

**A MULTI-CASE STUDY APPROACH TO RUSSIA'S PUBLIC DIPLOMACY
AIMED AT ATTRACTING U.S. DIRECT INVESTMENT**

Based on the Analysis of Russia's Public Diplomacy Activities in 2010

EXECUTIVE SUMMARY

By

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Background

Modernization and creating a knowledge-based economy became the central point of Russian President Dmitry Medvedev's¹ tenure. Foreign direct investment (FDI) plays an important role in modernizing the economy by increasing capital flow to the country and bringing new business practices, skills transfers and technological innovations. Following a decrease in FDI in 2009, 2010 was marked with an increase in investment promotion activities by the Russian government and other interested parties. Multiple public diplomacy activities targeted American investors as Russia was interested in their technology and innovative expertise.

The study analyzed major forces in Russia's public diplomacy aimed at attracting U.S. investment. It investigated strategies and tactics that Russian public diplomacy players used in 2010 to improve Russia's image as an investment destination for American companies. The work also examined the coverage of Russian public diplomacy activities aimed at attracting American investors by analyzing 1) the number of media mentions, 2) favorableness of media coverage, 3) scope of media mentions, 4) Russian regions mentioned, 5) newsmakers cited, 6) investment factors emphasized and 7) key messages communicated in U.S. media reports. The study provided the evaluation of media relations activities at the Russian public diplomacy events selected for the analysis.

Methods

The main method used in the investigation is an exploratory case study of Russia's public diplomacy aimed at establishing a positive investment image of the country among U.S. investors. The research consists of the case studies of 1) *the Russia Forum 2010*, 2) *Communicating Skolkovo Announcement*, 3) *the St. Petersburg International Economic Forum*, 4) *Russian President Medvedev's Visit to the United States*, and 5) *the Global Innovation Partnerships Forum*.

Other public diplomacy activities considered in the study include: 1) economic /investment forums (*Sochi Investment Forum*, *VTB "Russia Calling" Investment Forum*, *the American Chamber of Commerce in Russia Annual Investment Conference*, and *the U.S. – Russia Business Council Annual Meeting*), 2) meetings of the *Foreign Investment Advisory Council*, 3) presentations by Russian regions' representatives, 4) road shows of Russian government representatives in the United States, 5) trips of foreign investors to Russia, 6) the *ModernRussia.com* website, and 7) events that impact the investment climate: *Sochi 2014*, *World Cup 2018*.

The method used for the analysis of the coverage of Russia's public diplomacy activities aimed at attracting U.S. investors is content analysis. Articles for content analysis were obtained through the Lexis-Nexis database and Google News search engine as well as the websites of the major U.S. financial and general media: *Bloomberg Businessweek*, *CNBC*, *CNN*, *Economist – U.S. edition*, *Financial Times – U.S. edition*, *Forbes*, *Fortune*, *Investor's Business Daily*, *Los Angeles Times*, *New York Times*, *Newsweek*, *Reuters*, *SeekingAlpha.com*, *Time*, *Venture Beat*, and *Wall Street Journal*.

¹ All the titles are indicated as of January – December 2010 when the analyzed public diplomacy events occurred

Results

Summary

Case Study I: Russia Forum

February 3 – 5, 2010

Overview.

Organized by one of the leading Russian investment banks Troika Dialog since 2008, the Russia Forum brings together the representatives of Russian and international companies, investors, state officials and prominent researchers. It gives participants an opportunity to interact with Russian decision makers. In 2010, investors had a chance to meet such Russian officials as First Deputy Prime Minister Igor Shuvalov and Finance Minister Alexei Kudrin.

The forum was organized in the format of panel discussions on the topics concerned with the state of the global economy, challenges faced by businesses worldwide, the Russian investment climate and the development of different economic sectors such as retail, banking sector, energy market, and utilities. More than 1,800 participants attended the Russia Forum in 2010.

The forum mostly served the purpose of providing a communication and information platform for the businesses either already working in Russia or being interested in doing that in future. It had a strong potential of motivating already aware and accepting publics into action. However, mostly mixed and neutral media coverage hardly helped in recruiting new investors.

Key Players.

- Alexei Kudrin, Minister of Finance of the Russian Federation
- Igor Shuvalov, First Deputy Prime Minister of the Government of the Russian Federation
- Michael Milken, Chairman of Milken Institute
- Troika Dialog, one of the leading investment banks operating in Russia and the Commonwealth of Independent States.

