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Andrei Yakovlev, Lev Freinkman and Nina Ershova

Channels of dialogue between
international businesses and national
governments: The implications for
domestic reforms and international
relations in the case of Russia



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Abstract

We explore the role and organizing capacity of foreign business associations (FBAs) in the Russian context. Considering the potential role of FBAs as effective intermediaries during time of aggravated international relations, the paper examines the problems and mechanisms of foreign firms' interaction with key national partners in their host countries and describes the conditions that lead to effective dialogue between FBAs and national governments. The main phases and factors of evolution are identified for Russia's two main channels of foreign firms' collective actions: The Foreign Investment Advisory Council, which is chaired by Russia's prime minister, and FBAs. A comparative analysis of the efficiencies of each channel finds that political, rather than economic or institutional, factors play the dominant role in explaining the shifting efficiency of collective action of foreign firms over time.

Keywords: public diplomacy, business associations, collective actions, channels of lobbying, business climate, foreign firms, Russia

JEL codes: D71, D72, F23

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List of abbreviations

FBA – foreign business associations
FF – foreign firms
CPS – corporate political strategy
GR – government relations
FIAC – Foreign Investment Advisory Council
RSPP – Russian Union of Industrialists and Entrepreneurs
NGO – non-governmental organization
ICCI – International Council for Cooperation and Investment
PPD – public-private dialogue
FDI – foreign direct investment

1. Introduction

The aggravation of Russia's relations with the West after Crimea's annexation has led to the situation that many observers find more complicated than the relationships between the superpowers during the Cold War. Hopes of a quick normalization of relations have given way to a consensus that confrontation, sanctions, and mutual trade restrictions are likely to persist for a long time.

When things break bad, historical experience suggests it is important to preserve functioning channels of regular dialogue and avoid the self-isolation that may lead to serious political mistakes. Yet available official state channels for dialogue in Russia now function poorly due to a lack of trust of foreign state actors.

In such situations, non-state actors, including businesses, can fill the relations vacuum. Even when the political class has lost interest in international cooperation, international businesses remain motivated to protect their foreign assets and sustain dialogue.

The history of the former Soviet Union has numerous examples of successful business intermediaries between the USSR and the West, with Armand Hammer perhaps the best known of such intermediaries (Epstein, 1996). Indeed, business people maintained alternative communication channels throughout the Cold War era and made good money on their intermediary functions. More than a quarter century into the post-Soviet era, we again see growth in the role of the international business community in intermediating normalization of international relations between Russia and the West.

Our focus in the following discussion is on foreign business associations (FBAs) operating in Russia. Their collective business interests are fairly transparent and shielded somewhat from risks faced by individual rent-seeking firms.

The role of foreign companies operating in developing countries, including transitional economies, is traditionally regarded as a factor of socioeconomic and institutional progress. Foreign investors are seen as agents of positive changes stimulating improvements in the quality of management and technologies and an important source of political support of reforms in the host countries (Malesky, 2006; Lewis, 2005).

At the same time, some authors (e.g. Huang, 2005; Hellman, 2002) note that foreign firms may gain considerable regulatory advantages over local businesses. The governments of host countries often grant privileges to foreign firms at the expense of domestic companies. It remains unclear whether the regulatory advantages of foreign firms ultimately result in improved regulation for local companies or whether advantages for foreign investors persist over time.

The recent paper of Doner & Schneider (2016) distinguishes the interests of foreign firms (FFs) from the long-term interests of developing countries in which they operate.¹ FFs have a marginal interest in development of host country economies. Most developing countries, for example, have embraced the notion that strengthening national R&D programs and professional education development are key elements of a national modernization strategy. FFs, in contrast, emphasize rationalization of corporate expenditures and concentrate R&D efforts in global centers that are often located in the FF's developed country of origin. This is cheaper and more efficient than building up new R&D centers and training local personnel (Doner & Schneider, 2016; Amsden, 2009).

This paper considers the role and organizing capacity of FBAs operating in developing countries, and particularly on identifying the factors that allow them to conduct constructive dialogue with the national governments and other key local players. We have two goals in this discussion. First, we want to assess the potential role of collective business structures as intermediaries in conditions of aggravated international relations. Second, we attempt to verify the assertion of Doner & Schneider (2016) that FFs and a host country government can more effectively sort out their differences in interests through collective efforts rather than individual efforts of foreign firms.

Russia provides an ideal case for studying the forms of government interaction with structures representing the interests of foreign investors and analyzing institutional developments in a relevant segment of business organizations. The country has a problematic business environment and shifting dynamics in the relations between the authorities and the foreign business community over the past 25 years. Indeed, the relations of foreign businesses and the authorities can be separated in distinct development phases characterized by prevailing political conditions. These include weak dialogue in the first half of 1990s (primarily due to the weakness of the government), a period of intense and constructive dialogue in the mid-2000s, and an almost total loss of government interest in interaction with foreign investors after 2014.

The purpose of this paper is to analyze the shifting mechanisms used by FFs in Russia to promote their collective interests in a volatile external environment over our 25-year observation period. We highlight major stages and factors of this evolution from the perspective of changes in system-wide political and institutional restrictions. We detail the impacts of the current crisis in Russia's relations with the West on the performance efficiency of existing structures.

