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Foreign Direct Investment in Russia: How Can It Be Made More Effective for the Country?

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ABSTRACT

The subject of this study is the financial aspects of international industrial cooperation. **The aim** of the work is to identify the motivations of foreign companies to engage in production activities in the Russian Federation and develop proposals to improve its economic efficiency. **The research methodology** includes the use of theories of international economic cooperation, as well as empirical-statistical and qualitative analysis. **The study found** that countries with large and solvent markets, such as China and Russia, are attractive to foreign direct investment (FDI). Multinational enterprises (MNEs) operating in these countries often use more advanced production technologies than they would in other countries. As a result, the rate and amount of profit from producing goods in these countries is typically higher than exporting the same goods from the manufacturing country. The paper **argues** that these circumstances may override MNEs' desire to maintain control over imported technologies if the authorities of the FDI host country insist on partnership with a local company in the enterprise established by the MNE. A condition of such partnership should be the obligation of the MNE to transfer its technology used in production to the local company, with the right for the latter to freely use and further develop it. Although such a requirement did not exist for foreign companies in the Russian Federation previously, the study suggests that foreign MNEs are likely to consider this exchange acceptable and beneficial. Establishing a condition for foreign MNEs to carry out production activities in the Russian Federation in partnership with local businesses would allow Russian companies to more quickly adopt new technologies. This would contribute to enhancing the efficiency of the Russian economy. Additionally, society would benefit from higher-quality products that are created with the participation of local capital, meeting the demands of consumers.

Keywords: joint venture; technology transfer; economic development; profit maximization; compromise between MNEs and FDI host country

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INTRODUCTION

The refusal of many foreign companies to supply goods and services to the Russian Federation, as well as the curtailment of their production activities in Russia with the termination in most cases of the right to use relevant technologies, created serious imbalances in supply and demand within the Russian Federation after 2022. This was not only due to a lack of finished goods produced by Western companies, but also because of disruptions in international supply chains for raw materials, components and materials used in the production of various items within the country. These issues immediately had a negative effect on the inflation rate in the country [1] and on the exchange rate of the national currency.

Currently, the general approach of Russian business and authorities is that they are not opposed to the return of Western industrial corporations, if this will contribute to the country's technological development and will not harm Russian enterprises that have managed to occupy vacant market niches during the sanctions period. Without disputing the correctness of this view, the question nevertheless arises: on what terms will Western companies operate? As before, will these be mainly 100% subsidiaries of foreign multinational enterprises (MNEs), or will they be required to have a Russian partner in the capital with the transfer of technologies brought-in by foreign companies with the right to further develop them on their own?

The first option was effective for foreign companies, which were able to quickly occupy market segments where Russian companies were technologically behind, financially weaker, and less skilled at marketing their products. This led to the downfall and collapse of many Russian businesses, which proved uncompetitive in comparison to foreign MNEs and were unable to develop their own production. Joint ventures were formed, but there were no obligations for foreign companies to transfer relevant technology to their Russian partners.

The purpose of the study is to find a balance between the interests of the state, foreign corporations and Russian companies, if foreign MNEs wish to establish production facilities in the Russian Federation, in order to increase the efficiency of the Russian economy. The main focus of the work is on analyzing the situation in non-resource industries and, above all, in the manufacturing industry of Russia.

THE THEORETICAL FOUNDATIONS OF FOREIGN DIRECT INVESTMENT (FDI)

Theoretical ideas about importance of locating production facilities outside national borders for the economy of a country from which capital is exported and for a country receiving FDI have changed, as the scale of establishment of foreign industrial facilities has increased, and the authorities have recognized their significance for the national economy. Gradually, attention of scientists began to be attracted not only to intercountry trade and investment relationships, but also to the activities of MNEs, which were the initiators of establishing production facilities in countries whose jurisdiction differed from the location of their headquarters.

J. Dunning was the first to study the impact of FDI on their host country using the example of investments by American companies in the UK manufacturing industry, that, as he found out [2], contributed to the growth of local industry and helped the United States to look for new markets during the economic recovery of Western Europe in the 50s of the XX century. In 1980 Dunning proposed his concept of the “eclectic paradigm”

[3], which still serves as a guide for economists to study the motivation of industrial corporations for international expansion. This motivation is determined by three key factors:

- competitive advantages in technology and product quality compared to analogues of companies in the host country (“ownership advantage”);
- opportunities to create added value due to availability of required resources and more favorable business conditions in the host country (“location advantage”);
- the ability of in-house intermediate production in the host country to build a vertically integrated global value chain within the corporation (the “internalization advantage”).

