



# THE IMPACT OF MIGRATION OF FDI COMPANIES FROM RUSSIA IN THE CONTEXT OF THE RUSSIAN-UKRAINIAN MILITARY CONFLICT

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**Rezumat:** În contextul invaziei rusești, multe companii ISD au decis, în semn de boicot, părăsirea pieței rusești. Acest fenomen de migrare masivă a investițiilor străine directe a avut un impact substanțial asupra macroeconomiei Federației Ruse. În această lucrare ne-am propus analiza efectelor migrației companiilor ISD asupra principalilor indicatori macroeconomici. Principalii indicatori macroeconomici au fost analizați pentru o perioadă de 30 de ani, iar în baza acestor evoluții și a exodului companiilor ISD a fost realizată o previziune a indicatorilor.

**Cuvinte cheie:** război, companii ISD, macroeconomie, Rusia, PIB, rata inflației, export

**Abstract:** In the context of the Russian invasion, many FDI companies decided to leave the Russian market. This phenomenon of massive migration of FDI has had a substantial impact on the macroeconomy of the Russian Federation. In this paper we aimed to analyse the effects of FDI company migration on the main macroeconomic indicators. The main macroeconomic indicators were analyzed for a period of 30 years, and based on these developments and the outflow of FDI companies a forecast of the indicators was made.

**Keywords:** war, FDI companies, macroeconomy, Russia, GDP, inflation rate, export

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## 1. INTRODUCTION

The war is a complex and devastating phenomenon that deeply affects the economies of the countries involved. The impact of war on the economy can be particularly severe, causing major disruptions to financial, industrial, and commercial systems. The war in Ukraine broke out on 24 February 2022, Russia invaded and occupied parts of Ukraine in a major escalation of the Russian-Ukrainian war that began in 2014. To destabilize Russia's military power, governments and businesses in the EU and beyond have taken specific measures in the context of Russia's invasion of Ukraine, enforcing economic sanctions targeting the Russian government, investments made by individuals and entities associated with the Russian government, and individuals and entities considered to be close to the Russian government. These measures are exceptional in nature and scope, severity and speed of implementation and include the following actions:

- Banning the Russian government and Russian companies from the capital markets;
- Ban the listing of shares in Russian state-owned companies and ban the sale of securities to Russian clients;
- Exclusion of selected Russian banks from the SWIFT messaging system;
- Blocking the foreign assets of several sanctioned Russian individuals and entities;
- Banning the supply of financial rating services to Russian companies;
- A ban on transactions with the Central Bank of Russia, the Russian government and certain Russian state-owned enterprises and banks, including trading in Russian sovereign bonds, and a freeze on Central Bank of Russia assets held abroad.

Following these measures, several companies in various industries have decided to reduce their presence in Russia for various reasons, such as reputational and accountability risks, human rights concerns, volatile market conditions and practical issues. These companies come from a variety of sectors such as consumer goods, energy, food, media, technology, travel, and finance, among others. The disinvestment announcements came within days of the first sanctions being imposed. These actions ranged from suspension of new investments (i.e. postponing planned future business while continuing existing operations), downsizing of operations (i.e. restricting certain business activities while keeping others running), partial or full suspension of operations (i.e. temporarily reducing activities while maintaining hypothetical resumption options), to complete withdrawal of operations (i.e. complete cessation of activities and withdrawal from the country). Business decisions appear to have accentuated the political impact of the measures taken in the public sector.

## 2. DEFINING THE RESEARCH PROBLEM

The issues explored in this article come in the face of sanctions imposed on Russia and the wave of massive withdrawals of FDI companies from Russia in response to its invasion of Ukraine.

In this article we analyzed the impact of the migration of FDI companies from Russia on key macroeconomic indicators as a result of the Federation's aggression against Ukraine.

The research hypotheses from which our work started were the following:

1. The sanctions imposed by the EU and the migration of FDI companies have a negative impact on key macroeconomic indicators, leading to an economic downturn;



2. Following the mass migration of foreign companies from the Russian market, domestic investors have adapted by creating replacements for big brands.

