 (Fig. 5).

Without analyzing the dynamic of the past few years which was obviously weak, it can be stated that high TNC localization (a relatively high TNC contribution to gross output) is typical of mid-tech and high-tech industries, that is, manufacturing of computers, electronic and optical goods, motor vehicles, chemicals and chemical products, including pharmaceuticals. Most manufacturing industries and services sector industries can be attributed to the category of moderate TNC localization.

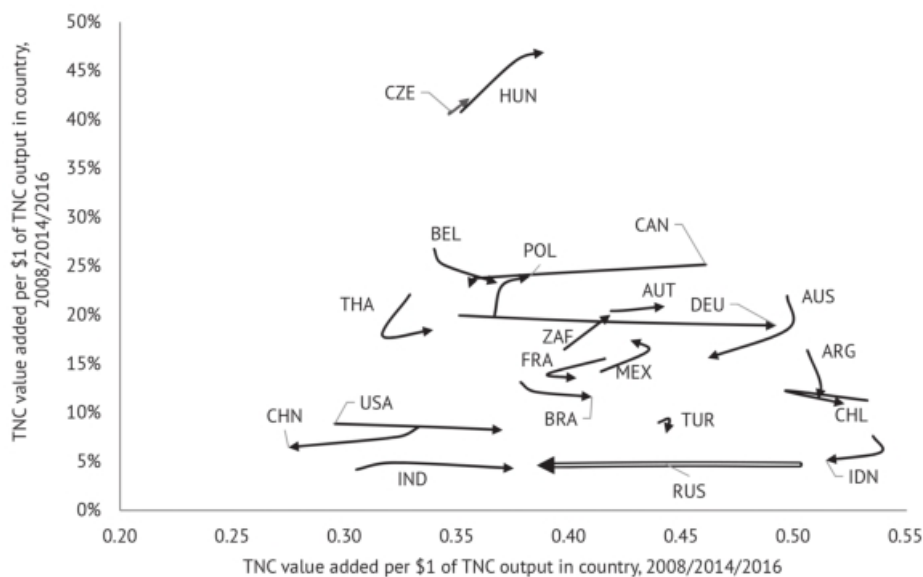


Fig. 6. TNC participation in host economies and TNC unit value added by the country, 2008–2016

Source: own calculations, OECDAMNE data.

Industries with low TNC localization in global production include the agriculture, the textile industry and the building industry. There are only three industries which increased TNC contribution to global output in 2008–2016: the furniture industry, manufacturing of computers, electronic and optical goods and motor vehicles. All these industries have different research-intensity levels, however, the past decade saw a substantial advance in complexity of manufacturing processes and value chain extension. The largest decrease in TNC contribution to gross output took place in the financial and insurance sectors. It is probably related largely to investors' cautiousness and the implications of the global financial and economic crisis.

Even with relatively weak structural changes in output brought about by a change in TNC contribution, TNC activities in the territory of host economies change considerably value-added which situation is typical both of developed and developing economies. A special horizontal shift (a constant level of TNC contribution to gross output and growth in value-added) in 2008–2016 turned out to be specific to Germany, the US and India (*Fig. 6*).

TNC contribution and value-added increased in Hungary, the Czech Republic, Poland, South Africa and Mexico and fell in China, Russia, Canada and Australia; specifically, in Australia the decrease was also driven by a substantial contraction of TNC contribution to the economy, while in Canada, by modification of the structural pattern of TNC presence (a decrease in TNC contribution to manufacturing industries and a two-fold increase in TNC contribution to the agriculture). In China, the observed effect is related to the squeezing out of foreign TNC and the policy of cultivation of own companies with an aggressive internationalization strategy, but this is not typical of Russia. A number of sectors saw growth in TNC contribution to the economy (including the automotive industry, the food industry and the chemical industry), however, no substantial value-added growth was evident in any sector.

6.4.2. The specifics of TNC participation in the Russian economy

In 2008–2016, Russia saw the contraction of gross output of foreign TNC situated in the territory of the country and a simultaneous reduction in output of Russian TNC abroad. On one side, Russia is not an exception. A decrease in output of ingoing and outgoing TNC turned out to be specific to most developed economies of the EU (including France, Belgium, Switzerland, Finland, Italy, Hungary, Austria, the Netherlands and the UK), as well as Canada. On the other side, the Russian economy, the only one among the BRIC countries, saw the contraction of output of its own TNC in the global economy in 2008–2016 (*Fig. 7*).

The contraction of output of Russian TNC abroad is determined by contraction of the amount of business in the real-estate operations sector (a drop of 95% in 2008–2016), manufacturing of computers and electronics (a drop of 93%) and production of charred coal and petrochemicals (37%).

