

**FUNCTIONING OF REPRESENTATIVES OF FOREIGN BUSINESS ENTITIES:
EXPERIENCE OF EFFECTIVENESS OF INTERNATIONAL PRACTICE**

Stanislava Alzoubi¹, Almazbek Dooranov^{2*}, Aleksandr Petrov^{3*}, Aliya Rakayeva⁴, Gulden Tussupova⁵

¹*San Francisco State University, San Francisco, USA 1600 Holloway Avenue. San Francisco, CA 94132*

²*Kyrgyz National University named after Zhusup Balasagyn, Bishkek, Kyrgyz Republic*

³*Financial University under the Government of the Russian Federation,
49 Leningradsky Prospekt, 125993, Moscow, Russia*

^{4,5}*L. N. Gumilyov Eurasian National University, Nur-Sultan, Kazakhstan*

E-mails ^{3}ampetrov@fa.ru (Corresponding author)*

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Abstract. The purpose of the study is to review the foreign practice of operating representative offices in Russia and other countries, develop criteria for their performance evaluation. The methodological framework of the study is based on the review and analysis of the existing mechanisms for evaluating performance of representative offices of foreign companies. In this study, general research methods are used: methods of empirical research, monographic method, structural-logical method, methods of multidimensional classification. For many economies, entrepreneurship is the major driving force behind economic growth. Small businesses create employment opportunities and improve the quality of people's lives, which in turn favorably affects the country's own development. Entrepreneurship is a powerful mechanism to reduce unemployment, which is one of the pressing issues of today. The originality and novelty of the study rely on the need to formalize and implement a systematic approach to governmental support of entrepreneurship throughout all business areas in Russia. It will positively affect the development of the economy in general and the efficiency of entrepreneurship in particular.

Keywords: representative offices; business entities; performance; export potential; representative offices of foreign companies, legal regulation.

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1. Introduction

Modern globalization of world economic processes is conditioned by the need to control the increase in the efficiency of the activities of representative offices of economic entities abroad. A multitude of challenges and threats from trade wars to sanctions policies direct companies to develop approaches to determining the effectiveness of both themselves and their representative offices abroad. However, at the moment, methods for determining the effectiveness of the activities of representative offices of economic entities are not sufficiently spelled out, requiring clarification due to the specifics of the legislative regulation of the activities of representative offices of business entities in the country of presence.

In many middle-income countries, state-society relations have gone through substantial transformations within the last three decades. The processes of globalization, regionalization, and transnationalization have played important -and intertwined - roles in triggering changes regarding the ways societal actors are organized and interact with respective states. There are recent transformations in interest representation and intermediation in Mexico

and Turkey, two upper-middle-income countries situated at the frontiers of the USA and Europe and integrated into the regional blocs led by those bodies, namely the North American Free Trade Agreement (NAFTA) and the European Union (EU). Business politics has evolved in strikingly different directions in these countries. Turkey has embarked on the corporatist resurgence, as increasingly empowered peak business organizations have become key players incorporated into policy-making platforms. By contrast, in Mexico, most of the former corporatist institutions and actors have been dismantled or severely weakened. This explains the variation in the evolution of business politics and raises the question about how this variation is shaped by changes in political institutions against a backdrop of deeper global - and regional - integration (Ozel, 2018; Russia's foreign trade results. 2018).

At the same time, foreign direct investment, as one of the most important instruments of the national economy, makes it possible to properly increase production, increase employment, accelerate structural reforms, improve the country's external financial position, increase foreign exchange reserves, reduce restrictions on the current balance and obtain a more favorable credit rating. In this regard, when analyzing the international practice of the functioning of representative offices of foreign economic entities, in particular, in the Russian Federation, it should be noted that there may be special problems and obstacles that prevent foreign companies from engaging in entrepreneurial activities in foreign countries. The identification of these obstacles and the search for ways to neutralize them can properly give an additional impetus to the development of investment cooperation between different countries.

2. Literature review

The analysis of existing mechanisms for assessing the effectiveness of the functioning of representative offices in Russia and abroad has been, is and will be, both Russian and foreign experts in this field. The most significant and timely at present are the works of leading experts. In the studies of V.V. Aleshchenko, V.V. Karpov, considering the issues of improving the mechanisms of state support for Russian representations abroad (Aleshchenko and Karpov, 2015). The current mechanism for assessing the effectiveness of the activities of representative offices is analyzed by Karpov et al. (2015). In their turn, V.V. Zabolotskaya and N.A. Khut investigate analytical measures to improve the efficiency of enterprises in Russia and abroad by opening representative offices (Zabolotskaya and Khut, 2015). The work of Pletnev is also devoted to the issues of the activities of foreign representations and foreign investments (Pletnev et al., 2015).