This concept was largely based on the provisions of S. Hymer’s 1960 doctoral dissertation [4], which concluded that firms operate in a foreign country in order to fully appropriate income from certain abilities they possess. They choose this type of activity because market imperfections prevent profit maximization unless the firm exercises control over its operations. A certain amount of direct investment in a foreign enterprise is required to acquire ownership and gain control. The significance of S. Hymer’s work is also determined by the fact that he was the first to move away from the postulates of neoclassical theory. At that time, this theory believed that a company’s foreign activity was carried out only through trade and was determined by dynamics of exchange rates and differences in interest rates on loans in different countries.

R. Vernon’s idea [5] about the preferences of MNEs to produce goods domestically, and to export or import, depending on the stage of its life cycle, proved to be very viable. The practice of American corporations, that was then confirmed by MNEs from other countries of “Triad” (the USA, Western Europe and Japan), indicates that new products are developed and manufactured in the country of their headquarters and at this initial stage it is expedient only to export them. As the technology stabilizes, manufacturing is transferred to foreign branches of MNEs to close

demand in the respective countries, and only with standardization of the technology and loss of novelty of the product, when the increased added value associated with these factors decreased or disappeared, its production is transferred to other companies, and the demand of the domestic market for MNEs is provided by the import of the product.

A. Ragman and A. Verbeke prove [6] that international expansion through wholly owned MNE subsidiaries occurs when the benefits of production within a vertically integrated MNE structure (in terms of R&D and production, as well as the exploitation and expansion of company-specific advantages) outweigh the advantages associated with alternative modes of entry into other countries' markets (export, licensing or joint ventures). At the same time, MNEs arbitrage the benefits of internalization between different countries hosting FDI. The existing institutional and cultural differences with the country exporting capital lead MNEs, as pointed out by J. Hillemann and M. Gestrin [7], to additional costs, the need to compensate for which is another argument in favor of owning foreign production and controlling their advantages.

A. Ragman, A. Verbeke and K.T.K. Nguyen [8, p. 759] draw attention to the fact that "MNE's existence is not caused by monopolistic advantages leading to entry barriers and consumer exploitation, but by its efficiency properties, i.e., its capacity to reduce transaction costs when replacing an inefficient or non-feasible arm's length transaction in the market ... with an internal transaction, inside the firm, especially in the context of transferring intermediate (mostly knowledge-based) output across borders".

Considering the expediency of FDI in the framework of intercountry relations, K. Kojima believes [9, p. 6] that MNE FDI in new market economies should play the role of a "tutor". In other words, the main role of FDI is to transfer technology through workforce training, management and marketing from developed industrial countries to developing countries in order to transfer an "superior production

function" in order to replace an inferior one in the host country. In his opinion, FDI will gradually have a positive impact on the target and related industries in the host country and make it possible for local capital to create competitive firms, ultimately improving the production function of the entire industry in question and its competitiveness in international markets. When the process is completed, it will be possible to say, he believes, that the new technology has indeed been transferred and installed in the host country.

These conclusions of K. Kojima are somewhat inconsistent with theoretical ideas about the role of developing countries receiving FDI in the international division of labor and seem idealistic in terms of the goal of equalizing the level of their technological development with those of the countries exporting capital. For FDI host country, it is certainly important to fill the market with goods produced domestically (which is often more beneficial than importing them), increase employment through the people working at enterprises established by foreign investors, improve their skills, receive additional taxes (especially in light of recently agreed global minimum corporate taxes on MNE activities in foreign jurisdictions), and other things. With that, "location advantages" and preferences of MNEs may change, and their activities in a given country may become more unprofitable or less interesting for other reasons, leading to their closure. Then, all the above benefits for the host country disappear. When a MNE manufacturing unit is sold to a local business, the technologies used in the production are not always sold as well. Besides, supplies of key materials and components, without which the final product loses its properties, are often limited, as happened, for example, in the Russian Federation after 2022.

In this regard, it should be noted that the key elements of MNE industrial expansion are their knowledge and skills, which allow them to develop unique products. An MNE can establish a manufacturing unit in another country to reduce costs and enter new markets, but they do not have the goal of transferring technology

to local companies. Instead, such corporations generate profits through the use of their technology. Moreover, Western experts, as can be seen from the above, understand the transfer of technologies as their use by foreign subsidiaries of MNEs, and not the transfer of such knowledge to the FDI host country, recognizing such transfer of technologies as merely “indirect.” [8, p. 756].