Investment Factors.

Among the positive investment factors mentioned at the forum there were high market potential, educated human resources, and the government's intentions to implement measures improving the country's investment climate. Participants also discussed the need to fight corruption and bureaucracy as well as to ensure better legal protection. They stressed the lack of qualified managers and the need to invest in better management training in Russia. The speakers of the conference emphasized the Russian government's economic priorities of modernization, innovation and the growth of entrepreneurship.

Regions Mentioned.

No specific Russian regions were discussed at the event.

Summary

Case Study II: Communicating Skolkovo Announcement

February 11 – April 29, 2010

Overview.

In February 2010, Russian President Dmitry Medvedev signed a decree to form a working group for planning and creating of Russia's innovation center, a technological hub with special legal and administrative regulations that would spur the culture of innovation in the country. Foreign investment was supposed to play an important role in fulfilling that purpose by bringing latest technology and sharing expertise in innovation. In March 2010, the Moscow region town of Skolkovo was selected as the location for the future center, and Russian businessman Viktor Vekselberg was appointed to become the President of the Skolkovo Foundation. In April 2010, two Co-chairmen, Jores Alferov from Russia and Roger David Kornberg from the United States, were announced.

Initial announcements about the Skolkovo innovation center were made at the meetings of the Commission for the Modernization and Technological Development of Russia's Economy and in interviews with Russian mass media. They seem to have targeted internal audiences: Russian businesses, general public and mass media. Russian President Dmitry Medvedev and the Chief of Presidential Staff Vladislav Surkov were major spokespeople on the Skolkovo initiative. During the first months of Skolkovo promotion (February 11 – April 29, 2010), its potential and benefits (administrative and tax privileges) were not clearly articulated to foreign publics such as mass media and the investment community.

Key Players.

- Commission for Modernization and Technological Development of Russia's Economy: established in May 2010 and chaired by the Russian President, the commission aims at the development of economic policies to spur modernization and innovation in Russia.
- Dmitry Medvedev, President of the Russian Federation
- Viktor Vekselberg, Chairman of the Supervisory Committee of Renova Group and Skolkovo Foundation President.
- Vladislav Surkov, First Deputy Chief of Staff of the Presidential Executive Office and Deputy Chief of the Commission for Modernization and Technological Development of Russia's Economy.

Investment Factors.

Plans for special legal regulations (tax and administrative privileges) and simplified immigration procedures for highly-skilled foreign specialists were major factors emphasized in the communication of the Skolkovo initiative.

Regions Mentioned.

The Skolkovo innovation center.

Summary

Case Study III: St. Petersburg International Economic Forum

June 17 - 19, 2010

Overview.

Organized annually since 1997, the St. Petersburg International Economic Forum (SPIEF) is one of the major international business events in Russia bringing together politicians, Russian and foreign businessmen, and experts to identify and discuss key challenges facing Russia and emerging markets. The SPIEF 2010 was devoted to Russia's modernization and innovation agenda. About 4,200 attendees from 87 countries participated in the SPIEF 2010 events.

The forum provided Russian officials with a platform to communicate investment - friendly policies and improvements in the Russian economy. The fact that innovation and investment were discussed in President Medvedev's address demonstrated the importance of the issue for the Russian leadership. Statements made by many foreign investors endorsed the Russian government's activities aimed at modernizing the economy.

Key Players.

- Alexander Shokhin, President of the Russian Union of Industrialists and Entrepreneurs
- Alexander Zhukov, Deputy Prime Minister of the Government of the Russian Federation
- Anatoly Chubais, RUSNANO CEO
- Andrew Somers, President of the American Chamber of Commerce in Russia
- Andrey Denisov, First Deputy Minister of Foreign Affairs of the Russian Federation
- Arkady Dvorkovich, Aide to the President of the Russian Federation
- Craig Barrett, Foreign Delegate Coordinator, Center for Development and Commercialization of New Technology, Skolkovo Foundation
- Dmitry Medvedev, President of the Russian Federation
- Edward Verona, President & CEO of the U.S. – Russia Business Council
- Elvira Nabiullina, Minister of Economic Development of the Russian Federation
- Konstantin Romodanovsky, Director of the Federal Migration Service of the Russian Federation
- Robert D. Hormats, U.S. Under Secretary of State for Economic, Energy and Agricultural Affairs
- Viktor Vekselberg, Chairman of the Supervisory Committee of Renova Group and Skolkovo Foundation President.