Other significant scientific research works dedicated to the similar problems related to international flow of capital include the papers of such researchers as Petrov et al. 2019, Kiseleva et al. 2019, Muravitskaya et al. 2019, Sotnikova et al. 2019, Karpova et al. 2018; Turishcheva et al. 2019, Ponomareva et al. 2019; Terenteva et al. 2018; Kevorkova et al. 2019; Igibayeva et al. 2020; Chernysheva et al. 2019; Kosolapova et al., 2019; Bulyga et al. 2019; Putihin et al. 2019, Vigliarolo, 2020, Mazzanti et al. 2020.

Methods for evaluating the performance of representative offices in Russia and abroad have always been and will always be a matter of great interest for both Russian and foreign scholars. At the moment, the most significant and timely are the works of the following authors. V.V. Aleshchenko, V.V. Karpov focus on the improvement of government support mechanisms for representative offices of Russian companies abroad (Aleshchenko and Karpov, 2015). Methods for evaluating performance of representative offices are also reviewed by Karpov et al., 2015). The matters of representative offices' activities and foreign investment are also reviewed in the papers of Pletnev et al., 2015).

Corporate governance is a combination of many factors that ensure business wealth. It is necessary to the existence of an institution as it ensures its commitment to higher growth and profits, as well as inspires and strengthens investors' confidence. Corporate governance concept is in a continuous process of adaptation to the requirements of modern economy, globalization as well as the information needs of investors and third parties interested in the business (Dudukalov et al., 2016; Korableva et al., 2020). Good governance is a condition to build market confidence and encourage flows of long-term investment. Several countries depend on implementing corporate governance practices to improve economic dynamism, thus improving overall economic performance (Puryaev, 2020). Corporate governance is also the process to direct and manage the institutions in order

to improve long term shareholders' value by enhancing corporate performance, considering the interest of other stakeholders (Prodanova et al. 2019).

3. Study of the experience and methodological aspects of the functioning of representative offices in individual countries

A study on the internationalization process of twelve Australian firms in Indonesia revealed the barriers to internationalize, namely immigration policies, exchange rate, and cultural differences. The Government has been taking an active part in promoting the internationalization of medical tourism. The globalization processes encouraged Singaporean private hospitals to expand overseas. It started with joint ventures, alliances, and setting up representative offices in foreign countries. Subsequently, firms set up their own medical centers in Singapore to serve the patients. Therefore, the most common methods in the tourism sector were setting up representative offices in overseas markets and the accreditation because it raises tourists' confidence in the image of their desired medical tourism destinations (Gnezdova et al. 2018; Morozova et al., 2019; Akhmadeev et al., 2019).

In turn, the presence of commercial banks on the territory of another state, the commercial banking services, under the US-Israel FTA, are limited to the activities of representative offices. Thus, it excludes commercial presence by establishing branches, agencies, or subsidiaries. Jordan granted limited market access to foreign auditing firms. Auditing of financial records or verification reports of domestic companies must be performed by resident Jordanian auditors who pass qualification tests. However, foreign accounting firms may give opinions on company results, open representative offices, or invest in joint ventures. This could help enhance transparency and improve accountancy standards (Zhuravlev et al., 2019; Rahman and Bobkova, 2017).

It should be noted that from a methodological point of view, foreign direct investment, being one of the most important tools of the national economy, allows one to properly increase production, influence the level of employment, and also accelerate the ongoing structural reform in the economy of a particular country. These aspects are key, as they can improve the external financial position of the country, affect the amount of foreign exchange reserves, as well as reduce restrictions on the current balance sheet and obtain a more favorable credit rating. In this regard, when conducting a methodological analysis of the current international practice of the functioning of representative offices of foreign economic entities, using the example of Russia, it should be noted that there may be special problems and obstacles that prevent foreign companies from engaging in entrepreneurial activities in foreign countries. On the one hand, Russian-German cooperation on the world stage has the greatest weight in the economic context, which can be divided into four important areas: the fuel and energy complex, the automotive industry, the financial sector and high-tech industries.

Russian-German cooperation on the world stage has the greatest weight in the economic context (Fumitaka Kawashima, 2014), which can be divided into four important areas: the fuel and energy complex, the automotive industry, the financial sector, and high-tech industries. Germany's exports to Russia amounted to € 21 billion or 10.7 percent of its overall imports (Official website of the German-Russian Chamber of Commerce, 2020).

At the beginning of 2017, the German-Russian Chamber of Commerce (AHK) and the German Committee on Eastern European Economic Relations (Ost-Ausschuss der Deutschen Wirtschaft) published a survey conducted among German companies operating in Russia (Ershova, 2017). It included 190 enterprises, whose total turnover in Russia amounts to € 29 billion and which employ more than 120 thousand people in that country. These were primarily companies from the machinery, consulting, food, and trade industries. Half of the surveyed companies called for the immediate lifting of the sanctions against Russia, and 42 percent wanted their gradual reduction (www.cbr.ru/Eng/statistics). In 2016, German companies invested up to € 1.95 billion in Russia, which is about € 170 million more than in 2015. This means the end of the investment collapse that occurred in 2014 when German entrepreneurs began to implement only 11 new projects in Russia worth about € 400 million. According to experts, the upward trends will also continue in 2020-2021.

