

Exiting Russia

Rachel L. Wellhausen
University of Texas at Austin
rwellhausen@utexas.edu

Boliang Zhu
Penn State
bxz14@psu.edu

*Presentation for the International Political Economy Society
28 October 2023*

- 24 February 2022:
Full-scale Russian invasion of Ukraine

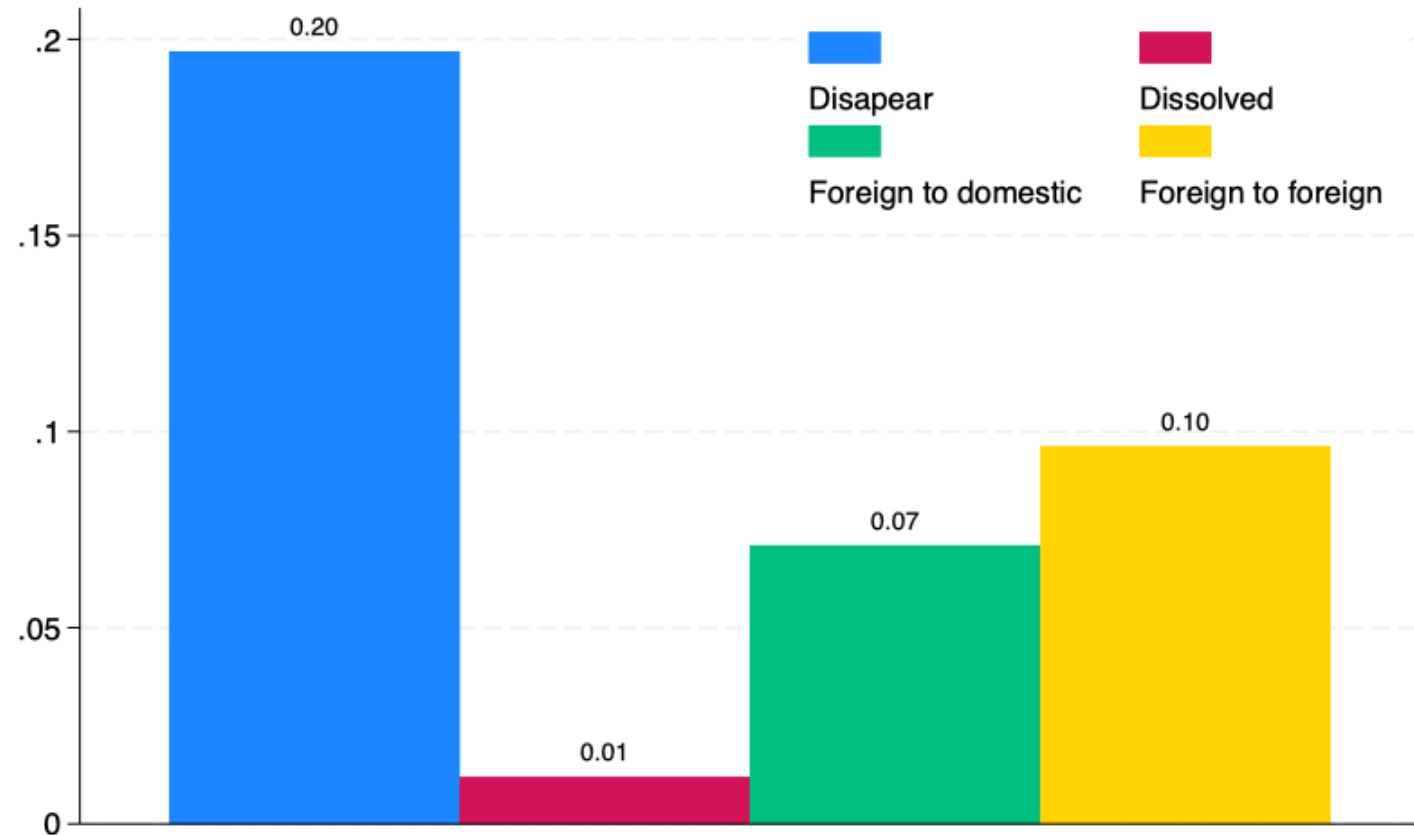
(Why) have MNCs with preexisting FDI in Russia changed their investments as a result?

