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Abstract

City of St. Petersburg and the Leningrad region are the regions of the Russian Federation and constituent parts of the so-called Greater St. Petersburg agglomeration, which includes the second largest city in Russia and a large territory surrounding the City with its villages and satellite towns. These two regions developed fast until 2012, but since 2013, they entered a period of a low economic development. Despite its previous achievements in attracting foreign direct investment (FDI), St. Petersburg has been losing attractiveness in the eyes of foreign investors since 2013. The Leningrad region performed better in 2013-2020, but lost some of its key investors. The year 2020 brought a further worsening of economic performance due to the COVID-19 pandemic. However, some positive changes in the regional economies can be observed in 2013-2020. Even in the year 2020, there were certain achievements in hampering the pandemic. The future socio-economic development of both the regions under review is quite uncertain today. Therefore, the author attempts to look forward through this uncertainty with the help of three future scenarios.

Keywords: St. Petersburg, Leningrad region, economy, development, COVID-19, forecast, scenario, Russia

1. Introduction

The quality and the reliability of statistical data (and that of the COVID statistics as well) provided by the Russian statistical authorities are questioned by numerous experts. Unfortunately, alternative data sources are sometimes even less reliable. Moreover, alternative data is scarce and in many cases irrelevant. Some official figures seem to be artificially modified to produce a better picture of socio-economic performance in St. Petersburg and Russia as a whole. Responsible prominent researchers with brilliant background sometimes give their opinion, but they are quickly fired from their positions, if their opinions contradict the official viewpoint (Krutov and Olevski, 2020).

In this report, I base my assessments on the official statistical data, but I also give my comments based on some alternative sources of information. Being involved in research and analysis of St. Petersburg and its surrounding region since 2002 and having both academic and business background, I may offer a comprehensive and independent view. This is why this type of dual analysis (available official data review plus analysis based on expert evaluation) is appropriate here.

2. A general overview and a brief historical background of the region

The Greater St. Petersburg region (GPR) includes the City of St. Petersburg and the Leningrad region, which comprise one social and economic agglomeration with a population of 7.3 million people and a surface of 87,348 square kilometers as of the beginning of January 2020 (Petrostat, 2020). Both of aforementioned regions are integral parts of the Russian Federation, which consists of 85 regions. The southern and eastern territory of the GPR with the Medieval fortresses of Koporje and Ladoga originates from the ancient Russian Duchy of Novgorod (later Moscow Russia, and thereafter St. Petersburg Province [Gubernia] of the Russian Empire), while its north-western part relates to the Grand Duchy of Finland (Vyborg and Priozersk municipal districts). Having a relatively small and mixed Russian-Finnish population, the previously north-western border region gained its major significance due to the birth of a new Russian capital, namely the City of St. Petersburg, in 1703. Nine years after its foundation, in 1712, St. Petersburg became the capital of Russia.

This city became a dominating power for the region since early 18th century. Founded by the Russian Tsar Peter I, the city developed as the imperial capital until 1918, when the Soviet Government moved from the city to Moscow[1]. The latter appeared to be a safer place during the revolutionary turbulence. In the Soviet period, the city was renamed as Leningrad after Vladimir Lenin[2], and the city became the second largest urban center in the USSR in terms of its population.

It also preserved its significance as an economic (primarily industrial) center of the Soviet Union. Despite a huge damage caused by the Second World War, the agglomeration grew both in terms of economy and of population. The Leningrad region, a single entity at those times, was a large industrial, educational and scientific agglomeration with a center in Leningrad. Several towns with mostly industrial profile surrounded the city, and an agricultural area provided food supplies to it.

Moreover, the city acted as a Soviet transport hub in the Baltic Sea. However, the isolated nature of the Soviet economy and the presence of alternative Soviet transport hubs (Klaipeda, Tallinn and Ventspils) suppressed this function. By the collapse of the Soviet rule in 1991, Leningrad had an outdated and inefficient transport infrastructure.

In 1991-1992, the City of Leningrad was renamed again St. Petersburg, while the Leningrad region preserved its Soviet name after the series of referendums. After the new Constitution of the Russian Federation was adopted in 1993, the city and the region became separate units of the Russian Federation, with their own governments and regional parliaments. Separate administrative status has remained 'frozen' until now. The economies of these administrative units are intrinsically interwoven; the Government of the Leningrad region is presently located in the neighboring building to Smolny[3], which accommodates

1 The city was renamed Petrograd three years prior to the Russian Revolution of 1917.

2 Vladimir Lenin was the leader of the Bolshevik Party, which took power in Russia in 1917.

3 In October 1917, the Smolny Institute became a home for the Petrograd Council (*Petrogradsky Soviet*), which took power in October from the so-called Provisional Government of Russia. The name of this organization, dominated by the members of the Bolshevik Party – *the Soviet*, was later transferred to type of power and the system itself, the Soviet system. The country had got the name Soviet Union due to these roots as well. Later on, Smolny accommodated the Government of Leningrad (after 1991, the Government of St. Petersburg).

the Government of St. Petersburg. Besides, these two regions have a common labor market, a common food and beverage market, a common real estate market and a common infrastructure for transport and other communications. There have been several attempts to merge these two regions into a single administrative unit, following a similar development in some other Russian regions, such as a creation of new administrative entity in the Perm region, the Kamchatka region and the Chita region (later *the Zabaikalsky Kraj*). But until the year 2021, St. Petersburg and the Leningrad region have remained separate units.

The turbulent period of 1991-1999 had a significant impact on the economy and social life of St. Petersburg and the Leningrad region. Industrial production was the economic basement of the Soviet Union in general and of St. Petersburg/Leningrad in particular. In the 1990s, this sector of economy experienced the largest fall in its post-war history. On the other hand, the market reforms of the Russian Government after the collapse of the USSR led to an emergence of new sectors of economy, such as banking, finance and real estate services. These reforms enforced significant revival in the service sector in general. Trade, communication, transport, financial services became the most fast-growing sectors of the City's economy. In the rural areas of the Leningrad region, the market reforms of the 1990s led to an abolishment of collective farms and to a disastrous crisis in local agriculture, unable to compete with cheap imports of foodstuffs and other agricultural products. However, private farms and agricultural holdings were created during the same period. Later on in 1998, a sharp devaluation of Ruble increased market opportunities for local private food producers, who successfully substituted imports and increased their presence on the St. Petersburg market of agricultural products. The economic decline in 1991-1999 was assessed approximately as 40% of Russia's GDP and a corresponding figure for St. Petersburg and the Leningrad region by international economic organizations (e.g., the IMF and the World Bank). On the other hand, several researchers insisted on a fact that a huge part of the economy was not observed by the national and regional statistical authorities, as they belonged to a semi-criminal hidden sector of 'the grey economy'. In other words, the output of the grey economy was not recorded, and thus it was not added to the official GDP. In any case, the economic fall of the 1990-ies in Russia was considered to be exceptionally large and estimated between minus 20% to minus 40% of the nation's GDP.

3. The economy of the Greater St. Petersburg region in 2000-2020: a booming recovery and a long stagnation

Contemporary period for the Greater St. Petersburg region coincides with a so-called Putin's era in Russian political history. Positive recovery of the region and Russia as a whole appeared already in 1999 after the most turbulent period of the post-Soviet market reforms, after the market infrastructure was created and the monetary policy of economic authorities shifted towards a relatively stable mode, giving a path for the economic growth.

The Asian financial crisis of 1997-1998 led to more or less balanced currency and monetary policy in most countries referred to as 'emerging economies', including Russia. In addition, the re-balancing of the global economy and softer policy of the US Federal Reserve enabled the commodity prices to grow much faster than before. In fact, the recovery coincided accurately with the first and the second presidential terms of Vladimir Putin (2000-2008), and ended with a four-year term of Dmitry Medvedev (2008-2012). The Medvedev term, with no doubt, could be included in 'the Putin era' as 'a technical break', which was followed by two sex-year terms of Vladimir Putin.