Germany is one of the most active investors in Russia. According to the E&Y report presented at the 2016 invest-

ment forum in Moscow, 106 projects were implemented in Russia by investors from Western Europe in 2015, which is the highest figure in a decade. German companies participated in 36 projects (mainly in industrial production), which gave them a leading position among all foreign investors in this regard (<https://rusland.ahk.de>).

According to the German companies represented on the Russian market, agriculture and food industry are the most attractive sectors for investors in Russia. They were indicated by two-thirds of the respondents interviewed by the AHK chamber and the German Committee on Eastern European Economic Relations. It is not surprising that the manufacturer of agricultural machinery Claas decided to invest in Russia. The company allocated € 120 million for the construction of a new plant in Krasnodar. In the food industry, a particularly large deficit is observed in the dairy market, where Russian producers can meet only less than 80% of domestic demand. The largest dairy company in Germany DMK GROUP wants to profit from this opportunity. In 2016, it acquired a controlling stake in a Russian cheese producer located outside Voronezh and announced that production will double. The new facility will not be limited to the production of previously available cheap types of cheese, in which palm oil is used due to the shortage of milk in Russia. DMK announced that it will also produce “European” cheeses such as mozzarella, Maasdam, mascarpone, and blue cheese at the Russian plant (Godlewski-2017, Kozlova, 2019; Ignatova et al., 2020; Garnov et al., 2020). Currently, they are not in Russian stores because of the Russian Federation government embargo on European food. In General, experts are optimistic about the decision of the management of the DMK group to expand its activities in Russia. However, DMK group will have to convince Russian consumers that its products manufactured in Russia are “German”, i.e. of the highest quality (Shkurkin et al. 2017).

According to statistics compiled by the German-Russian Chamber of Foreign Trade (AHK), the number of Russian-based companies with German equity participation decreased by 5.2 percent in 2017. Almost two-thirds of the companies surveyed by the AHK want to further expand their activities in the Russian market. None of the companies’ reps said they wanted to reduce their business in Russia.

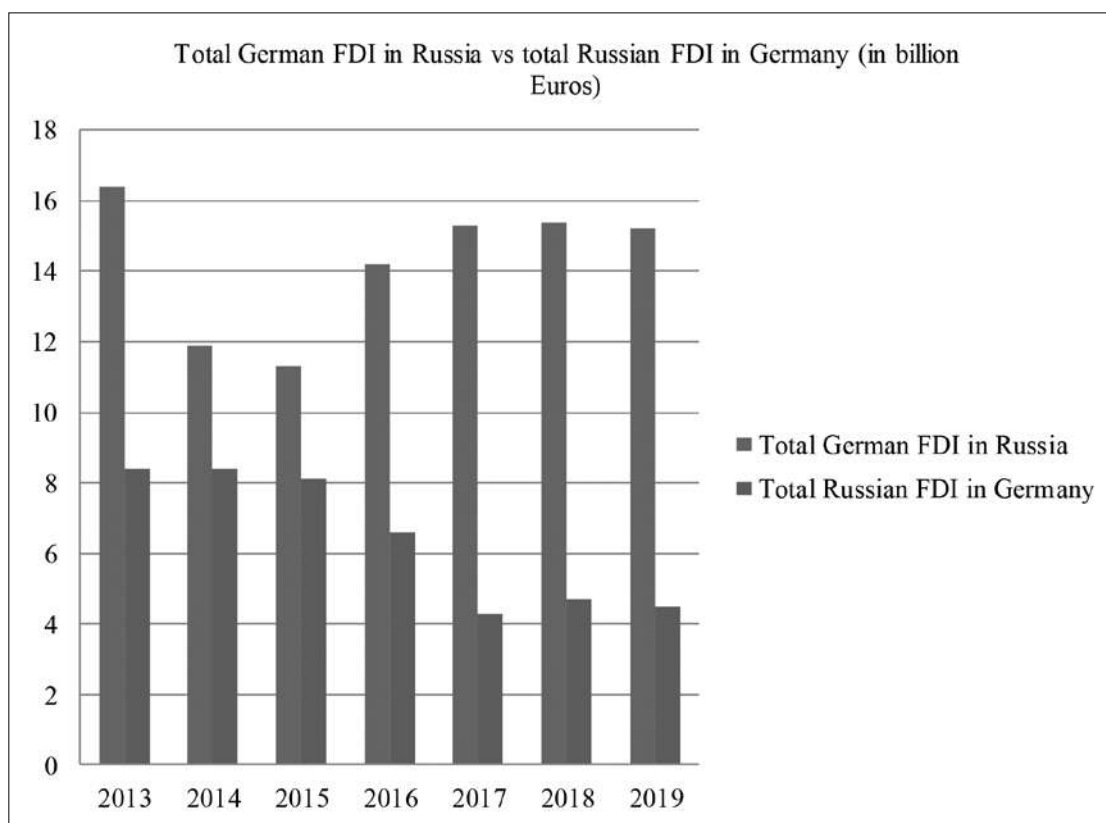


Figure 1. Total German FDI in Russian vs total Russian FDI in Germany

Source: Industrial investment in Eurasia (report), ROTOBO The Japan Association for Trade with Russia & NIS, 2011, p. 79.