Thus, it can be stated that industrialized countries MNEs, in principle, have no commercial interest in transferring their knowledge to the countries in which they conduct their production activities, since as a result, they may lose their competitive advantages and part of the profits for which MNEs place their manufacturing facilities around the world. MNE can voluntarily sell or transfer only less modern technologies, provided that the corporation has more progressive and effective solutions. But this does not always happen, given that, as noted above, the creation of its own production unit in another country occurs when the technology is already standardized, while before that, only the export of finished products from the MNE’s home region is possible, i.e. the use of even not the most advanced technology is a source of profit generation by its foreign branch.

As a result, it becomes obvious: firstly, the unstable nature of MNEs’ foreign branches activity; secondly, local personnel are allowed to master only the rules for using technologies used in production of these branches; thirdly, technologies themselves are not transferred by MNEs voluntarily to the host country; fourthly, those technologies used by foreign branches are not the most advanced; and fifthly, MNEs do not have motivation to sell even these technologies voluntarily.

Therefore, it seems a great mistake to hope that a FDI hosting country will receive the latest technologies and freely use them at its discretion to raise the level of its industrial development in connection with the functioning of manufacturing facilities owned by foreign MNEs in the country. This narrative only works to create a general impression of the usefulness of FDI for the host country and to create

attractive operating conditions for MNEs, but it is not voluntarily implemented in practice by such corporations. Moreover, 100% ownership of foreign production branches does not oblige MNEs to share with local authorities and companies the technologies they use that are not the most up-to-date, but only allows them to use the results of their application.

INCREASING PROFITS OR OWNING TECHNOLOGY: WHAT IS MORE IMPORTANT IN FDI FOR MNEs?

FDI may be of interest to the host country in solving tactical tasks of filling the domestic market with high-quality consumer and investment goods. However, a MNE may, driven by its own priorities, unexpectedly close its enterprise. In this case, even if the MNE leaves its equipment, the technologies that form the basis of the added value created by it, are not usually sold along with the machinery. The supply of raw materials and components required to ensure proper quality of the finished product is also often limited. The use of MNE brands that generate product recognition is prohibited. Therefore, without local companies obtaining and mastering technologies related to MNE products, FDI is strategically useless, since it not only “kills” local competitors by overflowing demand to the products of MNE branches, but also leaves few financial opportunities for local companies that remain “alive” to create competitive goods and organize their large-scale production.

In this context, it is expedient to consider the ratio between J. Dunning’s “ownership advantage”, which later became known as the firm’s specific advantage, and the “location advantage” regarding the specific advantages of the country (SAC) receiving FDI, which then extended to the advantages of the country of origin of MNEs. From the literature review on this issue conducted by H. Zhang [10], it follows that the main scientific discourse on the topic is complementary to specific advantages of capital exporting countries, while the SAC of FDI host countries are taken for granted that means these countries should not only hope for their

opportunities to be taken advantage of but also compete for FDI offering them the best possible conditions.

Supplementing the argument in favor of the backwardness of not the most developed countries, S.K. Baumik, N. Driffield and I. Zhu [11] believe that if and when companies in these countries become MNEs, this happens solely due to scaling operations at the international level, while for MNEs in the most mature economies global activity is the result of leading positions in technology. At the same time, they acknowledge that some MNEs in countries with economies in transition have been able to break this paradigm and have not only caught up with, but also overtaken their competitors in terms of technological excellence.

Considering this issue taking into account the above circumstances, R. Vernon's life cycle theory, K. Kojima's concept of "assistance" by MNEs of developed countries to increase the competitiveness of catching-up countries through FDI, as well as the "indirect" nature of the transfer by MNEs of their technologies to local companies by A. Ragman, A. Verbeke and K.T.K. Nguyen, it can be concluded that the perception of FDI by the host country should not be based on declarations of its usefulness actively promoted at various levels (which actually means maximizing the profits of global MNEs), but they rather should objectively assess the interest in FDI from the point of view of the country's achievement of its own goals with their help and establish appropriate terms for the functioning of MNE branches in the country.

Whether MNEs agree to legally transfer the technologies used in production of goods to local companies in the FDI host country largely depends on the industrial policy of that country. If the policy focuses on supporting market competition, the free movement of capital, and openness to foreign trade, then, given the technological imperfections and financial weaknesses of local enterprises, which operated under completely different conditions prior to the arrival of MNEs and the removal of import restrictions, it is difficult to expect local enterprises to be able to compete successfully

with MNEs. If free competition and an open economy are combined with measures to protect local enterprises that need a time and resources to adapt to new conditions, primarily in terms of mastering modern technologies, updating their production equipment and improving the skills of their staff, then MNEs may have the motivation to be less selfish in providing local companies with access to brought-in technologies used in the country, the market of which is promising for selling their goods.