- 18 months later:
Our study: Documenting + explaining ownership changes among pre-invasion MNC population

Figure 6: Distribution of Different Sub-types Types of Exit

Pre-invasion
population*:
48,134

Exit**:
38%



*Notes: As of end of calendar year 2021. Defined as >10% ownership by a foreign shareholder. If shareholder data missing: Global Ultimate Owner (GUO) >50% foreign ownership.

**By 31 August 2023

What's the baseline rate of exit in normal times? (info TBD)

Theory: Exit as transaction

- Exit is a transaction, between a seller and buyer under some terms.
- MNCs constrained by resale markets for their brownfield assets.
 - ~~Physical immobility~~ Redeployability of assets
- Pressures on MNCs as would-be sellers:
 - H: (Depth of) shock to home-host state relationship
 - H: Non-state backlash
 - H: Exposure to host state interference in sales
 - H: Site-specificity / asset mobility (credibility of the *threat* of exit)
 - Fixed asset intensity, NAICS 3-digit (Wright and Zhu 2018) + Mining, oil and gas

Setting + Context

- ~~Panel~~ Cross-sectional data
- Direct expropriation is *rare event*
- “Unfriendly Countries” List
- “Unfriendly”-targeted policy
 - Ex: Limits on repatriation
 - Ex: Windfall tax on asset sales

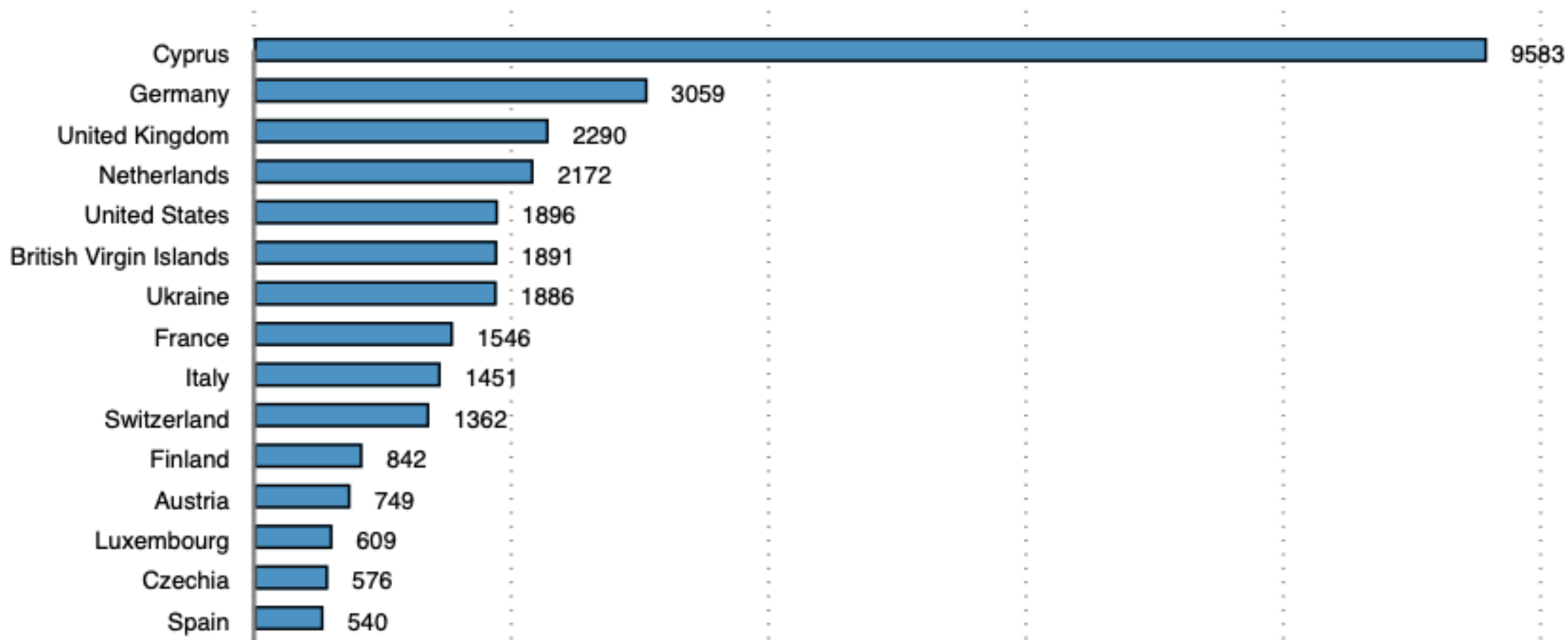


Image source: gazeta.ru ([link](#))

