

Russian Firms under the Current Economic Crisis

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Abstract

Russia has been in an economic crisis since the beginning of 2014 due to sanctions imposed on Russia by the USA and the EU related to the Ukrainian crisis, the decline of oil prices, and structural problems of the Russian economy. The author tries to examine the reality of this crisis at the firm level. First, she illustrates the economic conditions of 2014 and the prospect of the economic conditions of 2015. Next, she explains the factors behind the economic crisis and what the government is trying to do to overcome the crisis. Then, using the examples of some typical industries and firms, she shows how they have been affected by the economic crisis. Finally, she outlines the current situation of Russian firms and discusses their future prospects based on the above-mentioned analysis.

1. Introduction

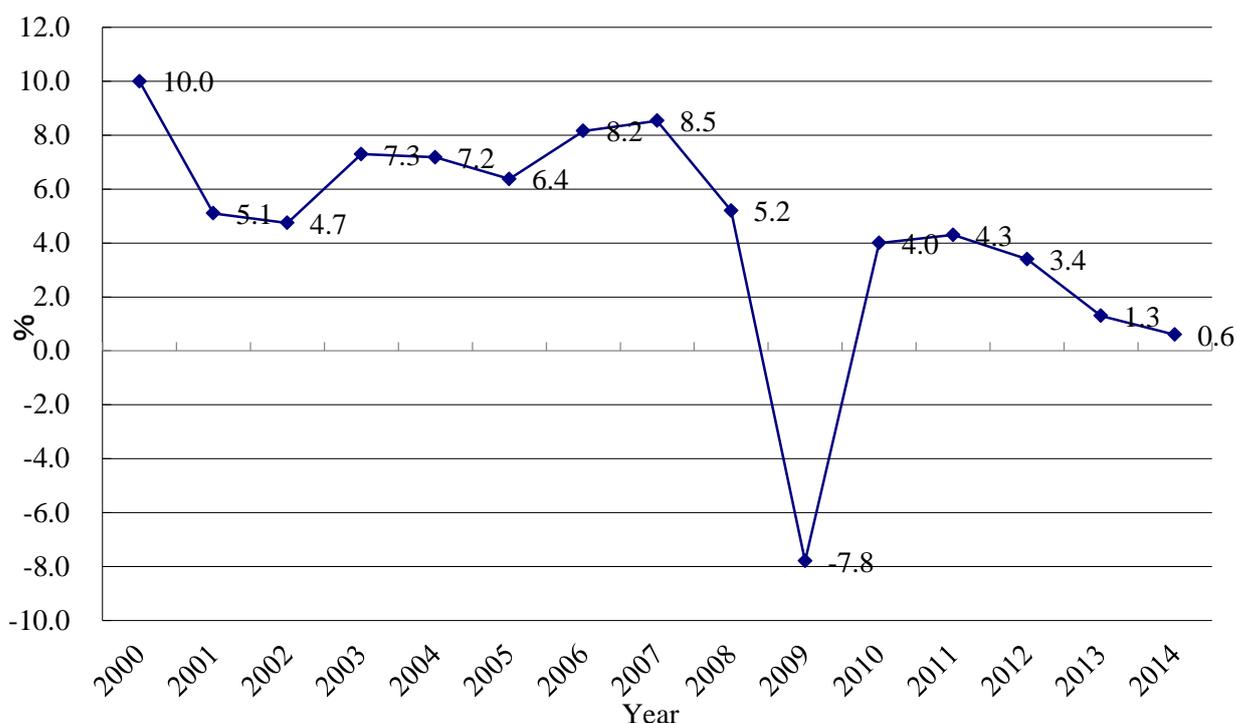
Russia has been in an economic crisis since the beginning of 2014 (Saito [2015]). On January 27, 2015, the Russian government made public “urgent plans for economic development and social stability”.¹ The crisis was caused by sanctions by the USA and the EU on Russia related to the Ukrainian crisis, falling oil prices, and structural problems of the Russian economy. The aim of this paper is to examine what has happened to Russian firms during the current economic crisis. First, the author identifies the economic conditions of 2014 and the economic prospects for 2015, mainly referring to materials provided by Russia’s Ministry of Economic Development. Next, the author shows what the government is doing to try to overcome the crisis. Then, using the examples of some typical industries and firms, the author will examine how they have been affected by the economic crisis. As the economic situation in Russia is still changing, it is not easy to present an accurate picture of the general and specific image of Russian firms at the present time. Therefore, this paper is only able to provide the rather fragmented images of Russian firms grasped by the author. Finally, the author outlines the current situation of Russian firms and discusses their future prospects based on the above-mentioned analysis.