It is necessary to take into account that such readiness of MNEs may arise due to several factors. Firstly, they may not be using their most advanced technologies in their foreign subsidiaries. Secondly, their aim is to maximize profits for the entire corporation by entering new markets. Thirdly, increased profits are not only achieved through increased sales, but also through more favorable conditions for local production compared to exporting products to the country.

Thus, with the government's approach to the manufacturing activities of foreign companies justified by its strategic interests, MNEs face a dilemma of sharing their technology or missing out on the opportunity to increase their profits. Although MNEs strive to maintain their technological superiority and maximize profits, the likelihood of persuading them to compromise depends on how much the host country is interested to MNEs to improve their financial performance. The specific advantages of a country may, for the sake of profit, prevail over the desire of MNEs to retain ownership of the technology. In this regard, R. Arend [12, p. 5–6, 9] notes that foreign investors in the Russian Federation want to maintain control over profits, marketing, and product quality, while intellectual property rights are systematically considered a lesser problem than property rights, given that 70% of them claim to use well-known, traditional technology in the Russian Federation. On the other hand, the understanding of its specific advantages by the host country, combined with the acceptance of the fact that it is lagging behind in a number of important technologies, can and should

motivate it to establish stricter conditions for FDI in terms of transfer of technologies brought-in by MNEs to local companies in enterprises organized in the country.

Analyzing the state of affairs with FDI in different countries 10 years later, S. Fu, L. Pietrobelli and L. Soit [13, p. 2, 9–10, 17] find that there is no convincing evidence that there is significant positive technology transfer or spillover effects from FDI to local firms from the wholly owned production facilities established by foreign MNEs. In addition, they point out that without proactive local innovation efforts, foreign technologies remain embedded in imported machines and processes, but will never translate into real local technological capabilities, meaning local and foreign innovation efforts must be complementary.

Weighing the priority for foreign investors to increase profits or preserve the rights to their technologies used in the country, it seems reasonable to conclude that in order to maximize financial results MNEs can share their knowledge with local companies if the state obliges them to do so.

THE RUSSIAN EXPERIENCE OF ATTRACTING FDI

The Russian practice of attracting FDI is based on the provisions of the 1999 Law on Foreign Investment,¹ which are based on the ideas of the international division of labor, open markets, global competition and the free flow of capital. In many ways, they repeat the narratives of Western experts (for example, [18]) about the need to provide guarantees to foreign investors, about the FDI host country's the refusal to engage in import substitution, and about technology transfer mainly through the use of foreign-made finished products by local companies.

In the law, they were embodied in granting foreign investors equal rights with Russian companies. The restrictions applied only to foreign investments in organizations of strategic

importance for the country's defense and security. Thus, for other sectors of the Russian economy, this meant the need to compete with world leaders who possessed incomparable financial power and technological superiority. As a result, MNEs predominantly established companies in the Russian Federation in which they owned 100% of shares in some non-prohibited industries, that did not create a basis for the transfer of technologies used in such enterprises to Russian companies operating in the relevant industry, since they were competitors. Herewith, FDI coming to Russia went weakly into the production of high-tech tradable goods [19, p. 83], on the import of which the Russian Federation was highly dependent [20].

Russian buyers of investment and consumer goods made a choice in favor of higher-quality products from foreign enterprises in the Russian Federation or imports instead of domestic ones, as a result of that in a number of Russian industries (mechanical engineering, for example), enterprises gradually lost their competencies and went bankrupt. Many Russian companies that remain afloat occupy unprofitable manufacturing segments where they use outdated technologies if they cannot buy imported equipment. It is important to note that foreign companies often purchase the required materials (for example, packaging) and services (for instance, banking) from other companies established by foreigners in Russia, thereby forming a special sector of foreign economy within the country.

Thus, Russia have got an opportunity only to use the results of application of modern technologies by foreign companies which replaced exports of their products to the Russian Federation with more profitable its manufacturing in the country without transferring its industrial technologies to Russian enterprises for its independent development in the creation of similar goods.

The reason for the demand for foreign technologies is that the share of research and development expenditures in GDP has been stagnating in the Russian Federation over the

¹ URL: <http://pravo.gov.ru/proxy/ips/?docbody=&nd=102060945> (accessed on 09.08.2025).