More than 1,000 global companies have decided to leave Russia in an unprecedented and historic exodus in the weeks immediately following February 2022 (Jan, 2022). As a result of the decision of migration of FDI companies, Russia's economy is strongly affected, FDI being an important source of financing of an economy (Vasile et al., 2020), especially in the context of globalization, even if the Central Bank of Russia is trying to reduce the severity of the situation. According to a recent study (Sonnenfeld & Tian, 2023), 35% of Russia's GDP and over 12% of the country's workforce were generated by approximately 1000 FDI companies. This massive move by global corporations reflects a significant shift in the economic and geopolitical scene, highlighting the impact of international sanctions and companies' strategic decisions in the context of the conflict in Russia. Developments remain subject to constant updates as events unfold.

### 3. PRESENTING THE RESEARCH FINDINGS

#### 3.1 Russia's economic state before the military conflict began

In order to provide as accurate a picture as possible of Russia's economy before the military conflict began, we have analysed the fluctuations in certain economic indicators (GDP, public debt, exports, imports, inflation and foreign direct investment) over a 30-year period of analysis.

Analyzing the GDP value, we find a fluctuating evolution of the indicator, with periods of significant growth, such as the interval 1990 - 2008, until the economic crisis intervened and with fluctuations starting with 2009. The spectacular increase until 2013 was followed by a drastic decrease, especially starting with 2014 (as a result of the sanctions imposed following the annexation of Crimea). In the last two years, Russia registered a significant economic growth, the GDP reaching over 2 trillion dollars.

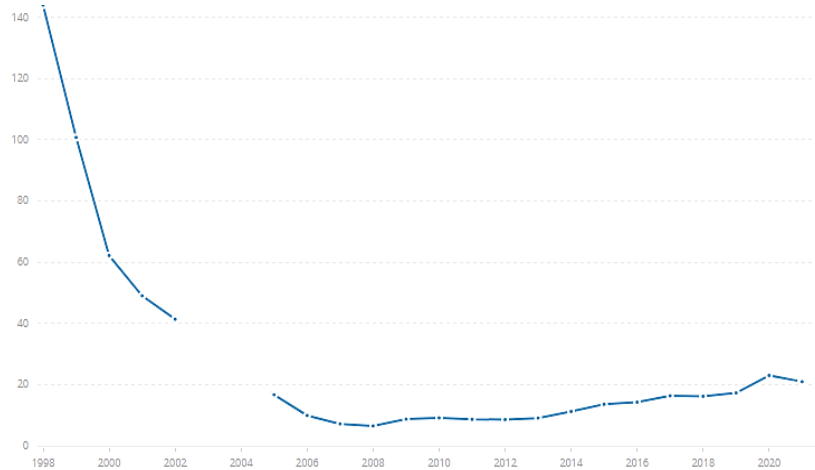
**Figure 1 – GDP of Russian Federation (trillion of USD)**



Source: <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=RU>

Analysing Russia's public debt over time, we note that the 2008 crisis is not strongly felt due to the reserves created during periods of economic stability, when gas and oil prices were very high.

**Figure 2 – Public debt of Russian Federation (% of total GDP)**

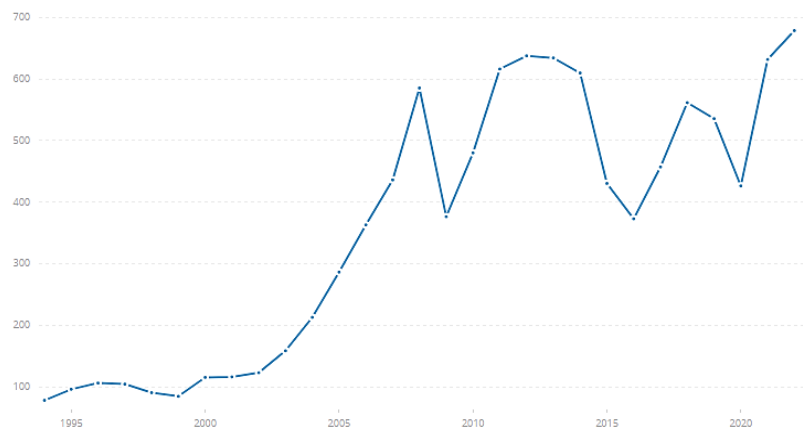


Source:

