

Exit or Adapt? Foreign Multinationals in Russia as a Stress Test for Globalization: Evidence from Firm Exits During Economic Sanctions

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BRICS in the Era of Economic Wars – Micro-level evidence
from Russia, School of World Economy Annual Conference on
Global Economy

Outline

Globalization under sanctions: where do BRICS fit?

Motivation

Russia as a “sanctions laboratory” for global firms

Data description

Stylized facts

Who exits, who stays, and why?

What this implies for BRICS’ role as “defenders of globalization”

Motivation

- Why study foreign firm behavior under geopolitical risk and *economic wars*?
- 2022 escalation in Russia-Ukraine conflict + sanctions = natural experiment in the **weaponization of trade and finance**
- Our angle: micro-evidence on **how global firms re-evaluate their presence** in a BRICS economy under unprecedented sanctions

Data and key variables

- Manually collected firm-level panel for **10,472 foreign-owned firms (full set) in Russia, 2017–2023** ($\geq 10\%$ foreign share, $\geq 500k$ RUB capital)
- Sources: **SPARK** (ownership, exact exit dates, capital) + **Fira** (industries)
- Key variables:
 - **Exit** (month when foreign share falls below 10%)
 - **Sector clusters:**
 - strategic (e.g. energy, defense-related, finance, advanced manufacturing)
 - consumer-facing (e.g. retail, accommodation, tourism, food services)
 - domestic non-strategic (e.g. construction, basic manufacturing, public services)
 - **Ownership:** offshore vs direct
 - **Size:** capital quartiles (below 3.6; 3.6-15; 15-117; 117 million rubles or more)
 - **Origin group:** “unfriendly” vs other

Evolution of Foreign-Owned Firms in Russia

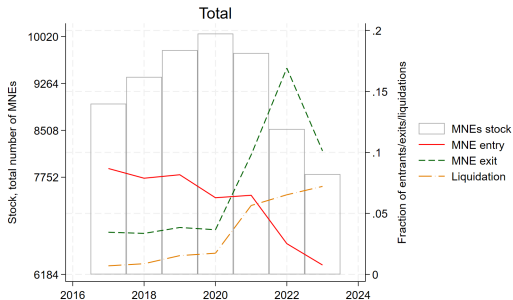


Figure 1: Evolution of Foreign-Owned Firms in Russia: Stock, Entry, Exit, and Liquidation (2017–2023)

- Key insight: Exit rate doubled post-2022
- Foreign firm exits spiked in 2022 (↑ to ~15%)
- Entry collapse = **structural break in globalization for Russia**
- Despite sanctions, a large stock of foreign firms remains – consistent with the broader evidence that global trade *bends but doesn't break* under economic wars.

Heterogeneity Across Regions

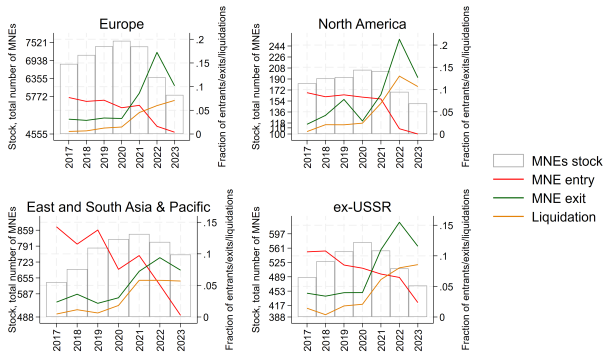


Figure 2: Evolution of Foreign-Owned Firms in Russia: Entry, Exit, and Liquidation by Region of Origin, 2017–2023

- Europe & U.S.: sharp, coordinated exits post-2022 / Asia - slower, more moderate adjustments / ex-USSR: exits increased, but less sharply
- This pattern is consistent with **fragmentation of globalization into blocs**: Western firms react strongly to sanctions; many Asian and regional investors remain, reshaping Russia's integration towards the Global South.