Investment Factors.

Initiatives such as abolishing capital gains tax for companies involved in FDI, tax benefits for companies involved in innovation, simplified migration regime, and reduction of the number of strategic enterprises restricted for foreign investors were announced at the forum. Participants stressed that Russia's strength was its highly educated people. At the U.S. – Russia Business Dialogue session, red tape, high customs tariffs, no protections for investors' rights, and infrastructure were named among Russia's main problems.

Regions Mentioned.

The Skolkovo innovation center.

Summary

Case Study IV: Russian President's Visit to the United States

June 23 - 25, 2010

Overview.

One of the major Russian public diplomacy events to attract U.S. investment in 2010 was the official visit of Russian President Dmitry Medvedev to the United States. It started with a trip to Silicon Valley and included a few meetings with the representatives of the Russian and American business community. The major theme of the Russian president's visit to the United States was strengthening Russia - U.S. cooperation with a special emphasis on trade and economic relations between the countries.

The visit provided the Russian delegation with an opportunity to present the Russian innovation center project, Skolkovo, to the American business community and invite them to invest in it. At meetings with the U.S. officials such as Governor Schwarzenegger and President Obama, Medvedev was able to win their support and public endorsement of the Skolkovo initiative and modernization efforts in Russia.

Key Players.

- Arnold Schwarzenegger, Governor of California
- Barack Obama, President of the United States
- Dmitry Medvedev, President of the Russian Federation
- Elvira Nabiullina, Minister of Economic Development of Russian Federation
- Gary Locke, U.S. Commerce Secretary
- John Beyrle, U.S. Ambassador to Russia
- Ron Kirk, U.S. Trade Representative
- Sergey Kislyak, Russian Ambassador to the United States
- The American Chamber of Commerce in Russia
- The U.S. - Russia Business Council
- The U.S. Chamber of Commerce.

Investment Factors.

Favorable changes in taxation and immigration policies as well as the Russian government's commitment to improving the country's investment climate were emphasized during the visit.

Regions Mentioned.

The Skolkovo innovation center.

Summary

Case Study V: Global Innovation Partnerships Forum

October 10 - 14, 2010

Overview.

The Silicon Valley Trade Delegation comprised of 21 U.S. business representatives and three public officials visited the Russian cities of Moscow and Kazan (Tatarstan). California governor Arnold Schwarzenegger led the delegation, which took part in the Global Innovations Partnerships aimed at building and developing relationships between Russian innovative businesses and U.S. venture businesses.

The overall theme of the event was strengthening the Russian innovative technology business sector based on the experience of Silicon Valley leaders. The forum featured an official meeting between the Russian President and the Governor of California, briefings with Russian ministers Nabiullina and Fursenko, a presentation of Skolkovo, a panel discussion at the Russian Venture Company, a visit to the RUSNANO office, and a trip to Kazan. During the forum, Schwarzenegger endorsed Russia's investment potential.

Key Players.

- Investment and Venture Fund of the Republic of Tatarstan (IVFRT), a state-backed non-profit organization aimed at spurring innovative development in Tatarstan
- RUSNANO, a company dedicated to formulating and implementing Russian governmental policy on innovation in the nanotechnology sector
- Russian Venture Company (RVC), a government venture fund of funds
- Skolkovo Foundation, an organization responsible for creating the Russian innovation center in Skolkovo
- SVB Financial Group, a financial services company
- The Global Technology Symposium, an investment conference on venture capital, technology, and entrepreneurship in emerging markets
- Ainur Aideldinov, Director of the Investment and Venture Fund of the Republic of Tatarstan
- Andrey Fursenko, Minister of Education & Science of the Russian Federation
- Arnold Schwarzenegger, Governor of California
- Dmitry Medvedev, President of the Russian Federation
- Elvira Nabiullina, Minister of Economic Development of the Russian Federation
- Rustam Minnikhanov, the President of the Republic of Tatarstan.

Investment Factors.

Russian President Medvedev stressed the government's commitment to modernization and innovation and the importance of advice from Silicon Valley leaders. He though mentioned Russia's problems with corruption and that not everyone in the Russian business community was ready for a change.