2. The economic situation in 2014 and economic prospects for 2015

In January 2015, Russia’s Ministry of Economic Development released “the Prospects of Social and Economic Development of the Russian Federation in 2015.”² Based on this document, and referring to the data provided by the State Agency of Statics of Russia, we can illustrate the main trends of social and economic development of Russia in 2014 as follows.

The growth rate of the GDP during the year 2014 was 0.6% (Figure 1). While in the 3rd quarter of 2014, the growth rate of the GDP as compared to the same quarter of 2013 was 0.7%, the same figure turned nearly to zero in the 4th quarter of 2014, according to the Ministry of Economic Development.

Figure 1 GDP Growth rate



Source: <http://www.gks.ru>

Investment was decreased most significantly. The closure of the foreign capital market to Russia decreased the total capital of Russian banks, and the higher risk premium increased capital costs for Russian firms. The decrease in investment was connected to capital investment by small firms. However, the investment activity of large- and medium-sized firms increased in the first three quarters (1.8% in the first quarter, 2.1% in the second, and 3.1% in the third). Generally speaking, since domestic and foreign investors became worried about the Russian economy as a whole, the fixed capital investment decreased 2.5% (Table 1). The decrease was mainly connected with private companies in public, social and personal services, medical care, finance, metallurgy, and timber processing.

Table 1 Major Economic & Social Indicators

	2014	2013
GDP (Jun.-Nov.)	100.8	101.1
Industrial production	101.7	100.4
Agricultural production	103.7	105.8

Transportation (ton-kilometer)	99.9	100.6
Retail turnover	102.5	103.9
Paid service for citizens	101.3	102.1
Foreign trade (Jun.-Nov.)	94.9	99.9
Export of goods	96.9	98.9
Import of goods	91.7	101.6
Fixed capital investment	97.5	99.8
Consumer prices	107.8	106.8
Industrial products producer prices	106.1	103.4
Real disposable cash income	99.0	104.0
Monthly average wage		
Nominal	109.2	111.9
Real	101.3	104.8
Unemployed	94.0	100.2
Formally registered unemployed	90.1	85.0

Source: *Informatsiya o Sotsial'no-ekonomicheskom polozhenii rossii*, 2014, p. 5.

The growth rate of industrial production was 1.7%, which was underpinned by the growth of manufacturing industries (2.5%). The largest growth in the manufacturing industries was seen in the production of transportation machines, rubber and plastic products, and coke and oil products. The production of machinery and equipment and lumber and wood products decreased remarkably.

Due to the good harvest of farm products, especially grain, agrarian production increased 11.2% in the third quarter of 2014, as compared to the same quarter in 2013. However, the harvest declined toward the end of the year due to bad weather, and the annual growth of agrarian production was just 3.7%.

The real disposable income of residents decreased 1.0% as compared to the year 2013, while real wages increased 1.3%. Although the consumer market continued to grow in 2014, the retail and service segments were rather stagnant. Retail sales increased 2.5% in 2014, after a growth of 3.9% in 2013. Charged service increased 1.3%, after growth of 2.1% in 2013. The key factor restraining consumer demand was the slowdown in growth of consumer loans, which increased 13.8%, after an increase of 28.7% in 2013.

Export of goods in real terms in the first half of 2014 was large enough (102.8% as compared to the same period in 2013). The growth rate declined to 99.4% in the third quarter, to 91.3% in November, and to 94.2% by the end of 2014.

The import of goods dramatically decreased in the first three quarters of 2014 (7.6%, 10.0%, 5.5%), and 12.9% in November, according to statistics from the Customs Agency of the Russian Federation. It decreased 9.2% throughout 2014.

A trade balance surplus of 185.6 billion US dollars (181.9 billion in 2013) was recorded, while the current account surplus was 56.7 billion (34.1 billion in 2013) (Table2). The amount of capital flight was 151.5 billion (61.0 billion in 2013), according to the Bank of Russia.

Table 2 Main trade partners of Russia (1 million dollars).