A gross decrease in foreign TNC contribution to output in the Russian economy in 2008–2016 can be explained for two-thirds by the shrinking of TNC amount of business in the services sector, including the financial and insurance sectors

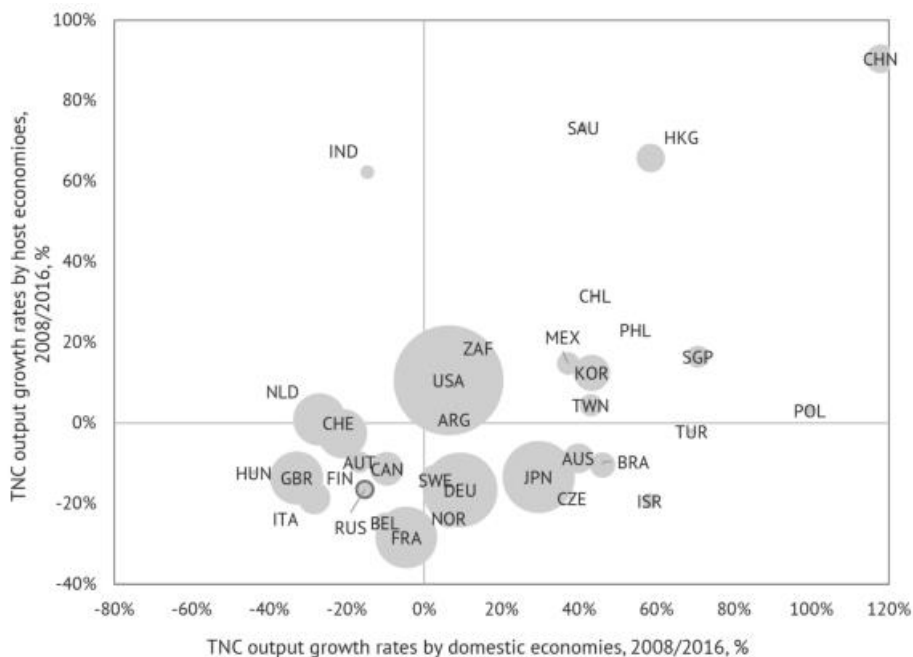


Fig. 7. Change in TNC output volumes by domestic and host economies

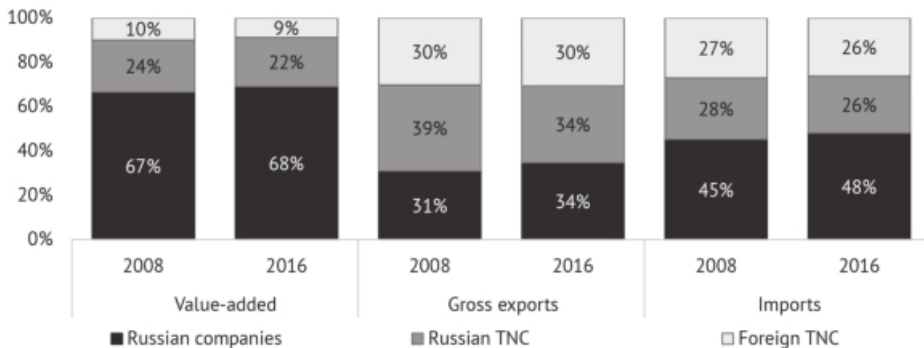
Source: own calculations, OECDAMNE data.

(a 45% drop in TNC amount of business in nominal prices in 2008–2016), retail and wholesale trade (15%) and business services sector (36%). In addition, about 25% of the overall drop can be justified by a decrease in TNC revenues in production of oil and petrochemicals (a 47% decrease in revenues). Most manufacturing industries did not see any growth and actually stagnated, while other sectors were growing, for example, the food industry (revenue growth of 28.7% in 2008–2016) and the automotive industry (29.8%).

At the same time, a decrease in output of TNC situated in Russia was partially related to growth in Russian companies' contribution to the economy in 2008–2016: the share of Russian companies increased as regards value-added (from 67% to 68%), gross exports (from 31% to 34%) and imports of semi-finished products (from 45% to 48%) (*Fig. 8*).

As transnational corporations are normally viewed as the source of technologies, managerial/organizational practices and expertise, the analysis of the sectorial pattern of TNC situated in Russia may supplement the analysis of the pattern of imports of goods in terms of Russian industries' dependence on imports. Also, the sectorial pattern of ingoing TNC, except for sectors depending directly on imports, reflects foreign companies' interest in the Russian economy (*Fig. 9*).

The pattern of TNC gross output in Russia illustrates primarily foreign companies' interest in the Russian fuel and energy sector, however, sanctions



Note. Only imports of semi-finished products are taken into account.

Fig. 8. The pattern of gross value-added, gross exports and imports to Russia by the form of companies' ownership, 2008 and 2016

Source: own calculations, OECDAMNE data.

imposed in 2014 determined the partial exit of foreign companies from the sector; on the back of it TNC share in TNC gross output of the sector fell from 18.1% to 10.4% in 2008–2016.

Comparable shares in the patterns of gross imports of goods and TNC output in Russia can be found in the sectors of Russia's traditional and relative advantage which do not depend a great deal on imports, that is, the metallurgy, including the manufacturing of finished metal products (5.6% in imports and 6.0% in gross output in 2016), the chemical industry, including the manufacturing of rubber and plastic articles (16.5% and 21.3%), as well as the manufacturing of transport vehicles and equipment (12.2% and 18.0%), that is, industries where along with the high level of dependence on imports the domestic production in numerous sub-industries in the period under review was also determined by anchor foreign investors (in the automotive industry: Hyundai, Ford and Toyota, while in the railway machinery: Siemens) (*Fig. 9*).