Despite the fact that both Russia's presidents of the past two decades came from St. Petersburg, the city did not get a privileged position among 85 regions of the Russian Federation. Nevertheless, in 2000-2020 St. Petersburg's economy measured by its gross regional product developed faster than Russia's overall GDP, and in 2015-2017 St. Petersburg took the second position after the City of Moscow in terms of the size of its gross regional product on national level. A similar forerunning trend was observed for all Russia's four largest regions measured by their GRP: the City of Moscow, the City of St. Petersburg, the Moscow region, and Ugra, an autonomous district of the oil-rich Tyumen region in West Siberia. The gross regional product of these regions grew faster than the GDP of the Russian Federation (Rosstat, 2020).

This 20-year period is extremely heterogeneous in terms of its economic nature and development. In fact, the period could be divided into two distinct eras: 1) **economic recovery in 2000-2012**, **including the crisis of 2008**, and 2) **a long-term economic stagnation since 2013** (see Chart 1 and Chart 2).

The main drivers of the recovery were high commodity prices on the global market in 2000-2013 and 'a low basis effect' created by an almost 40% economic decline in the 1990s. Despite St. Petersburg was not an oil-extracting region, the general impact driven by high prices on commodities - primarily oil and gas - had a booming effect on all the regions of Russia. Even the global financial crisis, which stroke in September 2008 after the Lehman Brothers financial holding's bankruptcy and rising turbulence on financial and currency markets, passed as a fleeting episode with a relatively short-term impact on the Russian economy, and with a very rapid recovery. St. Petersburg's economy started to recover already in the second half of 2009. To some extent, the 5.7-percent fall of the region's economy in 2009 was a result of a 'high base effect'. In other words, prior to the crisis, the region's economy experienced a 13.1-percent year-on-year rise which exceeded the corresponding 8.5-percent GDP growth for the Russian Federation by more than 50%. A full-scale recovery of the regional economy was observed in 2010-2012, hitting an 8.3-percent growth in 2011.

In 2013, however, St. Petersburg entered a period of economic stagnation, with a low rate of economic growth fluctuating between 0.2% and 2.7%, year-on-year. The average growth rate for the regional economy during 2013-2019 was 1.7%, which significantly differs from a 7.6-percent average growth rate in 2000-2012 (Petrostat, 2020). The prominent fact about this period is that the economic stagnation started already in 2013, i.e. long before the international economic sanctions where constituted. This 1.7-percent growth rate of the average annual gross regional product, nevertheless, is almost twice higher than the corresponding 0.9-percent annual GDP growth for the Russian Federation as a whole. This shows the region's better performance than that of Russia as a whole and corresponds with its faster economic dynamism in 2000-2012.

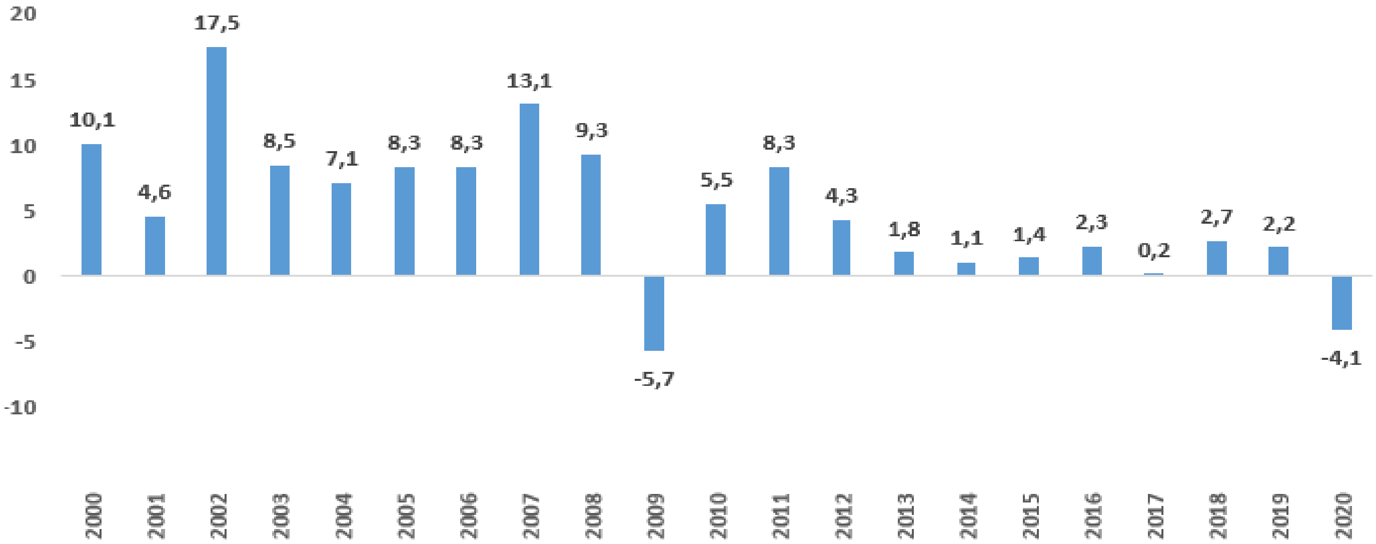
The first reason for this faster growth was a huge inflow of federal budgetary allocations, primarily focused on the improvement of the city's infrastructure. The second reason was a large inflow of foreign investment (both FDI and portfolio investment) in 2000-2012 caused by outstanding investment attractiveness of St. Petersburg. For a certain period of time, the city was even ahead of a national leader, namely of the City of Moscow, in investment attractiveness ratings (RA Expert, 2020). Due to the COVID-19 pandemic, the St. Petersburg economy was forecasted to decline by 4.0% in 2020 compared to a previous year[4]. The estimated size of St. Petersburg's economy in 2020 was approximately 4.5 trillion Rubles, an equivalent of EUR 54.6 billion[5] (Soloveychik, 2020). Thus the size of St. Petersburg economy measured by gross regional product might be compared with the corresponding indicator for Lithuania: its GDP was approximately USD 54 billion in 2019 (UNCTAD, 2021).

Most experts agree on an idea that this change of trends from growth to stagnation for St. Petersburg's economy in particular and for Russia's GDP in general is defined by an exhaustion of the existing (or 'Putin's') socio-economic model and an absence of any economic alternative to it (Guriev, 2019). The impact of the international sanctions on Russia's annual GDP change is estimated to be approximately 0.2% year-on-year (IMF, 2020). On the regional level this effect might be correspondingly low. Other reasons for the economic stagnation were low commodity prices, when compared to the ten-year period before 2013, and a decrease in investment activity since 2014, especially a decrease in FDI. Additional factor for this stagnation was an increasing pressure on business produced by the state and unfair competition environment, giving more benefits to state enterprises and monopolistic businesses, controlled by the state. For example, in technologically advanced businesses private SMEs were getting less access to contracts, markets and resources compared to opportunities created for state-owned companies and enterprises.

4 The forecasts might substantially differ from actual results, which are not available until in March 2021.

5 Ruble, or Russian Ruble (RUR), is a highly volatile currency. The annual fluctuations of its exchange rate versus Euro or US dollar might exceed 100%. In this estimation, an annual average rate (RUR 82.4 for 1 Euro) was used for 2020. This exchange rate was published by the Central Bank of Russia (CBR, 2021).

Chart 1. The development of the regional GDP of the City of St. Petersburg (% change compared to previous year)



Source: Petrostat (2000-2020)

In the Leningrad region, the main economic trends in 2000-2020 were almost the same as in St. Petersburg, but its overall economic performance was significantly better than in the city. 'The effect of the low basis' was even more significant compared to St. Petersburg, as the economy of the Leningrad region was historically based on agriculture and mostly ineffective Soviet-era enterprises in mono-industrial towns that suffered a larger decline in the 1990s[6]. At the same time, the revival of local agriculture after the Ruble devaluation of 1998 and a major FDI inflow in the region, which started in 1999, brought the region to an economic boom with an industrial production growing by 26.8% year-on-year in 2000, and hitting a 35.6-percent annual growth in 2002 (Petrostat, 2020). The Leningrad region attracted so-called 'anchor investors', such as Ford Motors and Philipp Morris, which established their enterprises in Vsevolozhsk and Gorelovo in the beginning of the 2000s and caused a significant spillover effect to the regional economy. FDI and agriculture contributed a lot to the region's performance, but in 2013-2019 the Leningrad region entered a stagnation with average annual economic growth a bit lower than 2.0% (Petrostat, 2020; the author's own calculations).