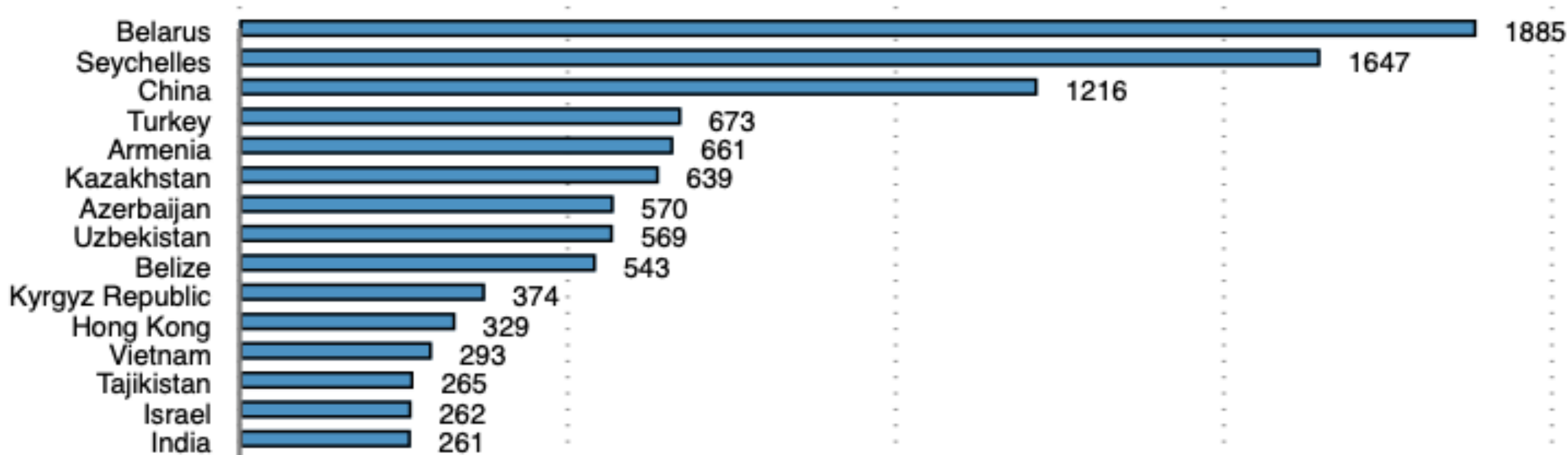
“Unfriendly” Countries List:

Andorra, Australia, Austria, Bahamas, Belgium, Bulgaria, Canada, Croatia, Cyprus, Czechia, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Micronesia, Monaco, Montenegro, Netherlands, New Zealand, North Macedonia, Norway, Poland, Portugal, Romania, San Marino, Singapore, Slovakia, Slovenia, South Korea, Spain, Sweden, Switzerland, Taiwan, Ukraine, United Kingdom, United States

“Unfriendly” homes (total: 52)



“Friendly” homes (total: 87)



H: Shock to home-host relationship

- On “Unfriendly Countries” List
- Home leader encouraged exit in public statement
- *Also relevant:*
 - Cyprus
 - EU

“There will be no business as usual with Mr. Putin’s Russia. In fact, there can be no business at all.”

– Estonia (PM, 2 March 2022)

v.

“My position is that companies should decide by themselves.”

– France (Pres. Macron, 29 March 2022)

Moderator? MNC foreign state-ownership (results TBD)

H: Non-state backlash

- On “name and shame” list
 - Covers max 31.2% (defined via GUO path); min 5.2% (defined via direct match)
 - As of 8 mo. post-invasion
- Consumer-oriented industry
 - > avg. advertising intensity
 - by 4-digit NAICS

List

Boycott Russia
Exit Russia [a]
Leave Russia
Squeezing Putin
Stop Bloody Energy
Don't Fund War
RUBusiness
Wikipedia
Kyiv School of Economics
Yale School of Management
EPravda (Ukrainian newspaper)
Kommersant (Russian newspaper)
#ВСЕЗАПОМНИМ [c]

Shareholder pressure in listed firms? (results TBD)

