

УДК: 33.338.1
ГРНТИ:06.52.17

The position of Russian multinational corporations in the world economy: the causes of sanctions and their impact on corporations

K.M. Yudzhel
e-mail: hok96@mail.ru

Annotation

The article discusses the common features of companies that have remained leaders in their industries, despite relations with Western competitors. The analysis of the activities of Russian MNC (multinational corporations) in the modern geopolitical context, the reasons for the introduction of sanctions, the comparison of results of 2017 companies from Russian competition; analyzed the sanctions from the point of view of Western partners and the estimation of the impact of their big business. The methods of statistical and comparative analysis are used. Conclusions about the General image of the Russian Federation at the present stage of development are made, various aspects of influence on the attitude of the West to Russia are generalized. The study substantiates the need to improve economic and political relations of Russia with the Western partners, as well as increase in economic activities with the countries-participants of the BRICS and EEA member countries.

Keywords: *corporation, sanctions, rating, state, economy, industry, monopoly*

Introduction

It is difficult to overestimate the importance of transnational corporations in the world economy, especially when it comes to the modern world. The budgets of individual corporations are compared with the budgets of various developing countries, and this is not just the case. Over time, corporations are beginning to control an increasing number of industrial, foreign trade, labor and other resources, creating real empires that have a strong impact on the economy, and more recently on the policies of countries.

However, what is the position of Russian transnational corporations on the world market today? Before we will talk about practical side of our theme, we need to understand theoretical component of internationalization. There is a definition of internationalization, proposed by Danilchenko A.V, where internationalization is "the transfer of the business economic activity of a firm outside of the national state in the form of the export of goods, services and capital" [1]. In this definition, emphasis is placed on exporting goods and services to foreign markets, but immediately the question arises: if the company is engaged in attracting foreign products on the national market, so company has close economic ties with world producers, is it internationalized? We believe that it is because, in our opinion, the main thing in the process of internationalization is not to overcome the barriers to the market in the home country, not to transfer business activities to other countries, but, the creation of these interethnic relations, thanks to which new opportunities for the company are opened.

Therefore, in our opinion, the most complete and precise definition of internationalization is the proposed by L. Welch, according to which the internationalization of the business activity of the enterprise is "the process of increasing the company's involvement in international activities". Despite the fact that this definition was given in the distant 1988, it most fully reflects the essence of this process, although it generalizes many manifestations of business activity, nevertheless is simple and concise.

What about theory of internationalization, we think that the most current theory is theory of V.M. Polterovich [2]. The basic concept of this theory is the technology of wide applications (TWA), which, according to the author, are the engine of economic growth. Polterovich cites an example of an article by Professor E. Helpman of Harvard University, in which the TWA is defined as a technology that allows for a huge number of improvements that can be used in various ways that are applicable in many sectors of the economy, and that can be combined with many other technologies, creating an effective symbiosis of technology [4].

However, we need to understand that sooner or later, each TWA will exhaust its capabilities, and the flow of secondary innovations will invariably fall, which will lead to a slowdown in economic growth. This can only be prevented by a new TWA, which is extremely rare, and if their development is delayed, the economy starts stagnate.

According to this hypothesis, the crisis of 2007 is a result of a combination of two factors. The first of them is a significant decrease in the efficiency of the flow of technological innovation, due to the fact that the operating TWA - computers and the Internet - have already exhausted their capabilities as the engine of economic growth, and the new TWA is belated and are not yet ready to take this role. The second factor is the formation of a reckless belief in the continuous technical progress supported by a long preceding period of rapid development and exchange mechanisms that generates a "bubble".

A bubble here is the process of the emergence of optimistic views of investors on a certain commodity (security). They believe that the price will increase, will be credited to buy this product, and then sell it with profit. Purchases cause a price increase, and this creates incentives for speculation. These optimistic investor expectations diverge around the world due to globalization, which causes bubbles "inflated" by investors' money flows.

According to this theory, now we are in the times of stagnation and all geo-political disagreements are the causes of this stagnation. Next we will pass to the practical side of the article, starting to talk about political and economic factors, affecting on the multinational companies.

Sanctions against the Russian Federation were introduced in March 2014, due the "interference" of the RF in the internal affairs of Ukraine - this is the official reason for imposing sanctions, but there are still a number of important factors affecting the attitude of the West towards Russia.

Firstly, the international scandal that flared up around the "Magnitsky case" strongly influenced the situation. Sergei Magnitsky was a former auditor of the international company Hermitage Capital, who was the victim of a conspiracy to conceal the tax abuses of tax officials, certain high-ranking officials, as well as law enforcement bodies he discovered. I will not go into the details of this case, but I will say that this incident became an international scandal, which had little impact on the economy, but had a strong political effect. The attitude of other countries towards the Russian Federation changed after this case for the worse.