The rest of the paper is structured as follows. Section 2 presents a brief review of the literature on issues related to foreign companies' political strategies in their host markets. Section 3 describes the empirical base and general logic of our research. Section 4 analyzes the differences in the main evolution stages in the process of the FFs interaction with Russian authorities over our 25-year observation period. Section 5 rounds up the analysis results. The final section concludes with some comments relevant to policymakers.

2. Literature review

A number of corporate political strategy (CPS) surveys of firms controlled by foreign investors have been released in recent years (Hillman & Wan, 2005; Mondejar & Zhao, 2013, Zhang et al., 2016).² Foreign firms engage in such strategies to build favorable relations with the government of the host

¹ This contradiction has been mentioned in the literature before (e.g. Kaplinsky, 2000; Amsden, 2009).

² The term "corporate political strategies" means classical business lobbying aimed at promoting the interests of private corporate entities among public authorities to ensure the adoption of beneficial economic policies or regulatory decisions related to corporate interests. Strategies associated with the direct involvement of businesses in political processes are not included under this definition.

country and other local partners, as well as obtain market access and cope with regulatory pressures or instability.

CPS is especially important for foreign firms operating in developing economies. When market institutions are weak or imperfect, development of local relations becomes a key competence for firms in ensuring successful implementation of their corporate strategies and addressing specific problems affecting their business. Additional factors encouraging FFs to develop relationships include regulatory differences in their home country and the host country, heightened uncertainty from the local business environment, and high entry barriers in local markets and/or particular sectors (Mondejar & Zhao, 2013).

Despite its importance for emerging markets, most research on FF behavior in host countries (including government relations strategies) have so far been based on materials of OECD member countries or China (e.g. Deng & Kennedy, 2010; Hui & Chan, 2016; Mondejar & Zhao, 2013; Zhang et al., 2016). There is practically no research from other developing countries.

Earlier studies based predominantly on analysis of US-based transnational corporations (Mezner & Nigh, 1995; Hillman et al., 2004; Hillman & Wan, 2005) showed that the size of a firm, its level of international diversification, the length of its presence in the host country, and the level of uncertainty of the local business environment all had positive correlations with the intensity of the firms' government relations (GR). Blumentritt (2003) gives special emphasis to the role of personal preferences of top managers at foreign branch operations in setting the tone and intensity of the branch's GR activities.

Companies have a set portfolio of alternative options for structuring their CPS (Schneider, 2010). FFs may pursue political ends both collectively with other firms or go it alone. Successful business associations not only use individual political resources provided by their members, but develop additional political influence tools (Jacomet, 2005). The source of such additional influence stems from the fact that FBAs enjoy greater democratic legitimacy than individual firms. They have the capacity for attaining consistent behavior and compromise among members.

The literature expresses a common view that collective and private (individual) CPSs complement each other (e.g. Hillman & Hitt, 1999; Hillman & Wan, 2005; Hansen et al., 2005). Many papers explore the factors that can encourage firms to change their preferences of predominantly collective strategies toward individual lobbyist actions and vice versa (e.g. Hillman & Hitt, 1999). Other works (e.g. Hansen et al., 2005) state that firms prefer to combine the use of various CPSs in collective lobbying activities to advance their individual interests because the collective approaches provide wider access to politicians and key officials.

Weymouth (2012) shows that the level of a firm's internationalization and its membership in business associations are positively related to frequency and effectiveness of lobbying. The intensity of lobbying and the firm's political influence grows along with its size and market power. Lobbying is also connected with the volatility of the political environment. Firms are more likely to resort to CPS in countries with weak regulatory environments.

According to the findings from previous studies of FF behavior in Russia, major foreign companies implement portfolio GR strategies in Russia that combine direct contacts with the authorities with indirect communications. These include the use of various intermediaries such as business associations. In many cases, foreign firms find lobbying via FBAs to be convenient and "politically correct."

The paper by Salmi & Heikkila (2015) is based on the case study of two large Finnish transnational corporations operating in Russia. The authors emphasize that these FFs simultaneously use direct and indirect channels in communicating with officials. They have developed their own public-private networks of contacts that play important roles in supporting their businesses. The Finnish FFs studies show a preference for communicating with government agencies via an intermediary (organizations or individuals) to create distance from officials.

Holtbrügge & Puck (2009) arrive at similar conclusions based on the case study of three German firms operating in Russia. The studied firms note that development of their own partnership networks has had a decisive factor their success in Russia. Such networking is used for finding useful information, speeding up administrative decision-making, and reducing political risk in an environment characterized with bureaucratic inconsistency, weak rule of law, and capricious law enforcement. The activities of the Union of German Economy in the Russian Federation and other business associations were regarded by the surveyed firms as important in providing supporting information exchange and networking platforms.³

Rochlitz (2016) shows that foreign business associations operating in Russia play an important role in promoting general welfare by providing support and information services to their member companies. FBAs apparently place less emphasis on traditional lobbying. Their attempts to influence national legislation and regulation is low key and mostly of a “defensive” nature, i.e. such efforts seek mainly to prevent the issuance of new inconsistent regulation or rules. Moreover, in present-day Russia it has become difficult for even the largest FBAs to promote their members’ collective interests.