<https://data.worldbank.org/indicator/GC.DOD.TOTL.GD.ZS?end=2021&locations=RU&start=1998>

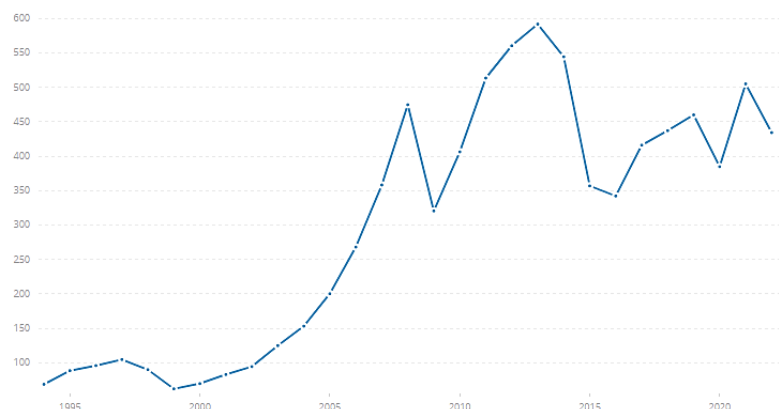
Both exports and imports show a downward trend following the 2008 crisis and the events of 2014, with the main export and import destinations in 2020 being the Netherlands, Germany, the United Kingdom in Europe and China, Turkey and the Republic of Korea in Asia (Statista, 2023).

**Figure no. 3 – Exports of goods and services of Russian Federation (billions of USD)**



Source: <https://data.worldbank.org/indicator/NE.EXP.GNFS.CD?locations=RU>

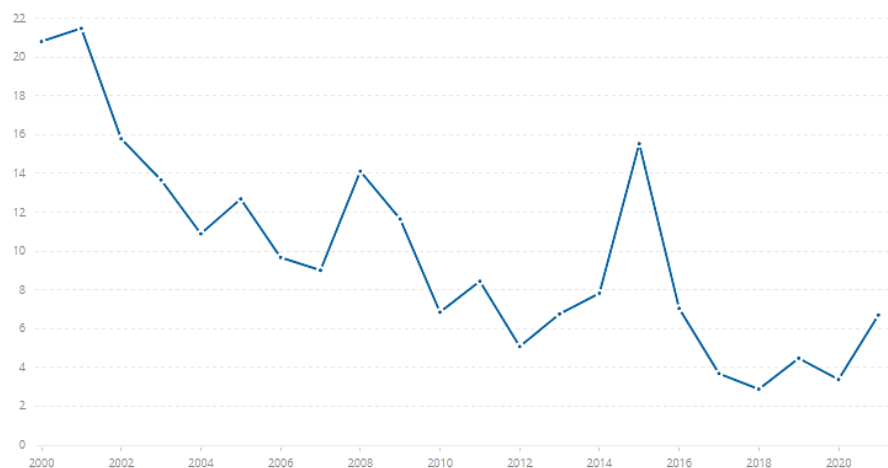
**Figure no. 4 – Imports of goods and services of Russian Federation (billions of USD)**



Source: <https://data.worldbank.org/indicator/NE.IMP.GNFS.CD?locations=RU>

Inflation in Russia, up to 2000, is continuously decreasing, reaching a minimum value in 2012. Inflation increases significantly following the events of 2014.