As the Leningrad region is in fact a satellite for St. Petersburg, its development strongly depends on the city's economic performance. To some extent, the economy of the Leningrad region had a supplementary character to the city's economy. The absolute size of its economy is smaller compared to that of St. Petersburg. In 2019, the economy of the Leningrad region was EUR 16.3 billion (Lenoblinvest, 2021a)[7]. However, the size of the region's economy could be compared with that of the Southwest Finland[8], which had in 2017 the size of gross regional product equal to almost EUR 18.5 billion (Statista, 2020; Statistics Finland, 2020).

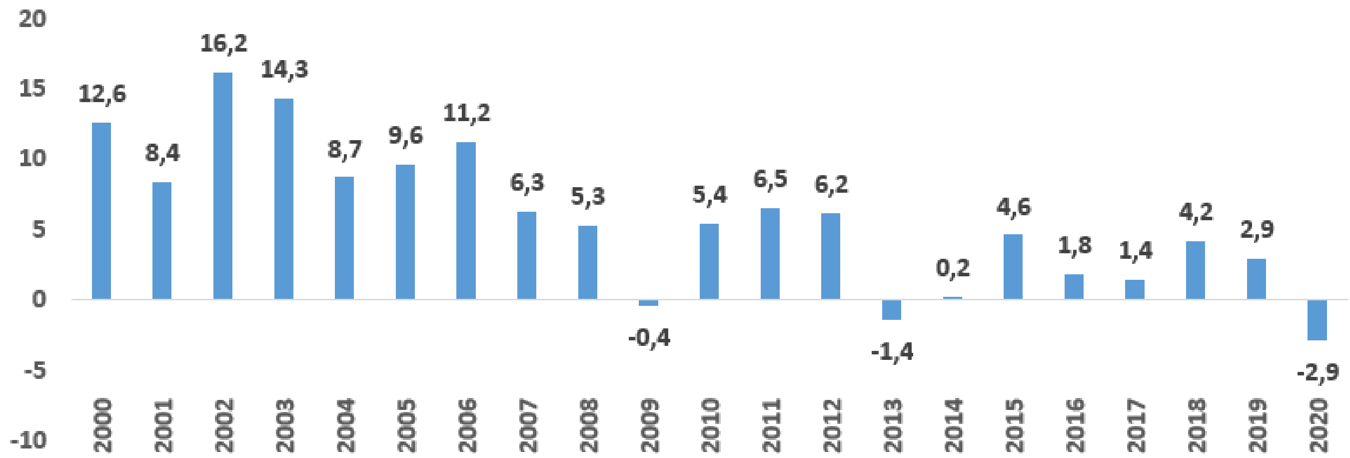
In some cases, the Leningrad region follows economic and social trends of the city, whereas in certain issues economic changes in St. Petersburg and the Leningrad region have mutually compatible nature. I will formulate these basic trends below.

6 Mono-industrial towns, or simply mono-towns in Russian, are towns whose economy is based on one or two large industrial enterprises built in the Soviet period. These towns had almost no substitute sectors of the economy, such as tourism, small and medium-sized enterprises, et cetera. In the 1990s, many of the aforementioned industrial giants bankrupted or stopped production due to a scarce demand on their products. A huge bauxite-processing plant in a small mono-town of Pikalevo stopped its production in 2009 due to economic crisis and a conflict among its shareholders. Pikalevo became well-known all over Russia, as this case was successfully resolved by the moderation of then Prime Minister Vladimir Putin, who had enough influence to force aluminum magnate Oleg Deripaska and other shareholders to agree on a required economic compromise. Pikalevo is located in the eastern part of the Leningrad region.

7 The exchange rate used for re-calculation from Ruble to Euro was published by the Central Bank of Russia (CBR, 2021).

8 The Southwest Finland (Varsinais-Suomi) is a region located in the southwestern part of Finland with a capital in Turku and a population of nearly 0.5 million people.

Chart 2. The development of the regional GDP of the Leningrad region (% change compared to previous year)



Source: Petrostat (2000-2020)

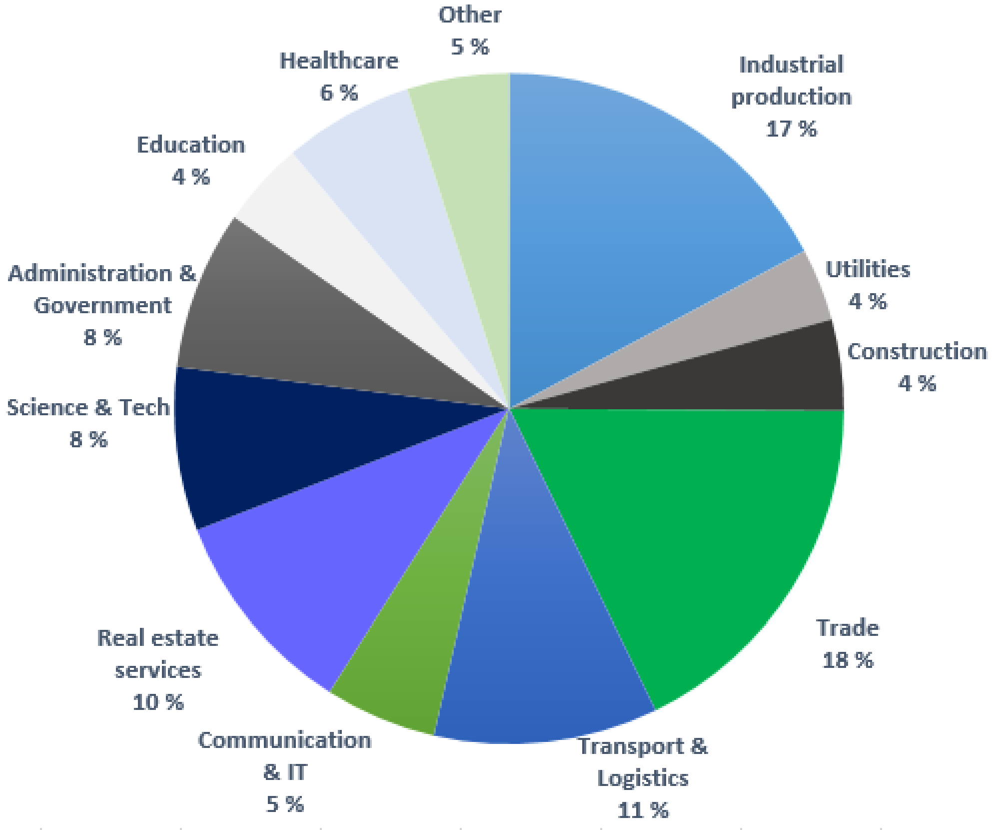
4. The structural economic changes in City of St. Petersburg and the Leningrad region in 2000-2020

The structure of St. Petersburg's economy has changed significantly in the past two decades. In the Soviet period, the city primarily focused on industrial production. Machine-building, especially for military needs, chemical industry, and shipbuilding dominated the economic landscape of the city prior to the market reforms of the 1990s. These reforms led to an emergence of new service sectors, such as banking and finance, real estate services, tourism (both domestic and international) and insurance. The aforementioned types of services developed from almost zero, and by the year 2020, they have taken a significant share of the city's economy. Retail trade[9] expanded greatly: in 2000-2020, St. Petersburg became a national leader in the new hypermarket trade segment, leaving the City of Moscow and the Moscow region far behind. The share of the hypermarket segment became the largest in St. Petersburg (30-40% of all retail trade) compared to anywhere else in Russia. St. Petersburg also gave a birth to Russia's largest retail trade brand, namely Pyaterochka, which presently belongs to the X5 Retail Group. Already in 2005, Pyaterochka made its IPO in London, which attracted USD 598 million from portfolio investors. Another prominent retail trader of the region was the O'Key hypermarket network, which introduced a new format of trade first in St. Petersburg, and later on in other regions of Russia (Ishenko, 2019). The share of these new service sector segments grew throughout the whole period of 2000-2020, changing the sectoral structure of St. Petersburg's economy in favor of services, and thus reduced the percent contribution of industrial production in the gross regional output.