	2013			Total (%)	2014			Total (%)	Growth Rate (%)		
	Total	Export	Import		Total	Export	Import		Total	Expor	Impo
World	842233.4	527266.4	314967.0	100.0	782926.6	496944.5	285982.2	100.0	93.0	94.2	90.8
EU	417659.0	283418.5	134240.5	49.6	377304.3	258785.4	118518.9	48.2	90.3	91.3	88.3
German	74943.9	37027.3	37916.7	8.9	70086.5	37124.0	32962.5	9.0	93.5	100.3	86.9
Italy	53868.0	39314.0	14553.9	6.4	48469.4	35746.0	12723.4	6.2	90.0	90.9	87.4
Netherland	75963.3	70126.1	5837.2	9.0	73210.2	67962.0	5248.2	9.4	96.4	96.9	89.9
Poland	27907.4	19581.8	8325.6	3.3	23007.0	15932.3	7074.8	2.9	82.4	81.4	85.0
United Kingdom	24555.6	16449.2	8106.4	2.9	19314.7	11504.9	7809.8	2.5	78.7	69.9	96.3
Finland	18703.9	13308.2	5395.7	2.2	15951.9	11380.9	4571.0	2.0	85.3	85.5	84.7
France	22215.1	9202.9	13012.2	2.6	18320.8	7578.0	10742.8	2.3	82.5	82.3	82.6
APEC	208466.3	99314.6	109151.7	24.8	211183.6	107221.2	103962.4	27.0	101.3	108.0	95.2
China	88798.5	35625.4	53173.1	10.5	88389.1	37504.8	50884.4	11.3	99.5	105.3	95.7
Korea	25172.5	14867.1	10305.4	3.0	27311.2	18287.0	9024.2	3.5	108.5	123.0	87.6
USA	27637.1	11135.1	16502.0	3.3	29175.3	10678.6	18496.7	3.7	105.6	95.9	112.1
Japan	33228.0	19667.5	13560.5	3.9	30797.2	19875.2	10922.0	3.9	92.7	101.1	80.5
CIS(1)	112509.0	73922.1	38586.8	13.4	95612.2	63578.2	32034.0	12.2	85.0	86.0	83.0
Eurasian Economic Community	60608.3	40614.3	19994.0	7.2	55300.3	36243.7	19056.6	7.1	91.2	89.2	95.3
Customs Union (3)	57706.5	37860.5	19846.0	6.9	52554.8	33609.3	18945.5	6.7	91.1	88.8	95.5
Belarus	34187.5	20228.3	13959.3	4.1	31504.0	19717.7	11786.3	4.0	92.2	97.5	84.4
Kazakhstan	23519.0	17632.2	5886.7	2.8	21050.8	13891.6	7159.2	2.7	89.5	78.8	121.6
Ukraine	39603.5	23812.6	15790.9	4.7	27861.9	17114.4	10747.5	3.6	70.4	71.9	68.1
Turkey	32748.9	25476.1	7272.8	3.9	31099.0	24448.1	6651.0	4.0	95.0	96.0	91.5

Source: <http://www.customs.ru>

Note 1: 12 countries from former Soviet Union except three Baltic countries.

Note2 : Russia, Belarusian, Kazakhstan, Kyrgyzstan, Tajikistan.

Note3 : Russia, Kazakhstan, Belarusian.

The index of consumer prices rose from 6.5% to 11.4% throughout 2014, and the annual rate of inflation was 7.8% (6.8% in 2013). This was caused by the devaluation of Russian currency, less competition in the domestic market, and more expectation of inflation.

As we can easily understand from the statistics introduced above, the economic condition of Russia radically deteriorated in 2014. The growth rate of the GDP approached zero. Fixed capital investment decreased. The real disposable cash income of residents decreased, growth of the consumer market slowed, and the growth of personal loans also slowed. External trade shrank. Capital flight grew. Rampant inflation occurred due to the devaluation of the Russian currency.

Moreover, a tougher economic situation is predicted for 2015. The GDP, industrial production, investment, retail sales, real wages, services, external trade, and other sectors are predicted to decrease (Table 3).