Some authors point out that effective lobbying can help foreign firms gain systematic regulatory advantages over local businesses, especially in countries with underdeveloped market institutions. According to Desbordes & Vauday (2007), this is the result of two complementary factors. First, owing to their anticipated potential contribution to economic growth, transnational corporations have significant negotiating power to obtain beneficial market entry terms from the host country’s government in terms of regulatory benefits and lower taxes. Second, major FFs acquire sufficient political influence following their market entry to influence proposed regulatory changes that may impact their operations. This latter effect is pronounced in Eastern Europe and Central Asia, where institutions and civil society are both relatively weak.

The earlier studies of Hellman et al. (2002) also show that FFs encounter corruptive situations with governmental entities more frequently than local companies in countries with widespread official bribery. This means that weak institutions may complicate the problems of FFs in the governance sphere.

The literature mentions that FF political strategies can harm the host economy. Hui & Chan (2016) believe that FF influence in China has been a serious obstacle to modernization of national labor legislation and restricts growth in the influence of independent labor unions. Cole et al. (2006) assume that FFs’ political strategies could undermine the national environmental regulation and subsequent emergence of polluted production sites.

Although the theory of international relations has traditionally regarded countries and state institutions as their main actors (Rosenau, 1980), the growing role of non-state actors and NGOs in international politics has become commonly recognized since the end of the Cold War (Keohane & Nye, 1989; Rousenau & Czempiel, 1992; Mathews, 1997). The enhanced role of various NGOs in international processes is connected with the growth in political involvement of the private sector and civil society. Reinalda (2001) examines the role of non-state actors in international relations within the context of several paradigms: (a) pluralism focusing on non-state actors as pressure groups lobbying for their own interests; (b) transnationalism that sees non-state actors as private actors influencing policy through direct involvement in the development process; and (c) collective social actions with non-state actors regarded as a factor in mobilizing public opinion among various social groups.⁴

³ An association of German firms conducting business in Russia was founded in 1995. It became the Russian-German Chamber of Commerce (Deutsch-Russische Auslandshandelskammer, AHK) in 2007.

⁴ In the latter case, the non-state actors surveyed only involved public organizations and movements (NGOs). No private corporate actors were included.

In short, business organizations usually are motivated to promote international relations as non-state actors because they have developed specific practical transnational connections and contacts influencing international policies through various mechanisms that replenish and enrich international relations. International business, which by definition is transnational in nature, provides an alternative communication channel between home countries and host countries.

3. Empirical base and general analytical logic

Our survey is based on qualitative analysis of a series of 27 in-depth interviews conducted during 2015 and 2016. The interviews involved 19 heads or senior executives of foreign business associations in Moscow, representatives of the Foreign Investment Advisory Council (FIAC), the Russian Union of Industrialists and Entrepreneurs (RSPP) and its International Council for Cooperation and Investment (ICCI), as well as government officials responsible for foreign investor relationships at some point between 1990 and the present.

Over the past 25 years, the organization of public-private dialogue with foreign investors in Russia has moved through several stages. As a bilateral process, the dialogue between foreign business and the state is impossible without the support of both parties. Our analysis suggests that the government's readiness and ability to listen to foreign businesses and interact with them on basis of shared market economy development priorities are determinative of the formats FFs choose for their collective action and communication with the Russian authorities. It also influences the efficiency of such formats. A countervailing factor is the national government's ability to influence local institutions, its administrative and institutional capacity for enforcing its decisions aimed at fostering a favorable investment climate in the broad sense. Table 1 shows the main stages in the evolution of public-private dialogue with foreign investors in Russia.

Table 1. Characteristics of the main stages in evolution of the public-private dialogue mechanisms involving foreign investors in Russia, 1991–2016.

Stages	Government's economic policy priorities	Government's institutional capacity for enforcing decisions	Main mechanisms of dialogue with foreign investors
1990s	General orientation on market liberalization and integration with the global market.	Very low.	<p>1) Establishment of the FIAC as a governmental platform for dialogue with foreign businesses and mechanism for implementing the “individual strategies” of firms. FIAC has limited capacity to influence the investment climate.</p> <p>2) Emergence of FBAs is a self-organizing process among foreign firms entering the Russian market.</p>
Early 2000s	Continued emphasis on liberal reforms and integration of the Russian economy with global markets. The focus of federal level reform efforts, however, is aimed at improving the general framework conditions for business development.	Strengthened federal government institutions generally concerned with market reforms and reining in regional autonomy.	<p>1) Increased governmental interest in the FIAC as a source of expertise in drafting government decisions. FIAC performs well under steady government demand for an improved investment climate.</p> <p>2) FBAs, with rare exception, do not particularly interest the government as a partner due to insufficient institutional capacity.</p>
Mid-2000s	Shift to attracting foreign investment for implementing industrial policy priorities. Apparent preference granted to foreign firms with respect to property right protections.	Strong federal government trend to targeted strategic economic development decisions within the logic of supporting economic “growth points.”	<p>1) New major players join government collaboration process via FIAC: development of frameworks for major investment projects.</p> <p>2) Extending membership and enhancing institutional capacity of FBAs. Greater FBA contacts with federal agencies and regions.</p> <p>3) Emergence of the ICCI at the initiative of Russia's big business community (RSPP) and partially as an alternative platform to FIAC.</p>