The new pattern of St. Petersburg's economic development gave less space (both figuratively and literally) to the city's industrial enterprises. As a result, many of them moved to the neighboring Leningrad region. An additional stimulus for this transfer was a rising price for residential property in St. Petersburg. The land plots, which initially belonged to these enterprises, were later utilized for newly built trade centers, hypermarkets and residential living premises. To some extent, the rising labor costs were one of the reasons for this relocation, but the labor costs were not the biggest motive, as contribution of labor costs to the total production cost in Russia is comparatively low.

9 Retail trade, of course, existed in the Soviet period, but its share in the regional economy was much smaller.

Chart 3. The sectoral division of the St. Petersburg economy in 2019 (% share in gross regional product)



Source: Petrostat (2019)

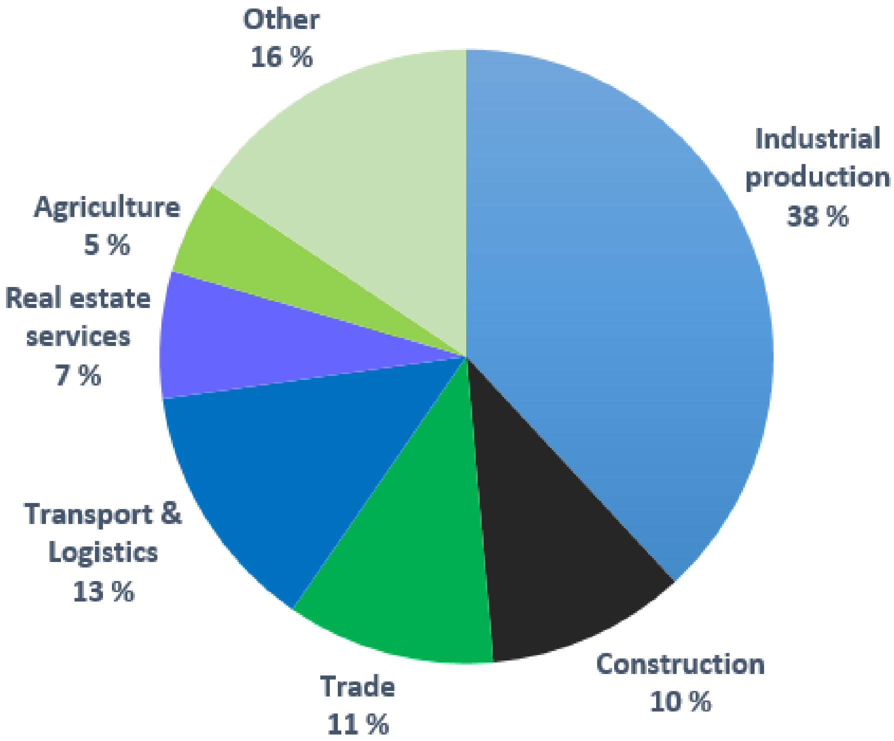
Some new service sectors emerged in the 1990s and developed rapidly in 2000-2020. Those were communication and information technology (IT) and real estate services. St. Petersburg became in 1993 a birthplace for MegaFon, Russia's second largest mobile and Internet provider by revenue after Moscow-based company MTS, the national leader in mobile communications (Korolev, 2020). Since the year 2000, many SMEs focused on providing Internet-based services and related software emerged in St. Petersburg. Their contribution to the communication and IT sector of the region was substantial, though the sector's contribution to the city's economy is not measured even today accurately. In the 2010s, the city's small and medium-sized IT companies shifted more to a so-called 'Indian model': providing IT services remotely for larger customers in developed countries and utilizing low costs of qualified labor in St. Petersburg.

Real estate services were another new part of the economy based on private property on residential and commercial buildings and apartments, which emerged in the early 1990s[10]. This business has grown intensively since the 1990s and throughout the period of 2000-2020, initially due to a shortage of living space in the region, and lately due to the introduction of a mortgage system, which consequently decreased mortgage rates since early 2000-ies. Even during the crisis year of 2020, the Russian Government introduced a state support for this sector, i.e. a mortgage rate was set at a new minimal level of 6.5%. This measure had a significant positive impact on the real estate market of St. Petersburg and other Russian regions in 2020.

The relocation of St. Petersburg's enterprises to the Leningrad region contributed much to a booming industrial development of the latter in 2000-2020. However, the main reason for this 'new industrialization' of the initially agrarian region was the number of the FDI-driven industrial projects in automobile production and tobacco industry, followed by further greenfield and brownfield projects in the wood industry, machine-building and chemical production. By 2019, industrial production accounted for 38% of the Leningrad region's economy (see Chart 4).

10 In the Soviet Union, private ownership of apartments and residential/commercial buildings did not exist.

Chart 4. The sectoral division of the economy of the Leningrad region in 2019 (% share in gross regional product)



Source: Petrostat (2019)

At the same time, some relocation could be observed in the service sector as well. Some large trade networks, namely Swedish IKEA and French Auchan Holding, located their hypermarkets in the Vsevolozhsk district of the Leningrad region, but in a less than a one-kilometer distance from the administrative border of the City of St. Petersburg, in order to utilize both the lower taxation regime existing in the district and the demand of the city's residents.

If the relocation was the main trend in industrial production and trade, in transport and related construction spheres the basic tendency was mutually beneficial mergers in 2000-2020. Being geographically close, both integral parts of the GPR gave a space for large transport infrastructure projects. The largest project in automobile transport was creation of the ring road (Ring Automobile Road, KAD) around the city in 2004-2007, and a radial High-Speed Western Diameter (ZSD) connecting the KAD from north to south in 2013-2017. These huge transport projects, financed from Russia's federal budget in case of KAD and by a partly-private concession in case of ZSD, passed through the territories of St. Petersburg and the Leningrad region, binding them closer together and creating new residential areas along the administrative border of these two regions (Gorelovo, Kudrovo, Murino and Parnas/Bugry). A similar situation occurred in cargo transport: some new projects in the Leningrad region were federal ones, bringing oil and gas cargo supplies of Russian oil giants (Lukoil and Rosneft) to Primorsk, or bulk and container cargoes to Ust-Luga, Russia's marine export hub in the Baltic Sea and a substitute for the seaports in the Baltic States and Finland. But the main project, not finalized yet, is the relocation of St. Petersburg's Main Seaport to an area called Bronka, on the southern shore of the Gulf of Finland.

The relocation of the main seaport facilities to Bronka in the Lomonosov district of the Leningrad region could have been the largest project in this agglomeration, increasing transport capacities of the new port and improving traffic and environmental situation in the western part of St. Petersburg, which is a present location of the city's main seaport[11]. Additional benefits of such a relocation might be brand new seaport facilities and lower environmental damage for the City of St. Petersburg. Moreover, the territories in the western part of the city cleared from outdated seaport facilities and now warehouses can be

11 Bronka, a projected new location of St. Petersburg Main Seaport, is located on a KAD ring road and it is attached to the railroad infrastructure of North-Western Russia. This location enables to move the main cargo routes out of St. Petersburg. For instance, the significant route from Finland to Moscow passes through this seaport hub, but aside from St. Petersburg. As an import hub, Bronka's location might enable intermodal marine-automobile and marine-railroad routes from the Baltic Sea to various destinations in Russia to bypass St. Petersburg's residential areas. And the KAD ring road has much larger traffic capacity than the streets of St. Petersburg, used now for taking cargoes from the Main Seaport to other destinations in Russia.

utilized for new residential construction[12]. This relocation has many advantages, but requires huge public and private investment.