Regions Mentioned.

The event promoted the Skolkovo innovation center. Another Russian investment destination presented to the members of the Silicon Valley trade delegation and media was Kazan, Tatarstan.

Russia's Public Diplomacy Analysis

As the case studies demonstrated, there are multiple forces involved in Russian public diplomacy activities aimed at attracting foreign (U.S.) direct investment. These include the Russian Presidential Administration, ministries of Economic Development and Finance, the Federal Migration Service, RUSNANO, the Russian Venture Company, the Skolkovo Foundation, private sector players (investment banks Troika Dialog and VTB Capital), business associations (the American Chamber of Commerce in Russia and the U.S. – Russia Business Council), Russian regional governments, and the Business Development and Economic Relations Working Group of the U.S. – Russia Bilateral Presidential Commission, etc.

The following strategies used for promoting Russia as an investment destination were identified:

1. *Alliances and coalitions*: the Russian government cooperating with U.S. – Russia business associations and the U.S. government; collaboration between Russian and U.S. business associations.
2. *Third-party endorsements*: endorsement of Russian investment opportunities by the current U.S. investors in Russia and U.S. public officials at economic and investment forums and through controlled media such as the online forum ModernRussia.com.
3. *Audience participation*: inviting investors to discuss the Russian business climate at economic and investment forums and at Foreign Investors Advisory Council sessions.
4. *Media relations*: communicating changes in investment policies and inviting media to economic and investment forums.

Major investment factors emphasized at the analyzed public diplomacy events were the Russian government's commitment to improve the investment climate, favorable changes in investment policies (taxation and immigration) as well as Russia's highly - educated human resources.

The Skolkovo innovation hub was the leading Russian investment destination promoted at 4 out of 5 public diplomacy events.

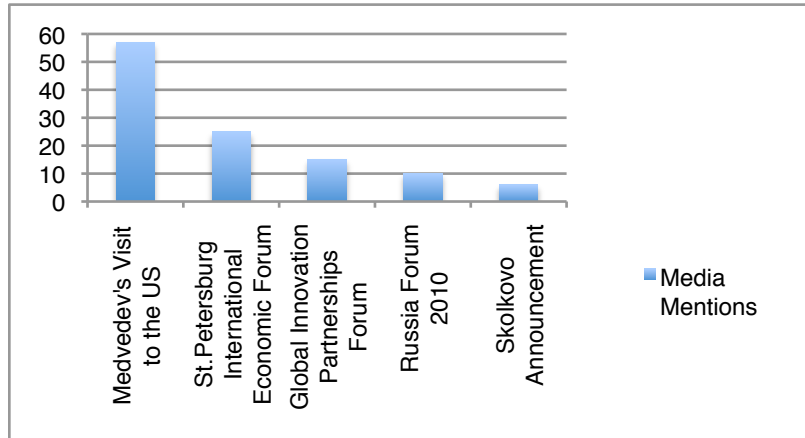
U.S. Mass Media Coverage

Public diplomacy activities that received more media coverage among the analyzed events involved the participation of high-ranking Russian officials, participation of U.S. public officials and announcement of new investment policies as well as deals reached between the Russia government or companies and U.S. investors.

Russian President Medvedev's visit to the United States received more media mentions (57) than any other analyzed public diplomacy event. It was followed by the St. Petersburg International Economic Forum (25) and the Global Innovation Partnerships Forum (15).

The Russia Forum 2010 garnered 10 media mentions, and the announcement of creating of Russia’s innovation center was mentioned only in 6 U.S. media reports during February – April 2010 (See Figure 1).

Figure 1: Media Mentions of Public Diplomacy Activities.



Among the analyzed events, activities that communicated changes and involved endorsements by U.S. public officials and investors received more positive coverage in contrast to the events that did not.