2009 – 2012	Shift of focus to encouraging Russian investment and fostering improved business conditions in the regions. Overall orientation to global market integration persists.	Strong federal government, but with overt recognition of the impossibility of further investment climate improvements coming solely from the federal center.	<ol style="list-style-type: none"> 1) Formation of demand for FIAC expertise with a view to fostering a favorable and uniform investment climate for all without preferences to foreigners. 2) FBAs are active, especially at the regional level. They intensify collaboration among their members. 3) Extending collaboration between foreign firms and Russian business partners under ICCI auspices.
2013 – present ^a	Absence of common political priorities. Ministries in the “economic cabinet” still seek global integration, while ministries in the “security cabinet” have become more powerful and exhibit self-isolation tendencies.	The internal split in the government between the priorities of the economic and security cabinets has the net result of reducing institutional capacity.	<ol style="list-style-type: none"> 1) The efficiency of FIAC as a platform for dialogue is diminished. The main investment climate issues shift to the political plane. 2) FBAs express opinions about political problems and their impact on the economy. In the context of a political “turnabout” and tension in relations with the West, officials are reluctant to enter into dialogue with FBAs. 3) Growing demand to make the ICCI the platform for FBA dialogue with other FBAs and Russian businesses in order to develop a common pragmatic agenda.

Source: Authors' analysis.

^a The information reflects situation at the end of 2016, upon completion of data collection under the project.

4. Main stages in the interaction of foreign businesses with the Russian state

Stage 1: New investment market under weak government

Since the beginning of 1990s, the Russian government focused on global market integration of the Russian economy, attraction of foreign investment to the domestic economy, institutional modernization, and liberal reforms, inter alia, with the use of foreign investor skills and expertise and the drawing upon foreign experience.

During this initial stage, foreign investors coming to Russia were attracted by natural resources and possibilities to develop a new market. All these newcomers entered an unfamiliar market suffering from undeveloped institutions, imperfect competition, high entry barriers, and corruption, as well as unfamiliar cultural norms, language challenges, and unique regulatory schemes.

As elsewhere, large multinationals led foreign business entry into the Russian market. Seeking support and preferential business conditions in an unfavorable environment, they sought contacts among Russia's senior officials. The government, in turn, was interested both in an inflow of foreign investment to the Russian economy and knowledge transfer. Foreign firms were expected to provide experience and expertise needed for improvement of the institutional environment and the investment climate. These conditions paved the way for establishment of the FIAC.

Foreign Investment Advisory Council (FIAC)

<p><i>The FIAC was established in 1994 through the combined efforts of the Russian government and foreign businesses to improve Russia's investment climate. The council seeks to assist Russia in the forging and promoting of a favorable investment climate based on global experience and the experience of international companies operating in Russia. Russia's prime minister serves as chair and the minister for economic development serves as vice-chair. The council includes foreign companies that have invested in Russia, international organizations and other entities involved in fostering a favorable investment climate and invigoration of investment processes in the national economy.</i></p> <p><i>In 2016, the FIAC consisted of 54 companies and organizations. Most were Western companies, but the representation of Asian firms has grown. Representatives of Russian federal and regional executive authorities, as well as expert and scientific organizations, may also participate in council meetings at the chair's invitation.</i></p>	<p><i>FIAC conducts its daily work in the format of working groups comprised of senior executives of FIAC member companies and line ministries and agencies. They hold regular meetings throughout the year to develop detailed recommendations and submit proposals on improving Russia's regulatory framework. These recommendations are used to formulate government instructions to line ministries and agencies. Enforcement is monitored by government personnel.</i></p> <p><i>On the whole, FIAC's operations can be categorized into two main areas. First is the development of standards. This includes development of methodological and technical standards and regulations for administrative control, and development of tax, customs, and financial legislation. The second line of activity consists of the preparation of strategic recommendations on economic sectors and development of Russian regions. The targets of both areas of activity and the general line of FIAC operation are determined by the government.</i></p>
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Source: FIAC website (<http://www.fiac.ru/>) and author interviews.

Despite the general clarity of economic development priorities, the weakness of the government in 1990s and its low capacity for implementing decisions created serious obstacles to implementation of the approved reforms and undermined the efficiency of dialogue with foreign businesses. Thus, the FIAC had limited opportunity to influence the investment climate and was not an effective tool in protecting the interests of foreign businesses. Given this weakness, large state-owned enterprises exerting disproportionate influence on setting the FIAC's agenda.

Meanwhile, the Russian market also attracted small and medium-sized foreign firms. These firms initially encountered the same challenges of the unfamiliar new environment as the large foreign firms. However, they had no opportunity of engaging with the Russian authorities and often became targets of regulatory and corruptive pressure. Small and medium-sized firms tried to solve their problems by leveraging contacts, exchanging experience with their fellow countrymen, and setting up national associations. Thus, foreign businesses started developing a parallel mechanism of collective protection of their interests and interaction with the state – foreign business associations.

Foreign business associations in Russia

Foreign business associations (FBAs) operating in Russia are diverse in terms of their origins, size, and institutional capacities. The main services provided to FBA members fall into three categories: lobbying, providing business services, and information exchange and networking. The last function seems to hold greatest importance for FBA members.