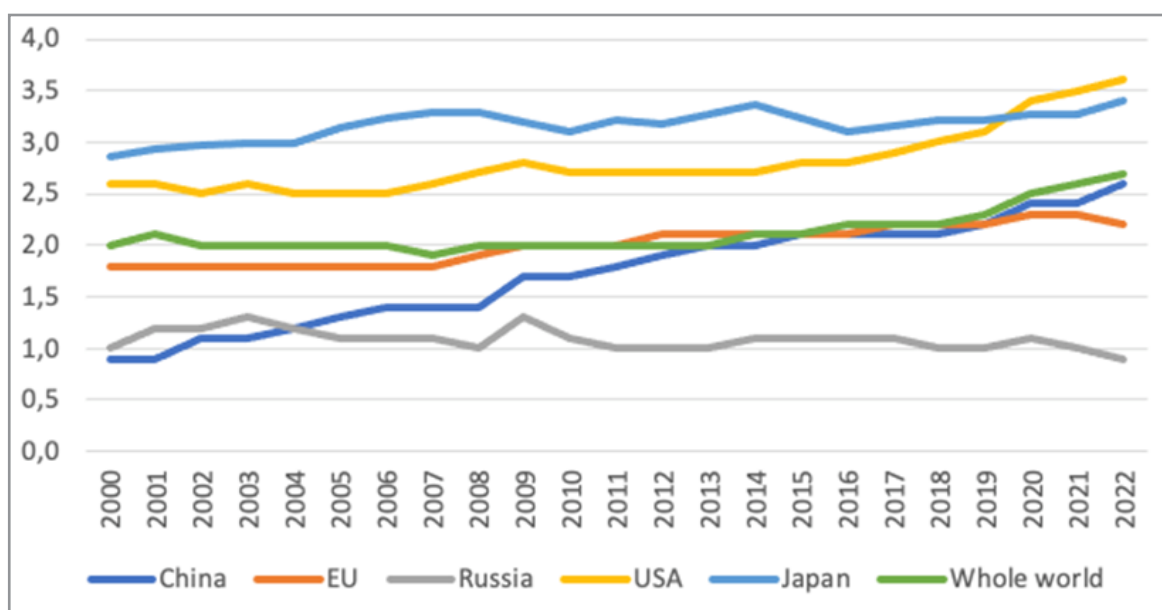


Fig. Расходы на исследования и разработки (% от ВВП) / Research and Development Expenditure (% of GDP)

Source: Compiled by the author based on data from the World Bank. URL: <https://data.worldbank.org/indicator/GB.XPD.RSDV.GD.ZS> (accessed on 31.08.2025).

past twenty years, while in other countries it has been steadily growing (Fig. 1). It is obvious that the bulk of the funds are directed by the Russian government to research in strategically important areas, and Russian enterprises in other industries that manufacture goods in demand on the domestic market, which, however, are inferior in quality to their foreign counterparts, do not invest in raising it to a level competitive with foreign analogues, or do so insufficiently.

As a result, with the total volume of FDI entering the Russian Federation in 1992–2021 amounting to 670 bln US dollars, they contributed to saturation of the market with some goods produced using more advanced technologies than Russian ones, but did not have an impact on the increase in knowledge of domestic enterprises in the relevant fields. During this period, in China, under the rule to foreign investors to establish joint ventures with local companies, the inflow of FDI was an order of magnitude higher: 4,162.9 bln US dollars,² and the technological level of Chinese

companies increased significantly, including in the creation of high-tech products that are already competitive in the global market.

The motivation of foreign companies to direct investments in the Russian economy during the period of their greatest intensity (2006–2014) was determined by the search for resources (46–71% of all FDI in various industries), the desire to discover a new market (21–29%), and the desire to improve their efficiency (8–25%).³ Such data logically follows from the sectoral structure of investments, in which mining accounted for 26% of the total amount of FDI accumulated in the Russian Federation as of 01.01.2022, finance and insurance — 17%, trade — 16%, manufacturing — 18% and other industries — 22% [21, p. 123].

In general, the above figures correspond to the previously mentioned theoretical assumptions about MNEs' desire to use the resources and market of the FDI host country to maximize profits, while investments in manufacturing were largely of no interest. Nevertheless, even with

² Calculated by the author based on the World Bank data "Foreign direct investment, net inflows (BoP, current US\$)". URL: <https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD> (accessed on 09.08.2025).