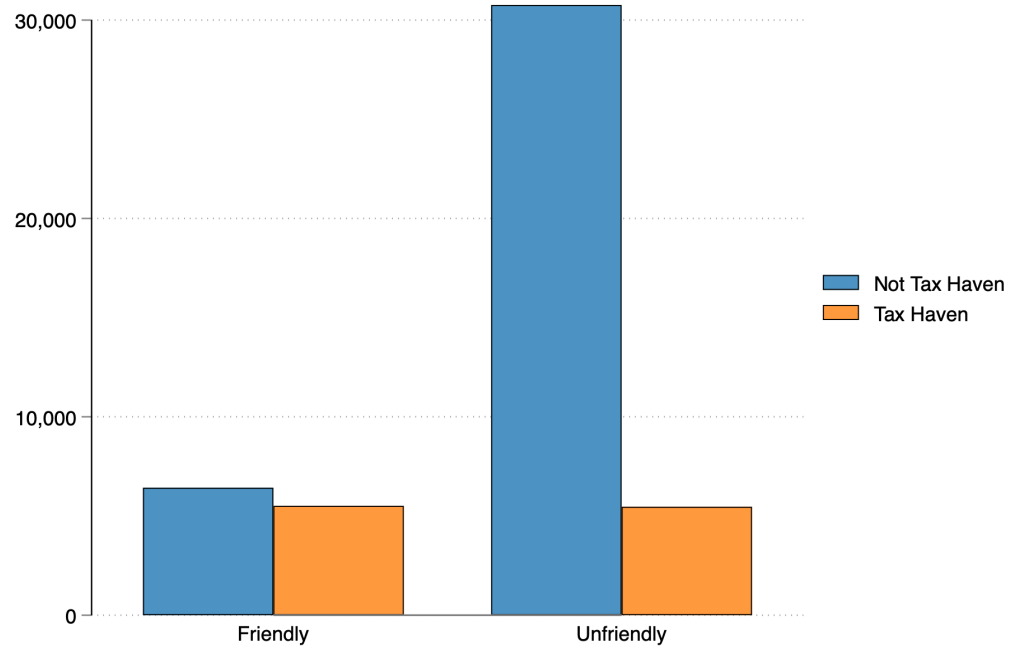
H: Exposure to host state interference

- Russian managerial control
 - Pre-invasion: Russian controlling shareholder or Russian GUO
- Russian strategic industry
 - Derived from 2008 Russian state's list of 295 "strategic organizations"
 - Defined at NAICS 4-digit

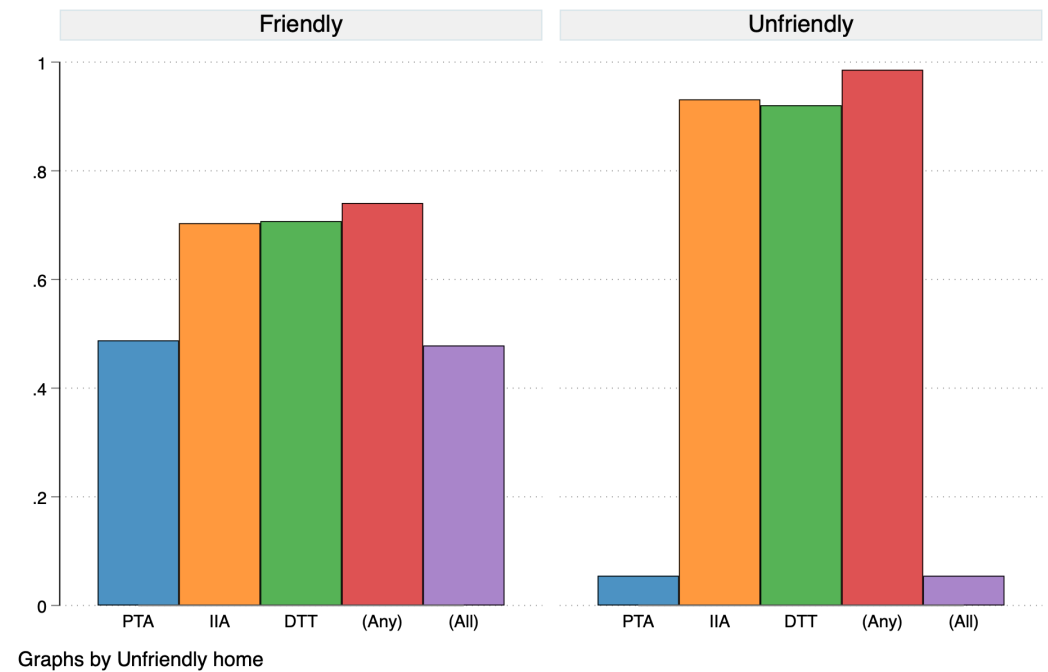
Перечень системообразующих организаций, утвержденный Правительственной комиссией по повышению устойчивости развития российской экономики		
Отрасли	№№	Организации
Транспорт	1.	ОАО "АК "Транснефть"
	2.	ОАО "Российские железные дороги"
	3.	ОАО "Совкомфлот", вкл. ОАО "Новошип"
	4.	ОАО "Дальневосточное морское пароходство"
	5.	ОАО "Приморское морское пароходство"
	6.	ОАО "Мурманское морское пароходство"
	7.	ОАО "Северо-западное пароходство"
	8.	ОАО "Московское речное пароходство"
	9.	ОАО "Обь-Иртышское речное пароходство"
	10.	ОАО "Судоходная компания "Волжское пароходство"
	11.	ОАО "Ленское объединенное речное пароходство"
	12.	ОАО "Новороссийский морской торговый порт"
	13.	ОАО "Ростовский порт"
	14.	ОАО "Аэрофлот - российские авиалинии"
	15.	ООО "Авиакомпания"
	16.	ОАО "Авиакомпания Сибирь"
	17.	ОАО "АК "Трансаэро"
	18.	ОАО "Авиакомпания "ЮТэйр"
	19.	ОАО "Авиакомпания "Уральские авиалинии""
	20.	ОАО "Международный аэропорт Шереметьево", вкл. ОАО "Международный аэропорт "Владивосток"