BRICS vs G7

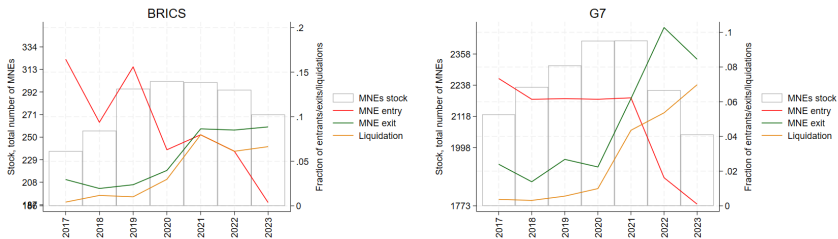


Figure 3: Evolution of Foreign Investor Entry, Exit, and Liquidation in Russian Firms: BRICS vs G7, 2017–2023

- Entry collapses after 2021 for both groups
- G7 firms show a sharp exit and liquidation surge in 2022–23
- BRICS firms continue to exit, but without a pronounced 2022 spike → relative resilience
- Net effect: Russia's foreign-investor base shifts away from G7 dominance and relatively more toward BRICS/Global South capital, rather than full de-globalization.

Offshore vs. Direct Ownership

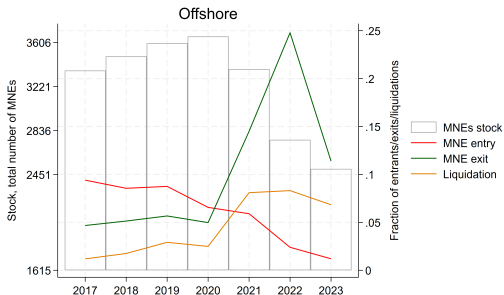


Figure 4: Evolution of Entry, Exit, and Liquidation for Offshore-Owned Firms in Russia, 2017–2023

- Offshore firms exit more and faster - they feel **less locked-in**
- This shows how firms use ownership structures to retain **flexibility under geopolitical risk**
- In an era of economic wars, complex ownership chains can also be a way to adapt rather than fully de-globalize

Sectoral Differences

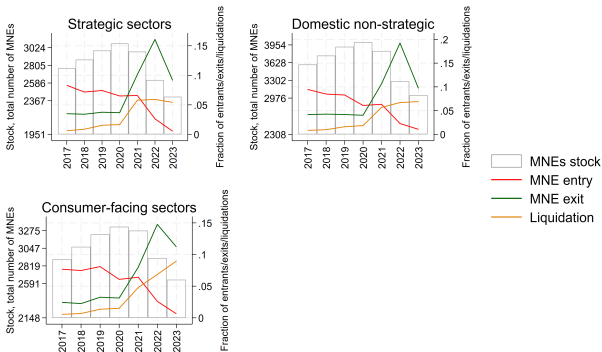


Figure 5: Evolution of Foreign Investor Entry, Exit, and Liquidation in Russian Firms by Industry Cluster, 2017–2023

- Domestic non-strategic = highest exit (low sunk costs)
- Consumer-facing = moderate, demand-driven tradeoffs
- Strategic sectors = sticky, low exit (political lock-in + sunk costs)
- Even under severe sanctions, strategic production and key value-chain nodes are hard to unwind

Probability of FDI exit: Empirical strategy 1

- We use **probit model** to estimate the probability of foreign investor i to exit in month m of year t :

$$Prob(Exit_{itm} = 1) = \Phi(\alpha + \beta_1 \cdot SuperCluster_i + \beta_2 \cdot OriginGroup_i + \beta_3 \cdot Offshore_i + \beta_4 \cdot CapitalGroup_i + \delta_m + \varepsilon_{itm}), \quad (1)$$

- panel structure of data
- we include monthly fixed effects.