Let us single out two industries with the largest difference in shares in gross imports and TNC gross output, that is, the food industry and the manufacturing of machinery and equipment. The food industry's share in gross imports was equal to 4.4%, while the industry's TNC contribution to TNC gross output amounted to 18.2% in 2016. This is an example of transnational corporations' orientation on the Russian domestic market and substitution of real imports for foreign companies' production in Russia. In the 2000s, Russia's growing domestic market and the prospect of potential exports to neighboring countries attracted to Russia the world's largest food producers, such as PepsiCo, Nestle, Mars, Coca-Cola, Danone, Unilever and others.

As per the breakdown by country, the US is the largest player on the Russian market (22% of foreign TNC overall output in Russia): US-owned TNC make the largest contribution to output of chemicals and chemical products, pharmaceuticals,

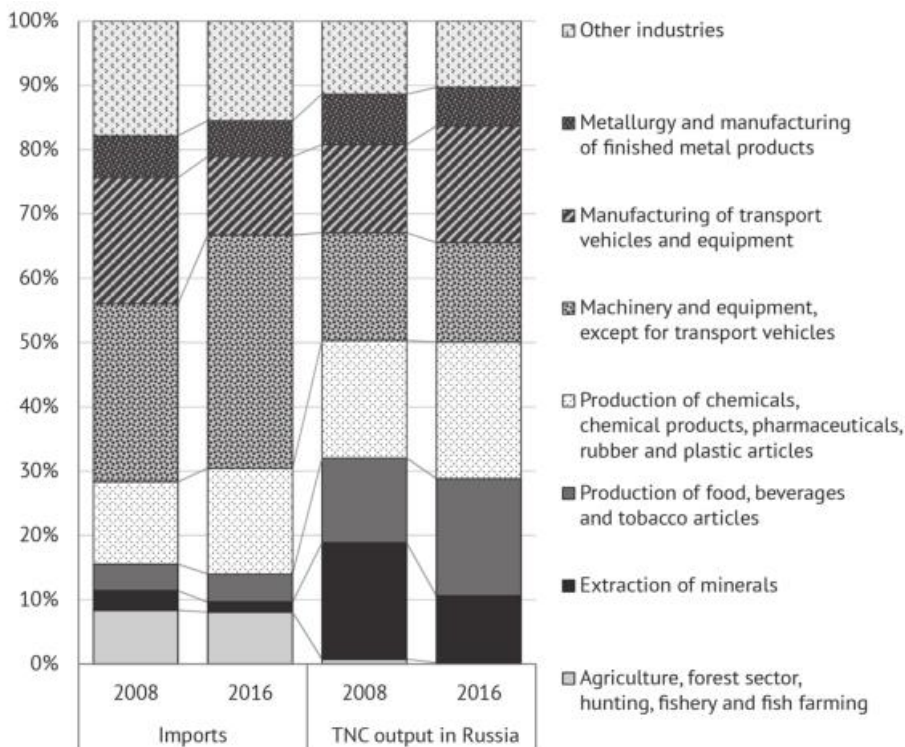


Fig. 9. TNC output sectorial pattern and the pattern of tradable sectors' imports, 2008 and 2016.

Source: own calculations, data of OECDAMNE and COMTRADE.

retail and wholesale trade and extraction of mineral resources. The second largest country in terms of output in Russia is Germany: German companies produce 17% of foreign TNC overall output in Russia. German TNC sectorial pattern is as follows: wholesale and retail trade, manufacturing of motor vehicles, trailers, semi-trailers, chemicals, chemical products and pharmaceuticals. The top-3 includes France, as well (11% of foreign TNC overall output in Russia). French TNC operate in Russia in such sectors as retail and wholesale trade, production of chemicals, chemical products and pharmaceuticals and manufacturing of motor vehicles, trailers and semi-trailers. As regards TNC output volumes, China is rated the 6th (4% of foreign TNC overall output in Russia). Chinese corporations in Russia operate mainly in the services sector: professional, scientific and technical activities, as well as transportation and storage.

In the territory of Russia, there are a few foreign manufacturers producing machinery and equipment; their contribution to TNC gross output in Russia is equal to 15.5%, while the share of the industry in gross imports amounts to 36.3%. On one side, this difference can be explained by the fact that machinery