Controls: State-level

Tax haven



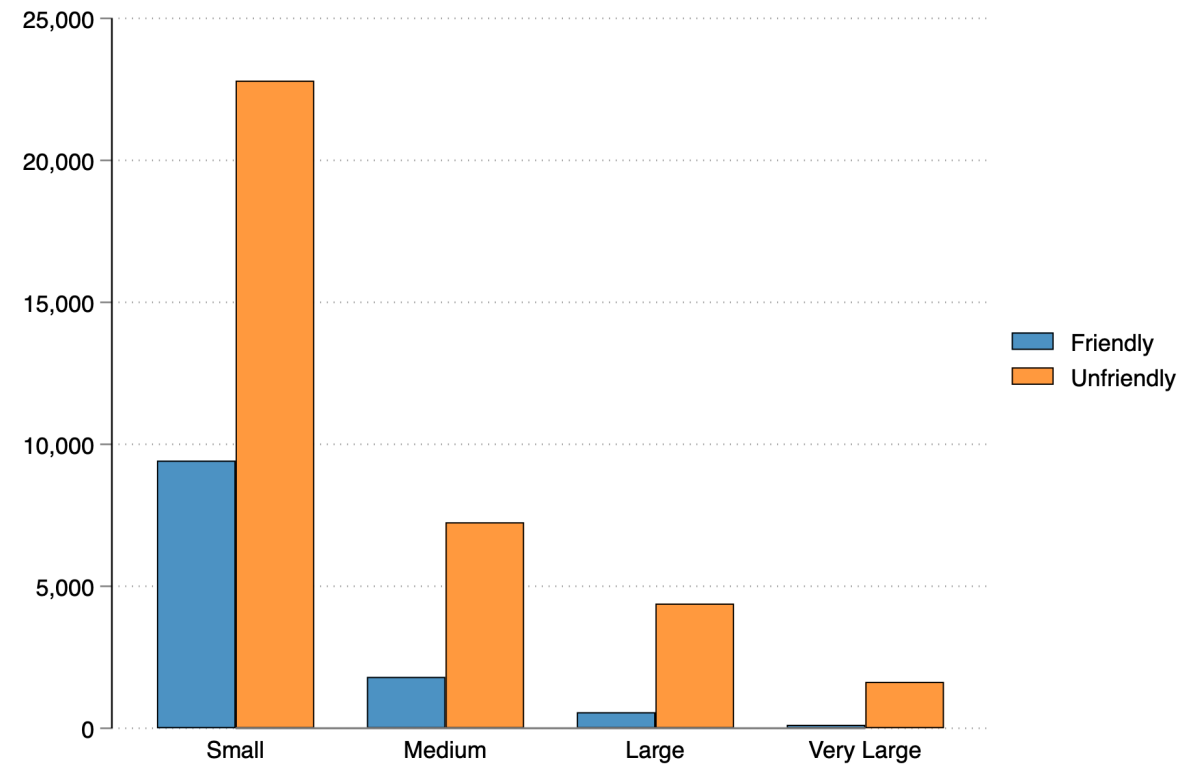
Economic treaties



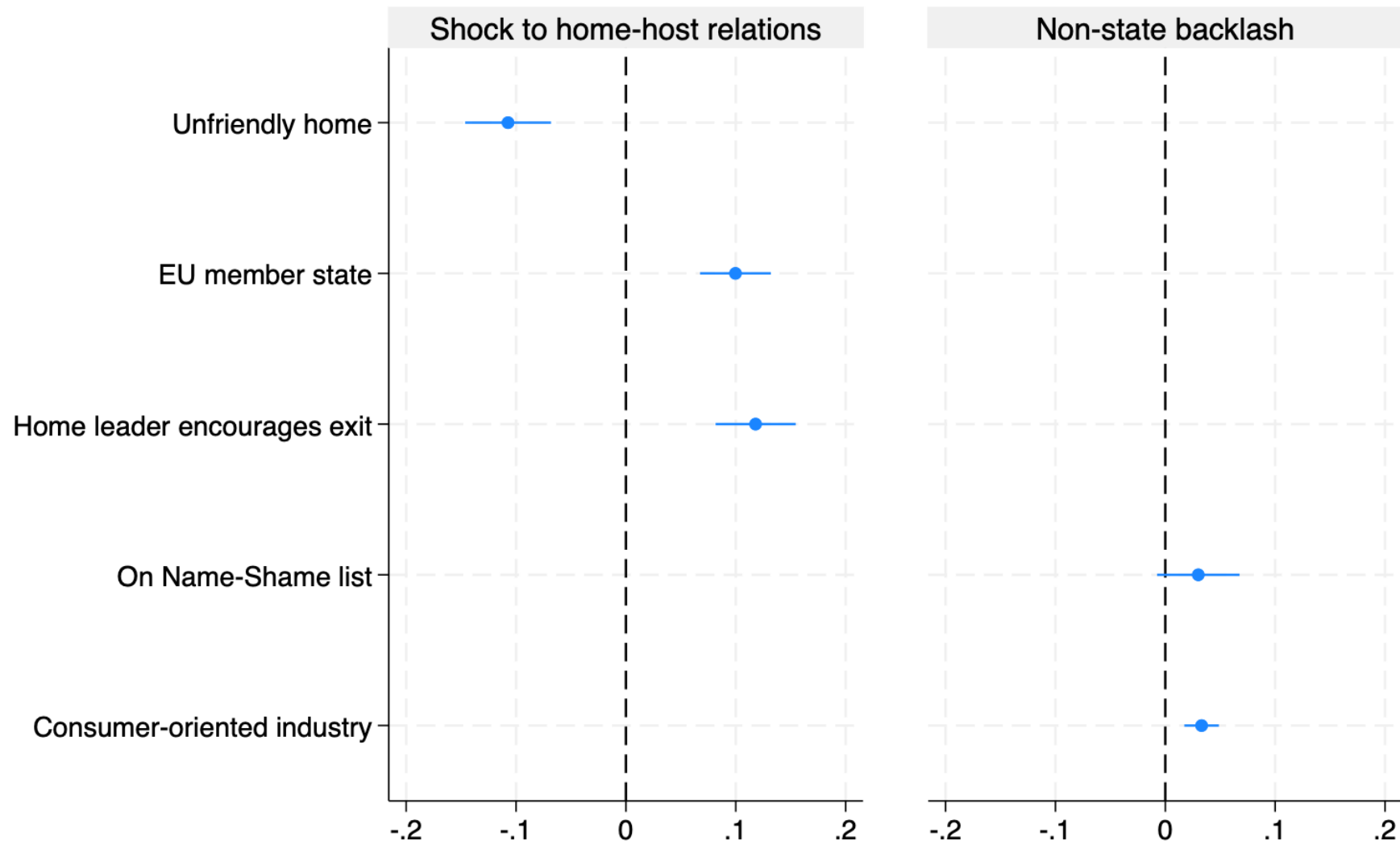
Controls: MNC-level

- Years in Russia
- Size
- ≥ 2 foreign shareholders
- Pre-invasion “inactive” status
- Dummies marking data issues