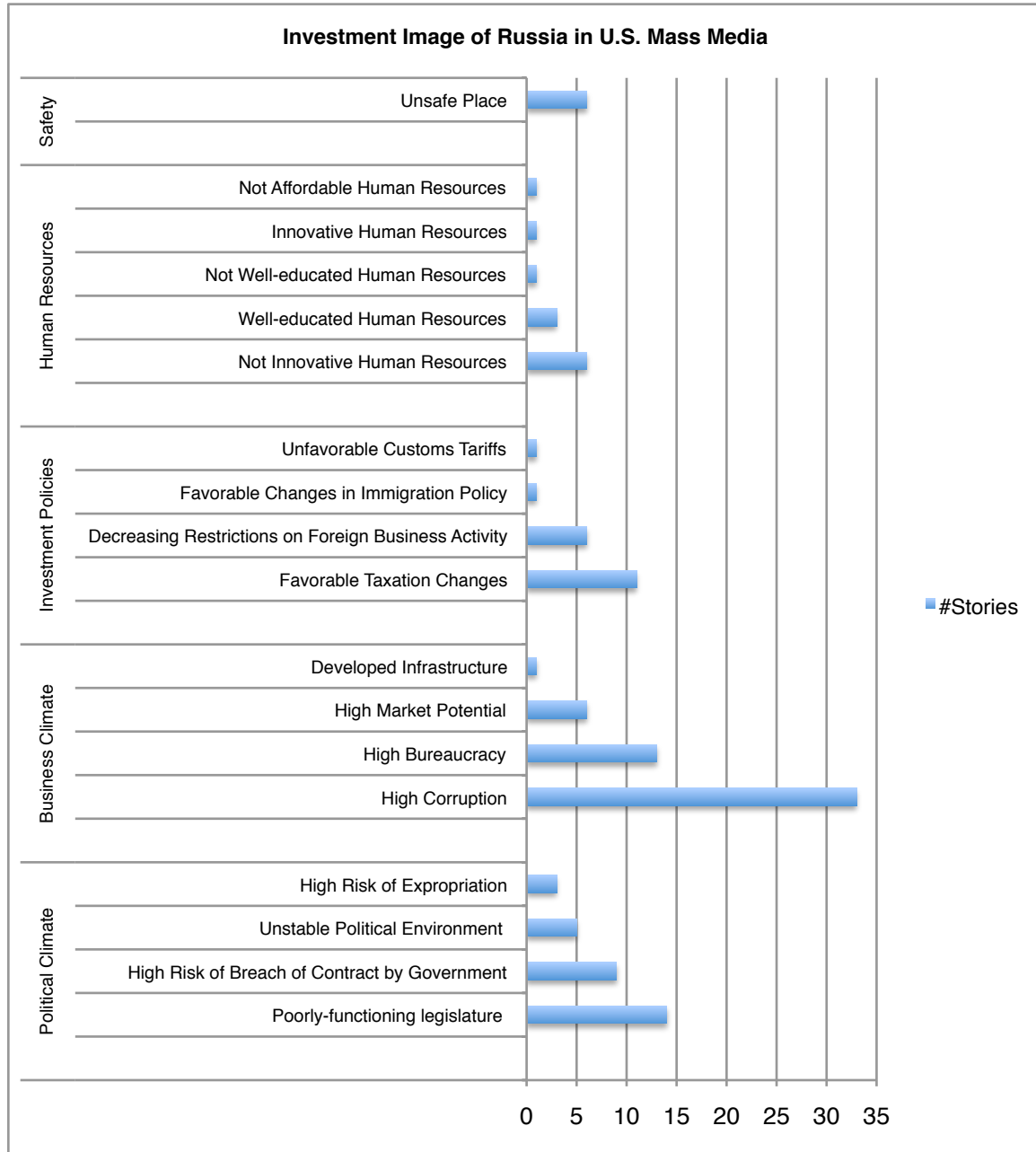
Skolkovo dominated among other investment destinations both in speeches at the analyzed public diplomacy events and in the mass media coverage these generated (45 mentions). The coverage of other Russian destinations was not prominent: the Moscow region (2 mentions), the republic of Tatarstan (1 mention), and the Russian North Caucasus (1 mention). A visit to the republic of Tatarstan was part of the U.S. trade delegation’s trip to Russia during the Global Innovation Partnerships Forum in October 2010. However, the destination was mentioned only once in U.S. media reports, which demonstrates the need to increase the effectiveness of media relations in terms of regional investment promotion.

The analysis of top newsmakers in U.S. mass media regarding the Russian investment climate showed that major Russian spokespeople such as President Dmitry Medvedev, Viktor Vekselberg, Skolkovo Foundation President, Anatoly Chubais, RUSNANO CEO, Igor Shuvalov, First Deputy Prime Minister, and Elvira Nabiullina, Minister of Economic Development, were often cited in media reports. Other newsmakers included U.S. officials, experts on U.S. - Russia relations and the Russian economy as well as the representatives of the business community in both countries.