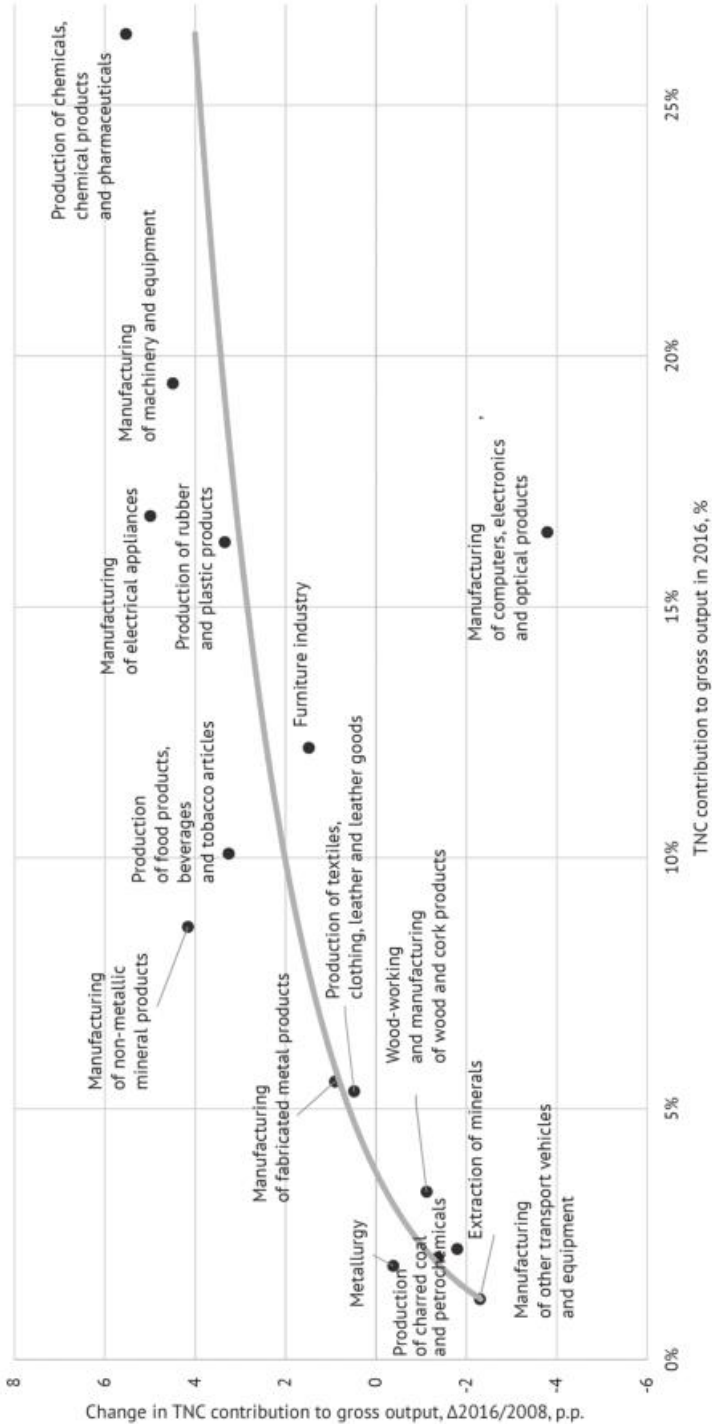


Fig. 10. TNC contribution to industries' gross output in Russia in 2016 (%) and its change relative to 2008 (p.p.)

Source: own calculations, OECD/AMNE data.

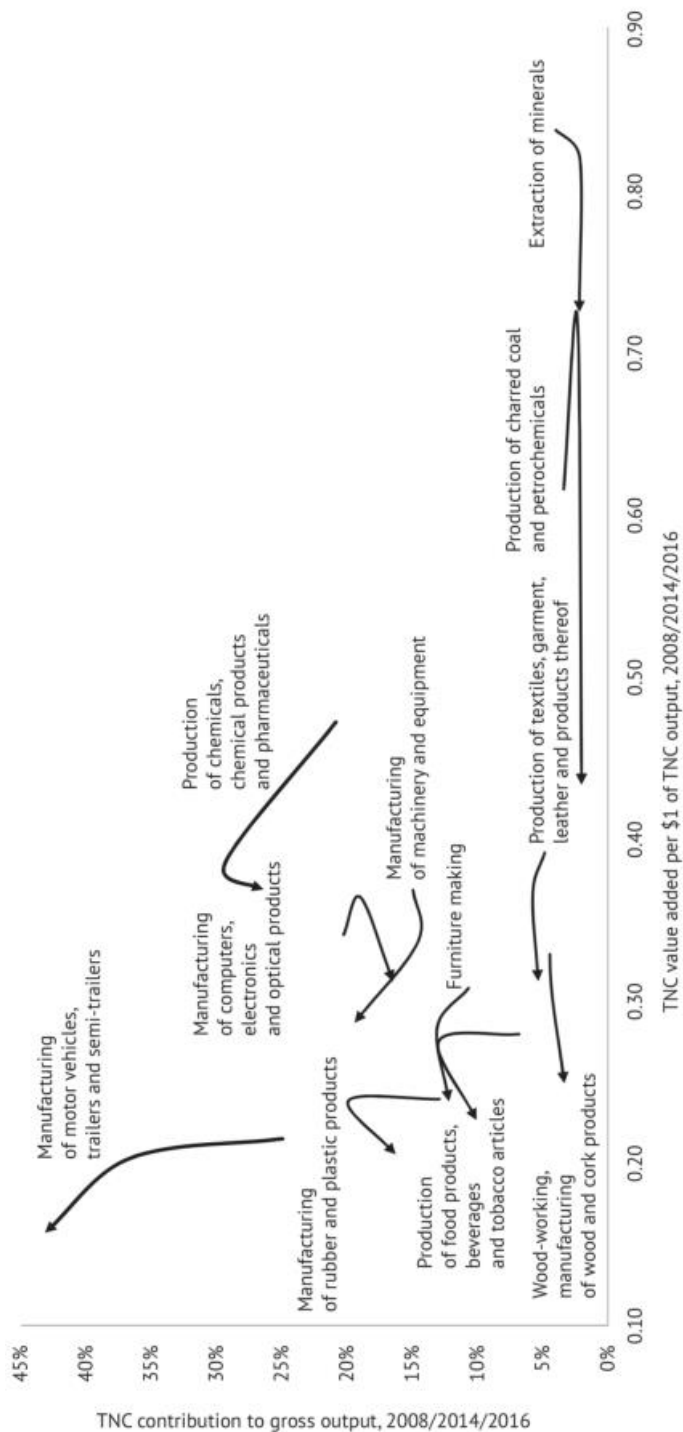


Fig. 11. TNC contribution to gross output and TNC unit value added in the Russian economy, 2008–2016

Source: own calculations, OECDAMNE data.

and equipment manufacturing is normally strongly involved in global value chains, which factor can determine a high share of imports of semi-products and components used in the national economy. On the other side, it is known that a high share of imports of ready for service machinery and equipment is specific to Russia. So, the industry is an example of the situation where the economy is not that competitive for foreign manufacturing location and a substantial share of the industry's products is represented by imported ready for service products.