In our view, only four FBAs covered by this survey have the institutional capacity required for system-wide lobbying in some form: the German (Russian-German Chamber of Commerce), European (Association of European Businesses), American (American Chamber of Commerce in Russia) and, to a lesser extent, British (Russian-British Chamber of Commerce) business associations. The Russian-British Chamber does not engage in lobbying in the classical sense, but performs a bilateral information and communication function that facilitates business contacts with government agencies. These associations (except the British) have contacts at the top level of Russia's government authorities. Nearly half of the surveyed associations are engaged in non-system lobbying such as promoting the interests of individual companies and addressing concrete problems of their members in their governance relations.

Most associations provide analytical services to their members (paid and free). Over half also render technical support. All associations view networking as a means of facilitating information exchange among members and with firms as a priority function.

One of the most important FBA characteristics is the level of national homogeneity of their members. Eight of the 19 associations surveyed did not permit Russian or third-country membership. Most of these represent countries in Asia, the Middle East, or Central and Eastern Europe. Almost all business associations from Western Europe and North America have mixed memberships.

Another important characteristic is the level of closeness of an association's ties with the national government. Close ties are typical of associations uniting Asian businesses. These include the China Council for the Promotion of International Trade (CCPIT), the Japan Association for Trade with Russia & NIS, (ROBOTO), and the Korea Trade-Investment Promotion Agency. In most cases, such associations were set up on the initiative of the national government. They receive regular funding from affiliated government entities and constitute part of the home government machine. Another indicator of close ties with the home country's government is active organizational and technical support rendered to the association by government agencies.

Some associations, such as the American Chamber of Commerce in Russia, the Association of European Businesses, and the Russian-German Chamber of Commerce, maintain close connections with government institutions of their countries and actively lobby on behalf of their national governments. Others focus solely on servicing business interests of their members and are not active in maintaining contact with their national governments. Such FBAs include, first of all, the Italian-Russian and Russian-British Chambers of Commerce.

Among the FBAs presently operating in Russia the German association stands out by its institutional capacity and communication efficiency. The formation of the Union of German Economy in Russia (subsequently Russian-German Chamber of Commerce) was the consequence of many factors, including the entry of a large number of German firms into the Russian market in a situation of active development of foreign trade relations, the presence of many small and medium-sized firms among them, and active support of this institution from the German Federal Foreign Office.

Source: Based on the author interviews.

Notwithstanding the active formation processes in 1990s, foreign business associations in Russia remained weak institutions. Companies still faced extremely high risks in doing business in Russia. This limited the number of potential members and lowered the institutional capacity of FBAs (Doner & Schneider, 2000). In addition, the weakness of the Russian government undermined the efficiency

of any attempted collaboration with the authorities or in protecting the collective interests of foreign business – even by large FBAs.

Stages 2 and 3: Economic growth from 2000 to 2008

The appearance of a strong government in Russia in the beginning of 2000s stimulated the authorities' interest in major international companies as a source of expertise for proposed government programs and initiatives. In the first half of 2000s, the government focused its efforts on improvement of the framework conditions for business development at the federal level, while reining in regional autonomy.

During this period, the FIAC was actively involved with reforming the regulatory environment, and passing customs and tax legislation in line with the government's reform program priorities. The early and mid-2000s were the most successful and active period in the FIAC's existence, reaching its peak influence on the overhaul of Russia's regulatory and institutional environment. The FIAC leveraged the global expertise of its members to develop framework conditions for launching major investment projects. An industrial assembly project, for example, encouraged entry of the largest foreign car manufacturers into the Russian market in mid-2000s. A de facto, albeit unofficial, "most preferred status" regime was created to strengthen protection of property (core assets) rights for foreign companies.

Unlike the FIAC, which is close to the government and includes major international corporations, most foreign business associations possessed limited institutional capacity in that period due to their small memberships. Their emergence lagged the FIAC, so the government was less interested in FBAs as priority program implementation partners. However, an important process of FF cooperation with Russian partners on political strategy and GR matters took off with growing membership of foreign firms in *Russian* business associations.

The strengthening of collective political strategies of businesses was also a factor in increasing FDI inflows to Russia after 2000. Growth in efficiency of business lobbying during that period was a result of two parallel processes. First, new collective business organizations succeeded in effectively consolidating and formulating the requirements of reform of the investment climate demanded by foreign business. Second, the government was open to this requirement and deployed its administrative resources more effectively (especially compared to the 1990s) to achieve practical implementation of needed reforms.

Starting from mid-2000s, the government's economic strategy focus shifted to supporting "growth points" in the economy and adoption of "point" solutions. The overall efficiency of the Russian government's dialogue with foreign business in matters of improving the investment and institutional climate grew considerably in this period. The effect of mutually beneficial interaction with foreign investors based on public-private dialogue (PPD) was manifested most prominently in the second half of 2000s when the government began to actively take advantage of foreign firms' experience in e.g. implementing industrial policy.

High oil prices and the significant expansion of the domestic market that started in 2004 triggered a strong inflow of foreign investment into Russia, including investment in medium-sized businesses. Since the FIAC format was unavailable to the new players, they needed access to information and channels for exchanging experience of working on the Russian market. This resulted in the growth in FBA membership and greater institutional capacity. FBAs invigorated their contacts with the federal agencies and regions, and the Russian authorities started looking at least at the largest foreign business associations as independent and attractive dialogue partners.

