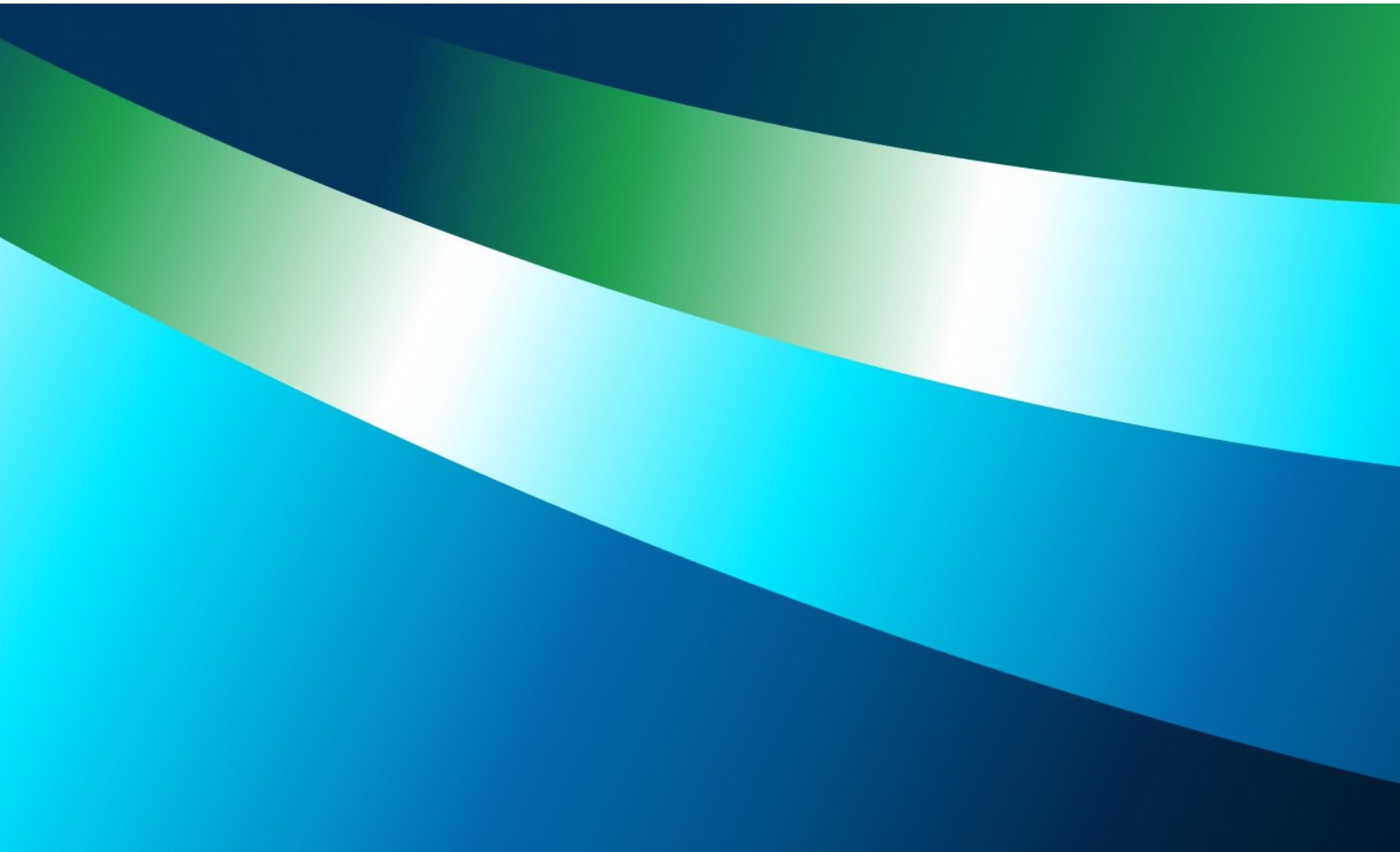
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Foreign Investment: Balancing Control and Incentives

This paper examines the emerging double-track model for regulating foreign investment in Russia where protective barriers are accompanied by targeted incentives. Amid reduced business activity, it analyzes the measures the state is taking to revive investment, the impact it has on the geography of investment, and what business expectations are.