As was stated above, the overall negative dynamic of TNC output in the manufacturing sector was driven by the exit of TNC from extractive industries and production of charred coal and petrochemicals. At the same time, *TNC contribution to gross output of the sectors with a relative TNC concentration in Russia increased somewhat in 2008–2016*. It concerns primarily the automotive industry, as well as the chemical industry, manufacturing of rubber and plastic products and machinery and equipment, including electrical appliances (*Fig. 10*).

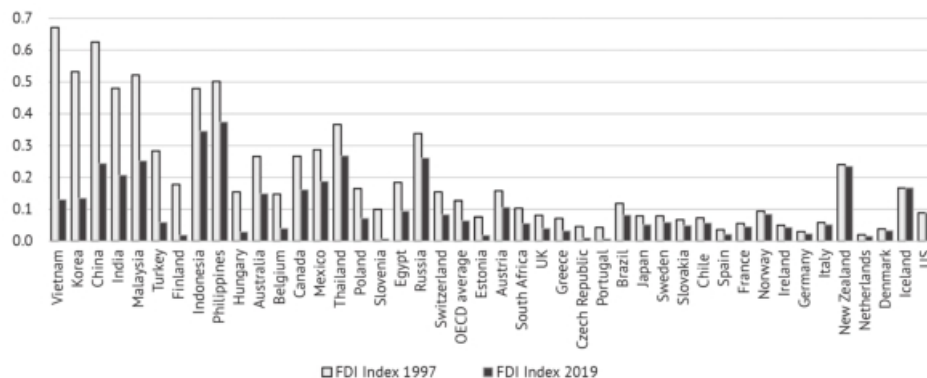
In 2008-2016, a pickup in TNC contribution to most Russian industries was accompanied by contraction of unit value added produced by TNC. An exception is the manufacturing of other transport vehicles and equipment (*Fig. 11*).

At first sight, a decrease in TNC unit value added in the Russian economy can be interpreted as a negative signal. However, in reality it is not true. On the back of building up the localization of manufacturing, transnational corporations increased their contribution to industries' gross output, however, a certain decrease in unit value added is related specifically to localization. To a large extent, this is typical of the automotive industry and the chemical industry.

6.4.3. Regulation of foreign companies in Russia: as seen by the government and business

Based on the results of 2019, Russia is rated the 7th economy in the list of 85 economies in the world as regards restrictiveness of FDI regulation in accordance with the FDI Restrictiveness Index. The more restrictive FDI regulations can be found only in Libya, Algeria, Palestine, the Philippines, Indonesia and Thailand. Though Russia has succeeded in advancing towards easing of foreign investments regulation (in the 1997 rating Russia was rated the 9th with a smaller number of countries reviewed), a number of fast-growing economies was ahead of Russia in terms of the pace of liberalization. So, Vietnam, Korea, China, India and Malaysia used to have tougher FDI restrictions than Russia in 1997, but they caught up with Russia and even surpassed it in terms of liberalization by the end of the 2000s (*Fig. 12*).

The liberalization of regulation of inflowing FDI is directly related to countries' progress in FDI accumulation in the period under review (*Fig. 13*). Korea's breakthrough dates back to early 1990s, so it is less explicit in the reviewed period of 1997–2018. The progress of Malaysia and Vietnam is more evident: Malaysia's FDI regulatory restrictiveness index fell by two-fold. Of all the reviewed economies, Vietnam used to have the highest barriers for FDI in 1997, but moved 24 positions upwards by 2018. No progress in upgrading of the FDI regulation in



Note. 0 – no restrictions, 1 – maximum restrictions. The countries are ranked in accordance with the progress in liberalization in 1997–2019. The index takes into account 4 types of FDI restrictions: restrictions on the share of ownership, screening, restrictions in respect of the key personnel (CEO), other restrictions (repatriation of capital, land tenure and other). Based on assessment, each restriction is assigned the weight; the overall country index is the weighted average of sectors’ indices.

Fig. 12. The FDI regulatory restrictiveness index by the country, 1997 and 2019

Source: own analysis, the data of the OECD FDI Regulatory Restrictiveness Index.