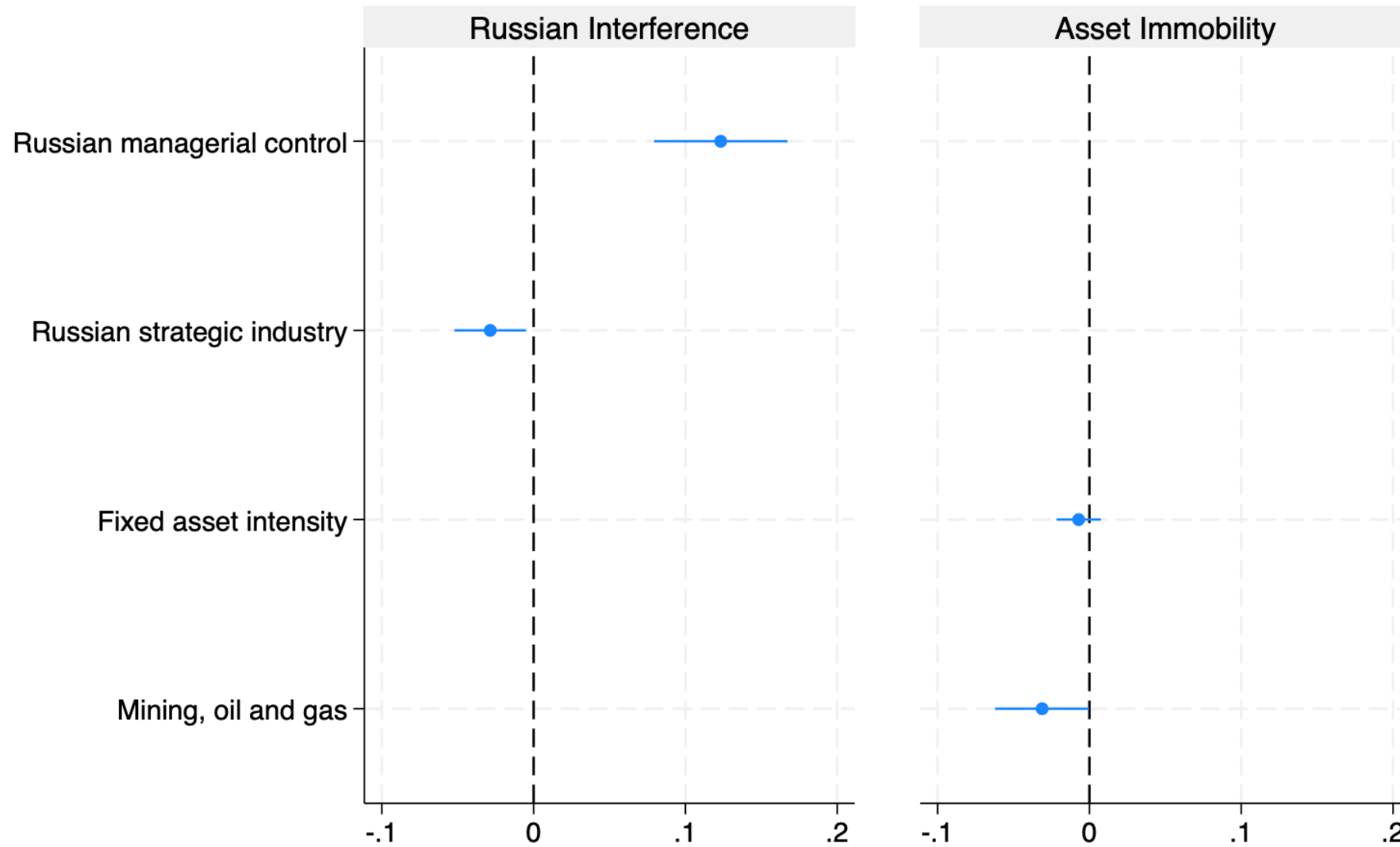
- Industry FE (2-digit NAICS)