Introduction

Russian authorities are struggling to solve a complex task: tightening control over key industries while attracting foreign capital. This contradiction is shaping a two-track model for foreign investment regulation today.

Russia's economy is currently undergoing a period of subdued investment activity – high borrowing costs and regulatory burdens are making companies postpone new projects. Against this backdrop, the state is trying to combine its push for technological sovereignty with openness to capital. In an overview of key regulatory trends for 2025–2026, experts from the Baikal Lobridge Center for Analytics noted that this gives rise to a two-track model for regulating foreign investment. It includes a protective track that tightens control over a wide range of foreign investment transactions, and an incentive track that develops special mechanisms for investors willing to play by the new rules.

By mid-2026, this logic is visible across a variety of political moves – tightening access to strategic assets, using temporary management tools and financial restrictions, launching International Priority Development Areas (IPDAs), and executing the first transactions through "Type In" accounts.

For now, the balance is tilted toward the protective track. However, the state's ability to eventually rebalance the two tracks will determine whether it manages to compensate for the shortage of domestic investment with the inflow of foreign capital.

Investment Dynamics: Why Attention to Foreign Capital Is Growing

Russia's macroeconomic conditions remain challenging. Fixed capital investment, which in 2023 and 2024 showed high growth rates – 9.8% and 8.4%, respectively – declined by 2.3% in 2025 (Rosstat data). This followed a period when real-term investment increased by almost 38% between 2021 and 2024. Thus, the current contraction is largely a correction from a high starting point.

According to a scenario given by Russia's Ministry of Economic Development, published in May this year, fixed capital investment is expected to decrease by another 1.5% in 2026 (Ministry's previous assessment in September 2025 was –0.5%). The conservative scenario projects a 3.5% decline.

High borrowing costs remain a deterrent. Even after the Central Bank reduced the key rate to 14.5%, this level still fails to provide sufficient incentive to attract long-term loans for investment purposes. Currently, expensive borrowing is often used to replenish working capital for covering operating expenses, including payroll.

According to Alexander Shokhin, Head of the Russian Union of Industrialists and Entrepreneurs (RSPP), small and medium-sized enterprises have largely postponed their investment plans. Large corporations, for their part, are striving to complete the projects they have already started, as mothballing them would entail additional costs. However, many new initiatives are also put on hold[1].

A tight fiscal policy designed to address budgetary problems also adds further pressure and leaves less room for business confidence.

Under these conditions, domestic sources of investment require an inflow of foreign capital to boost investment momentum. This largely underpins the logic of a two-track model in which measures to protect strategic and sensitive sectors are combined with targeted incentives for foreign investors.

First Track: Protective Perimeter

As business activity has cooled, the legislative framework regulating the participation of foreign capital in strategic sectors is being updated. By mid-2026, this process has translated into an integrated system of barriers across three key areas.

1. Enhancing Control over Strategic Assets and Specific Sectors

A major regulatory shift has come with the expanded scope of the strategic investments law, under amendments that take effect on June 7, 2026[2]. The Government Commission for Monitoring Foreign Investment in the Russian Federation will now review transactions involving subsoil

users on non-federal plots, and companies engaged in fish processing and Pacific salmon farming. The law's scope has also been extended to cover transactions involving state or municipal property that constitutes fixed production assets of strategic enterprises, as well as organizations holding licenses for strategic activity, and even non-profits operating in strategic sectors. Disclosure requirements to Russia's Federal Antimonopoly Service (FAS) have also been tightened.

Another element in this area is the extended ban on transactions involving shares held by non-residents from unfriendly countries in strategic enterprises and in several companies, particularly in the fuel-energy complex and finance[3]. Transactions with such companies can only be carried out with a special permit from the head of state.