In 2017, foreign investors invested in 238 projects. This is a record number for Russia for the entire period of the study since 2010, despite the ongoing negative impact of economic sanctions slapped on Russia by the EU and the US. The total German FDI in Russian vs the total Russian FDI in Germany is shown in Figure 1. In 2015 and 2016, the first place in terms of new projects was occupied by Germany. However, in 2017 the number of German projects in Russia decreased to 28 (compared to 43 in 2016).

The biggest incentives for entrepreneurs from Germany are the prospects of rapid growth and the sheer size of the market.

Inflation reaching several percent annually, volatile ruble exchange rates, bureaucracy, and corruption are the key factors that undermine Russia's investment attractiveness.

Getting a detailed overview of the investment activities of Russian companies in Germany is not easy. This is due both to the different definitions of "investment activities" and "Russian companies" in existing studies as well as to the fragmented structure of Russian investments in Germany, which are therefore often not covered by statistics. Experts estimate that between 800 and 3,000 Russian companies are based in Germany. Other sources assume that "Russian companies are involved in over 5,000 companies in Germany". Based on a comprehensive data analysis, the "RIM Russian Investment Monitor" currently contains information on more than 1,700 active German companies with Russian participation. While the total number of more than 1,700 companies with Russian participation is quite impressive, an analysis of the concrete activities of these companies in Germany allows a more differentiated picture. For the majority of investments, the motivation does not seem to be a classic direct investment, but is more in the personal motivation of the private investor.

Alone 312 companies are involved in the management of real estate. Baden-Baden has more companies with Russian participation than German ones. Experts assume that soon half of all Baden-Baden real estate will belong to Russians (Kiseleva et al. 2019). But also, at other German locations wealthy Russians invest more and more in German real estate, which cost more than one million euros. In addition to these real estate investors, the analysis primarily reveals a comprehensive activity in the areas of vehicle trade (525 companies) and provision of unspecified services (247 companies). Taken together, these three areas of activity account for 63 percent of all German companies with Russian investments.

Classic businesses, such as manufacturing, account for 125 companies. Active Russian investments into the German economy began in the '90s. There are comparatively few – still active – German companies in which Russian investors participated before the year 2007. Of the companies founded or acquired in 2013, 254 are still active, compared to only 124 companies founded in 2016 that are still active.

3. Results and Discussion

According to the experts' estimation, which was presented at the St. Petersburg International Economic Forum (SPIEF) 2018, German firms continue investing in the Russian economy despite facing barriers from economic sanctions. In 2017, German private investment in the Russian economy gained € 1.6 billion (Terebova, 2017). These are not only car manufacturers, which invest heavily in Russia, but also family and medium-sized businesses. FDI flows into Russia have been on the decline after 2013, due to geopolitical tensions between Russia, Ukraine, and the Western countries. While inflows rose to \$ 37.1 billion in 2016, they fell once again in 2017 to \$ 25.3 billion, the second-lowest level since 2006 (Chepurenko, 2017), and continue falling. Table 1 shows the countries of origin and their number of investment projects in Russia.

Table 1. Countries of origin and number of investment projects in Russia

No.	Country	Year									
		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
1	2	3	4	5	6	7	8	9	10	11	12
1	China	3	3	0	4	7	12	9	32	22	21
2	Germany	26	13	28	12	11	36	43	28	23	24
3	USA	24	24	29	24	14	29	38	19	25	26
4	Italy	6	6	5	2	4	12	7	17	17	19
5	Japan	11	6	9	14	8	10	12	17	16	18
6	South Korea	4	0	1	1	3	3	2	12	10	11
7	France	10	9	14	7	14	20	20	11	12	13
8	Switzerland	11	4	4	3	8	8	7	11	9	8
9	UK	14	4	2	3	6	5	2	8	7	7
10	Finland	8	6	5	5	6	9	7	7	7	6

Source: Efimova, 2018

The studies carried out made it possible to formulate the following: in 2018 and 2019, the leadership in terms of the number of investment projects changed. Despite the tensed relationship with Russia, the United States topped the list, as the number of its investment projects in Russia increased to 25-26 projects in 2018-2019. Germany again came second, its investment into the Russian economy decreased to 24 projects as compared to 28 projects in the previous year. In 2018- 2019, investment from China also decreased, as a result, China shifted down from the first place to the third. In 2018-2019, France and the Netherlands increased their FDI by 2 projects, which accounted for 18% growth for France and 33% for the Netherlands. The UK showed the largest decrease in investment interest in 2018-2019 (reduction by 2 projects). Overall, there has been a significant decline in FDI since 2015 due to the sanctions and geopolitical concerns. In recent years, Russia has embarked on economic reforms, but administrative challenges, corruption, and uncertainty about regional stability remained the main obstacles to creating a favorable investment climate.