Russia from 2010 till 2017 can probably be regard as an important factor which determined the lack of positive shifts in FDI accumulation in the 2010s.¹

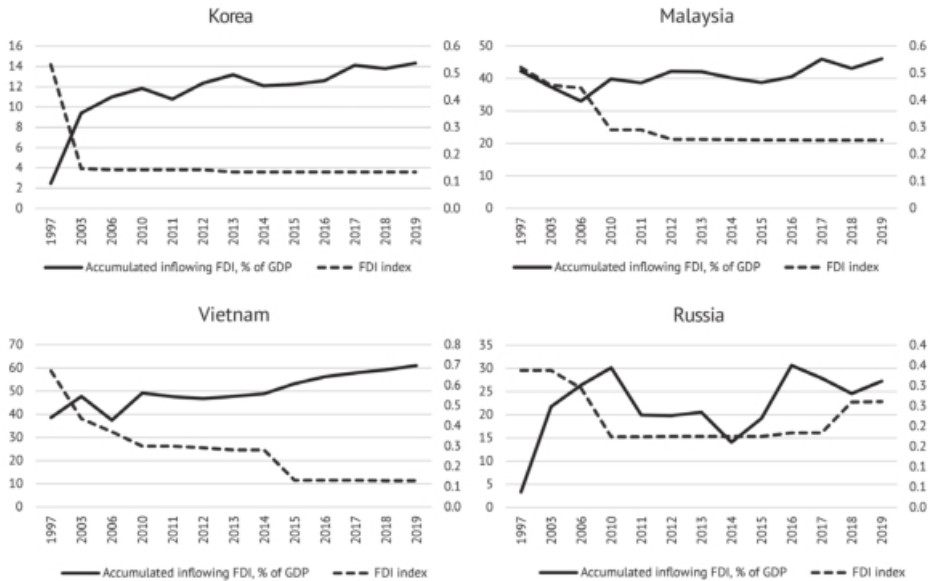
As stated in a number of studies, though institutional factors are generally crucial to countries’ attractiveness in terms of FDI, some institutional factors are more important than others.² It is common practice to discuss the importance of such institutions as a level of tax burden, corrupt practices and uncertainty related to red-tape and political instability.³ However, it seems that under conditions in which Russia found itself in the 2010s (low economic growth rates, lack of progress in liberalization of the FDI regulation and complication of foreign policy relations with the West since 2014) the factor related to the nature of relations between the government and the business became increasingly important.⁴ If in the 1990s, there were two diametrically-opposed types of cooperation between

1 It is difficult to say whether it is the key factor determining the lack of FDI accumulation in Russia after 2010. It seems that an equally important factor is a sudden decrease in Russian economic growth rates as compared with the 2000s, as well as chilling relations between Russia and western countries since 2014 and the introduction of sanctions and countersanctions.

2 *Daude C., & Stein E.* The quality of institutions and foreign direct investment // *Economics & Politics*, 19(3), 2007. P. 317–344.

3 *Mauro P.* Corruption and growth // *Quarterly Journal of Economics* 110, 681–712. 1995; *Wei S.* Why is corruption so much more taxing than tax? // *Arbitrarinesskills*. NBER Working Paper 6255. 1997; *Wei S.J.* How taxing is corruption on international investors? // *Review of economics and statistics*, 82(1), 1–11. 2000.

4 This is in line in particular with the outputs of the “Determinants of FDI in transition economies: The case of CIS countries” study by *Shukurov S.* (*Journal of International and Global Economic Studies*, 9(1), 75–94. 2016), where it is underlined that the size of the market and access to mineral resources were the key determinants of the FDI influx to CIS countries in 1995–2010, while the negative macroenvironment (the rate of inflation and high tax burden) reduced their investment attractiveness.



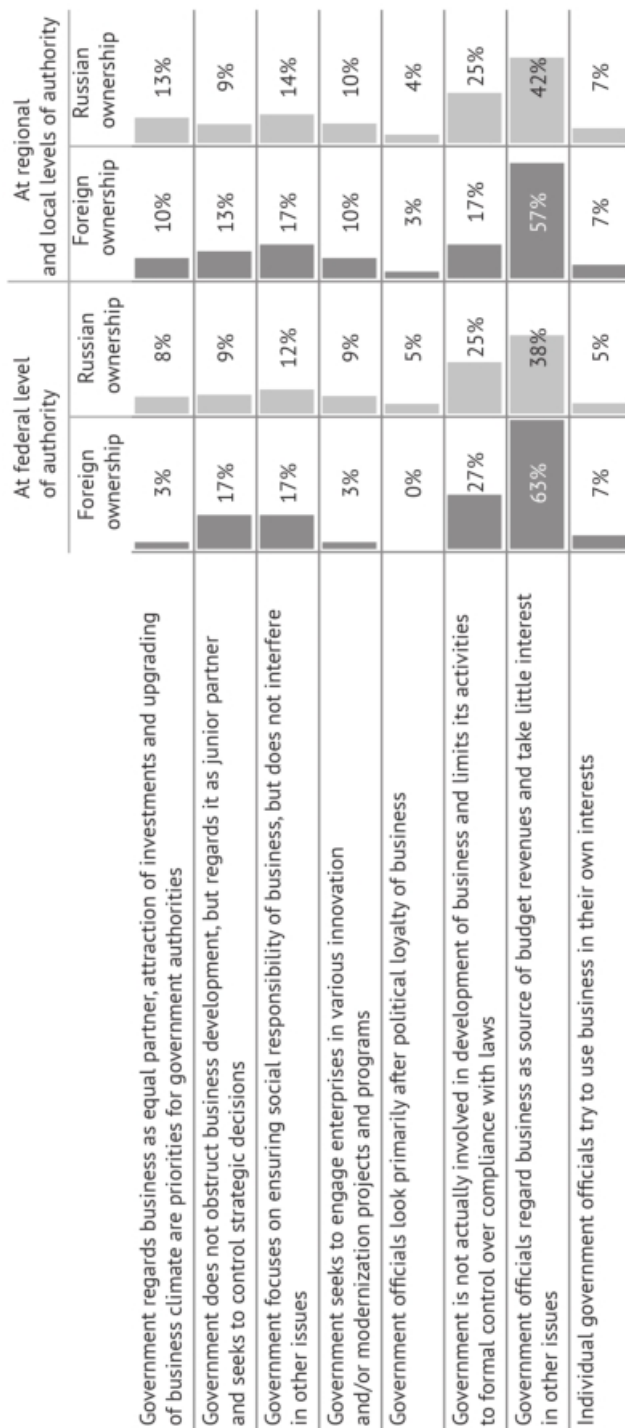
Note. The index takes into account 4 types of FDI restrictions: restrictions on the share of ownership, screening, restrictions in respect of the key personnel (CEO), other restrictions (repatriation of capital, land tenure and other). Based on assessment, each restriction is assigned the weight; the overall country index is the weighted average of sectors' indices.