Another form of foreign business interaction with Russian partners emerged during that period – the International Council for Cooperation and Investment (ICCI) under RSPP auspices. The ICCI

was initially formed as a platform for coordinating the positions of foreign investors, FBAs, and Russian partners. Part of the motivation was that FBAs had been excluded from participating in the FIAC's work.

International Council for Cooperation and Investment (ICCI)

The ICCI was established by the RSPP in 2008 as a platform for dialogue with the foreign business community. The ICCI brings together leading foreign investors in Russia, business associations, and chambers of commerce. A main goal of the ICCI is coordination of the action of Russian and international market players to improve conditions for doing business in Russia and supporting Russian companies in investment and trade activities abroad.

While the ICCI and FIAC have much in common, their distinct missions serve different purposes. The ICCI is not directly engaged with the top government executives and has less institutional capacity.

The ICCI also provides an umbrella structure that represents the interests of foreign business associations. It devotes attention to the interests of medium-sized and large companies alike. As a business initiative, the ICCI can promptly react to changes in the national business climate or geopolitical situation. ICCI meetings provide a forum for elaborating a collective position that can be relayed to the government by initiative or request action from the foreign business community when challenges arise. As the organizational offspring of the RSPP, the ICCI can work out a joint position suitable to both foreign and Russian businesses.

Sources: ICCI official website: <http://eng.rspp.ru/about/icci> and interviews by the authors.

Stage 4: Global crisis and focus on business climate improvement

The next stage (2009–2012) reflects a shift in the Russian government's priorities following the 2008–2009 financial crisis. Unlike when the government was deeply committed to protecting the interests of foreign business in the early and mid-2000s, the crisis narrowed concerns to dealing with acute business needs, particularly those of Russia's medium-sized businesses.

The government assisted in helping firms fend off hostile raider attacks and reduce technical barriers to conducting business. In addition, the federal government began to actively encourage improvement of the investment climate at the regional level. Despite the government's high institutional capacity during that period – due above all to Vladimir Putin's authority as prime minister – officials openly conceded that the possibilities for improving the investment climate solely through efforts of the federal level had been exhausted.

At the same time, the FIAC's level of activity and influence has declined. This was due to nearly concurrently personnel turnover at the government and in the Ministry for Economic Development, including executives in charge of FIAC-related matters. Thus, it took a while for the FIAC to reestablish effective communications with the new executives. Moreover, the shift in the government's political priorities had left the FIAC, which represented the interests of foreign companies, on the outskirts of the new agenda. In 2009, the FIAC modified its format by setting up working groups specialized in sector-specific and functional areas of work focused predominantly on technical regulation issues.

FBAs remained active, turning their focus to establishing contacts at the regional level. Another feature of this stage was the considerable boost of collaboration between foreign firms and Russian business partners.

Stage 5: Priority shift from economic agenda to security issues

The shift of the economic policy decision-making center from the government to the presidential administration (particularly in terms of approval of key decisions) became quite obvious in 2012. After 2013, it moved further on to the security council. Against the backdrop of dramatic deterioration of relations with the West and the events in Ukraine, an internal ideological split developed between Russia's elites over national development priorities.

This was most vividly manifested in differences between the government's economic and security cabinets (Yakovlev, 2014). The continuing orientation of the ministries in the "economic cabinet" toward global integration collided with the tendency towards self-isolation fostered by the "security cabinet." The conflict prevented the government from producing a unified economic development agenda. In late 2013, the security cabinet came to dominate absolutely the process of strategic decision formulation and adoption. In many instances, the economic consequences of their decisions were totally disregarded.⁵ Official attitudes toward foreign investors shifted accordingly. In particular, foreign businesses began to see many of their property protections begin to slip away. According to an RSPP report dated March 2016, the assessments of the business climate dynamics made by foreign respondents were considerably more pessimistic than those expressed by their Russian counterparts.⁶

The overall decrease in efficiency of the PPD collaboration mechanisms and channels in 2014–2015 had uneven effects on the different organizations. The FIAC saw its role and status most diminished. While the FIAC is still efficient in dealing with technical matters such as development of technological standards and regulatory improvements, its status as a government advisory body has obviated its value as a platform for international firms that want to discuss politically-related business issues. This is evident from the low attendance of council members at annual meetings with the prime minister.⁷

In such circumstances, the FBAs are now the ones that demonstrate flexibility and capability in formulating and communicating the collective position of foreign firms on urgent business matters in the current of political landscape. FBA flexibility in the new situation largely depends on the quality of the association's ties with its particular national government. In this case, FBAs less dependent on their national governments find themselves in a better position as they have more space for political strategy.

Nevertheless, in view of Russia's political turnabout and worsening of relations with the FBAs of Western countries are no longer regarded by the federal government as an interesting dialogue partner. This has given these FBAs incentive to form a wider coalition in support of an improved investment climate by joining up with Russian players (RSPP, ASI). In this situation, the openness of some associations to Russian membership provides them with a further comparative advantage.

The unfavorable shift has helped reactivate the ICCI as an alternative collaboration platform. Moreover, the ICCI is now sought out as a tool for aligning the collective position of foreign businesses, as well as a place for working out a pragmatic agenda jointly with the Russian business community.