According to the World Bank’s Doing Business reports, Russia was ranked 120th at the beginning of the decade, 34th in 2016, 40th in 2017, 35th in 2018, 34th in 2019 in terms of investment attractiveness. Table 2 shows German foreign direct investment in the Russian Federation.

Table 2. German Foreign Direct Investment in the Russian Federation: positions by industry, in million USD

German Foreign Direct Investment in the Russian Federation: positions by industry	million USD
1	2
Manufacturing	6,571
Wholesale and retail trade, repair of motor vehicles and motorcycles	5,102
Financial and insurance activities	1,871
Mining and quarrying	1,052
Real estate activities	687
Public administration and defense, compulsory social security	364
Transportation and storage	235
Information and communication	146
Professional, scientific, and technical activities	101
Agriculture, forestry, and fishing	3
Water supply, sewerage, waste management, and remediation activities	-23
Human health and social work activities	21
Unallocated	12
TOTAL DIRECT INVESTMENT IN RUSSIA	18,778

Source: Fedotova, 2020

The conducted studies of the statistical data set allowed us to conclude the following: the most attractive industries for German direct investment according to the Central Bank of Russia estimations, are manufacturing; wholesale and retail trade, repair of motor vehicles and motorcycles; financial and insurance activities; mining and quarrying (Barilenko et al. 2019; Panfilova et al., 2020).

Despite all the political and economic threats and barriers, German businesses continue investing in the Russian economy. The leading industries are manufacturing; wholesale and retail trade; financial and insurance activities. The major investment flows exist in Moscow and the Moscow Region and St. Petersburg and the Leningrad Region. Russia is still rather attractive for German investors because of some points: the country is close enough to Europe, which greatly simplifies the logistics of cooperation; the mentality of Russians and Germans is also quite close, and, finally, the current economic situation in Russia allows the regions to offer German companies very favorable investment conditions.

At the same time, in 2018-2019, Asian countries showed great interest in the Russian economy. For the first time ever, China topped the list as having the largest number of FDI projects. Japan and South Korea were also in the top ten. Moscow and the Moscow Region are the primary destinations for FDI. The Leningrad Region is the second most attractive region for FDI in Russia, whereas St. Petersburg is ranked 7th.

Thus, the conducted studies of the data set allow to properly confirm that the Russian market is quite attractive for foreign direct investment, the purpose of which is to develop and expand new sales markets through activities outside their country. Nevertheless, one of the most effective tools that can improve the economic situation of any state is the policy of attracting foreign investment into its economy. In order to carry out commercial activities in our country and invest their capital, foreign economic entities need certain guarantees on the legal regulation of taxation, taking into account the interests of the budget, the interests of foreign organizations operating in the Russian Federation (Zabolotskaya, 2015; Kosov, 2016). The creation of representative offices / branches of economic entities on the territory of the Russian Federation assumes independent financial and economic activities by foreign economic entities. Control over the work of separate branches of foreign economic entities in the Russian Federation is carried out in accordance with the provisions of the Federal Law "On Foreign Investments in the Russian Federation" dated 09.07.1999 No. 160-FZ, however, nothing is written in this legislation on the work of representative offices of economic entities. Accordingly, the text of the law does not contain a definition of the business entity's representation. Thus, a legal status has not been established for the representative offices of an economic entity, even in the case of accreditation. Consequently, representative offices / branches of foreign economic entities are subject to the laws of the country of registration in part: the process of its creation; his rights and obligations; models of its work and its completion; the rules for appointing the management of the representative office and the scope of its powers, etc. After the accreditation of the representative office / branch, they need to register with the Federal Tax Service of Russia in order to control tax payments to the state budget.

Result & Discussion

General characteristics of representative offices / branches of foreign economic entities in the Russian Federation: separate subdivisions separate from the parent economic entity; the parent business entity is financially responsible for the activities of representative offices / branches; the management of representative offices / branches is encumbered with the powers of a foreign economic entity by the power of attorney of the parent economic entity; use the property of the parent business entity, accounted for separately; are not endowed with independent legal capacity, are not legal entities, performing activities on behalf of the founding business entity; are created and also liquidated by the decision of the head business entity; are not required to prepare financial statements. Thus, representative offices / branches of foreign companies must pay attention to the following:

1. Resident subsidiaries pay all taxes at standard rates, but they are entitled to apply a special tax regime. They also have the right to resort to the provisions of international tax law.
2. Doing business without establishing a permanent representative office in Russia is only possible if a com-

pany only occasionally transacts in Russia, since this form of doing business is limited in scope, even though it involves a smaller tax burden.

3. Establishing a permanent representative office is not quite cost-effective because the representative office would have to pay all taxes provided for by the Russian tax legislation, without being able to apply a special tax regime (Semenov et al. 2017).