Fig. 13. The accumulated volume of inflowing FDI, % of GDP (left-hand axis) and the FDI Regulatory Restrictiveness Index (right-hand axis) in picked up countries, 1997–2019

Source: own analysis, data of the OECD FDI Regulatory Restrictiveness Index.

the government and business: that is, distancing from the state, on one side, and, on the contrary, close cooperation with the state, on the other side, in the 2000s these relations promoted to a new level where they became more open and the role of business amalgamations as mediators of the relations between the business and the government increased.

At first sight, the nature of cooperation of foreign and Russian companies with the government at the federal, regional and local levels does not differ considerably (*Fig. 14*). According to the outputs of the “Factors and Obstacles Preventing Growth in Labor Efficiency at Russian Enterprises of the Main Non-Oil and Gas Industries” study prepared by the NRU HSE in 2019, in manufacturing industries both Russian and foreign companies referred most frequently in their answers to the model where government officials regarded business as a source of budget revenues and had less interest in other issues. The other most frequently referred to model in answers of Russian and foreign companies was the one where the government did not actually interfere in business development having limited its activities to formal control over compliance of the business with the laws.



Note. The sample includes the manufacturing sector's enterprises, N=342.

Fig. 14. Distribution of the manufacturing sector's companies with foreign and Russian ownership by the type of relations with the government at the federal, regional and local levels of authority

Source: own calculations, data of the "Factors and Obstacles Preventing Growth in Main Non-Oil and Gas Industries" NRU HSE project, 2019.

		Foreign ownership	Russian ownership	
Innovations, technologies, equipment	Financial support of R&D	27%	17%	ME= 0.138*
	Financial support of projects aimed at modernization of machinery and equipment fleet	27%	46%	ME= -0.262**
	Easing of access to foreign technologies and/or equipment	13%	10%	
	Motivation of introduction by enterprises of modern digital technologies	13%	18%	
	Formation of off-the-shelf technologies register accessible to public	7%	14%	
Education	Financial support of training, retraining and/or advance training of personnel	47%	40%	
	Promotion of accessibility of training, retraining and/or advance training services	17%	18%	
	Establishment of mechanism limiting employee's right to change job after undergoing training	7%	12%	
Taxes	Provision of tax incentives for introduction of new technologies and/or equipment	50%	35%	
	Introduction of tax incentives for training, retraining and/or advance training	40%	17%	ME= 0.160*
	Overall reduction in tax burden on enterprises	67%	65%	
Loans	Interest rate cuts on loans	60%	56%	
	Promotion of availability of long-term lending	37%	30%	
	Easing of requirements to surety on loans	37%	25%	
Engineering, consulting	Promotion of availability of engineering services, development of relevant market	23%	12%	
	Promotion of availability of consulting services	17%	13%	
	Information and consulting support	13%	16%	
Sharing of best practices	Formation of generally accessible database of know-how, best practices and solutions	23%	24%	
	Promotion of networking between enterprises to facilitate exchange of best practices and search for best solutions	20%	18%	
Administrative barriers	Removal of restrictions complicating redundancy procedures	13%	11%	
	Reduction of administrative barriers at federal level	23%	9%	ME= 0.173**
	Reduction of administrative barrier at regional and local levels	17%	9%	
Nothing	We Do Not Need state support to enhance labor efficiency	10%	7%	

Note. ME is the marginal effect based on probit regression results; the sample includes manufacturing industry enterprises, N=342.

Fig. 15. Requests by companies with foreign and Russian ownership for government support

Source: own calculations, data of the “Factors and Obstacles Preventing Growth in Labor Efficiency at Russian Enterprises in Main Non-Oil and Gas Industries” NRU HSE project, 2019.

However, the outputs of econometric modeling¹ show that the only statistically significant difference in the shares of Russian and foreign companies which entered in relations with the government is true for the model where the government regards business only as a source of budget revenues: this model is referred to 20.5% more often by foreign companies than Russian ones.