⁵ It probably suffices here to note the comment of first deputy finance minister Tatyana Nesterenko that "no one asked the Finance Ministry how much the decision on Crimea would cost." (See <http://www.forbes.ru/forbes-woman/karera/281919-minfin-ne-sprashivali-vo-skolko-oboidetsya-reshenie-po-krymu>).

⁶ RSPP. Report on the Status of the Business Climate in Russia in 2015, Moscow, March 2016.

⁷ RBC. Medvedev to convene almost all investors for the first time since 2014. <http://www.rbc.ru/business/26/09/2016/57e3fc9f9a79476a50e6483e?from=newsfeed>. Since 2016, foreign investors have sensed economic stabilization despite an absence of apparent improvements in the political situation. This has renewed interest in the Russian market and broadening contacts with Russian authorities.

5. Discussion

The history of government collaboration with foreign businesses in Russia through the above-described channels has produced some success stories. The main successes in FIAC activity were achieved in the early and mid-2000s, especially in the areas of customs and tax legislation reforms. Active participation of FIAC helped develop a special regime for the treatment of major investment projects, stimulating the inflow of investment in the establishment of assembly plants in the car manufacturing sector. Preferential terms were granted to the import of vehicle components, while the import duty on fully-assembled vehicles was increased.

The role of national FBAs in the investment climate reform process on a national scale remains modest in comparison to the RSPP and FIAC. Their role boils down to formulating concrete proposals for institutions possessing a more powerful resource for lobbying. At the same time, many FBAs have been successful in assisting individual companies in addressing pressing issues at the regional level.

Cases of the Russian authorities' successful collaboration with FBAs came up in the 2010s. One such case is the cooperation of the Russian-British Chamber of Commerce (RBCC) and the Federal Service for Supervision of Communications, Information Technology, and Mass Media (Roskomnadzor) in coordinating enforcement of the Law on Personal Data. This law requires the storage of all personal data of Russian citizens in Russia. The law's enforcement mechanism was poorly formulated by legislators and thus unclear to Roskomnadzor, the regulatory agency charged with enforcement. The British Chamber held regular consultations with Roskomnadzor officials over two years, sharing the international experiences of its members and providing feedback on how the law was being enforced.

The Association of European Businesses held working meetings under the aegis of ICCI and prepared proposals for the Ministry of Telecom and Mass Communications in connection with legislative requirements to localize software used in Russia. These new requirements concerned the interests of many foreign firms operating in Russia. Here, FBAs have utilized both individual and collective channels to interact with government authorities in dealing with emerging problems.

Our overall efficiency evaluation of foreign investors' dialogue with Russian government officials is ambivalent. From the perspective of foreign investors, Russia has developed sufficiently favorable conditions that their representatives can engage in dialogue with executive government officials at the highest level. Access to decision-makers is now easier than in many countries and the intensity of dialogue between business organizations and the government is high. The current system of public-private dialogue is organized along several channels. Parallel lobbyist structures combine regular cooperation with elements of healthy competition. On the other hand, the efficiency of public-private dialogue in Russia remains relatively low. In the current political circumstances, the government is unable to resolve, or even discuss, problems of paramount importance to investors.

Our interviews revealed no systematic cases of *harmful* lobbying by foreign companies and their branches, i.e. promoting special corporate interests by a small number of firms. Acting in their private, albeit long-term, interests, foreign businesses operating in Russia have had an overall positive effect on the general conditions for doing business and the investment climate. Specifically, we would note the lowering of administrative barriers to various types of businesses. This long-term favorable impact is particularly visible against the backdrop of political strategies of Russian companies, which on average have a shorter-term focus.

Public-private dialogue with foreign investors functions relatively well in Russia when it comes to addressing narrow technical issues,⁸ especially in sectors not considered "strategic industries."

⁸ For instance, implementation of e-document management in the issuance of veterinary documents or lowering the effective standards for pollutants discharged into water disposal systems, including the technical feasibility of meeting those standards.

Russian officials demonstrate consistent interest in changing the regulatory framework by building upon the existing international experience, especially in the wake of the 2009 crisis. Ministries and agencies willingly entered into dialogue with foreign companies and FBAs in the period before 2014 when they faced the need to execute potentially controversial political decisions that might create reputational risks for them.

The mechanisms devised for contact and collaboration between Russian and foreign business organizations simplify alignment of priorities of various organizations, which reduces the risks of granting unilateral advantage to a particular group of companies. Given the concern over fundamental differences between foreign and local businesses in middle-income countries (Doner & Schneider, 2016), Russia's situation is rather favorable. Russia has developed a tradition of constructive collaboration between organizations representing the interests of both business groups. In the new political context business has found additional incentives for cooperation, as the overwhelming majority of companies – both Russian and foreign – strongly favor normalization of international relations as well as the lifting of sanctions and trade restrictions. Following the major ruble devaluation in 2014, foreign businesses gained new incentives to locate production in Russia. At the same time, there is an understanding that it will be difficult for foreign investors to realize new opportunities for localizing production in Russia without close cooperation with Russian companies.

Another positive aspect of extending FBA collaboration with Russian business associations is the fact that such collaboration encourages the transfer of expertise and skill to Russian organizations. This accelerates organizational development and has a favorable effect on the overall quality of public-private dialogue in Russia.