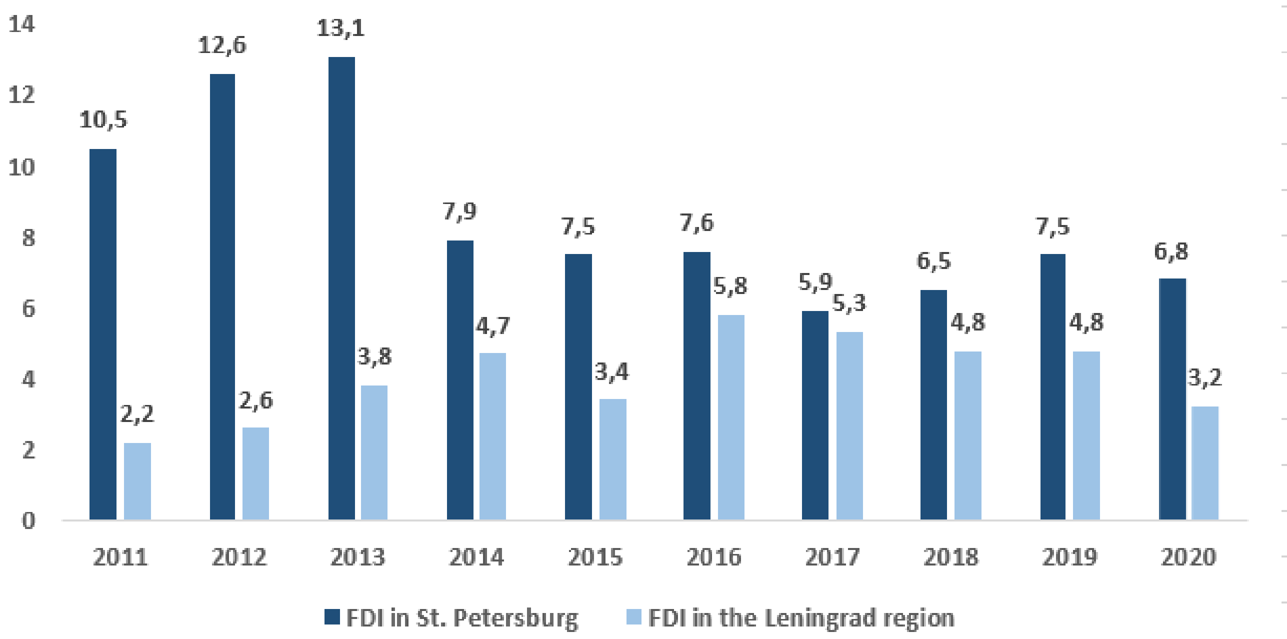
5. Foreign investment in 2014-2020

One of the key reasons for the economic boom both in St. Petersburg and in the Leningrad region in 2000-2012 was a huge investment inflow. During 2000-2020, the city was in the investment top three among the Russian regions (RA Expert, 2020), together with the City of Moscow and the Moscow region. According to this nationwide ranking, St. Petersburg has got the A1 classification, meaning a minimal risk and a maximal potential. The corresponding classification for the Leningrad region was 3A1, meaning a lower investment potential and a minimal risk.

Both domestic and foreign investment came to the GPR. FDI went both to St. Petersburg and to the Leningrad region, but portfolio investment was mainly placed in St. Petersburg. FDI was targeted primarily at automobile production and related industries (Ford Motors, General Motors, Nissan, Toyota and Nokian Tyres), construction (Lemminkäinen, Skanska and YIT), food and tobacco industry (Atria, BAT, Carlsberg, Heineken and Philip Morris), and wood industry (International Paper).

However, this investment performance changed in 2014. International sanctions and the economic stagnation St. Petersburg led to a consequent reduction of FDI inflow. An absolute minimum was reached in the first half of 2020. On average, the inflow of FDI into St. Petersburg's economy decreased since 2014 by a half. In the Leningrad region, active policies in attracting FDI led to an even more positive picture (see Chart 5).

Chart 5. Annual foreign direct investment inflow in St. Petersburg and the Leningrad region (USD billion)



Source: Petrostat (2020)

In 2014-2020, the authorities of the Leningrad region created several new investment sites for greenfield investors in convenient locations, attracting foreign businesses with special supportive measures. The aforementioned locations were concentrated in four main dimensions:

- close to the borders with the EU (Slantsy, Svetogorsk, and Vyborg);
- in the fast-developing Gatchina district[13];
- in a close neighborhood to St. Petersburg; and
- alongside the M-10 motorway, connecting St. Petersburg and Moscow.

12 The area presently accommodating the city's Main Seaport is located along the shore of the Neva Bay, close to the historical center of St. Petersburg.

13 In 2020, the Government of the Leningrad region announced a decision to move from St. Petersburg to Gatchina, the largest town of the Leningrad region. This relocation is expected to get completed until 2022.

The M-10 motorway became a convenient destination for regional businesses as a new paid road M-11 (St. Petersburg-Moscow) was finalized in 2019, and traffic on M-10 became less intensive due to an alternative new transport route. As a whole, this active FDI promotion policy led to creation of nearly 300 greenfield and brownfield investment sites.

Despite a visibly better performance of the Leningrad region showing annual FDI inflow in 2014-2020 between USD 3.2 billion and USD 5.8 billion, foreign investors were taking capital out of the region as well. The overall FDI balance (inflow minus outflow) was USD -0.7 billion in 2014-2020. The largest FDI outflow from the Leningrad region was reported in 2019-2020, when it reached USD 7 billion.

In addition to purely economic reasons, certain cases raised concerns among foreign and domestic investor. As an example, the 2019 arrest of Michael Calvey, an investor and co-founder of Baring Vostok Foundation, brought uncertainty among the investors in Russia. In addition, two 'anchor investors, namely General Motors and Ford Motors, stopped their projects in St. Petersburg and the Leningrad region, respectively.

A huge part of foreign investment was capital with a Russian origin, re-invested back to Russia from Cyprus, the British Virgin Islands, Jersey and some other well-known offshores. These investors returned their capital back to Russia, attracted by the country's high GDP growth rates in 2000-2012 together with remaining personal and business contacts inside the country. But the economic stagnation and investors' concerns about the future of their capital in Russia led to an extensive net capital outflow, reaching USD 48 billion in January-November 2020, which set a new record in Russia's capital outflow history, as the outflow was almost double compared to the corresponding period in 2019 (Kommersant, 2020). In fact, both the Russian and the foreign capital owners became much more skeptical about their investment projects in Russia since 2013[14].

Investment activity, as economically most sensitive activity, has shown a significant year-on-year contraction in St. Petersburg even under a generally 'stable' performance. This leads to a consequent lack of financial resources in the region and might influence its economy in long run. The region's investment performance is similar to the performance of Russia as a whole. According to the Nordea Bank estimations, the average quarterly inflow of foreign investment into the Russian Federation was USD 10.5 billion in 2005-2013, whereas in 2014-2018 the corresponding figure was merely USD 4.5 billion (Musina, 2019).

Moreover, the origins of foreign investors in St. Petersburg's economy are changing as well. As an example, the Stockmann Group, a Finnish retailer, sold in 2018 its branded trade mall Stockmann Nevsky Center to PPF Real Estate, and investment fund focused on speculative acquisitions in the real estate sector. This case refers to a new trend in the region observed since 2018, i.e. an exodus of the Finnish business from St. Petersburg and the Leningrad region. In 2018, the Kesko Group, a Finnish DIY-operator and retailer, sold its network in Russia to Leroy Merlin, a French retailer. A Finnish metal goods producer Ruukki sold its business to a Russian company Salavatneftemash. In 2019, the largest Finnish petroleum products retailer, namely Neste Group, was added to this list. It sold its branded network to Russia-based Tatneft[15]. In December 2020, Nordea Bank announced its exit from Russia. Thus, St. Petersburg is steadily losing strategic foreign investors, which have been substituted by either Russian companies or even some speculative owners.

Another important case is that of Ford Motors in the Leningrad region. Since 2002, this US-based company became an 'anchor investor' for the region. Ford has chosen an area near a town of Vsevolozhsk for its automobile factory. This huge factory was launched in 2002 as a greenfield FDI project, though it partly utilized existing industrial facilities of the location. This automobile factory was the largest one in Russia (among foreign automobile factories) and one of the largest in whole Europe. Despite the company's initial idea to sell the plant to another investor, no alternative user could be found – and the factory was 'frozen'[16]. This case is similar to the situation with an automobile plant of General Motors, built in the southern part of St. Petersburg. This production facility has been 'frozen' since 2015, but no alternative

14 Here we analyze behavior of the investors from legal sector only. However, component of illegal capital outflow might be substantial and driven by different reasons.