Describing Russia’s political climate, U.S. media emphasized the poorly - functioning legislation, the high risk of breach of contract by the government, the risk of expropriation, and the unstable political environment. Regarding the country’s business climate, the media mentioned the high level of corruption and bureaucracy, followed by high market potential and a well-developed infrastructure. Factors mentioned in terms of Russian investment policies were taxation and immigration policy changes, a decrease in restrictions on foreign business activity, and unfavorable customs tariffs. There were contradictory statements regarding Russia’s labor force: some media or newsmakers

characterized them as innovative and well - educated while others described them as the opposite. Six of the 113 media mentions described Russia as an unsafe place (See Figure 2).

Figure 2: Investment Image of Russia in U.S. Mass Media.



The Russian government and other public diplomacy players framed messages about Russia’s investment climate around the introduction of investment – friendly policies and the high potential of the country’s human resources. U.S. media covered the new investment – friendly initiatives but also mentioned the high risks of breach of contract by the government, instability, the absence of the rule of law, and the high level of corruption in Russia. The latter statements were supported with ratings such as the Transparency International Corruption

Index (158th place out of 178 countries in 2010) and IFC – World Bank Doing Business project (120th place out of 183 countries in 2010) as well as with the mentions of jailed Russian oligarch Mikhail Khodorkovsky and Hermitage Fund lawyer Sergey Magnitsky who died in prison. The media also challenged the worthiness of modernization if it is not supported by political liberalization and democratization (See Table 1).

Table 1: Key Messages on Russia's Investment Climate.

| Russian Government. | U.S. Investors | U.S. Officials | U.S. Mass Media. |
|--|---|--|--|
| Russia acknowledges the challenges it faces in attracting investment. Russia needs to improve its investment climate. Creating an investor – friendly environment is a top priority. | The investment community acknowledges the Russian government's commitment to improve the country's investment climate. | Barack Obama, President of the U.S. (at the meeting with Dmitry Medvedev on June 24, 2010): «The US will be your partner as you promote the transparency and accountability and rule of law.» | Russia is desperate to attract foreign investment after the economic downturn in 2008 – 2009. Attracting investors is a central point of Russia's economic policies. |
| Russia cannot proceed without modernization and innovation. | Russia needs to develop an open economy, support a small business sector, and create links between scientific research and business. | Arnold Schwarzenegger, Governor of California (at the meeting with Russian President Medvedev on October 11, 2010): Russia has potential for success. It is a "goldmine". | Russia is trying to diversify its economy and reduce its dependence on natural resources. Russian President Medvedev made modernization and innovation the centerpiece of his tenure. |
| Russia is simplifying immigration rules for highly – skilled specialists and abolishing capital gains tax for companies involved in foreign direct investment, providing tax benefits for companies involved in innovation, and reducing the number of strategic enterprises restricted for foreign investors. | Russia presents a great market potential. There are plenty of growth opportunities in Russia. | Robert Hormats, Under Secretary of State for Economic, Energy and Agricultural Affairs (at the SPIEF on June 17, 2010): «We look forward to more opportunities for U.S. companies to invest in Russia, because this is good for U.S. companies, and it also contributes to growth and to the creation of high quality jobs in Russia.» | The Russian government is introducing investment friendly policies: abolishing taxes on capital gains, simplifying immigration rules for highly - skilled specialists and reducing the number of strategic enterprises restricted for foreign investors. |
| Russia is building a new innovation center, which is not, of course, a Silicon Valley, but it will become a major testing ground for a new economic policy. Companies joining the center in Skolkovo will be granted tax and administrative privileges. | Changes would not happen overnight, but Skolkovo represents a good start to foster entrepreneurial culture in Russia. | | Russia is building an innovation center modeled on Silicon Valley. Skolkovo will have a special legal and tax regime. |
| Russia is interested in working closely with leading American companies. Russia values the advice that Silicon Valley leaders could provide. | Venture investment has changed dramatically in Russia since early 1990s, and there are currently many investors working with Russian technological companies. | | Russia hopes U.S. investors will participate in Skolkovo development. |
| Russia is interested in much higher attraction of skilled labor. | Russia's strength is highly-educated human resources in such subjects as math and computer science. | | Russia's investment potential was endorsed: Schwarzenegger compared Russia to "a goldmine" and called Medvedev "a great visionary". |
| The Russian government is listening to the concerns of foreign investors. | Russia lacks qualified managers in the scientific sphere. | | Investors are still skeptical about Russia's business climate. Russia is still a high - risk country for foreign investors because of rampant corruption, bureaucracy, and lack of legal guarantees and distrust of private business. |
| The government will work on reducing bureaucratic barriers. | Russia needs to fight corruption and bureaucracy as well as to ensure better legal protection and predictability in officials' actions. Russia faces the challenge of the certainty of outcome. | | U.S. – Russia relations have improved and their leaders have more of business-type relationships in contrast to the Bush era. |
| There were improvements in Russia's economy: inflation was constrained and the federal budget deficit was reduced. | High customs tariffs and no protection of investors' rights make it hard to do business in Russia. | | Medvedev is trying to modernize Russia without changing political foundations: political liberalization and institutional change. |
| Russia has such advantages as its resources and intellectual capital. | | | Russia has a massive domestic market. |