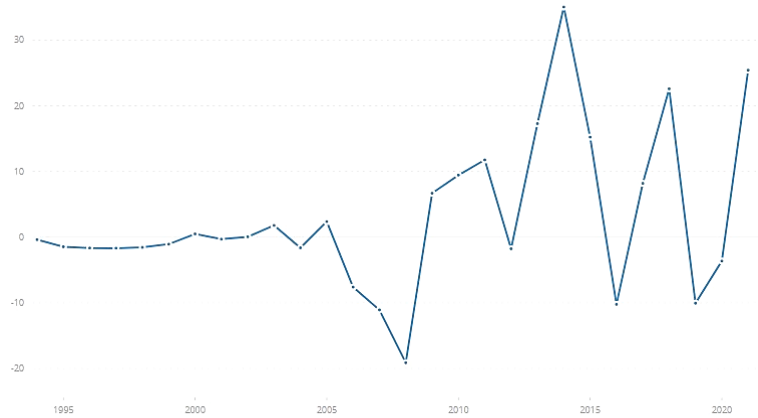
**Figure 5 – Inflation rate of Russian Federation (%)**



Source: <https://data.worldbank.org/indicator/FP.CPI.TOTL.ZG?locations=RU>

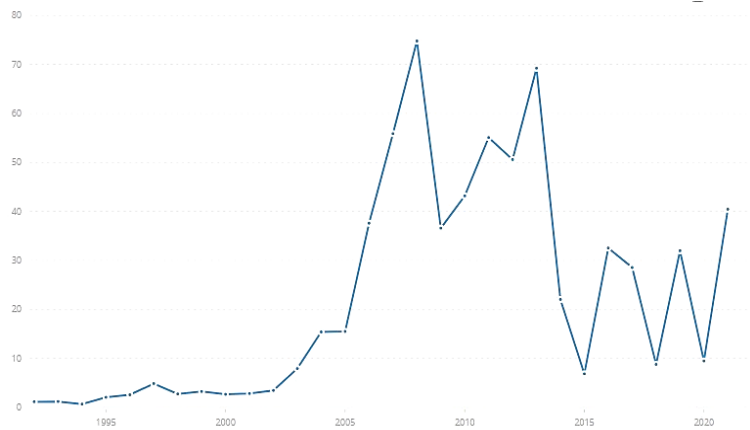
If we look at direct investment, we can say that both inflows, outflows and net investment show multiple fluctuations over time with negative changes in the years following the 2008 crisis, the annexation of Crimea in 2014 and the coronavirus pandemic in 2020.

**Figure 6 - Foreign direct investment – net investment (billions of USD)**



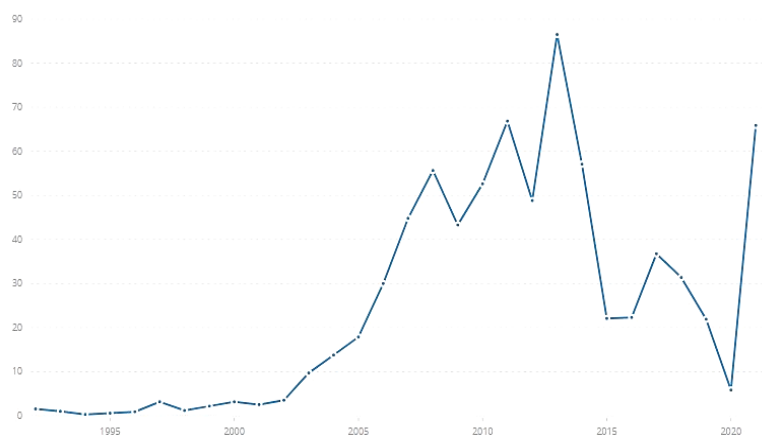
Source: <https://data.worldbank.org/indicator/BN.KLT.DINV.CD?locations=RU>

**Figure 7 - Foreign direct investment – inflows (billions of USD)**



Source: <https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?locations=RU>