Table 3 Main social & economic development indicators (2013-2015)

	2013	2014	2015 (forecast)
Ural crude oil prices (dollar/barrel)	108	98	50
Consumer prices	106.8	107.8	115.8
Exchange rate (Ruble/dollar, yearly average)	31.8	38.0	61.5
GDP	101.3	100.6	97.0
Industrial production	100.4	101.7	98.4
Fixed capital investment	99.8	97.5	86.3
Retail Turnover	103.9	102.5	91.8
Real wages	104.8	101.3	90.4
Real disposable cash income	104.0	99.0	93.7
Paid service for citizens	102.1	101.3	95.0
Export	103.4	99.4	99.9
Import	99.2	91.4	66.1

Source: <http://economy.gov.ru/minec/activity/sections/macro/proгноз/20150216>

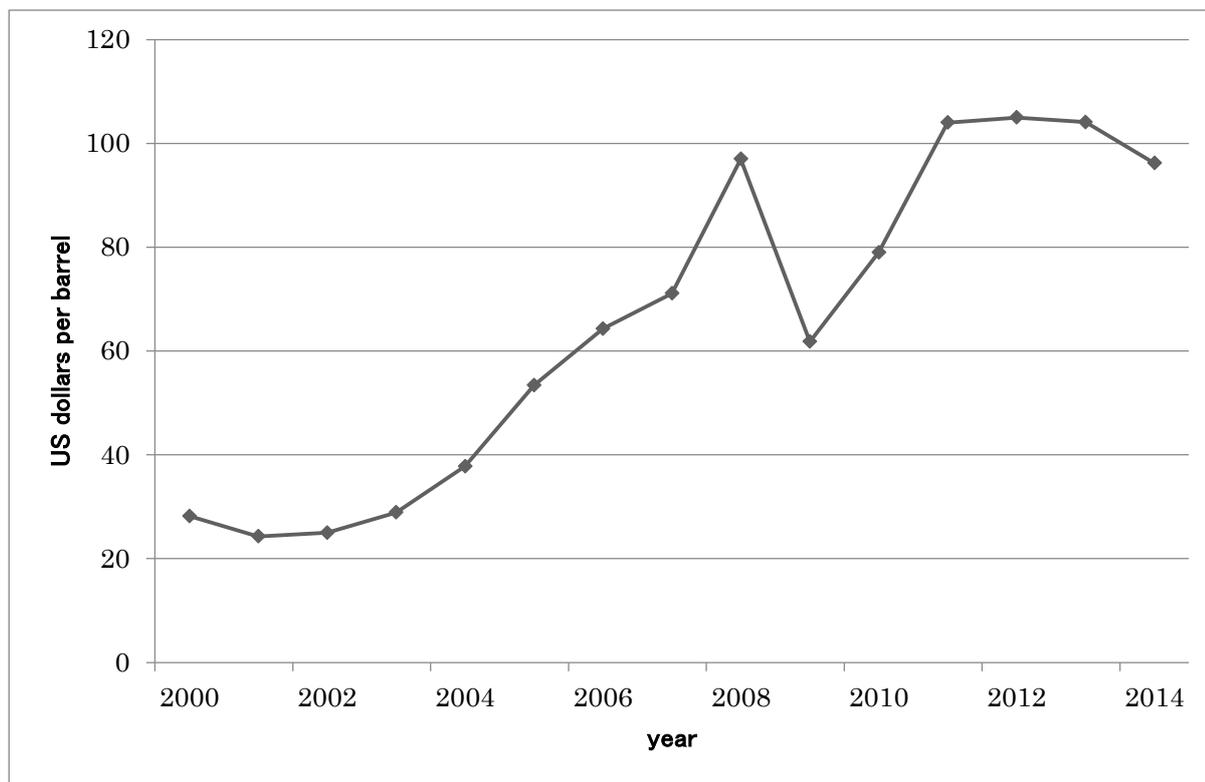
3. Background factors of the economic crisis

Prior to 2014, Russia had experienced an economic boom for more than 10 years, except in 2009 when the global financial crisis influenced the Russian economy. The document “the Prospects of Social and

Economic Development of the Russian Federation in 2015” presented background factors of the economic crisis as follows³:

A slowdown of the Russian economy had been observed as early as the middle of 2012; it was connected with the stoppage of investment flow into Russia caused by the debt crisis in the euro zone. As the Russian economy slowed, it became increasingly obvious that Russia had structural problems, mainly connected with rising labor costs. As a result of this excessive cost growth, the share of total profit in the structure of the GDP decreased, and then material resources for investment became less necessary. Investment was still needed for several years, and in 2014, new factors that restrained the possibility of economic development were added. The Ukrainian crisis, economic sanctions on Russia by the USA and the EU, counter sanctions by Russia, and the falling price of oil since the autumn of 2014 (Figure 2 and Table 4) caused increasing uncertainty, decreasing income, and the remarkable worsening of business confidence. The limiting of access to the international capital market and the tightening of the currency policy dramatically raised the interest rate for borrowing money, which increasingly influenced investment demand and consumer psychology negatively, causing capital flight, currency devaluation, and inflation. It has also recently lowered the real disposable income of residents and consumer demand (Table 3). Actually, in 2014, such a negative influence had not been revealed completely because people preferred consumption rather than saving in order to evade the impact of inflation. Of course, this kind of behavior model can exist for only a short time. When real income is further lowered, the limitation of consumer demand should be increasingly obvious, which will be one of the key factors making the economic situation more desperate in 2015.