After being registered, a representative office / branch of a foreign company must maintain accounting records and prepare internal accounting statements for the parent company. Following the review of the foreign practice of operating representative offices in Russia and other countries, criteria for their performance evaluation must be developed.

As a developing market, Russia is quite attractive to foreign companies. However, external political factors led to a sharp decrease in the volume of foreign investment into the Russian economy in 2018 and 2019 compared to 2008 and 2013. (Figure 2). The maximum decline in Russia's investment attractiveness was in 2014-2015. It should also be noted that in 2018 both European and Asian investors (which are traditionally very active) sharply reduced the volume of investment. In 2018, capital outflows from the country also significantly increased. According to the Central Bank of Russia estimations, the overall capital outflow at the end of 2018 amounted to \$ 66 billion. It should be noted that Russia seeks to create favorable conditions for foreign companies, including clear and comfortable conditions for starting a business.

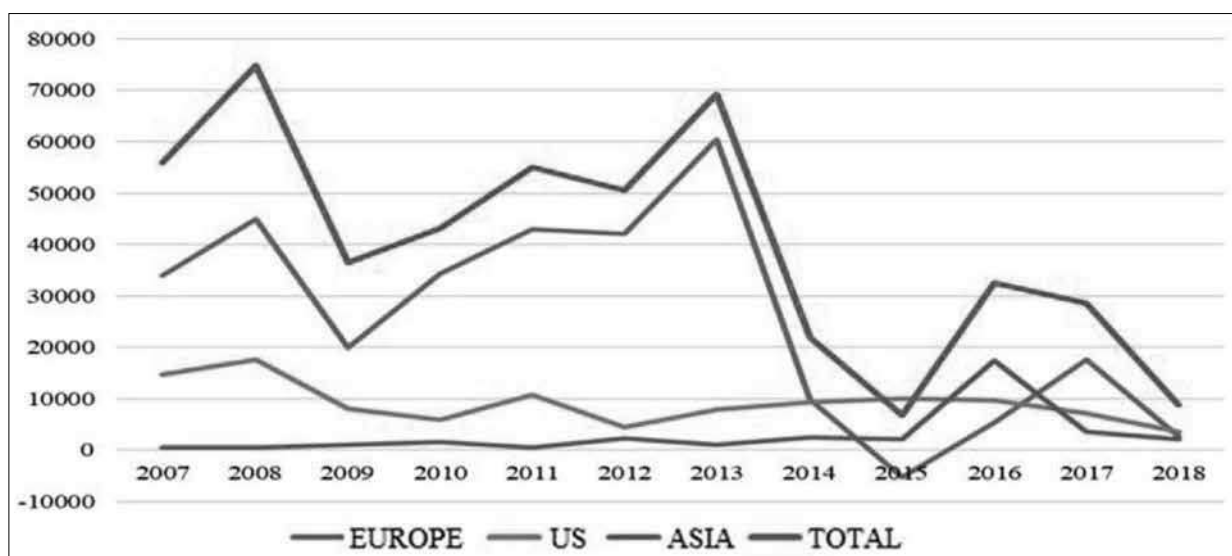


Figure 2. FDI into Russia (in million USD)

Source: from the interview with Fumitaka Kawashima, Vice President of Toyota Motor RUS, 2014. Analytical Agency AUTOSTAT <http://www.autostat.ru/news/view/17784/>

Foreign companies can operate in Russia through a properly registered division or remotely. If a division is required, a company may establish either a subsidiary or an independent division (branch or representative office).

Operation of separate divisions of foreign companies in Russia is governed by Federal Law No. 160-FZ of 09 July 1999 on Foreign Investments in the Russian Federation and Federal Law No. 115-FZ of 25 July 2002 on Legal Status of Foreign Citizens in the Russian Federation.

Each legal form of a foreign company presence in the Russian Federation has its specifics (see Table 3).

It should be noted that the maximum decline in the investment attractiveness of the Russian Federation was observed in 2014-2015. It should also be noted that in 2018 the volume of investments fell sharply, not only

from European partners, but also from traditional Asian investors as well. In 2018, the level of capital outflow from the country also significantly increased. The overall level of capital outflows based on the results of 2018 is estimated by the Central Bank of Russia at \$ 66 billion. It should be noted that the Russian Federation seeks to create favorable conditions for foreign business, including clear and convenient conditions for opening and starting a business. Foreign business entities can carry out their activities both by creating additional structural units in the Russian Federation, registered in the prescribed manner, and as a result of remote cooperation. If an additional subdivision is needed, foreign legal entities can go through the opening of: a subsidiary; a separate division (branch or representative office).

At the same time, the current control of the functioning of separate divisions of foreign economic entities in the Russian Federation is carried out in accordance with the provisions of the Federal Law “On Foreign Investments in the Russian Federation” dated 09.07.1999 No. 160-FZ and Federal Law dated 25.07.2002 No. 115-FZ “On the legal status foreign citizens in the Russian Federation”. Each legal regime for organizing the activities of a foreign economic entity in the Russian Federation has a number of features (Table 3).

