Chapter 9
The Role of Inward FDI for Economic Growth at the Time of Downturn:
The Case of Russia

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ABSTRACT

The chapter explores FDI trends and patterns in Russia. FDI global framework includes multiple stakeholders with diverse interests, expectations, and political attitudes toward foreign investment. Conceptual RDI framework in the chapter is supported by examining Russia's FDI profile, patterns, and dynamics across major economic sectors and regions. Russia's performance in the Global Competitiveness Report 2015-2016 is used to analyze the nation's FDI attractiveness compared to other countries. Further discussion focuses on Russia's macro-economic structure in the FDI context that includes sectorial and regional aspects. Specifically, the chapter concentrates on examining FDI in the Greater Moscow and Greater St. Petersburg, Russia's leading economic regions. These regions receive significant FDI inflows and make substantial contribution to the nation's economic output and trade. The chapter culminates in exploring FDI dynamics in Russia under the current economic crisis and strategies for survival and revival on the regional, sectorial, and company level.

INTRODUCTION[1]

Foreign direct investments (FDI), their trends and dynamics are integral to a nation's political-economic system. FDI also affect this system in numerous ways. In a broad sense, the political-economic system of a nation is an amalgam of interacting interdependable economic, legal, and political components and forces. Within the frameworks of specific political-economic formations, such as capitalism, socialism

DOI: 10.4018/978-1-5225-2345-1.ch009

or communism, a nation's predominant political and popular cultural attitudes toward FDI vary. They range from an all-encompassing support under the free market system to fundamentally rejecting the idea altogether on ideological grounds or because of self-imposed isolation under the command economy of a host country.[2]

The dissolution of the USSR in the early 1990s and broad retreat of communism have made the attitude of an outright rejection of FDI as a tool for domestic socio-economic development less appealing across the world. To date, perhaps only N. Korea and – to a lesser extent - Cuba remain the last disciples of this type of political-economic platform, with the latter showing subtle signs of change lately. On the opposite side of the spectrum, the free market "Anglo-Saxon" model of laissez-faire capitalism has its own constraints. It appears, in its pure form, to have limited national appeal and acceptance of FDI on social, environmental, ideological, or cultural grounds. Numerous countries in Europe, Asia or South/ Central America, where governments play a significant role, may serve as a case in point.

Over the past few decades, many nations have been adopting pragmatic nationalism, driven by a selective approach when facilitating FDI inflows to the benefit of their domestic industries, regions, social groups, or top priority political and personal interests. This selective attitude toward FDI translates into such forms as national industrial policy, agricultural policy, or innovation policy and often borders with political-economic protectionism. Realizing the benefits of incoming FDI for domestic socio-economic development and growth, pragmatic nationalist governments pursue policies designed to maximize associated benefits and minimize costs. According to this view, FDI should be allowed only if the benefits in their entirety outweigh the costs (Hill & Hult, 2017).

On a broader political-economic scale, FDI-related economic drivers and dynamics are often closely intertwined with foreign policy and domestic politics. Moreover, it is not uncommon for politics to trump economics in FDI-related decisions, especially in nations characterized by centralized political systems and a dominant government role in domestic economies stemming from limited accountability in governance.[3] To complicate the picture, FDI involves stakeholders who often have diverse interests and expectations and whose roles and power in the decision making process differ. For instance, a host country's government, in its effort to attract FDI, may be driven by the need for job creation or a technology transfer in key segments of the national economy. However, a foreign investor's primary priority may lie in a high return on investment with a minimal infusion of technological know-how. Major groups of stakeholders in the FDI process generally include: home/host countries, represented by their respective government institutions and agencies, private companies, national and international interest groups with business developmental, social, environmental or other type of agenda, international institutions, such as the IMF or World Bank, regional banks, such as the European Bank for Reconstruction and Development, and national banks, such as the Russia-based Bank for Development and Foreign Economic Affairs [Vnesheconombank]. These stakeholders act as FDI sources, intermediaries, regulators, lobbyists, or the end recipients of FDI in the form of private entities and government agencies on a national, regional, or municipal level. Each institutional part of the above systems makes decisions on its FDI-related strategic mission, goals benefits, costs and associated risks.

In the eye of a stakeholder, FDIs, an alternative form of international business, are often contrasted in their attractiveness in the benefit-cost-risk context with other alternatives, such as foreign portfolio investments, trade (exporting/importing) and foreign licensing.

From the standpoint of the host country (FDI recipient), the main benefits and expectations associated with attracting FDI inflows lie in the: -resource transfer effects (technology, know-how, financial