**Figure 8 - Foreign direct investment – outflows (billions of USD)**



Source: <https://data.worldbank.org/indicator/BM.KLT.DINV.CD.WD?locations=RU>



### 3.2 Russia's investment climate

Before the military confrontation began, Russia was considered an attractive country for foreign companies, mainly because of the large market for luxury goods companies. One way the Russian government is encouraging foreign direct investment is through Special Investment Contracts (SPICs). These contracts, managed by the Ministry of Industry and Trade, involve an agreement between the Russian state and investors. Under the contract, investors will set up or modernise their production facilities on Russian territory, and the Russian government will grant the investor certain incentives and guarantee stable tax and regulatory conditions. These benefits may include tax incentives or the provision of tax and legal frameworks. An important benefit provided for in the investment contract is the "Made in Russia" certificate which is issued for products manufactured by the investor in Russia, provided that the products are covered by the contract. Due to the Russian government's import substitution policies domestically produced products enjoy certain privileges in state purchases and purchases by state companies, and by obtaining this certificate foreign investors' products can enjoy the same privileges.

The Russian government was also encouraging foreign investors by creating 28 sectors for foreign investment (6 industrial and production sectors, 14 tourism sectors, 5 technological sectors and 3 sectors in port activity). Thus, they could benefit from certain cost reductions or tax exemptions for investing in one of these sectors (US Department of State, 2021).

### 3.3 The phenomenon of mass migration of FDI companies

After the start of the war, many of the world's countries showed their solidarity with Ukraine by sanctioning the Russian Federation in various ways. These sanctions were aimed at weakening Russia's economic base, depriving it of critical technologies and markets and significantly reducing its ability to fight the war. The sanctions imposed by the European Union belong to the domains (Council of the European Union): Financial (ban on the supply of Euro banknotes to Russia, exclusion from the SWIFT system), energy (ban on coal imports from Russia, price cap on oil shipping), transport (closure of EU airspace and ports, ban on Russian oil shipping to third countries), goods (ban on imports of iron, steel, wood, cement and plastics, ban on imports of gold), services (ban on the provision of architectural and engineering services, ban on the provision of IT services).

The largest and most successful companies that have decided to withdraw from the Russian market are listed in the table below:

**Table 1 – Companies that have decided to end their activity on the Russian market and country of origin**

Country of origin	Company
United States of America	Ford
	Starbucks
	Uber
	Nike
	Booking

	McDonald's
	Netflix
United Kingdom	Shell
	Eurovision
	Formula One
Germany	Mercedes Benz
	Deichman
	Dr. Oetker
	Jagermeister
Other countries	Ikea
	Elisa Esports
	Societe Generale
	UEFA
	Qantas Airlines

Source: Authors' projection based on: <https://som.yale.edu/story/2022/over-1000-companies-have-curtailed-operations-russiasome-remain>

Following the mass withdrawal of FDI companies from the Russian market (over 1,000), some investors saw an opportunity and took advantage of the circumstances to open their own businesses. Thus, in the case of McDonald's the restaurant chain was bought by a Russian entrepreneur, Alexander Govor, who launches the McDonald's replacement - "Tasty and that" ("Vkusno & tochka") (Ullah, 2022). In November 2022 the Russian fast-food company expands its operations to Belarus, McDonald's withdraws its operating license for all restaurants in the region (Stan, 2022). Also, in the case of Starbucks, after the coffee chain's exit from Russia, its loyal replacement "Stars Coffee" has emerged (Reuters, 2022).

Sports companies have not only stopped working with Russian sports teams but have also stopped sponsorship from Russian companies.

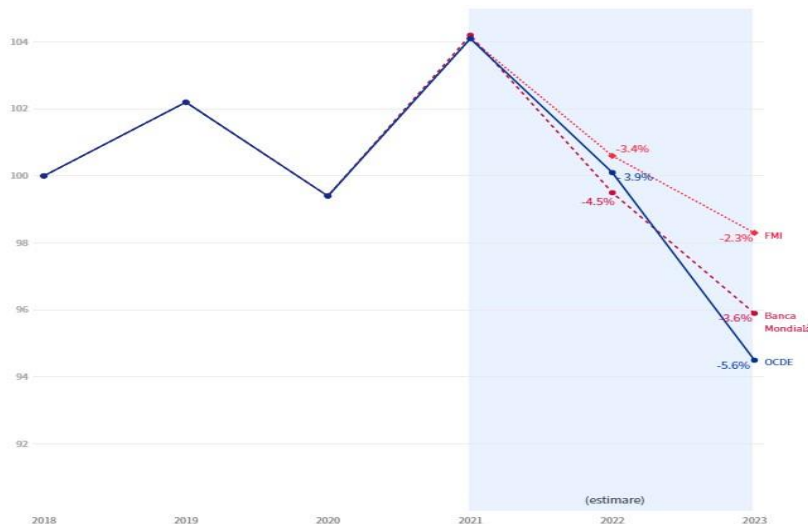
However, there are studies (Mărculescu Mătiş, 2023) that highlight that some FDI companies have suspended their activities (with the option to resume at any time), others have scaled down their operations, and another category have not left the Russian market, continuing their activities openly, or using front companies (such as Reebok, which has closed all its official stores, but products are sold through retailers and online platforms) (Lopez, 2023).