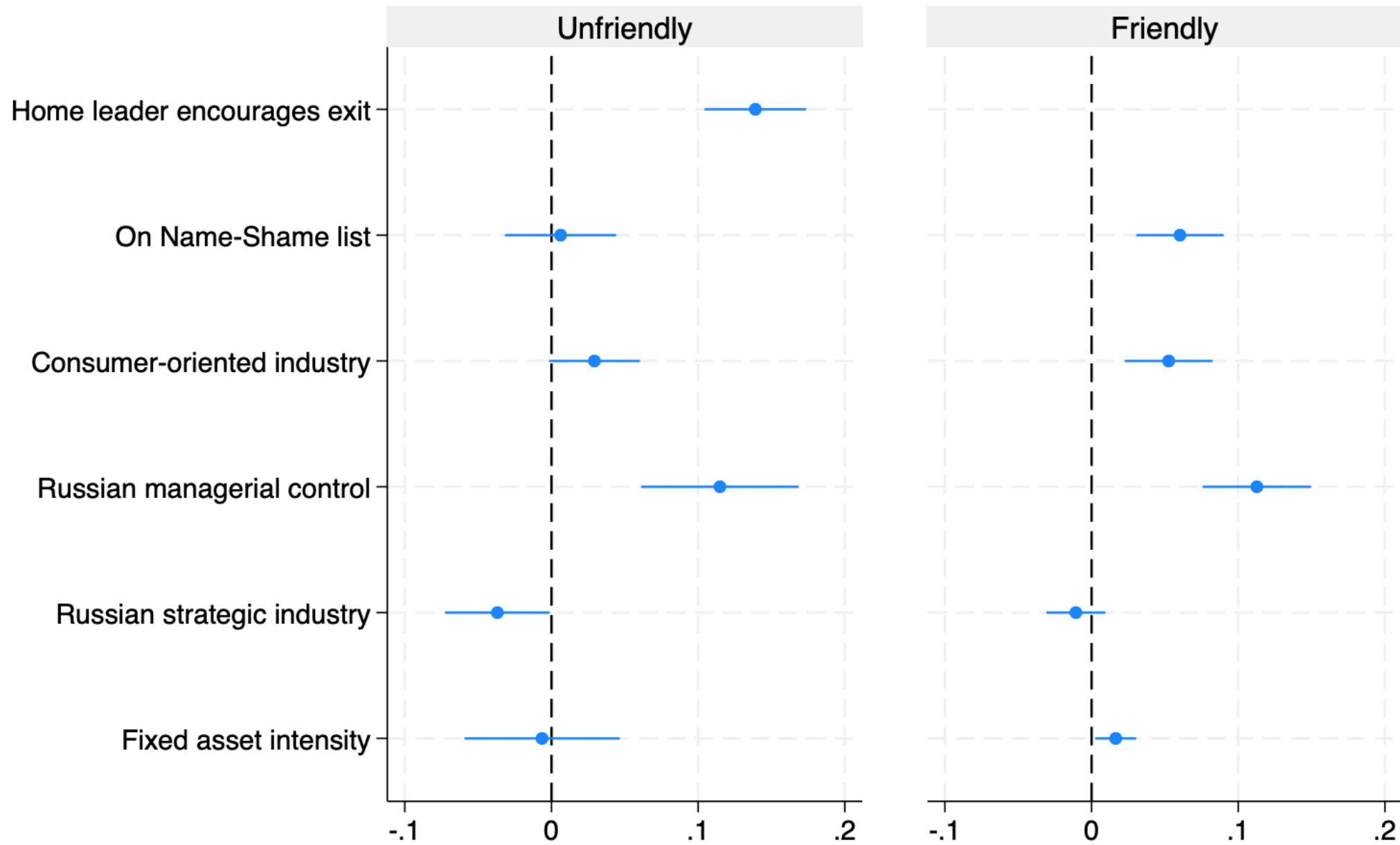
Results



- **DV:** Exit
- **Not reported:** tax haven, Cyprus, IIA, DTT, PTA, firm age, inactive (pre-invasion), foreign shareholders ≥ 2 , MNC (GUO path), and firm size dummies. Industry (2-digit NAICS) FE.
- **N** ~43,325
- Coefficients from Models 3 & 5 in Table 1.



- **DV:** Exit
- **Not reported:** unfriendly home, EU, home guidance, on Name-Shame list, consumer-oriented industry, tax haven, Cyprus, IIA, DTT, PTA, age, inactive (pre-invasion), foreign shareholders ≥ 2 , MNC (GUO path), and firm size dummies. Industry (2-digit NAICS) FE.
- **N** ~43,325
- Coefficients from Models 2 & 4 in Table 2.



- Coefficients from Models 1 (N=32,000) & 2 (N=11,325) in Table 3.

Conclusions + Open questions

- *For IPE*: Exit is a transaction.
- *For “economic statecraft”*: Is this what [insert actor here] wanted?
 - With regard to the “buy side”?
 - In the context of severe economic sanctions?
 - For war and peace?
- *For development*: If a “sudden stop” of FDI is possible...how reliable is FDI as an engine of economic development?
 - In host states with tense relationships with West?
 - In fragile host states in which any “commercial peace dividend” would be welcome?