Secondly, if you look from the point of view of the US or the EU, Russia has been doing wrong things in many cases. In addition to the situation with Ukraine, Russia supported the Syrian President Bashar Assad in the Syrian conflict, who refused to conduct a gas pipeline through Qatar, Saudi Arabia, Jordan and Turkey to Europe, at the request of the West, but instead agreed to build a gas pipeline through Iraq and Iran, which was one of the most important causes of worsening relations between Syria and Western countries.

According to the West, Russia suppresses press freedom, defends domestic corruption, interferes in the internal affairs of many countries, and, worse, meddles in the US presidential elections.

Just recently, on March 1st and 2nd, 2018, in Kaliningrad, the Russian President Vladimir Putin held a large interview with American media, in particular NBC, where the journalist asked provocative questions, literally accusing Russia of interfering in US elections among many other wrong-doings. Today, new reasons arise to deepen the hatred or misunderstanding of the US against the Russian Federation. The statement of V.V. Putin to the federal assembly about new atomic-powered missiles which have been created and which have the ability to bypass the US anti-missile defense system will have a profound impact on relations between the countries and perhaps we will soon see news of new sanctions against Russia [5].

Undoubtedly, recently, the Russian economy has been in a difficult situation, but it is difficult to say whether such a situation is the result of sanctions. The fall in oil prices has affected Russia much more than the sanctions. Exports of oil and gas from the Russian Federation in 2013 amounted to 349 billion dollars, while in 2016 it only amounted to 151 billion dollars. Of course, sanctions have had a significant impact on the Russian economy but if we are talking about a resource-rich country that receives most of its revenues from the budget, thanks to the oil and gas sector, the oil prices play a very important role.

Returning to the impact of sanctions on the Russian Federation, it can be noted that the largest Russian banks and companies suffered the most because of credit restrictions from abroad. It is now

required to refund large loans to foreign borrowers without the possibility to re-credit, which, undoubtedly, strongly influences business proceedings. As a result, in 2014-2016, an imbalance of \$ 170 billion arose between the repaid and borrowed loans of companies. Conclusion: The EU, the US and Japan, that is 85% of the financial market of the world, have been closed for the third year already, which makes us wonder about the fate of the Russian economy in the long term, since we need to look for investors.

Sanctions concerning the purchase of equipment from the oil and gas sector have also affected the economy, but on a global scale, it is not significant. If we take individual companies whose activities extend to oil production on the Arctic loop, as well as deep-sea drilling, these restrictions can really hamper the development of new projects, since their dependence on imported technologies is extremely high.

It is necessary to turn to the world ratings of the largest companies to visually see the strongest companies of the Russian Federation and compare them with foreign competitors.

The first rating will be from Forbes Global 2000, which, in 2017, included 27 Russian companies. The leaders are: Gazprom (40th place), Sberbank (56th place), Rosneft (82nd place) and Lukoil (129th place). Also, the Top 10 largest Russian companies according to Forbes Global 2000 include Surgutneftegaz (305), VTB (397), Novatek (542), Norilsk Nickel (586), Transneft (658) and Rosseti (778) [6].

We should also refer to the rating according to Fortune Global 500 2017, which shows the world's largest companies in terms of revenue and see how many Russian companies are classified and what their position is. Below is the geographical location of the world's largest companies (see Fig. 1) [7].

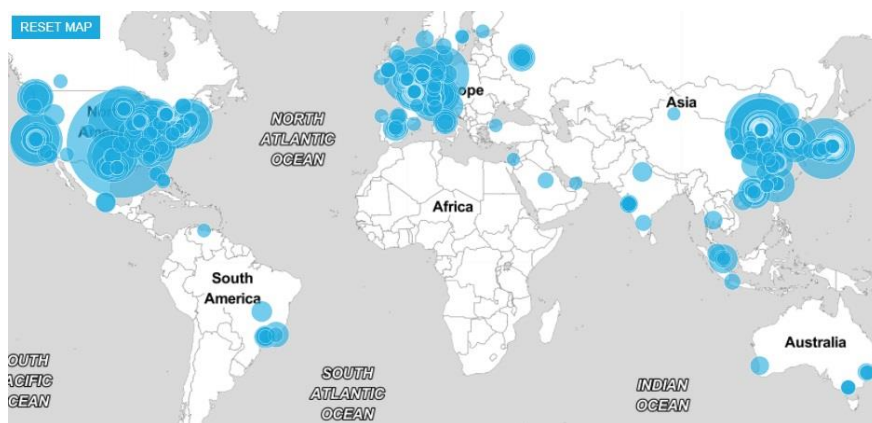


Fig. 1. The geographical location of the world's largest companies.