### **3.4 The impact of the exodus of FDI companies on Russia's level of economic development**

The impact of the exodus of FDI companies can be analysed from two points of view: that of non-Russian (European, American) economic analysts and that of Russian economic analysts. Thus, non-Russian economic analysts argue that the economic situation in the Russian Federation is unfavourable.



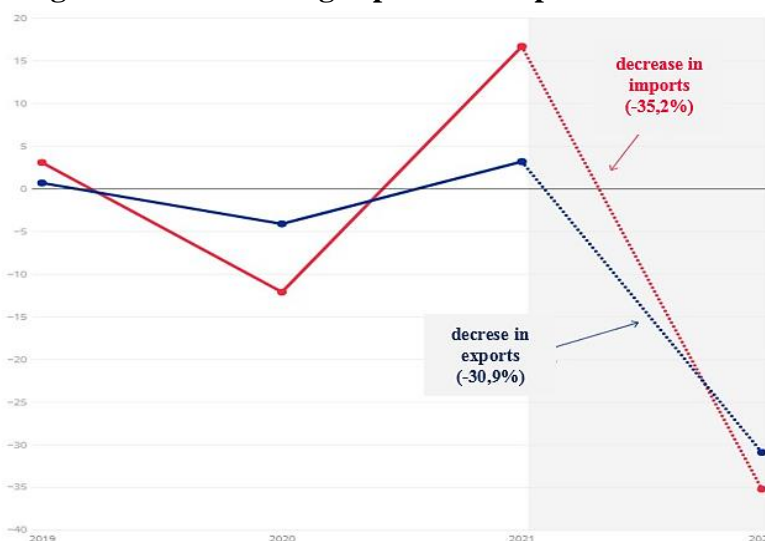
**Figure 9 – Estimated value of GDP in 2023**



Source: <https://www.consilium.europa.eu/ro/infographics/impact-sanctions-russian>  
<https://www.consilium.europa.eu/ro/infographics/impact-sanctions-russian-economy/economy/>

The European Council states that Russia's economy is shrinking. According to an independent analysis by the World Bank, the International Monetary Fund (IMF) and the Organisation for Economic Cooperation and Development (OECD), 2022 is a bad year for Russia's economy. By the end of 2022, in an optimistic scenario the GDP of the Russian Federation will fall by up to 3.4%, and in a pessimistic scenario by 4.5% (Figure 1). The European Council expects the Russian Federation's GDP to decline annually by 2.3% in the best-case scenario and by 5.6% in the worst-case scenario.