Figure 2 International Crude Oil Prices (2000-2014)



Sources: 1985-2013: IMF, *International Financial Statistics*. 2014: <http://www.imf.org>

Table 4 International crude oil prices (2014-2015)

2014	1 quarter	103.7
	2 quarter	106.3
	3 quarter	100.4
	4 quarter	74.5
	December	60.6
2015	January	47.5

Sources: <http://www.imf.org>

In short, we can say as follows: Although Russia recorded high economic growth over 5% almost every year since around 2000, it suffered greatly from the global financial crisis of 2008. While recovering so as to attain positive figures of economic growth after that, Russia has continued to experience an economic slowdown due to the economic slump of the euro zone and structural problems of the Russian economy. Subsequently, Russia faced another crisis due to the economic sanctions of the USA and the EU that resulted

from the Ukrainian crisis and falling oil prices. In this way, the current crisis did not happen accidentally but was rooted in structural problems of the Russian economy. It is impossible to remove the economic sanctions as well as falling oil prices immediately. Therefore, Russia should prepare for difficult economic prospects, with -3% growth in 2015.

Many people in Russia have admitted structural problems with the Russian economy in these several years. In 2009, Prime Minister D. Medvedev, then President of Russia, advocated a policy of modernizing the Russian economy. Its goal was said to be to shift from an economy dependent on natural resources to an innovation-oriented economy. The following four strategies were adopted to realize the shift: (1) Modernization of the state-owned sector (lowering the state's share of economy, introducing more efficient forms of state ownership of companies' assets; (2) State support of prospective industries; (3) Improvement of public administration and abolition of bureaucratic barriers to business; (4) Modification of the tax system and the insurance system to make them more favorable to investors⁴. However, the goals and strategies obviously have not been accomplished.

We should also pay attention to the close economic ties between Russia and the USA and the EU, which are currently applying sanctions on Russia.

Let us confirm first what the Russian foreign trade structure was in 2013 just before the outbreak of the Ukraine crisis. Referring to the partnership structure (Table 2), the EU accounted for nearly half of the Russian trade and APEC countries for nearly a quarter. Therefore, serious confrontation with the EU is especially problematic for Russia. Although CIS countries had 13.4% of the Russian trade, CIS is not working effectively, especially in the economic sense. The CIS countries are members of the EAEC (Eurasian Economic Union), which had 7.2%, and the EAEC countries are members of the Custom Union, which had 6.9%. Therefore, we can say that former Soviet countries are not the most important trade partners for Russia at the present. On the other hand, China has become Russia's largest partner.

A breakdown of exports by item shows that fuel and energy-related goods account for more than 70%, followed by metal and metal products at 7.7%. As for Russia's imports, machinery, equipment, and transfer machines account for nearly 50%, followed by chemicals and rubber—15.9%, and then food and agrarian products (Table5).

Table 5 Trade items of Russia

	2013				2014			
	Export		Import		Export		Import	
	Amount	%	Amount	%	Amount	%	Amount	%
Total	527,266	100	314,967	100	496,944	100	285,982	100
Foodstuff, agricultural products (except	16,228	3.1	43,165	13.7	18,906	3.8	39,715	13.9
Mineral products	377,080	71.5	6,917	2.2	350,116	70.5	7,230	2.5
Fuel, energy products	372,036	70.6	3,643	1.2	345,445	69.5	3,905	1.4
Chemicals, rubber	30,789	5.8	50,026	15.9	29,120	5.9	46,415	16.2
Leather	609	0.1	1,524	0.5	414	0.1	1,280	0.4
Woods & pulp	10,980	2.1	6,611	2.1	11,634	2.3	5,894	2.1
Textile & shoes	928	0.2	18,037	5.7	1,069	0.2	16,306	5.7
Precious stones & metals	14,302	2.7	880	0.3	11,843	2.4	1,107	0.4
Metals and metal products	40,846	7.7	21,680	6.9	40,565	8.2	19,214	6.7
Machinery, facilities, transportation	28,910	5.5	152,635	48.5	26,329	5.3	136,243	47.6
Others	6,594	0.0	13,492	0.0	6,948	1.4	12,580	4.4