15 Nevertheless, Tatneft decided to utilize this popular brand for a five-year period after the acquisition and agreed upon this with the Neste Group, as the brand Neste appeared to be a synonym of a high quality for the local automobile drivers in St. Petersburg and the Leningrad region.

16 The economic meaning of this term, often used in Russia, is as follows: the initial investor owns the factory/plant and the corresponding land plot; but there is no production any longer, and therefore labor force is laid off and the main production facilities are conserved.

investor has arrived. Absence of buyers for these two large plants reflects the decline in both foreign and domestic investment in Russia.

6. The COVID-19 pandemic in St. Petersburg and the Leningrad region

The first people infected by the virus SARS-CoV-2 in the Greater St. Petersburg region were reported in March 2020, when their number was still much smaller than in its EU neighbors, Finland and Estonia. The investigation by Moscow-based Skoltech, a research center included in the Skolkovo ecosystem, found in July 2020 that SARS-CoV-2 came to Russia mostly from Europe, despite of a large number of the Chinese tourists in Russia and a common Sino-Russian border (Skoltech, 2020) [17]. In late March 2020, the number of the infected with the virus rose exponentially from zero in the beginning of March up to more than 100,000 by the end of March. Therefore, restrictive measures appeared on the national agenda. At the end of March, Russia closed its borders both for the Russian nationals and the foreigners. The border with Finland was closed even earlier based on the Finnish initiative[18].

The national quarantine period for all the regions of the Russian Federation was launched on the 30th of March. This quarantine finally ended on the 11th of May, 2020. In mid-May 2020, the responsibility for further anti-COVID measures was transferred down to regional authorities. The quarantine in March-May 2020 has also slightly differed among Russia's regions, but the main features of that quarantine were as follows:

- stopping cross-border human migration by closure of national borders;
- partial lockdown with recommended (non-obligatory) self-isolation;
- obligatory closure for certain types of businesses: tourism, public catering (excluding delivery services), public offline entertainment, other offline B2C and public services;
- recommended shift of B2B businesses and some B2C services to online mode. Only in autumn 2020, the online mode for 30% of employees became obligatory for state enterprises and institutions;
- a temporary six-week suspension of operation for industrial enterprises and construction objects until mid-May 2020; and
- a reduction of passenger transportation but almost no restrictions for cargo transport.

A consequent step-by-step canceling of the abovementioned restrictions was implemented in May-September 2020. Some anti-crisis measures introduced in summer 2020 were extremely controversial, and even accelerated the pandemic to some extent. For example, the Russian Government launched a nationwide program facilitating and encouraging domestic tourism in Russia, offering a state-financed refund of 15,000 Rubles per one tourist buying an organized domestic tour. This measure helped Russian touristic agencies and operators, but increased a number of COVID-19 cases in some regions of Russia, primarily in the Republic of Crimea and the Krasnodar region, which attracted the majority of internal tourists in the summer season of 2020[19].

The COVID-19 pandemic differed a lot between St. Petersburg and the Leningrad region. St. Petersburg, being a center of a 7.3-million agglomeration with a dense population and public transport dominated by metro, with its 2.5-million daily passengers, got a rapid spread of COVID-19 cases already in March-May 2020. By the end of January 2021, the number of COVID-19 cases in St. Petersburg totaled 334,116, while the corresponding figure on the same day was 30,701 in the Leningrad region. The difference between the death cases caused by COVID-19 was even larger: 9,733 in St. Petersburg and 427 in the Leningrad region as on January 31, 2021. However, to some extend the death toll in the city is bigger as the number of places in COVID-profile hospitals is much larger, and some residents of the Leningrad region were taken to the city for medical care (Rospotrebnadzor, 2021).

17 Despite the existence of a long common border between Russia and China, the actual trans-Siberian human migration is extremely low. Basing on the authors own business experience in Eastern Siberia and the Far East of Russia, it could be concluded, that the price for transportation (primarily air ticket) from Eastern Siberia or Sakhalin to Moscow or St. Petersburg in high season exceeds the economy-class price of an air flight from St. Petersburg to EU capitals by 200%-300%. At the same time, cheaper railroad transport requires much more travelling time. For example, it takes seven days from Vladivostok to Moscow or eight days from the same departure point to St. Petersburg.

18 The Finnish-Russian border, the main dimension for cross-border activity of St. Petersburg and the Leningrad region, was closed on the 19th of March 2020, after the telephone negotiations between Sauli Niinistö, President of Finland, and Vladimir Putin, President of Russia, on the 16th of March 2020.

19 The Republic of Crimea and the Krasnodar region are located on the Black Sea in southern Russia and are the most popular destinations for the internal tourists in summer season.

In 2020, the COVID-19 pandemic in Russia had two waves, as in most European countries: one in March-May, and the second one in October onwards. The first wave in Russia had a maximum of almost 12,000 cases on the 11th of May, while the second wave reached its top of 29.500 on the 24th of December 2020 (JHU, 2020). The same trend was observed in St. Petersburg, where nearly 1,000 new cases per day were recorded during the peak of the first wave, and 3,800 during the peak of the second wave on 11th of December 2020. Since December 2020, the spread of COVID-19 pandemic in St. Petersburg started to decline. At the end of January 2021, only 2,160 new cases of this disease were recorded in the city. During the second wave, St. Petersburg took the second position among the Russian regions after the City of Moscow in terms of a number of COVID-19 cases and the related mortality, despite the fact that the city is on the fourth place in terms of population after the City of Moscow, the Moscow region and the Krasnodar region. According to official information, a rapid rise of COVID cases in November were stopped by effective measures provided by the regional government, which included new restrictions for public catering and above-mentioned wider use of distant home-office format for employees, primarily in state-owned companies and organizations.

After a sharp decline in the GPR economy caused by the lockdown in April-May 2020, a recovery started since June 2020. The second COVID-19 wave, being much higher than the first one, got a completely different reaction from the authorities. No lockdown was introduced, and the only substantial economic restriction implemented by the St. Petersburg Government was laid on public catering: restaurants and bars had to close earlier and to stay fully closed during 29.12.2020- 3.1.2021.

Ineffectiveness of the spring lockdown and its negative socio-economic impact was one reason and another one was the intention of the authorities to save monetary resources required for business aid packages. As a result, economic performance in St. Petersburg and the Leningrad region in autumn of 2020 seems less dramatic and might improve the annual results for the GPR.

Table 1. Economic performance of the Greater St. Petersburg region in January-November 2020 (% change compared to the corresponding period of the previous year)

	St. Petersburg	Leningrad region
Regional GDP (forecast for 2020)	-4,1	-2,9
Industrial production	-2,6	-1,2
Construction	-9,2	-17
Transport and logistics	-1	0,3
Wholesale trade	-3,0	-10,9
Retail trade	-2,2	6,1
Telecom services	6	-4,1
Public catering	-30,1	-30
Other B2C services	-18,9	-7,3
Agriculture	n.a.	-0,7
Registered unemployment, November 2020 versus November 2019	710	760
Total COVID-19 cases by January 31, 2021	334 116	30 701
Total COVID-19 mortality by January 31, 2021	9 733	427
Total COVID-19 cases per 100,000 by January 31, 2021	6 203,4	1 621,8
Total COVID-19 mortality per 100,000 by January 31, 2021	180,7	22,6

Sources: Petrostat (2020); Rospotrebnadzor (2021)

The year 2020 for St. Petersburg marked a shift from a long-term stagnation towards **a recession**. As the final data for the whole 2020 (January-December) is not available yet, only preliminary assessments can be made. For certain sectors of the St. Petersburg economy, namely for public catering and business-to-consumer (B2C) services, the COVID crisis became a literal disaster, cutting their output and revenues by 20-30% with almost no sufficient aid package. The construction sector decreased significantly as well and there is a possibility of a deeper fall after the December results will be published[20]. In turn, industrial production, transport and trade demonstrate a relatively small contraction, but this is partly due to good results of January-February 2020. Moreover, for some sectors of the St. Petersburg economy results of SMEs are aggregated on annual basis only, and these negative results might even worsen the picture.