A temporary management mechanism is still in place. It allows movable and immovable property, securities, and stakes in Russian legal entities owned by individuals from unfriendly countries to be placed under external management — including on grounds of threats to Russia's national, economic, energy, or other types of security[4]. The list of companies placed under external management was last extended in December 2025.

2. Financial and Tariff Restrictions

In March 2026, the Central Bank of Russia extended for another six months (until the end of September) the ban on non-residents from unfriendly countries transferring funds abroad from brokerage and trust management accounts[5]. Also, non-resident legal entities are not allowed to withdraw cash in US dollars, euros, British pounds, or Japanese yen until September 9, 2026[6]. At the same time, the Russian Government regularly updates the list of goods from unfriendly countries that are subject to increased import duties[7].

3. Push for Technological Sovereignty

The state is consistently pursuing its course toward technological independence and import substitution in strategic areas. Deputy Prime Minister Alexander Novak noted that a whole range of countries still use control over financial, logistics, production, and scientific infrastructure as a tool against Russia. Under these circumstances, technological independence in machine tool manufacturing, chemicals, transport and energy machinery, radio electronics, aircraft and shipbuilding, and the

automotive industry has become a priority. When sanctions were imposed, the import share in these industries was approximately 60 to 70%[8].

For this purpose, localization requirements are being tightened. The state is introducing a detailed points-based system for assessing localization levels, with the threshold gradually raised to encourage deeper production in Russia. De facto, localization requirements are becoming a key factor for a possible return of foreign companies who previously left the market. In the long run, the import substitution policy is expected to produce a disinflationary effect by enhancing domestic supply and reducing dependence on foreign deliveries. However, in the coming years spending on these goals will continue, having implications for inflation.

Second Track: Targeted Incentives

Recognizing that protective measures alone are not sufficient to end the investment pause, the state is developing a parallel incentive toolkit. The key distinguishing feature of this emerging incentive system is its targeted nature. The mechanism is designed to attract specific categories of investors willing to work under current conditions.

The financial tools include, inter alia, special “Type In” accounts. This mechanism, introduced by a special presidential decree, provides guarantees for new investments made by non-residents – including those from unfriendly countries – after July 1, 2025[9]. These accounts’ biggest advantage is that the generated income – including in foreign currency – can be taken out of the country, unlike blocked “Type C” accounts[10].

Another element of the incentive track is the extension, through 2026, of the simplified re-domiciliation procedure for businesses moving to Special Administrative Regions (SARs) on Russky Island in Primorsky Krai and Oktyabrsky Island in Kaliningrad Oblast[11]. The procedure allows companies to change their jurisdiction while keeping their corporate structure intact.

In 2026, a brand new tool was launched: International Priority Development Areas (IPDAs)[12]. Its residents enjoy significant fiscal preferences, including zero income tax to the federal budget for ten years, reduced social security contributions, and a guarantee of stable operating terms for up to 15 years — the so-called "grandfather clause"[13].

The mechanism is designed to attract investors from China, India, Southeast Asia, and the Middle East. It provides state-led individual project support and a closed registry of participants to minimize sanctions risks. The minimum threshold of capital investment for a project to qualify for preferences is 500 million rubles — underscoring the targeted nature of the mechanism.

Conventional tools, like Special Economic Zones (SEZs), also remain in place. Russia has 61 such zones, offering investors tax breaks, customs preferences, and simplified administrative procedures (permits, approvals, utility connections, etc.). According to Russia's Ministry of Economic Development, foreign SEZ resident companies saw their revenues grow by 50% in 2024, while total benefits exceeded 50 billion rubles[14]. At the same time, the authorities continue to fine-tune the mechanism[15]. The Russian Government is currently discussing stricter requirements for SEZ residents on profitability, project timelines, and investment size – though some of these will not apply to projects related to technological sovereignty.