Sources:

<http://www.customs.ru>http://www.jetro.go.jp/world/russia_cis/ru/stat_05/

When we compare figures from 2013 to those from 2014, when the Ukrainian crisis occurred, we can see that the amount of trade decreased both in exports and imports, with a remarkable reduction of figures related to EU and CIS countries, especially Ukraine (Table 2). Although the trade structure by categories of goods has not shown any big change as a whole, the amount of fuel and energy-related products exported and the amount of machinery, equipment, and transfer machines imported remarkably decreased, making the largest contribution to the decrease of total trade (Table 5).

4. Anti-crisis measures by the government

In his message to congress on December 4, 2014, President Putin mentioned the Crimean crisis, the Ukrainian crisis, and the difficult relationship with USA and the EU, and then pointed out “the importance of decreasing the barriers to business activities to a minimum.”⁵ Prime Minister Medvedev said that the shift from an economy dependent on raw materials to an innovation-oriented economy would be one of the most important tasks for Russia in the future in the “meeting for secure economic development and social stability.”⁶

Based on such an idea, the “Urgent plans for secure economic development and social stability” adopted by the Russian government on January 27, 2015, included both short-term rescue measures and long-term measures. These plans include the following measures.

In 2015–2016, the government should take steps to change the structure of the Russian economy, stabilize the activities of the most important companies (system-making companies), attain balance in the labor market, restrain inflation, mitigate the impact of increasing prices for welfare-related goods and services for low-income people, focus on medium-term prospects for economic growth, stabilize the macro-economy, and so on.

The most important activities in the next several months should be the following:

- Supporting import substitution and the export of non-natural resource products, especially high-technology products.
- Supporting small- and medium-sized enterprises by lowering financial and bureaucratic costs.
- In the most important economic sectors, making circulating or investment financial resources available with appropriate interest rates, especially when receiving military orders.
- Compensating for additional burdens that the most vulnerable people (pensioners, families with many children) bear.
- Mitigating the tension in labor markets and encouraging effective employment.
- Optimizing public expenditures by identifying and reducing ineffective costs while focusing resources on priority developments.
- Making the banking system more stable and creating a rescue mechanism for “system-making companies”

that fall into trouble.

The section, “Revitalizing Economic Growth,” points out the necessity of stabilization measures, measures to support import substitution and export of non-resource products, the reduction of business costs, the support of SMEs, etc.

In the section, “Support for Different Economic Sectors,” we find that the priorities of various state programs, federal special-purpose programs, and federal investment programs are going to be reviewed. This is because financial resources should be oriented in the direction of the most important developments and additional anti-crisis measures. Also planned are new measures to support agriculture, home construction, infrastructure, industry, the fuel-energy complex, and transport.

The section, “Securing Social Stability,” highlights the necessity of improving the employment structure, social support for citizens, health care, and guaranteeing medicine and access to medical treatment.

In the end, monitoring and control of the economic and social conditions are presupposed.⁷

The “Urgent Plan” addresses many such broad areas. Mr. Michitaka Hattori (a senior researcher of the Institute for Russian and NIS Economic Studies) wrote, “The Russian government is able to allocate only a limited volume of fiscal support for these programs....therefore the effectiveness of the current anti-crisis measures may be limited as well.” According to him, negative responses to these measures are quite common in Russia⁸.

As we saw above, the Russian government is attempting to make the banking system more stable and to create a rescue mechanism for system-making companies that fall into trouble. Actually, a list of 199 system-making companies was officially announced on February 2, 2015. This list includes most of the large Russian companies that greatly influence the formation of the GDP, employment, and the social stability of Russia while they are operating in industry, the agro-industrial complex, construction, transportation, communication, etc. Such companies generate more than 70% of the national income and employ more than 20% of the economically active population of Russia.⁹ At the time of the global financial crisis of 2008, the Russian government created a similar list.¹⁰ Such state intervention in the economy seems to deviate from the normal market mechanism. However, we can read the government’s intention to protect the free competition rule from the following saving clauses added by the government.