³ Foreign direct investment in the Russian economy: what to expect after stress? CMACP, December 2014 23 p. (p. 19). URL: http://www.forecast.ru/_ARCHIVE/Presentations/RFTPP/CMASF_4RFTPP.pdf; Foreign Direct Investment in the Russian Economy: What to Expect After Stress? CMAKS, December 2014. 23 p. (in Russ.) (accessed on 09.08.2025).

a relatively small share of FDI in manufacturing, foreign companies that actually left Russia accounted for 35% of revenue in this sector of the country's economy in 2023 [22, p. 205]. Analysis of Rosstat data [23, p. 27] shows that the share of imported machine-building equipment in the gross fixed capital formation in 2016–2020 in the Russian Federation was in the range of 73.7–97.7%, i.e. Russian manufacturers could not meet this demand. For those Russian enterprises that produce machinery and equipment themselves, intermediate consumption of foreign components in the early 2020s was more than 20% [24, p. 60]. As a result, domestic engineering shows, according to the Institute of National Economic Forecasting, the smallest share of domestic value added in the structure of the final product of all Russian industries — 74% [25].

The problems with modern equipment in mechanical engineering hinder the production by Russian companies of modern complex finished goods for consumer and investment purposes. One of the sources of these problems appears to be the ineffective regulation of FDI in terms of determining the form of its implementation in the Russian Federation: except for some strategic sectors of the economy, foreign investors could create enterprises completely controlled by them without the participation of Russian capital. Attempts to localize the production of components (when the goods of Russian manufacturers did not meet foreign quality standards) often ended with foreign investors attracting their global suppliers to the Russian Federation. Alternatively, foreign enterprises in the Russian Federation imported the components they needed or large nodal elements, assembling which in the Russian Federation turned them into finished products. For example, the Ford plant in St. Petersburg imported, as D. Dyker testifies [26, p. 29], 95% of the units and components required for car assembly. At the same time, he points out that combining imported components into a finished product is “the lowest form of cooperation in terms of scope for technology transfer and network-building”.

K. Yudaeva, K. Kozlov, N. Melentyeva and N. Ponomareva [27, p. 31], examining the

situation with FDI in the 1990s, assert that “if a foreign partner does not have sufficient control over the company (more than 90%), then he has no incentive to introduce new technologies and power for effective restructuring of the company”. D. Kotov, in his study of investment decisions of German firms to locate production facilities in the Russian Federation, notes [28, p. 3, 8], that German companies have such valuable competitive advantages and advanced technologies that allow them to successfully enter the Russian market, even if there are local competitors. Herewith, in some industries, such as automotive, mechanical engineering or petrochemistry, the technological gap is huge. Therefore, 79% of German investors choose full or prevailing capital control of a company being created in the Russian Federation, and only 7% organize it in the form of a joint venture. Herewith, the contribution of the Russian JV participant in two thirds of the projects consisted in providing, as shown by a survey of European companies in the Russian Federation in 1999 [12, p. 9], the opportunity to place equipment and in half of the projects in connection with the local market.

Obviously, the Russian Federation's practice of attracting FDI until 2022 proved useful in filling the market with better quality goods than domestic manufacturers could offer. At the same time, it provided foreign companies with the opportunity to make higher profits than when exporting such goods to the Russian Federation. However, the technologies used in enterprises under full control by foreign MNEs proved to be inaccessible for Russian companies. Thus, in terms of its own technological growth in the areas where such enterprises operated, the country did not achieve any effect, which was especially evident starting in 2022, when foreign enterprises began to cease their operations in the Russian Federation.

CONSIDERATIONS FOR IMPROVING THE EFFICIENCY OF INCOMING FDI FOR THE RUSSIAN ECONOMY

It must be admitted that, for the reasons mentioned earlier, it is difficult to hope

for transfer of the most advanced foreign developments. But one can expect appearance of technologies that are absent in the Russian Federation and have become standard on the global market. Foreign companies come to the country with investments in order to generate profits in a larger amount than the financial result from exporting their products. Herewith, they seek to place their FDI in countries where there is a massive, solvent, unmet demand for high-quality goods. If we take the countries of the world with developing or transition economies with a population of more than 70 million people, it turns out that China and the Russian Federation have the highest GDP per capita at current prices (13–14 thousand US dollars),⁴ i.e. they are the most promising for selling their products compared to countries with much less wealth, but a large number of consumers.

When comparing the volume of incoming FDI accumulated in 1992–2021 and GDP in 2024, China and Russia do not differ significantly: the ratio is 4.5 and 3.2 times, respectively.⁵ This shows that the interest of MNEs in FDI in China and Russia is approximately the same and generally proportional to the volume and differentiation of the economies of these countries.