Table 3. Specific features of business activity forms of foreign companies in the Russian Federation

Branch 1	Representative Office 2	Subsidiary 3
A Branch may carry out commercial and marketing activities, represent and protect the interests of a foreign company only within the confines of the Parent Company’s activities.	A Representative Office may carry out marketing activities, represent and protect the interests of a foreign company only within the confines of the Parent Company’s activities, but cannot carry out commercial activities.	A Subsidiary may carry out any marketing and commercial activities as provided for by the Russian legislation.
A Branch may obtain licenses to carry out certain commercial activities.	A Representative Office may not obtain licenses to carry out commercial activities.	A Subsidiary may obtain licenses to carry out certain commercial activities.
A Branch is not a legal entity, but a separate division of a foreign company (located in a jurisdiction different from that of the Parent Company). A Branch may not create subdivisions.	A Representative Office is not a legal entity, but a separate division of a foreign company (located in a jurisdiction different from that of the Parent Company). A Branch may not create subdivisions.	A Subsidiary is an independent Russian legal entity. Subsidiary companies may create their own subdivisions (Branches and Representative Offices).
Stamp duty on the registration of a Branch: RUB 120,000.	Stamp duty on the registration of a Representative Office: RUB 120,000.	Stamp duty on the registration of a Subsidiary: RUB 4,000.
A Branch may only be established by one Parent Company. Other forms of ownership are not allowed.	A Representative Office may only be established by one Parent Company. Other forms of ownership are not allowed.	A Subsidiary may be founded by one or more individuals or legal entities.
The Parent Company may provide assets to and finance its Branch without any limitations.	The Parent Company may provide assets to and finance its Representative Office without any limitations. There is no requirement to specify the minimum amounts in the Articles of Association.	The Parent Company must contribute cash or other assets to the registered capital of its Subsidiary.
A Branch may receive funds from third parties as a result of its commercial activity.	A Representative Office may not receive funds from third parties as a result of its commercial activity.	The Parent Company holding a majority stake in the registered capital of its Subsidiary may invest in the Subsidiary’s assets.
A Branch may enter into service contracts with Russian customers on behalf of the Parent Company.	A Representative Office may enter into service contracts with Russian customers on behalf of the Parent Company.	A Subsidiary may enter into service contracts with Russian customers on its own behalf.
Any changes in a Branch’s activity (change of name, address, chief executive, etc.) can only be made by the Parent Company.	Any changes in a Representative Office’s activity (change of name, address, chief executive, etc.) can only be made by the Parent Company.	Any changes in a Subsidiary’s activity (change of name, address, chief executive, etc.) can only be made by its shareholders.
The Parent Company is liable for the actions of its Branch.	The Parent Company is liable for the actions of its Representative Office.	Except as otherwise specifically provided by the applicable law, a Subsidiary is solely responsible for its actions.

A Branch’s activities are regulated by its bylaws duly approved by the Parent Company.	A Representative Office’s activities are regulated by its bylaws duly approved by the Parent Company.	A Subsidiary’s activities are regulated by its constituent documents prepared by the Parent Company.
Antimonopoly regulations do not apply.	Antimonopoly regulations do not apply.	In certain cases, the establishment of a Subsidiary requires approval from the Federal Anti-Monopoly Service.
A Branch is managed by a manager appointed by the Parent Company and duly authorized under a respective power of attorney giving a detailed description of his/her powers and authorities.	A Representative Office is managed by a manager appointed by the Parent Company and duly authorized under a respective power of attorney giving a detailed description of his/her powers and authorities.	A Subsidiary may have a two-level or three-level management structure.

Source: Glotko et al. 2020

Many foreign companies are operating in Russia now. Some of them have been present in Russia for over 25 years (see Table 4). As noted above, according to Article 55 of the Civil Code of the Russian Federation, “a representative office is a separate division of a legal entity, established outside such legal entity’s jurisdiction to represent and protect its interests in such other jurisdiction” (Tereshchenko et al. 2017).

As of today, there are 4,735 representative offices of foreign companies registered in Russia (see Table 3), the accreditation of 1,286 of which has been revoked (according to the State Register of Accredited Branches, Representative Offices of Foreign Legal Entities (adopted by Federal Law No. 160-FZ of 2015)).