Predicted Probability of Foreign Investor Exit: Marginsplots from Full Probit Model

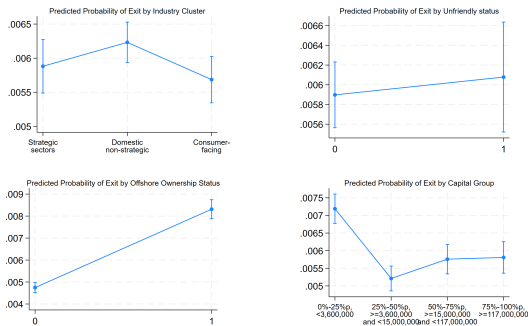


Figure 6: Predicted Probability of Foreign Investor Exit: Marginsplots from Full Probit Model

- Exit ↓ in strategic & consumer sectors / Offshore = strong ↑ in exit / Smaller firms = more likely to exit
- “Unfriendly” status: not significant when controlling for other factors → This suggests that firm-level characteristics (size, embeddedness, ownership) mediate how geopolitical conflict translates into actual de-globalization.

What does this tell us about globalization under sanctions?

Micro evidence on the “weaponization of trade”

- Sanctions and geopolitical shocks create a **sharp but selective** break in foreign presence
 - Exit rate of foreign firms in Russia **doubles** post-2022
 - Yet many firms – especially larger and strategic ones – remain
- Globalization doesn't simply reverse; it **re-routes**
 - Strong exits from Western investors, weaker from Asia and regional partners
 - Ownership and firm size shape who can adapt vs who is forced to exit
- For the BRICS narrative, this is consistent with **“bending, not breaking”** of global value chains under economic wars

Implications for BRICS as ‘defenders of globalization

Implications for BRICS strategies in the era of economic wars

- **Joint response to trade barriers:**
 - Our evidence shows that **uncertainty** and **transaction costs** drive exits more than simple “friend vs foe” labels.
 - A joint BRICS response could focus on **stability of rules**, dispute-resolution mechanisms, and predictable treatment of investors to keep firms embedded even under pressure.
- **Intra-BRICS liberalization:**
 - As Western sanctions and tariffs rise, firms seek **alternative hubs**.
 - Deeper **trade and investment liberalization within BRICS** can attract firms seeking to diversify away from politically risky jurisdictions, especially in strategic sectors.

Implications for BRICS as 'defenders of globalization

Implications for BRICS strategies in the era of economic wars

- **Overcoming trade wars & WTO crisis:**
 - Russia's case shows that sanctions do not end globalization, but they **reconfigure global networks**.
 - BRICS can act as "defenders of globalization" by:
 - building **alternative financial and logistics infrastructures**,
 - supporting **regional value chains**,
 - and pushing for **reformed multilateral rules** that limit the unilateral weaponization of trade.
- Micro-level decisions of foreign investors in Russia tell us that the future of globalization will depend less on whether economic wars exist, and more on how blocs like BRICS manage uncertainty, integration, and credible commitments to firms.

Conclusions

- Sanctions created a **structural break** in foreign firm behavior in Russia, but not a full collapse.
- **Ownership form and firm size** matter more than simple political labels for exit decisions.
- For BRICS, defending globalization means **reducing uncertainty and offering credible alternatives**, rather than hoping trade wars disappear.

Literature

- Political risk & FDI behavior (Henisz & Zelner 2010; Kobrin 1982)
- FDI exit decisions (Deseatnicov & Klochko 2023; Gonchar & Greve 2022; Deseatnicov & Fukao 2024)
- GVC restructuring under geopolitical shocks (Alfaro et al. 2019; Antràs & Chor 2022)

Data

- Source: SPARK database (2017–2023)
 - detailed information on foreign owners of Russian firms
 - capital, share, time of share change
 - exact date of firm closure
- Source: Fira database (2017–2023)
 - information on industries of Russian firms
- Our sample: 10,472 foreign-owned firms ($\geq 10\%$ foreign share, $\geq 500\text{k}$ RUB capital)

SPARK vs other popular datasets on foreign owners in Russia

- SPARK advantages:
 - Captures exact exit dates (vs. point-in-time snapshots)
 - Tracks authorized capital changes → monetary value of stake shifts
 - Records actual business cessation date (not just legal closure)
- Built from Rosstat and EGRUL primary data sources

Data (1)