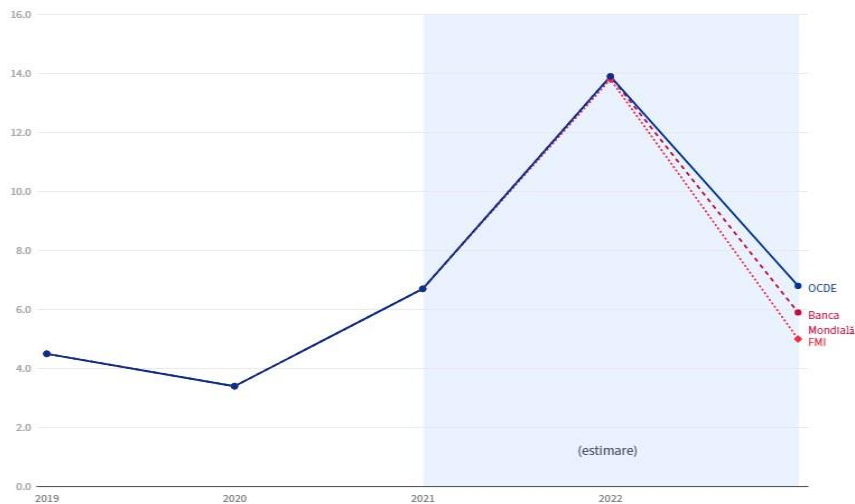
**Figure 10 – Estimating export and import fluctuations**



Source: <https://www.consilium.europa.eu/ro/infographics/impact-sanctions-russianeconomy/>

The European Council argues that the reduction in trade is having an impact on the Russian economy. According to both the World Bank and the International Monetary Fund, Russia's trade in goods and services is expected to decline significantly in 2022, and 2023 will see a further decline in Russian exports, while imports are expected to be higher than in 2022 (Figure 2).

**Figure no. 11 - Estimated inflation rate**



Sursa: <https://www.consilium.europa.eu/ro/infographics/impact-sanctions-russianeconomy/>

Estimates show that the inflation rate in Russia will rise sharply by the end of 2022, reaching almost 14% (Figure 3). Forecasts for 2023 range from 5% (IMF) to 6.8% (OECD).

From the perspective of Russian analysts, the current economic situation is not that alarming, as the effect of sanctions and the exodus of FDI companies is slow and gradual. Due to the massive oil exports that Russia made in early 2022 and the decrease in imports due to the departure, or cessation of activities of the world's big companies Russia has reserves to cover the various downturns in the economy (Oleg Itskhoki, 2023). Russian analysts are optimistic about the economic strength of the Russian Federation. The head of the Central Bank of Russia, Elvira Nabiullina, stated in December 2022 that Russia's GDP would shrink by only 3% in 2022, while President Vladimir Putin predicted a 2.5% decline. Some Russian economic analysts expect the economy to shrink by up to 5% in 2023, while others believe the contraction will be even greater. (Leyla Latypova, 2023)

#### 4. CONCLUSIONS

Analyzing the research hypotheses established at the beginning of the paper we can conclude that:

1. The sanctions enforced by the EU and the migration of FDI companies has had a negative impact on the Russian economy. The hypothesis is confirmed, the analysts' estimates are creating an unfavorable picture of the Russian economy by the end of 2023 with decreases in economic indicators such as: decreases of up to about 5% in GDP, decreases in imports and exports and decreases in Russian stock market indices. So, both the



sanctions imposed in response to Russia's aggression and the migration of FDI companies are having a negative effect on the Russian economy;

2. Following the mass migration of foreign companies from the Russian market, domestic investors have set up their own businesses. This hypothesis is confirmed, as domestic investors are taking advantage of the situation to set up their own businesses. In the case of McDonald's, the Russian investor Alexander Govor launches the replacement "Tasty and that's it" and in the case of Starbucks, Star Coffee is launched as a replacement.

The results of the study point to an unstable economic future for Russia, with both the migration of FDI companies and EU sanctions having a direct effect on production, exports and imports of goods and services, inflation rates and capital markets.

Future research will be able to focus on measuring more precisely the level of damage to the Russian economy with the necessary information on the economic and financial situation in the years following the outbreak of war. Another aspect of the research that will be relevant concerns the situation of FDI companies that have already decided to return to the Russian market or will do so in the near future and the obstacles they will face. It is also important to address the subject of Russia's economic response, the ways in which it has tried or succeeded in restoring its economic well-being.

In conclusion, in order to alleviate these effects, the authorities should focus on adopting new policies and consistent and effective measures. This could include stimulating innovation, creating an attractive national business environment and investing in skilled human resources.

## 5. ACKNOWLEDGEMENTS

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