For the Leningrad region, the situation is generally the same as for the city, though the situation looks slightly better there due to a smaller impact of COVID-related restrictions during the quarantine. In some distant parts of the Leningrad region, so-called 'green zones', the lockdown was nominal, if it existed at all. It was common for residents of St. Petersburg to use some services of these zones in March-May 2020 and even drive 200 kilometers for barbershops and beauty salons. These green zones caused additional demand to the regional service sector. Industrial production and agriculture had insignificantly small declines in output, while the transport sector managed to hold on a zero level despite the crisis, as cargo transportation has not experienced limitations so far. However, the main reason for this slightly better performance of the Leningrad region was smaller share of the SMEs when compared to that in the city, and service-linked SMEs took the main burden of the COVID-19 crisis, excluding online services.

Despite the general economic decline, some sectors benefited from the COVID-19. For example, the regional pharmaceutical industry grew both in St. Petersburg and the Leningrad region, a significant increase was observed in local food and tobacco production as well. However, the situation has changed rapidly, and some sectors of food production have faced attempts of the Russian Government to set fixed prices or price limits on a number of socially sensitive products in December 2020. This Soviet-style initiative may create problems for food producers already in the beginning of 2021, as food production is broadly dependent on imported equipment and ingredients, and under the weakening Ruble, the Russian food producers have a small room for cutting their price margins.

Regarding the regional economic performance, the worst situation appeared with the employment. A number of the registered unemployed in St. Petersburg increased eight-fold and in the Leningrad region almost nine-fold in November 2020 when compared to November 2019. This phenomenon can partially be explained by a larger amount of the jobless applying the state support, as the unemployment benefits were raised significantly in 2020. The phenomenon of a huge unemployment could to a large extent be a reflection of the business getting adopted to the recession, i.e. the business is forced to cut its costs, including labor costs.

7. Future scenarios for the Greater St. Petersburg region

The trends in St. Petersburg and the Leningrad region described above provide us an opportunity to forecast the future for the Greater St. Petersburg region for the period of 2021-2023. But it is necessary to stress, that the scenarios largely depend on social and political factors which are to some extent unpredictable. It would be reasonable to put emphasis on the following main parameters in the scenarios:

- general economic performance of both St. Petersburg and the Leningrad region, measured by changes in regional GDP;
- dynamics in COVID-19 situation within the regions and in Russia as a whole: vaccination, spread of the disease, and mortality;
- consequent changes in various types of COVID-related limitations laid on business and on individuals;
- nationwide socio-economic and socio-political trends, which create a framework for the developments on the regional level;
- externalities of a global origin, i.e. commodity prices, global monetary policies, international sanctions laid on Russia; and
- aid packages and supportive state measures and their possible scale.

20 Construction traditionally has a calendar frequency in reporting, as June and December in particular are the periods for a project completion.

Positive scenario

Positive scenario is based on a fast recovery. It presumes political and social stability in Russia in general and in the region in particular. It also requires investment necessary for the recovery and an aid package from the government for SMEs in the mostly damaged sectors of the economy, i.e. public catering, international tourism, and other B2C services. The main traits of such a scenario are as follows:

- comparatively fast recovery in 2021-2023, faster in St. Petersburg and slower in the Leningrad region, with the annual growth of 3.0-3.7% and 3.0-3.4%, respectively. The aforementioned figures reflect the mid-term targets set by the regional economic authorities (CEPSP, 2021; Lenoblinvest, 2021b);
- anti-COVID vaccination and total abolishment of all restrictive measures;
- a revival of cross-border tourism and economic cooperation with neighboring EU countries, namely Finland and Estonia;
- recovery growth in both regions and further synergy in their economic development;
- political and social stability in Russia, easing present political and social tensions by comprehensive political and social reforms;
- a rise of oil price and a general improvement of Russia's economic performance and the end of geopolitical conflict between Russia and the West facilitated by mutually-beneficial international cooperation in a post-COVID environment; and
- an implementation of a broader state support measures, primarily focused on regional SMEs and businesses from branches of economy damaged by the COVID-19 crisis.

Some of the above listed tendencies seem quite realistic. For example, the projected growth in the regional economy is in line with the International Monetary Fund's forecast for Russia. The IMF forecasts the Russian GDP to increase in 2021 by 2.8% year-on-year (Kaljukov, 2020). An emergence of Russian vaccines Sputnik-V and EpiVacCorona might solve the problem of anti-COVID vaccination on the national level. Oil price has increased steadily since May 2020, and this gives additional stimulus for compensatory growth in the region. The governments in both St. Petersburg and the Leningrad region set the abovementioned figures as targets in their economic forecasts and this might facilitate additional stimulus from their budget to regional businesses. This positive scenario is a 'basic' scenario for the authorities on the regional and the federal level. It should be mentioned, however, that economic results of the past ten years have not proved the accountability of the state goals as those were never achieved in full.

In general, this scenario has a comparatively low probability. Global commodity prices, including the oil price, are in a visible historical long-term downtrend, and price fluctuations have followed this trend since 2008. The use of cartel-type measures to support the oil price in the OPEC+ framework just proves this fact and cannot change the trend. Moreover, the OPEC+ deal signed by Russia presumes reduction of oil production, and even rising commodity prices might fail to compensate these losses. An economic recovery needs investment, and the investment flow has decreased since 2014 as was shown on Chart 5.

The new US administration announces widening of anti-Russia economic sanctions, which bring additional risks for the potential investors. The Russian Government, as well as the regional authorities, failed to provide an adequate financial package for the SMEs and other businesses in the spring months of 2020, and therefore it is very unlikely that these businesses can count on the state aid in 2021. The national vaccination campaign is still going slowly due to its ineffective public promotion: 52% of the Russians would like to abstain from being vaccinated according to the VCIOM opinion poll conducted in December 2020 (VCIOM, 2020). Another problem is the availability of the vaccine: St. Petersburg's authorities in December 2020 and January 2021 have risen their requests for a larger amount of the vaccine, but those requests were not met as of the end of January 2021. Vaccine-related R&D might be successful at research stage[21], but mass production of this new vaccine still remains the keystone

21 Russia has inherited a high-level scientific potential in epidemiology, as the Soviet Union put large emphasis on preventing epidemic diseases. Presently the country has two world-level scientific centers in this field: one in Moscow, and another in Novosibirsk. This Novosibirsk scientific center, for example, is one of the two labs in the world having the live samples of smallpox, while the CDC (Center for Disease Control) in the US is another owner of this dangerous virus in live form. Excessive capacities of Soviet hospitals were another heritage that Russia got from its ancestor, but the so-called 'Medical Reform' in 2010-ies reduced this capacity, which was considered to be excessive and costly.

problem for Russia. In addition, the revival of cross-border ties between the GPR and its EU-neighbors would be possible only after the improvement of the epidemical situation in the region, which presently is quite threatening.

An important presumption for the positive scenario is the social and political stability in St. Petersburg, the Leningrad region, and Russia as a whole. Political developments in Russia in January 2021 are questioning this presumption.

Moderate scenario

In the moderate scenario, it is presumed that all existing trends in the GPR persist, but have no tendency to worsen. Also a moderate-scale economic recovery can bring the regional economy to a level existing prior to the start of COVID-19 pandemic in March 2020. This scenario has certain basic characteristics:

- stagnant economic performance in 2021-2022 with slightly better development in the Leningrad region than in St. Petersburg (so that growth of GRP remains suppressed and stays below 2% year-on-year for the both of the regions), slowly improving by 2022;
- anti-COVID total vaccination of most important groups (medical stuff and public service sector employees), having contacts with both the infected and the elderly people on the permanent basis, is successfully implemented;
- a vaccination of a majority of the population (the required 60%) steadily by the end of summer 2021 and thus the creation of a herd immunity for COVID-19 gives an opportunity for total abolishment of COVID-related restrictive measures;
- COVID-related restrictive measures remain for some sectors (large public events and international tourism) until the end of 2021; all other restrictions of this kind abolished by March 2021;
- an introduction of COVID-certificates or ‘immune passports’, enabling people with proven immunity against the SARS-CoV-2 virus to move freely inside Russia and abroad;
- the healthcare system provides necessary help for all victims of the pandemic and the national pharmaceutical industry provides the necessary amount of the vaccine;
- political and social turbulence remains low throughout year 2021 and results in lower presence of the United Russia party after a peaceful, free and fair elections to the national parliament (the State Duma) in September 2021; an opposition gets more political presence on regional and federal levels in Russia;
- international relations between Russia and the West balance around finding minor compromises without changing their nature, no additional sectoral sanctions are imposed on Russia;
- losses for regional businesses are compensated by various types of indirect state support measures: low-interest subsidized loans, state-financed investment programs, et cetera;
- a broad package of pro-employment measures on both national and regional levels creates new jobs; and
- limited cross-border tourism and a revival of economic cooperation with neighboring EU countries, namely Finland and Estonia.