Numerous local success stories and specific achievements show the dialogue between the Russian government and foreign businesses has been working. This is happening, however, within the underlying trends that do not improve the basic investment climate. On one hand, the government has made serious efforts at improving the technical conditions for doing business and created incentives for federal agencies and regional administrations. Indeed, Russia has made significant progress in raising its rankings in the World Bank Group's *Doing Business* survey. On the other hand, the dramatic worsening of Russia's relations with the United States and the European Union since 2014 and unpredictable foreign political decisions of Russia's leadership have generated uncertainty for investors and nullified these positive changes.

Key restrictions to further improvement of the business climate in Russia have political, rather than technical, origins and therefore cannot be eliminated within the framework of current public-private dialogue. A different set of political priorities and greater political commitment from the government in implementing those priorities are needed to unlock the considerable potential of available public-private dialogue mechanisms. In particular, the priority objective of the government, i.e. the ruling elite, should be setting-up shared development priorities for Russia to be formulated in terms comprehensible to the business community. In this connection, the recent growth in FBA activity (in cooperation with RSPP/ICCI) should be seen as an attempt by business organizations to influence and expedite the development of these priorities and as an appeal for politicians to restore pragmatic dialogue with the business community.

The main obstacle to investing in Russia today is associated with the uncertainty that arises from the lack of vision among persons responsible for investment decision-making. The experience of other countries shows that the process clarifying such vision usually proceeds through collective dialogue among representatives of key social groups resulting in the shaping out of a shared understanding of the future developmental path and the needs to change the rules of the game. Players concerned over the new model of Russia's economic development are presently just beginning to establish contacts. This process may end in the emergence of new coalitions in support of modernization, including further strengthening of partnerships between organizations of Russian and foreign business. The strengthening of such business coalitions increases the chances for development

of a new agenda for dialogue between businesses and the authorities and increased interest of authorities in public-private dialogue. At the same time, it is noteworthy that the Russian authorities, including the security cabinet, have started demonstrating a growing understanding of the need for a new economic growth model stimulated by the recent recession and the slide in oil prices in late 2015.

While fundamental issues related to Russia's investment climate remain unaddressed, the main positive conclusion of our survey is that Russia is undergoing important institutional transformations that are still invisible at the macro-level. Institutional development and capacity building are underway in the sphere of formation and development of coalitions, horizontal connections based on strengthened dialogue and its supporting structures. This can be seen at the level of business-to-business and business-to-region contacts, as well as business contacts with the most reform-minded officials in the federal government.

6. Conclusions

In our opinion, the current dramatic decay in relations between Russia and the West has made the role of international businesses more important as intermediaries in normalizing the international relations. Even as individual foreign business have seen their positions degraded through foreign political shocks, the largest FBAs in Russia demonstrated constructive and responsible behavior at the height of the 2014 crisis by calling upon all sides to refrain from measures that might inflict long-term damage to economic relations.⁹ Although the initial purpose of the FBAs formed in Russia, as in other emerging market economies, was to deal with matters of a totally different nature (predominantly connected with business lobbying and networking), recent developments demonstrate that FBAs have the capacity to support effective interstate dialogue when traditional channels for such communications are not functioning. Amidst this new "Cold War," FBAs can play an important role in stabilizing international relations.

Our analysis also shows that FBAs operating in emerging markets provide a valuable toolkit for promoting the long-term interests of the government in the foreign firm's home country. The spheres of such long-term interests that may actively involve FBAs are quite diverse and go far beyond the limits of international diplomacy. Such associations may, for example, be effective in promoting restructuring effort in the host country in areas such as investment climate improvement, adoption of good governance practices, and regulatory capacity-building.

The focus on public goods production is an important aspect of FBA activities in conditions of imperfect institutions. This may, in our view, justify the need for systematic resource and political support of FBAs by the governments of their home countries. This conclusion applies to business associations operating not just in Russia but any emerging economy, and should be regarded as a strategic priority by national governments. Russia is merely an illustration in this respect interesting due to the rapid change of political conditions for international business functioning during the past 25 years. Every time FBAs largely succeeded in adapting to the new circumstances.

Another conclusion from our analysis is that the Russian government, as well as the authorities of many other developing countries, still make insufficient use of the opportunities opened by dialogue with the existing FBAs. While it is certainly easier in technical terms for the authorities to

⁹ See, *inter alia*, the ICCI Statement of April 7, 2014 (<http://eng.rspp.ru/simplepage/667>), statements by the Russian-German Chamber of Commerce of August 7, 2014 (in Russian and German <https://russland.ahk.de/ru/mediacentr/novosti/detail/ostanovit-sankcionnuju-spiral/>), the Association of European Businesses of July 17 (https://www.aebrus.ru/en/media/press-releases/index.php?ELEMENT_ID=1225311) and July 30, 2014 (https://www.aebrus.ru/en/media/press-releases/index.php?ELEMENT_ID=1454683)

engage in dialogue with large foreign companies individually, the establishment of effective cooperation with business associations ultimately will prove no less useful. FBAs have a fundamental interest in improving the investment climate in their host country, especially insofar as they reflect the interests of medium-sized businesses. This makes them a reliable strategic partner for a national government focused on reform. The strongest effect, however, may be achieved through regular contacts with members of open FBAs (associations that include local companies along with foreign firms) that have better insight in daily realities due to their extensive experience of collaborating with local businesses.

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