Table 4. Largest foreign companies operating in Russia

Rank	Company name	Revenue, millions USD					Activity type	In Russia since	Head office
		2015	2016	2017	2018	2019			
1	2	3	4	5	6	7	8	9	10
1	Adidas / Adidas Group	46	47	40	47	47	Clothing	1997	Germany
2	Auchan, Atac / Groupe Auchan	414	403.6	356.1	404	407	Trade	2002	France
3	Bayer / Bayer	41	48	54	48	47	Pharmacy	1994	Germany
4	Baltika / Carlsberg Group	87	90.5	74.5	91	92	Food Industry	1993	Denmark
5	Billa / REWE Group	39	40	43	42	43	Trade	2004	Germany
6	BMW Russland Trading / BMW Group	77	90.3	100.6	90	89	Automotive Industry	1999	Germany
7	Hyperglobus / Globus Group	69	90.3	100.6	80	79	Trade	2006	Germany
8	Danone Russia / Danone	107	104	116	114	113	Food Industry	1992	France
9	JTI Russia / Japan Tobacco International	245	275.8	289.2	276	279	Tobacco Industry	1999	Japan
10	Johnson & Johnson / Johnson & Johnson	47	51.3	55.4	51	51	Consumer Goods	1992	USA
11	IKEA Dom, IKEA Mos, IKEA Torg / IKEA	200	197.5	173.2	198	197	Trade	2000	Sweden
12	Imperial Tobacco Sales & Marketing / Imperial Tobacco Group	42	47	46.7	47	47	Tobacco Industry	1996	UK
13	Cargill / Cargill	66	71.8	77.9	72	73	Trade	1991	USA
14	Kia Motors Rus / Kia Motors	105	125.5	170.5	125	130	Automotive Industry	2008	Korea
15	CCHBCE / Coca-Cola Hellenic Bottling	70	82.8	70	83	81	Food Industry	2001	Switzerland

Source: Statista, 2020, <https://www.statista.com/>

As it was noted earlier, according to Art. 55 of the Civil Code of the Russian Federation “A representative office is a separate subdivision of a legal entity located outside its location, which represents the interests of a legal entity and protects them”. Thus, for the analyzed period 2015-2019. 4735 representative offices of foreign economic entities were registered, of which 1286 representative offices had their accreditation terminated on the basis of data from the state register of accredited branches and representative offices of foreign legal entities (Table 5).

Table 5. Representative offices of foreign companies in Russia

Year	Accreditation granted	Accreditation revoked
2015	3999	259
2016	237	443
2017	222	495
2018	211	76
2019	66	13
TOTAL	4,735	1,286

Source: Statista, 2020, <https://www.statista.com/>

Conclusion

Based on the study of the functioning of international foreign economic entities, it allowed to formulate the following important aspects. On the quantitative side, the unevenness of the represented foreign structures and the lack of an adequate number of branches on the part of the banking sector were revealed. At the same time, in some states, in terms of attracting the banking sector to the economy, tax breaks are introduced at the legislative level, and when attracting foreign capital, the corresponding amount of funds spent on their creation in their parent company is taken. On the other hand, full-fledged admission of foreign representations of international institutions threatens with a massive inflow of cheap money and squeezing domestic ones, initially into more risky areas of the economy, and then from the system of the financial and banking sector of a particular jurisdiction. In this regard, in order to attract foreign economic entities to the domestic economy, it is important to provide measures aimed at preventing factors:

- a) Economic (indicators of the share of income of an economic entity in the GDP of the country in the territory of which there is a representative office, the share of profit of an economic entity in the territory of a representative office in the total profit for the period, indicators of the share of tax payments by an economic entity to the budgets of various levels, indicators of the share of marketing costs of a representative office in the total cost of an economic entity, indicators of the share of contracts concluded by a foreign economic entity in the territory of presence with the assistance of the representative office, indicators of the share of investment projects of an economic entity that are under implementation in the territory of presence, on which the representative office was working, indicators of the share of investment projects that are at the stage of development on which the work of the representative office was carried out).
- b) Organizational (implementation of activities carried out in the territory of presence with the support of the representative office of an economic entity in the field of science, education, etc., the formation of visits of official delegations from the represented business entity to the country of its presence and back, participation of heads of representative office on behalf of a foreign economic entity in various events with officials of the host country).

At the same time, attracting foreign direct investment, which is one of the most important instruments of the national economy, makes it possible to properly increase production, influence the level of employment of the population, accelerate structural reforms, improve the country's external financial situation, increase foreign exchange reserves, reduce restrictions in the current balance and obtain more favorable credit rating. Therefore, when analyzing the international practice of the functioning of representative offices of foreign economic entities, in particular, in the Russian Federation, it should be noted that there may be special problems and obstacles that prevent foreign companies from engaging in entrepreneurial activities in foreign countries. Thus, the identification of these obstacles and the search for ways to neutralize them can properly give an additional impetus to the development of investment cooperation between different jurisdictions.

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Stanislava ALZOUBI

ORCID ID: <https://orcid.org/0000-0002-7717-7512>

Almazbek DOORANOV

ORCID ID: <https://orcid.org/0000-0002-2198-4956>

Aleksandr PETROV

ORCID ID: <http://orcid.org/0000-0001-9648-3278>

Aliya RAKAYEVA

ORCID ID: <https://orcid.org/0000-0002-6756-8974>

Gulden TUSSUPOVA

ORCID ID: <https://orcid.org/0000-0001-5011-4063>