As seen from the rating, Russian companies are not currently leading in any industry. Only four Russian companies were included in the rating: Gazprom (63rd place), Lukoil (102nd place), Rosneft (158th place) and Sberbank (232nd place). Conclusion: these are three monopoly state companies (Gazprom, Rosneft and Sberbank), two of which are engaged in the extraction, processing and transportation of oil and gas - the largest branch of the economy of the Russian Federation. Sberbank, in turn, is a universal bank of CIS countries, which, as written on the official website of the bank, is used by 70% of Russia's population (110 million people) and 11 million abroad (presumably the CIS countries), accounting for 46% of deposits of the population, 38.7% of loans to individuals and 32.2% of loans to legal entities [8].

Sanctions have also influenced Sberbank, the conclusion was made after the announcement of German Gref "We are now optimizing our activities in Europe, to stand out from other countries and we will optimize our central office in Europe. It is extremely difficult to work under sanctions in Europe. Gref also said that the most successful European integration activity was the purchase of the Turkish bank DenizBank in 2012, which was one of the three largest banks in Turkey. However, according to reports from Reuters and Bloomberg, in 2018, Sberbank will sell its stake in Denizbank to the largest bank of the UAE Emirates NBD.

It's no secret that the oil and gas sector is the main sphere of the Russian economy. In early 2017, the total amount of oil sold amounted to 254.9 million tons, for a total of \$ 285.5 billion. The

largest buyer is China (47.5 million tons/14.6 billion dollars), followed by the Netherlands (49.5/13.9 billion dollars) and Germany (23.6/6.6 billion dollars).

As for consumers of Russian gas, the whole of Europe, especially Germany, Austria and Turkey, still depends on it. As of 2016, the state monopolist Gazprom, supplied 34% of all incoming gas to the European region.

As seen from the graph (see Fig. 2) [3], there is a positive trend for the purchase of Russian gas by Germany and Turkey. In Central and Eastern Europe, Romania (+ 165%) and the Baltic countries have become the new leaders. Estonia, Latvia and Lithuania increased their imports of Russian gas by an average of 90%, 75% and 125%, respectively. As for the UK, which receives 16 billion cubic meters of gas from Russia, which is 23% of the country's gas consumption, Teresa Mei recently said that due to the break in diplomatic relations between Russia and Britain (due of the poisoning of former MID (main intelligence directorate) agent Sergei Skripal), they are going to reduce their dependence on Russian gas. In my opinion, this statement by the Prime Minister of Great Britain should not be taken seriously, since there is not enough Norwegian gas reserves, the liquefied gas from the United States may not be enough, therefore, the Russian Federation still remains the leader of gas supplies to the EU.

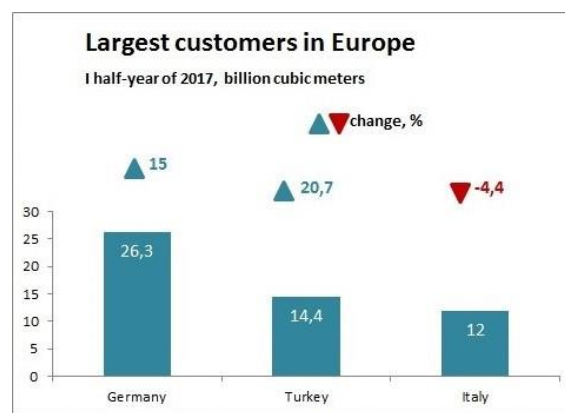


Fig. 2. Largest customer of Russian Gas in Europe.

It is worth mentioning that Russian multinationals are the largest taxpayers of the Russian Federation. The most important taxes for the largest Russian MNCs (gas and oil) are: mineral extraction tax and export duty on oil. In 2010, the total amount of taxes paid by the 10 largest MNCs in Russia was 4 030.4 billion rubles, while the total amount for 2017-2017 amounts to 4301.8 billion rubles (see Fig. 3) [5].

Place	Company	Taxes paid, bln. Russian rubles	Revenue, bln. Russian rubles.	Tax burden, %
1	Rosneft OIL AND GAS	1 362,0	4 988,0	27,3
2	Gazprom OIL AND GAS	1 168,2	6 111,1	19,1
3	Lukoil OIL AND GAS	564,5	4 743,7	11,9
4	Surgutneftegas OIL AND GAS	330,8	1 020,8	32,4
5	Sberbank of Russia FINANCE	245,4	3 058,9	8,0
6	Tatneft OIL AND GAS	156,2	580,1	26,9
7	Russian Railways TRANSPORT	151,6	2 133,3	7,1
8	Rosatom ENERGETICS	125,3	864,6	14,5
9	Bashneft OIL AND GAS	106,1	494,0	21,5
10	Slavneft OIL AND GAS	92,4	210,9	43,8

Fig. 3. The multinational largest taxpayers of the Russian Federation.