It appears that the outputs suggesting the government's "indifference" to foreign investments and perception thereof as a source of tax revenues make it feasible to determine on the top of that the inertia of foreign companies' activities in Russia in the 2010s. As per the previous outputs, a predictable FDI policy was the main attractive institutional factor out of all institutions, while the government's perception of foreign business as a "milk cow" did not contribute to the formation of a favorable FDI environment.

There are much more differences between foreign and Russian companies in Russia's manufacturing industries as regards their request for government functions (*Fig. 15*).

The outputs of econometric modeling² show that all other things being equal companies with FDI make 26.2% less requests for financing modernization of the machinery and equipment fleet as compared with Russian companies, but make more requests for R&D support (13.8% more), tax incentives for advance training of personnel (16%) and reduction of administrative barriers at the federal level (17.3%). Such outputs underline time and again a higher orientation of companies with foreign capital on innovations and their greater request for human resources as compared with Russian companies.

6.4.4. Expected trajectories of changes in government regulation of foreign direct investments in Russia

It seems that if the country has a receptive and growing market and/or mineral resources (as it was in Russia in the 2000s), foreign investors will come themselves and care less than in any other case about whether the FDI regulation is going to be eased. However, if attractive market factors lose their appeal (as it was in Russia in the 2010s) and no easing of the FDI regulation takes place, foreign investors will be less interested to come to the country. The role of chemistry between the business and the government, as well as privileges and incentives which the government can offer foreign investors is on the rise. It makes sense with taking into account negative effects on investment attractiveness of the Russian economy after the "Ukrainian crisis" and subsequent spate of sanctions and countersanctions which affected investment attractiveness not only of individual sectors against which the sanctions were introduced, but also the Russian economy as a whole.

1 Probit regression-based evaluation where a dependent variable is the relationship model, explaining variables are the form of business ownership, categorical variables are the age and size of business and dummy variables indicate companies' sectorial and regional affiliation.

2 Probit regression-based evaluation where a dependent variable is a company's request for government functions, explaining variables are the form of business ownership, categorical variables are the age and size of business and dummy variables indicate companies' sectorial and regional affiliation.

As seen from the experience of attracting FDI and TNC to Russia in the 2000s, they both can become the source of new technologies, competences and best practices for host economies. In the past 20 years, the examples of transformation of Russian industries, such as the woodworking industry, the food industry and the chemical industry are evidence of positive effects of foreign investments¹; specifically, the government adopted a technocratic approach and supported largely business initiatives.²

However, all examples of the 2000s were related to technological catch-up. Foreign investments are an important channel for receiving modern technologies, but as applied to industries close to technological frontiers, foreign investments are characterized by a more limited potential. However, the potential of foreign capital's positive effect on the Russian economy is far from being exhausted. In particular, it corresponds to the specifics of request of companies with foreign capital for government support. At present, the interests of TNC in the Russian economy do not fit their model of networking with the government. TNC are interested in building up intangible assets, that is, investments in R&D and training of the personnel.

The state motivation of international companies to come to Russia should be aimed primarily at the world's technological leaders and this goal can be achieved to a great extent through the development of technological regulation. For expansion of positive spillover effects from TNC activities in the Russian economy, it is also important to form the regulation in such a way that it will reduce the risks of TNC opportunistic (rent-seeking) behavior by means of the system of formal and informal institutions.

As businesses' investment activities are still rather low in Russia, there is evident stagnation in the innovation sector; efforts to make up for a lack of FDI by means of Russian investments and create own chains without reference to science and technology progress cannot reproduce completely advantages from the presence of foreign investors, that is, access to advanced technologies, more flexible terms of integration into global value chains and training opportunities. So, it is important to take further measures and use new forms for attracting foreign investors, both to emerging high-potential sectors of the Russian economy and technologically backward industries oriented not only on the domestic market, but also exports. For this reason, the Russian policy of attracting FDI and regulating TNC activities should ensure a switchover:

- from individual policies of motivation of foreign and Russian investments to a single nondiscriminatory policy which does not suggest any choice between Russian and foreign companies;

1 A positive spillover effect from foreign investments became visible in higher value-added, new product line output, introduction of modern technologies and expansion of exports geography.

2 *Simachev Yu., Fedyunina A., Kuzyk M., Daniltsev A., Glazatova M., Averyanova Yu.* Russia in Global Production // The 21st April International Scientific Conference on Challenges Facing the Economic and Social Development. Moscow: The NRU HSE Publishers, 2020. pp. 1–147; *Fedyunina A., Simachev Yu., Kuzyk M., Averyanova Yu.* The Sectorial Specifics of the Integration of the Russian Economy in Global Value Chains and Effects of the Structural Policy, 2020, 47 (3). pp. 106–127.

- from the policy of regulation of individual fields of TNC activities in Russia to formation of strategically important sectors with special conditions for foreign investors (retail frontage, expansion of regional integration, digitalization of production, cultivation of digital skills, R&D) and motivation of strategically-oriented foreign investments (against FDI oriented at market growth and mineral resources) amid growing competition between countries for FDI;
 - from support of TNC large priority projects in manufacturing industries to support of mid-sized projects of multi-site operations, including liberalization of FDI entry into dynamically growing industries and short-term cycle sectors;
 - from the policy of attracting TNC capital assets to that of attracting intangible assets, that is, platforms, R&D and the services sector supporting TNC activities.
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