Conclusions

Russia's public diplomacy includes multiple players ranging from government agencies to Russian and American business associations, state-controlled companies and private companies.

However, in 2010, there was not a single contact agency responsible for handling investment promotion activities. There was also not a single major information portal providing facts on all the aspects of investing in Russia: description of the investment climate, regional opportunities, development and infrastructure as well as regulations for foreign investors. The Skolkovo project had a website with extensive information on the future innovation hub and opportunities to get involved. New-York based PR agency Ketchum ran the ModernRussia.com online forum on behalf of the Russian government, which served as a platform for discussing Russia's modernization efforts. Russian public officials and foreign investors shared their perspectives on the country's development through this site. These sources of information though cannot substitute a portal presenting facts necessary for making an investment decision and communicating the country's brand as an investment destination.

Strategies such as *coalitions with business associations* and *third-party endorsements* increase the credibility of Russian representatives promoting the country's investment attractiveness and help to reach out to some prospective investors. *Audience participation* enriches communication with the current investors and allows the government to hear their concerns. Through *media relations*, the Russian government can communicate investment-related messages to bigger audiences. However, increased media coverage of Russia's investment initiatives also increases public awareness on the country's problems such as corruption and bureaucracy.

The study demonstrated the lack of effective strategies to communicate to U.S. companies that are not currently investing in Russia and might have concerns about the country's business environment.

Recommendations

Based on the analysis of Russia's public diplomacy activities aimed at attracting U.S. direct investment and the evaluation of its media relations effectiveness, the following initiatives are suggested to enhance the country's public diplomacy activities:

1. Working on improving the country's investment climate and taking investors' concerns into consideration. No public diplomacy will help improve Russia's investment attractiveness if foreign investors face corruption and bureaucracy obstacles while doing business in the country.
2. Establishing a coordinating agency that would promote investing in Russia in partnership with business associations and government agencies.

3. Developing and enhancing an information portal with all the necessary information to make an investment in Russia.²
4. Emphasizing the strengths of Russia's investment brand such as highly educated human resources, the Russian government's commitment to modernization, and a high market potential in communication with foreign investors.
5. Increasing the involvement of U.S. businesses that are not currently doing business in Russia by inviting them to participate in Russia's public diplomacy events (road shows, panel discussions, etc.).
6. Providing more information on factors important for investors' decision-making such as infrastructure development and opportunities in different industry sectors.
7. Working with U.S. state chambers of commerce and industry associations to increase Russia's profile as an investment destination.
8. Involving U.S. officials and business community representatives in Russia's public diplomacy activities to endorse the country's modernization and investment efforts.
9. Organizing media events to communicate concrete steps and changes in investment policies.
10. Initiating byline articles in U.S. mass media on behalf of Russian public diplomacy players and their U.S. partners.
11. Increasing the presence of Russian regions, other than Skolkovo, in U.S. media coverage of Russia as an investment destination.

² Since the analysis was performed, The Ministry of the Economic Development of the Russian Federation launched the "Invest in Russia" portal (<http://invest.gov.ru/en>) in cooperation with the Foreign Investment Advisory Council.