Please note that only in 2011, 11.37 trillion rubles of corporate taxes were paid, so almost 40% of the taxes paid are accounted for by the top 10 largest companies in Russia. Of course, the largest taxpayers are the state monopolies for the extraction and export of oil and gas, as well as the monopoly on the provision of financial services, this is clear to everyone. Of the ten largest taxpayers - seven are from the oil and gas sector. They pay 38.9% of all corporate taxes. This fact shows that small and medium-sized businesses play virtually no role in paying taxes and accordingly have slight effect on the market segment [9].

In many western developed countries, small and medium business are the main taxpayers, however in our country small and medium businesses are only beginning to show growth trends. Hopefully, we will see this growth practically in the near future, because there is a working state program to support small and medium business. In this program we can see cash grants, new subsidy from departments of investment and entrepreneurship administrations, internships; preferential leasing; business incubators (possibility to rent a good office for a nominal fee); preferential / free outsourcing (external accounting and / or legal services) and etc.

Conclusion: According to world ratings, the leading positions in the Russian Federation are held by state monopolies in the oil and gas and financial sectors, on which three types of sanctions were imposed: financial, technological and corporate (reputation). Sanctions have not affected the export flows of Russian oil, but it was rather the decline in oil prices that has affected export revenues. However, on the medium and long term, the negative impact of sanctions can be tangible. The most significant problem for domestic companies was the inability to attract relatively cheap resources from the global financial system for a period of more than 30 days, and even more so for a longer period. Given the debt nature of business models of Russian energy companies, this sanction restriction is particularly noticeable. Oil and gas still remain the leading economic sector of the RF. It is necessary to increase state support for small and medium businesses in Russia and create new conjectural trends for the Russian market. Despite the position of the West, without dialogue, trying to establish political and economic ties between Russia and Western partners, it is impossible to correct the current situation.

Acknowledgement

Author thanks his scientific advisor, *Loginov Evgeniy Leonidovich* for a big support and helping me with the article.

References

1. Danilchenko A.V. Empirical studies of the internationalization of entrepreneurship. - Mozyr: White Wind, 1997 (in Russian).
2. Polterovich V. Hypothesis about the innovational pause and strategy modernization // *Voprosi ekonomiki*. – 2009. - № 6. P. 4-22 (in Russian).
3. Gazprom official site. URL: <http://www.gazprom.ru/>
4. General Purpose Technologies and Economic Growth / E. Helpman (ed.). Cambridge, Mass.: The MIT Press, 1998.
5. Plotnicov I.V. Features of the formation and development of Russian transnational corporations. Thesis for competition of cand. of sci. (Econ.), Samara, 2011 (in Russian).
6. Full interview of V.V. Putin for the American television channel NBC. URL: <http://en.kremlin.ru/events/president/news/57027>
7. Forbes Global 2000 (2017). URL: <https://www.forbes.com/global2000/list/#country:Russia>
8. Fortune Global 500 (2017). URL: <http://fortune.com/fortune500/>
9. Sberbank official site. URL: <http://www.sberbank.ru>
10. RBC study: Russia's largest taxpayers (In Russian). URL: <https://www.rbc.ru/economics/15/08/2017/597724fd9a794714c9ac187c>

Положение российских ТНК в мировом хозяйстве: причины санкций и их воздействие на корпорации

Юджел Х.М.

e-mail: *hok96@mail.ru*

Аннотация

В статье рассмотрены общие черты компаний, которые остались лидерами в своих отраслях, несмотря на отношения с западными конкурентами. Проведен анализ деятельности российских ТНК в современных геополитических условиях, причины ввода санкций, сравнение результатов 2017 года компаний из РФ с конкурентами; проанализированы санкции с точки зрения западных партнёров и дана оценка воздействия их на крупный бизнес. Используются методы статистического и сравнительного анализа. Сделаны выводы об общем имидже Российской Федерации на современном этапе развития, обобщены различные аспекты влияния на отношение стран запада к РФ. В исследовании обосновывается необходимость улучшения экономических и политических отношений РФ с западными партнерами, а также наращивание экономической деятельности со странами-участницами БРИКС и ЕАЭС.

Ключевые слова: *корпорация, санкции, рейтинг, государство, экономика, отрасль, монополия*

Об авторе

Юджел Хакан Музафферович, студент 4 курса факультета международных экономических отношений, Финансовый университет при Правительстве РФ, Москва.

About author

Udzhel Khakan Muzafferovich, 4th year student of Financial University under the Government of Russian Federation, International Economic Relations Department, Moscow.