- **Exit** $_{i,t,m}$: equal to 1 if and only if a foreign investor i 's share is less than 10% in month m year t and is more or equal to 10% in month $m - 1$
- **SuperCluster** $_i$: a categorical variable for the firm's industry cluster:
 - Strategic sectors (e.g. energy, defense-related, finance, advanced manufacturing)
 - Consumer-facing sectors (e.g. retail, accommodation, tourism, food services)
 - Domestic non-strategic sectors (e.g. construction, basic manufacturing, public services)

Data (2)

- **OriginGroup_i**: categorical variable for country of origin group (unfriendly vs other)
- **Offshore_i**: a binary indicator for offshore ownership structure.
- **CapitalGroup_i**: a categorical variable for firm capital quartiles.
 - 0–25th percentile: Capital below 3.6 million rubles
 - 25th–50th percentile: Capital between 3.6 million and 15 million rubles
 - 50th–75th percentile: Capital between 15 million and 117 million rubles
 - 75th–100th percentile: Capital of 117 million rubles or more

Germany, USA, Japan, Republic of Korea

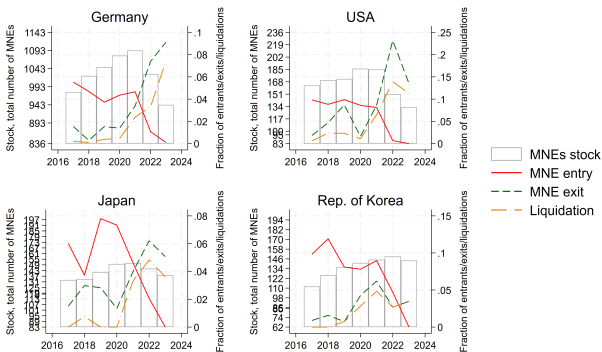


Figure 3: Evolution of Foreign Investor Entry, Exit, and Liquidation in Russian Firms: Germany, United States, Japan, and Republic of Korea, 2017–2023

- Japan and Korea show less exit behaviour activity as compared to the US and Germany

Estimation results

	(1) exit	(2) exit	(3) exit	(4) exit
Consumer-facing sectors	-0.074*** [0.014]	-0.074*** [0.014]	-0.074*** [0.014]	-0.021 [0.015]
Strategic sectors	-0.053*** [0.014]	-0.053*** [0.014]	-0.053*** [0.014]	-0.033** [0.014]
unfriendly=1		-0.022 [0.024]	-0.018 [0.024]	0.011 [0.024]
25%-50%p, >=3,600,000 and <15,000,000			-0.104*** [0.016]	-0.117*** [0.016]
50%-75%p, >=15,000,000 and <117,000,000			-0.059*** [0.018]	-0.081*** [0.018]
75%-100%p, >=117,000,000			-0.050*** [0.018]	-0.078*** [0.018]
offshore=1				0.205*** [0.013]
Observations	842,108	842,108	842,108	842,108
Pseudo R ²	0.03	0.03	0.04	0.04
Time FE	Yes	Yes	Yes	Yes

Standard errors in brackets

* p<0.1, ** p<0.05, *** p<0.01

Predicted Probability of Foreign Investor Exit: Marginsplots from Full Probit Model since March 2022

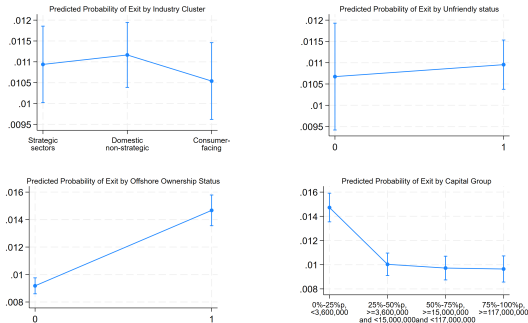


Figure 7: Predicted Probability of Foreign Investor Exit: Marginsplots from Full Probit Model since March 2022

- Baseline exit probability doubled
- Offshore and firm size effects strengthened
- Sectoral gaps narrowed