A separate question is under what terms foreign companies that previously left the Russian market might be allowed to come back. The key principle, consistently articulated by officials, is that their return should in no way hurt Russian players and that it will be selective.

Notably, in May 2026, the Russian State Duma rejected as "no longer relevant" a draft law on external management in companies that announced their exit from Russia[16]. The draft was adopted in its first reading in May 2022 but never advanced further through the legislative process. Meanwhile, the instrument for temporary management of assets controlled by individuals from unfriendly countries is codified in Presidential Decree No. 302 of April 25, 2023. The relevant Duma Committee on Property, Land, and Property Relations noted that the existing special economic measures "have proven effective". In other words, four years later, the urgency has faded: control over foreign assets is transferred to Russian legal entities on a case-by-case basis, and a separate law is no longer needed. This being said, the geopolitical dilemma – risk of retaliation against Russian companies abroad – remains relevant, thus further underscoring that the channel for return stays narrow and tightly regulated.

The introduction of targeted incentive mechanisms has not translated yet into a recovery of capital inflow from unfriendly countries. The combination of persistent barriers creates a high entry threshold, while

geopolitical uncertainty leaves even less room for investment decisions. Against this backdrop, both regulators and businesses are pivoting more toward investors from friendly or neutral states. Data on accumulated foreign direct investment (FDI) shows that such reorientation is already taking shape.

Geographic Transformation: Where New Investors Are Coming From

Data on FDI in Russia from the Bank of Russia and the IMF show a large-scale shift in investment geography. From the beginning of 2022 through October 2025, the accumulated FDI from unfriendly countries shrank from 481 billion to 244 billion US dollars – a 49% decline. More than two thirds of these investments historically came from offshore jurisdictions. Their volume dropped from 356 billion to 168 billion US dollars (see Table 1).

Over the same period, investment from friendly or neutral countries grew from 25 billion to 38 billion US dollars – a 53% increase. China here is a key partner, with investment rising 1.5-fold to reach 16 billion US dollars. The UAE, Turkey, Kazakhstan, and Belarus have also been quite active investors[17].

Table 1. Dynamics of accumulated FDI in Russia by country group

Accumulated as of the beginning of the year, billion dollars

	2022	2025	October 2025	Change
Friendly and neutral countries	24,6	32,5	37,6	53%
Unfriendly countries	481,3	210,7	243,5	– 49%
Offshore jurisdictions	356,2	145,2	167,8	– 53%
TOTAL	505,9	243,2	281,1	– 44%

Source: Vedomosti estimate based on Bank of Russia, IMF, and Tax Justice Network data

The number of new business registrations also confirms the transformation of investment geography. In 2025, foreign founders set up 8,932 new companies in Russia – 17% more than in 2024. By the number of new entities, Chinese entrepreneurs held the leading position registering 4,332 companies – a 1.5-fold increase compared to 2024, when 2,996 companies were set up[18]. Though new registrations do not always convert into direct investment, the extended presence of investors from friendly countries is accompanied by the increase of accumulated FDI.

This dynamic reflects not only the exit of Western capital but a gradual shift in the external financing model. Offshore jurisdictions and European headquarters are being progressively replaced by direct investors from Asia and the Middle East, who are better equipped to operate in a high-country-risk environment.

In Lieu of a Conclusion: Why Is Business-Government Dialogue Becoming a Key Factor

Beginning in 2027, Russia's Ministry of Economic Development forecasts a resumption of fixed capital investment growth at around 2%, assuming inflation slows down and monetary policy softens. However, reduced rates do not automatically revive the economy. The following structural transformations are of fundamental importance:

- improving the investment climate;
- reducing business costs;
- ensuring predictable and sustained rules of play;
- protecting property rights;
- providing clear dispute resolution mechanisms.

According to the World Bank's Global Investment Competitiveness Report 2019/2020, based on a survey of executives at companies investing in emerging markets, the top three factors influencing foreign investors' decisions were:

- political stability;
- stable macroeconomic climate;
- favorable regulatory environment.