Despite external circumstances, favorable operating conditions (infrastructure, qualified personnel, and relatively low salaries⁶) and a large local market continue to attract foreign companies to establish their production facilities in the Russian Federation. In 2025, 62% of members of the Association of European Businesses in the Russian Federation indicate

that their operations in Russia are important or very important for the global business of its corporations, bearing in mind the large volume of the market and the great potential for its growth, which ensure high financial results.⁷ Head of the American Chamber of Commerce in Russia in 2025 noted that many US companies are ready to invest in expanding production in Russia; the main thing for them is their presence in such a large market.⁸

It should be recognized that if foreign companies produce consumer goods and services on the territory of the country that are better than analogues of local enterprises, then the quality of life of people increases as a result. If such companies produce investment goods using technologies more advanced than those used in the country, then local companies get the opportunity to use materials, components, finished products or equipment produced by a foreign subsidiary of MNE to create higher-end products or increase their productivity. In both cases, this is beneficial for the economies of the countries receiving FDI.

But is the above a reason to create particularly favorable conditions for FDI? This is expedient if the market of the country attracting FDI cannot absorb the volume of products produced by a foreign enterprise and there are many other countries with similar conditions competing for the creation of foreign production unit on their territory. As a rule, these are large countries with low solvent demand or small countries with convenient production conditions and close sales markets.

In the case of a large country with a high solvent demand, the motivation for foreign industrial investors is different. They come to such a country not because special conditions have been created for them, but because they want to play bigger role on the large market, rather than just exporting, and understand that

⁴ Calculated by the author on the database: URL: <https://www.worldometers.info/world-population/population-by-country/> and URL: <https://www.imf.org/external/datamapper/NGDPDPC@WEO/OEMDC/ADVEC/WEOWORLD> (accessed on 05.10.2025).

⁵ Calculated by the author on the World Bank database "Foreign direct investment, net inflows (BoP, current US\$)". URL: <https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD> и URL: <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD> (accessed on 05.10.2025).

⁶ In 2017, the share of labor income in industrial value added in Germany was 65%, in the USA — 48%, and in Russia in 2018 this figure was 37.4% [29, p. 22–23].

⁷ Strategies and prospects of European companies in Russia. Association of European Businesses. 2025. 45 p. (p. 19). URL: https://aebrus.ru/upload/iblock/912/AEB-Survey-results_2025_RUS_FINAL_full.pdf (accessed on 10.06.2025).

⁸ URL: <https://www.rbc.ru/interview/economics/07/03/2025/67c71b989a79470c3285a934> (accessed on 21.03.2025).

they can confidently compete with their more advanced technologies than those available in the market. This allows them to generate higher profit rate compared to other markets and exports, as well as increased amount of profit due to increased sales. If this were not the case, MNEs would not have any motivation to make these investments.

With FDI, the benefits of lower costs, increased sales, and increased profits are on the side of the foreign producer compared to exports to that country. At the same time, enterprises created by foreign businesses threaten the viability of poorly competitive local companies that need time and other conditions to adapt to new circumstances.

Consequently, as a temporary measure to protect local businesses until they can compete on an equal footing with global market leaders who enter the country, it is logical to the state impose on foreign investors, wanting to generate increased profits on these markets, the obligation to organize production in the country in the form of a joint venture with a Russian partner, with transfer to the latter of the technology used in the enterprise being created, with the right to own and use it. This requirement is unlikely to be particularly burdensome for investors, because in most cases this technology is not, generally, the most modern one used by the investor in its global business.

The advantage of the free trade policy and the international movement of capital is that as a result of economic globalization, consumers (retail and corporate) have access to completely new products or goods of higher quality and/or at a lower price, than offered by local manufacturers, through imports or from enterprises established in the country by foreign investors.

This is true to the extent that the relevant imports or activities of such enterprises are not stopped. If this happens, then the advantages of using higher foreign technologies that were applied in manufacturing of such goods disappear, and local enterprises that were not allowed access to these technologies remain at

the same level of development. FDI increases the level of the economy of the host country in connection with the use of products with more modern technologies than those available in the country, but does not increase the level of technological development of local companies that do not have access to such technologies. The elimination of this negativity is the essence of ensuring real, and not formal, as proposed by foreign theorists and practitioners, technology transfer.