- The inclusion in the list does not automatically guarantee the provision of state support, and firms that are not included may be given state support.
- If firms included in the list want to receive state support, they are requested to fulfill a program for restructuring and improving efficiency as well as other obligations designated as conditions for state support.
- The government should provide state support while removing barriers against entrepreneurial activities

related to administration, laws, and labor.

Since this list does not include any banks, the government approved the “List of Banks to be Supported by Measures for Increased Capitalization” on February 2, 2015. The list contains 27 banks,¹¹ which account for most of the highly ranked banks, including banks listed on the US and EU sanction list (except Sberbank, the top Russian bank).¹²

The Russian government is now trying to strengthen its relationship with non-US and EU countries, especially China. While such a trend has been seen for the past several years, in October, 2014, when the prime minister of China, Li Keqiang, visited Russia, the leaders of Russia and China signed 40 agreements for developing cooperation in the sphere of currency exchange, railway transportation, information and technology, energy, etc.¹³

5. Russian firms under the economic crisis

What kinds of things have occurred in the economic crisis roughly described above? We examine the cases of several industries.

(1) Banking

The problems of the Russian banking sector were created long before the anti-Russian sanctions and the fall of oil prices. Recently, the lack of obtained capital has been made more serious by the decrease in personal savings and the entry of foreign capital. As a result, the banking sector was becoming increasingly dependent on refinancing through the Russian central bank. The banking sector owes more than 10% of the GDP to the central bank (8% in 2009). The lack of obtained capital and the growing debt to the central bank reflect the decline of the Russian banking sector’s confidence level. The ratio of equity (ROE) and the capital adequacy ratio (CAR) are also declining. The banking sector is facing quite a serious risk with the official discount rate increasing, the finance portfolio inevitably deteriorating, and the reevaluating of foreign currency assets becoming inevitable. Almost half of large banks can be considered high-risk banks¹⁴.

The banking sector has suffered losses from corporate services, while it has continued to make a profit in the sphere of retail services. The foreign debt of the banking sector has been decreasing, but people have not yet regained their confidence in bank deposits. Moreover, corporate clients are transferring their deposits from current deposits to time deposits, which reflects a significant reduction of business activity¹⁵.

The banks’ losses are continuing to grow in 2015. The lack of money is due to the withdrawal of deposits and repayment of debts to foreign investors and the Russian central bank. As interest rates, especially those for consumer loans, are rising radically, banks are presently said to be restraining rather than promoting family consumption unlike during the previous years¹⁶.

In this way, Russian banks are now in trouble due to the repayment of foreign creditors, the decrease in people's deposits, and non-performing corporate loans; they are becoming increasingly dependent on the state support, and they are contributing to the deterioration of the economy by reducing the credit they allocate to industries and individuals¹⁷.

(2) Energy sector

Rosneft is the world's largest publicly traded petroleum company. The company is the largest in the world in terms of the confirmed reserves of gas and oil and annual oil production. It is also Russia's largest taxpayer. The main company shareholder (69.50%) is OJSC ROSNEFTEGAZ, a 100% state-owned company. BP owns another 19.75%, and the remaining 10.75% of shares are publicly traded.¹⁸ In May 2014, Rosneft and BP signed a Heads of Agreement on the exploration and possible development of the Domanik formations in the Volga-Urals region, which provides for the implementation of a joint pilot project and, in the event of success, the development of unconventional resources. In June 2014, Rosneft and BP signed a set of agreements designed to organize long-term deliveries of oil products and crude oil on a prepaid basis.¹⁹ Rosneft is also building a closer relationship with China. In 2013, the company agreed with China National Petroleum Corporation (CNPC) to deliver oil on a prepaid basis, and also with Sinopec²⁰. The company has made another agreement with Seadrill (a Norwegian oil company) and ExxonMobil to jointly develop the North Sea oil fields. However, it is doubtful whether agreements between Rosneft and western companies will be realized, because Rosneft is subject to sanctions by the USA and the EU²¹.

Gazprom has the world's largest natural gas reserve, and its annual gas production is 14% of the world's and 74% of Russia's.²² In addition, 38.37% of its stock is owned by the Federal Agency for State Property Management of Russia, and 10.97% is owned by Rosneft.²³ Gazprom planned to build a gas pipeline, called "South Stream," going from Russia through the Black Sea, Bulgaria, and the Eastern European countries to Austria as another gas pipeline oriented to Europe. However, this plan was stopped by the Russia-EU conflict and changed to "Turkish Stream," running through Turkey²⁴.