This scenario is a compromise one, taking all the risks of stagnant economic performance and rising socio-political turbulence, but avoiding a significant uncertainty and leading to a step-by-step economic and social recovery in 2021. From a reasonable viewpoint, it is to some extent an ideal one, building a common ground for the authorities and the society, tired of a long-term economic stagnation, a crawling devaluation of Ruble, a decreasing of real disposable incomes and growing unemployment with no effective state support measures for citizens and businesses.

On the other hand, this scenario has many risks and limitations as well. Firstly, Russian anti-COVID vaccines have not been certified by the WHO. Secondly, there is a shortage of industrial capacity to produce a necessary amount of the vaccine for the majority of population (at least, 175 million doses to vaccinate the 60% of Russians, as one vaccination requires two doses), and a lack of international effort needed to cooperate with developed countries in the fight against the virus. Despite the necessity to allocate more financial resources to anti-crisis support measures, Russia has taken more financial burden in Belarus. Russia also supplies the necessary vaccine abroad, even if the domestic demand has not been satisfied yet. Some necessary steps in providing financial aid to businesses were taken, but corruption puts a barrier for proper and fast allocation of these monetary resources.

Some necessary reforms might be introduced by the Russian Government, as it was done in 2012 after the previous wave of political turbulence in Russia. Changes in regional governance are also possible, as this tactic has frequently been used in some Russian regions by President Putin (for example, in several Far Eastern regions of Russia).

However, the main problem is that the current economic model has been exhausted and it is unable to provide sustainable economic growth even in the mid-term. Time for the needed modernization was wasted. Social tension is partly neutralized by state propaganda and information hiding, but this approach leads to increasing risks of social riots and turbulence. And the largest risks are coming from the authorities, whose adequacy raises increasingly more doubts among the ordinary citizens. That leads us to a negative scenario.

Negative scenario

This scenario is driven more by risks than by opportunities. However, the year 2020 gave us a bright picture of how expected or unexpected risks might change regional and national landscapes. Negative scenario has the following basic trends:

- economic performance continues to worsen, regional GDP in St. Petersburg and the Leningrad region declines in 2021 and further in 2022-2023;
- COVID-19 pandemic and related crisis persist, getting a demographic dimension, especially in densely populated St. Petersburg; official COVID statistics appears to be incorrect, hiding the actual situation with the regional healthcare system;
- anti-COVID vaccination develops slowly due to shortage of vaccine and low production capacity of Russian pharma producers;
- oil prices decrease or keep at a low level (under USD 60 per barrel) in 2021, while output remains under OPEC+ limitations;
- a third wave of COVID pandemic leads to new lockdown imposed on the regions;
- deepening of economic fall leads to further Ruble devaluation;
- new international sanctions are imposed by the US and the EU;
- United Russia with its official 30% of public support gets more than 2/3 of votes in September 2021 parliamentary elections and this leads to results not accepted by the majority of the Russian population;
- ineffective governance in St. Petersburg leads to public demonstrations against regional and federal authorities; and
- socio-economic crisis in Russia in general leads to uncertainty and political turbulence ('the Belarus scenario').

This scenario does not seem to be likely, but however, it cannot be ruled out. Historically, Russian political and social systems developed from a long-term stagnation to fast and fundamental changes, followed by a rapid modernization. The largest risk factors here are the COVID pandemic (still far from its end), economic crisis and political turbulence. The case of Belarus shows us an example of a completely unexpected development in a stagnant economic environment.

An obvious problem with this negative scenario is that is unpredictable, and therefore, it is impossible to make any economic or social forecasts on its basis. Therefore, the negative scenario can be referred to as a risky alternative to a more realistic moderate scenario.

8. Policy recommendations

The contemporary trends in the economy of the Greater St. Petersburg region and the scenarios for St. Petersburg and the Leningrad region can lead to certain policy recommendations. These recommendations might be helpful for the potential investors, the businessmen, the policy makers and the researchers. Based on the economic analysis and the scenarios, several policy recommendations can be offered.

1. As the statistical and other data is often incorrect, an expert analysis might be required in dealing with the corresponding information about the Greater St. Petersburg region and its economy. The quality of this data started to decrease before 2020, but the COVID-19 pandemic raised concerns about the reliability of the statistical data. It should be taken into account, that large international organizations, such as the IMF and the World Bank, base their assessments and forecasts on existing national statistics as well. Therefore, a deeper look into the region is required when it comes to policy decisions. Regional statistics is often even less accurate than some national estimations in Russia. Business insight might contribute a lot to a correct perception of the region-level information, as official figures are sometimes embellishing the reality.

2. Despite its bright history and socio-economic potential, the St. Petersburg agglomeration follows both the positive and the negative trends in the Russian economy: from an impressive recovery of 2000-2012 to a stagnation since 2013, and the recession of 2020. Comparatively good results with annual economic growth of 2% and sometimes even higher during the stagnation period of 2013-2019 should be evaluated in a row with the previous period of fast recovery and should not provide an impression of a stable economic growth similar to the developed EU countries. Aganbegyan and Ershov (2020) estimate that the Russian GDP in 2019 was only 10% larger than its GDP in 1990, prior to collapse of the Soviet Union and prior to an emergence of the contemporary Russian Federation as a sovereign state. As it was shown above, the economic growth of Russia and its regions since 2000 has barely compensated the economic fall of the 1990-ies and was largely based on changes in economic structure, rather than on modernized and fast growing basis. The exhaustion of the existing model was described by slow regional economic development since 2013, and a further development would require substantial changes and reforms. This should lead to an extremely accurate and circumspect approach towards these regions.

3. Investors working in these regions for many years provide the best examples for policy decisions, as they know the region and its economy from inside. Investment climate is not only worsening in the GPR, but this worsening has accelerated towards the end of 2020. State-driven investment can substitute foreign investment only to a certain extent, and FDI has significantly contracted in St. Petersburg since 2014, while the Leningrad region seems to sustain the dynamics of FDI inflow. Some of foreign investors who have exited from the region came there before 1991, i.e. already during the Soviet era. They have long experience in the regional economy and local business environment, and in most cases their exodus has been caused by a notable worsening of the business environment. Potential foreign investors may take their exit into account when analyzing the business opportunities of St. Petersburg or the Leningrad region.

4. The COVID-19 pandemic in Russia in general and in the GPR in particular led to a larger spread of the virus and higher mortality than in neighboring EU countries. Ineffective government policies, in turn, led to a crisis in many sectors of economy and to rising unemployment. Hiding information from the society later decreased public confidence in new vaccines. Nevertheless, some of the anti-COVID measures prevented a possible catastrophe. Moreover, developing vaccines can be assessed as an achievement. Some Russian experience from this 'COVID front' could be utilized in the future. Unfortunately, St. Petersburg was severely hit by the pandemic due to objective (density of population) and subjective (almost no economic aid and hiding of information) reasons.

5. Structural changes in the GPR economy in the past two decades has led to a much more modern economic structure. Such a service-based economy holds a potential for a further development in case the economy improves and shifts to a new growth phase.

6. These three future scenarios for St. Petersburg and the Leningrad region differ from a positive

scenario towards a negative one. The stagnant character of the economy, an exhaustion of economic development model and the absence of positive drivers (both internal and external ones) make a positive model questionable. Even the moderate scenario, which seems to be the most probable, has several weak points. The negative scenario comes as a risky alternative, but it is completely unpredictable. In this situation, the best policy would be to abstain from investment or any other deep economic involvement, but to keep a keen economic eye on this potentially interesting region.

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