In moving in this direction, it is important to establish a rule that foreign companies can only establish production facilities in the Russian Federation in the form of joint ventures with Russian partners. This will require their mandatory access to technologies applied. Countries of origin of MNEs may be different, but they will pursue economic benefits anyway. Additionally, it would be expedient to eliminate competition between Russian regions for FDI by offering foreign companies a “single window” solution to coordinate proposals from individual regions, so that their rivalry does not lead to a significant reduction in their income for the sake of the declared success in attracting FDI.

The above shows that MNEs are interested in producing many goods for the domestic market in the Russian Federation, as well as earning more through FDI than in other countries. Therefore, despite the geopolitical complications, many MNEs continue their activities in the Russian Federation in absence of direct prohibitions from the authorities of their countries of origin. Accordingly, if such bans are lifted, an inflow of foreign investment into permitted industries motivated by increased profits can be expected. Financial incentives for incoming FDI are hardly necessary, since the resources of the Russian state will most likely be used to support priority sectors of the national economy. What foreign investors really need is not financial support, but clear and stable working conditions in a highly profitable market for them.

The proposals made generally follow the concept of “rationing, which is a system of restrictions as an integral part of management”

[29, p. 47], when “control over attracted investments is a sought-after ecosystem tool” [30, p. 198]. Their implementation may contribute to execution of the Decree of the President of the Russian Federation on the economic security strategy⁹ in terms of “ensuring access to foreign technological solutions in the interests of the national economy” (paragraph 18 (4)) to create “economic conditions for the development and implementation of modern technologies, stimulate innovative development, as well as improve the regulatory framework in this area” (paragraph 15 (3)) due to “lag in the development and implementation of new and promising technologies, insufficient qualifications and key competencies of domestic specialists” (paragraph 12 (12)). This approach to incoming FDI is also perceived as reasonable in some other countries that feel technology lagging behind.¹⁰

China’s experience in establishing joint ventures with foreign MNEs on its territory has shown its effectiveness [16], does not contradict international treaties within the WTO [17], and foreign companies accept this order for the sake of generating their profits.^{11, 12}

CONCLUSIONS

After the departure of many MNEs from the Russian Federation, Russian companies in some industries have been able to occupy vacant market niches. However, in many

cases, they have failed to provide products of the same quality as those of the foreign manufacturers that left the country. Thus, this has been beneficial for Russian businesses, but consumers have lost the previous quality of products. No one is prohibiting it, and the state encourages Russian enterprises to develop and implement technological innovations, and success has been achieved in a number of areas. At the same time, if foreign companies want to organize production of their goods in Russia, then development of technologies that are absent in the Russian Federation by enterprises in non-strategic industries within framework of joint ventures with foreign companies would be one of the most effective ways for the Russian Federation to increase its technological level. Considering that interest in the Russian market from foreign manufacturing companies of the West and East remains, clarification of national industrial policy in this area could help the development of Russian companies.

This more rational model of industrial cooperation, compared to production facilities completely controlled by foreign MNEs, can help to more quickly overcome the technological development gap, expand the range of industries in which Russian companies, having mastered technologies brought in by foreign MNEs, could develop more advanced solutions, and, having provided the country with high-quality products, enter the global market with them.

Obviously, these proposals can only be additions to more fundamental measures to increase the level of technological maturity of the Russian economy. The study of these measures goes beyond the scope of this article and may be the subject of further research and analysis, including the sectoral preferences of FDI, the stimulation of increased investment in research and development by state and private companies, the development of a specific mechanism to control incoming FDI, conditions for localizing production, and the impact of new approaches to FDI on options for using unengaged Russian capital.

⁹ URL: <http://www.kremlin.ru/acts/bank/41921> (accessed on 16.10.2025).

¹⁰ After submitting the article to the editorial board of the magazine, Bloomberg reported that due to the lag of European companies behind the global level of technological development in some industries, the EU is considering joint ventures with foreign, in particular, Chinese, manufacturers of in-demand products, as one of the tools for obtaining appropriate technologies. URL: <https://www.bloomberg.com/news/articles/2025-10-14/eu-considers-forced-tech-transfers-for-new-chinese-investments> (accessed on 16.10.2025).

¹¹ China Business Climate Survey Report 2025. The American Chamber of Commerce in China. 2025. 102 p. (26, 87). URL: <https://www.amchamchina.org/wp-content/uploads/2025/01/AmCham-China-BCS-2025.pdf> (accessed on 08.08.2025).

¹² European Business in China. Business Confidence Survey 2025. European Union Chamber of Commerce in China. 2025. 60 p. (p. 19). URL: <https://static.poder360.com.br/2025/05/european-commission-commerce-china-2025.pdf> (accessed on 09.08.2025).

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