(3) Food industry

Food prices have increased because of the devaluation of the ruble and prohibition of importing food from countries that had imposed sanctions on Russia. As a result, import substitution occurred in the food industry in 2014. Food production increased. Production of sunflower oil, meat, and cheese was 110% of the previous year's, and that of chicken was 105%; however, production of milk and kefir (similar to yogurt) was 99%, and that of fish and fish products was 96%. Producers and distributors point out that they started to reorient toward domestic materials. Part of the domestic market has been filled with domestic products because the food market

was short of goods due to counter sanctions by Russia and a reduction in food imported from Ukraine. However, Russian consumers have proved not so generous toward food made in Russia.

Major factors decisive in the development and changing prices of this industry in Russia are as follows: high dependence on imported goods, looking to the market prices of imported goods as guidelines for domestic producers and distributors to determine prices for their products, increased export of domestic products, insufficient preservation facilities, and little expectation for financial support and consumer needs. All of these have contributed to the radical increase in food prices.

At the same time, the devaluation of the ruble made domestic products more competitive for export, and the supply of domestic products to the domestic market was restricted. Therefore, food prices have risen.

For these reasons, import substitution has not mitigated the shortage of goods and inflation in the food industry²⁵.

(4) Foreign-affiliated companies

Some foreign-affiliated companies operating in Russia have suffered “counter-sanctions” by the Russian authorities. McDonald’s opened its first restaurant in Russia in as early as 1990 and became a symbol of western business in Russia. Today, there are 461 McDonald’s restaurants in Russia.

In July 2014, the state food safety watchdog of Russia announced that Rospotrebnadzor (Russian Federal Service for Surveillance on Consumer Rights Protection and Human Wellbeing) had received a lot of claims on food provided by McDonald’s. After this announcement, 200 McDonald’s restaurants were examined, and approximately 10 were ordered to suspend business.

On the other hand, trying to establish calm, articles were written that pointed out that as many as 130 Russian companies provide products to McDonald’s, that Russia is a country under the rule of law, where such “sanctions” cannot continue to be applied, and that such a sanction brings to mind a comical protest by Americans, such as “Let us stop drinking Vodka”²⁶.

6. Conclusions

As we have seen, various kinds of phenomena have affected Russian firms under the current economic crisis. We may outline the present conditions of Russian firms as follows:

First, the current economic crisis in Russia has been created not only by US and EU sanctions related to the Ukrainian crisis and the fall of oil prices but also by structural problems of the Russian economy. In short, unsuccessful liberalization and diversification of the Russian economy have made the crisis serious. The current situation reminds us of the situation found in Russia during the global financial crisis of 2008.

Second, many firms falling into crisis expect to be rescued by the state. This is not common in a

market economy. This is also what happened at the time of the global financial crisis.

Third, as the Russian economy is closely connected with that of the USA and the EU, conflicts with them can seriously damage Russian firms. Russia is especially dependent on the USA and the EU in terms of the introduction of new technology. For example, the development of shale oil fields would be difficult without the assistance of European or American companies. Therefore, the disadvantages resulting from a limited relationship with the USA and the EU will not be negligible in the long run.

Fourth, while the economic relationship between Russia and the EU is shrinking, the economic relationship between Russia and China is growing. The EU's share of Russian foreign trade has been dropped from 49.7% (2005) to 49.6% (2013) and 48.2% (2014), whereas China's share has grown from 6.9% (2005) to 10.5% (2013) and 11.3% (2014)²⁷. However, we cannot say that the decrease of the EU's share has been compensated for by the increased Chinese share because Russia receives high technology mainly from the EU and the USA, not from China.

The future prospects of Russian firms seems to be as follows:

First, it is desirable for Russia to use the current crisis as another chance to diversify its economy, but this is not guaranteed. The Russian economy has hardly been diversified since the global financial crisis. This probably means that measures dictated from above cannot be effective by themselves. Facing this crisis, the government prohibited the import of food and industrial goods from various countries. This has not successfully caused import substitution.

Second, it is desirable for Russian firms to strengthen their adaptability to market after the crisis, but this is not guaranteed either. As in the case of the global financial crisis, the current crisis may make Russian state capitalism stronger²⁸.

Third, under the conditions of economic globalization, diversification of the Russian economy as well as strengthening the market adaptability of Russian firms should be realized in the process of enlarging rather than shrinking economic relationships with foreign countries. Therefore, the Ukrainian crisis should be terminated as early as possible.

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