These parameters mattered more than low taxes, labor or resource costs, or access to natural resources[19].

Formal regulatory norms are only part of the investment climate. The overall business environment is also important. In this context, when individual market players seek to gain benefits through non-market means, it can make external partners perceive higher reputational risks, therefore restraining them in their investment decisions about the jurisdiction as a whole.

A predictable environment is a factor that not only Western companies are seeking. Companies that stayed in Russia and continue operating are also guided in their investment decisions by the same signals – regulatory stability and investment security. Potential partners from China, India, the Middle East, and Southeast Asia are also looking at these factors.

Under these circumstances, the state's ability to build a consistent and substantial dialogue with both Russian and international businesses is becoming a competitive advantage in its own right. Trust — without which any incentive mechanisms risk remaining unused — is built precisely through such interaction. Discussions of regulatory innovations, localization terms, capital protection guarantees are not sheer technical procedures but elements of a predictable institutional environment which investors value above all.

It is noteworthy that the demand for predictability and dialogue is not one-way. Business itself is actively investing in this area. According to research by the Baikal Lobridge Center for Analytics[20], three out of four large and medium-sized companies have a GR function embedded in their structure, while 83% of polled executives allocate a separate budget for it, and 58% are personally involved in GR-related goal-setting and decision-making processes. These figures indicate that businesses view professional dialogue with government as an independent strategic competency and not merely as a supplement.

Globally, the world economy is fragmenting and production chains are regionalizing. In this context, a swift return of Western capital is unlikely. However, investment geography is already shifting — from West to East and South — though it does not fully compensate for the volumes lost.

Geopolitical factors are largely responsible for potential, profound changes in investment frameworks. Any movement in the negotiation

process could instantly affect both risk assessment and law enforcement practice. For now, the two-track model operates as a flexible filter, offering protective barriers combined with targeted incentives to attract capital from investors willing to play by the current rules.

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[1] https://rspp.ru/events/news/aleksandr-shokhin-vazhno-ne-propustit-tochku-peregiba-6a0572ad91c69/ ↩

[2] Federal Law No. 51-FZ of March 8, 2026, "On Amendments to the Federal Law 'On the Procedure for Foreign Investment in Business Entities of Strategic Importance for National Defense and State Security,' Certain Legislative Acts of the Russian Federation, and Recognizing Subparagraphs 8 and 9 of Paragraph 10 of Article 6 of the Federal Law 'On Foreign Investment in the Russian Federation' as Invalid." ↩

[3] Presidential Decree No. 897 of December 8, 2025, "On Amending Presidential Decree No. 520 of August 5, 2022, 'On the Application of Special Economic Measures in the Financial and Fuel-Energy Sectors in Connection with the Unfriendly Actions of Certain Foreign States and International Organizations." ↩

[4] Presidential Decree No. 302 of April 25, 2023, "On Temporary Management of Certain Property." ↩

[5] https://cbr.ru/press/event/?id=28407 ↩

[6] https://cbr.ru/press/event/?id=28360 ↩

[7] Government Resolution No. 2240 of December 7, 2022, "On Approving Import Customs Duty Rates for Certain Goods Originating from States and Territories Taking Measures That Violate the Economic Interests of the Russian Federation." ↩

[8] https://www.vedomosti.ru/economics/characters/2026/05/12/1196547-u-nas-bolshoi-zapas-prochnosti ↩

[9] Presidential Decree No. 436 of July 1, 2025, "On Additional Guarantees of the Rights of Foreign Investors." ↩

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[11] Federal Law No. 493-FZ of December 28, 2025, "On Amending Certain Legislative Acts of the Russian Federation." ↩

[12] Federal Law No. 285-FZ of July 31, 2025, "On Amending Certain Legislative Acts of the Russian Federation." ↩

[13] Federal Law No. 286-FZ of July 31, 2025, "On Amending Article 5 of Part One and Articles 284.4 and 427 of Part Two of the Tax Code of the Russian Federation." ↩

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