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Maturing Strategies of Russian Multinational Companies: *Comparisons with Chinese Multinationals*

Wladimir Andreff¹

Analysing the strategies of Russian multinational companies (MNCs) has actually become a new avenue for economic research but the topic is covered by only few publications so far. The present chapter first reminds in which circumstances Russian companies grew multinational and then started booming, and how they were muddling through the financial crisis that burst out in 2008; in this respect, they do not compare too bad with MNCs from other transition countries. The geographical and industrial specificities of their expansion abroad are pointed out as well as the major determinants of their outward foreign direct investment (OFDI). In the past decade, their strategies have evolved from total opacity to more transparency and, in some cases have matured enough to get closer to genuine global strategies while their relationships with the Russian government have strengthened. Thus Russian MNCs make up for major pillars of state capitalism in Russia. A comparative assessment with Chinese MNCs shows deeper similarities than differences in spite of the first mover advantage that has benefited to OFDI from China over OFDI from other transition economies, of which Russia.

1. The emergence of Russian multinational companies

With the transformation of the former Soviet system into a market economy the so-called “red multinationals” (Gutman, 1990; Hamilton, 1986; McMillan 1987; Sokolov, 1991) based in centrally planned economies vanished nearly overnight; altogether they were disposing of 175 subsidiaries abroad in 1990. The economic crisis that went alongside with transformational

¹ Professor Emeritus at the University Paris 1 Panthéon Sorbonne, Honorary Member of the European Association for Comparative Economic Studies, Honorary President of the International Association of Sports Economists and the European Sports Economics Association, former President of AFSE (French Economic Association, 2007-08).

recession (Kornai, 1994) had spread over the first years of transition and entailed the decline of former red MNCs, including those with headquarters in Russia. After 1991, these firms were confronted with new economic and financial constraints. Their liquidities dried out overnight and they were no longer able to fund their foreign subsidiaries. Many of them closed down due to under-capitalisation. Others went bankrupt or were taken over by foreign investors or new domestic oligarchs. All reduced their investment abroad and in some transition countries FDI outflows were practically phased out for some years (Svetlicic, 1997). Transformational recession did affect Russian MNCs just like it happened to hit many companies inside Russia: they lost domestic outlets and a significant part of their traditional trade with former Comecon countries; they suffered from dramatic credit crunch and hard currency shortage; their entire production and distribution networks were disorganised by the collapse of central planning. The OFDI stock from the USSR fell from \$ 699 million in 1990 down to a negligible value, close to nil in 1992 and 1993. For a while the pecking order in most Russian companies was topped by privatisation and restructuring, not investing abroad. Paradoxically enough, a number of Russian firms spontaneously transformed into MNCs overnight simply because they were located in more than one former Soviet republic. Since these republics obtained the status of new independent states by end of 1991 or in 1992, a same company located in two or more former Soviet republics – it was often so under central planning - became all at once a multinational company. The **break-up** of the Soviet Union into 15 new nation states came out with an institutional creation of Russian MNCs, the so-called “born multinational” companies (Liuhto, 2001). Besides, many Russian firms were turned into monopolistic or oligopolistic MNCs through a rushed privatisation from which foreign investors were almost entirely excluded such as mass privatisation in 1992 and the loans for shares scheme in 1995. From the mid-nineties on, the number of subsidiaries settled abroad by Russian firms started growing again and was already counted in the thousand in 2000 (Liuhto and Jumpponen, 2001) because the aforementioned institutional multinationalisation through splitting the former USSR was relayed since 1994 by a recovery in new FDI outflows from Russia (Andreff, 2002). However, if 1994 is the milestone for a new emergence of Russian MNCs, one has to wait until 2000 and the end of the 1998 Russian financial crash economic consequences to witness a steady growth at swift pace of Russian FDI outflows and OFDI stocks (Table 1). Most of the biggest 100 Russian firms have gone multinational since 1999 or so (Andreff, 2003b).

During the lapse of time they took to emerge in the 1990s, MNCs from transition economies, of which Russian MNCs, looked very much like MNCs from developing countries and their major features differentiated them from big MNCs based in developed countries, that is:

- . They were not all or not primarily in private ownership; still a significant number of them were state-owned.
- . They had a modest size compared to Western and Japanese MNCs.
- . The government often interfered heavily in their strategies, much more than it is used to do in developed countries.
- . The great bulk of their OFDI was located in neighbouring and border countries or in the same geographical region as the home country, which is a significant difference with big Western MNCs.
- . The number of countries hosting their foreign subsidiaries was comparatively low.
- . Each of these MNCs had only settled a small number of subsidiaries abroad.
- . They had primarily invested abroad in the manufacturing industry while big MNCs from developed countries were already privileging the tertiary sector for their OFDI.
- . The quality of their products and their profitability was quite below those of big MNCs.

However, some of these features were used as specific *competitive advantages* to challenge big MNCs from developed countries through market-seeking OFDI targeted at new markets. Only few Russian and Eastern European MNCs were investing abroad with an efficiency-seeking objective – looking for lower unit labour cost abroad - since their domestic production costs were comparatively low after the transition shock.

Econometric testing (Andreff, 2003c) has verified that the *investment development path* – IDP – model (Dunning, 1981, 1988 & 1993; Dunning and Narula, 1998) fits with the development of MNCs from transition economies in their early stage of emergence. Let us remind that in a first step of the IDP model, a country does not either invest abroad or host any inward FDI. In a second step, a country increasingly attracts inward FDI and achieves her (few) first OFDI projects; she markedly is a net FDI importer. In a third step, thanks to new technological competences and rather low unit labour cost, a country appeals a lot of inward FDI while her home-based companies start investing substantially abroad; however, she keeps on being a net FDI importer. A (now advanced developed) country in the fourth step invests more abroad than she is invested from abroad, *i.e.* by inward FDI; she becomes a net FDI exporter. In a final step, inward and outward FDI are nearly balanced and of the biggest magnitude in the most developed countries of the world. Applied to transition countries in the 1990s, this model was ranking most of them, up to 1999, in the second step, some were ranked in the first

step (Belarus, Georgia, Kyrgyzstan, Macedonia, Uzbekistan) and a few were close to the third step. The latter already exhibited important OFDI compared to the size of their domestic economies: Estonia, Hungary and Slovenia. Russia was in the second step at the moment, not far from the third one, and this was confirmed in a further study (Kalotay, 2004a).

The aforementioned econometric exercise showed that OFDI from transition countries was primarily explained by two variables, their *level of economic development* (GDP per capita) and their *industrial structure* - the respective share of the primary sector, different manufacturing industries, and services). The domestic *technological level*, to a lesser extent, had an explanatory power. In some countries like Russia (Azerbaijan, Kazakhstan) *natural resource endowment* was a significant variable as well.

Insert Table 1 about here

Since 2000, OFDI skyrocketed and reached a non negligible weight compared to the Russian domestic economy (19.8% for the OFDI stock/GDP ratio in 2007). A dramatic boom began in 2003 and climaxed in 2007². The current value of FDI outflows was multiplied by 17 from 2000 to 2008, and accounted for nearly 17% of domestic gross fixed capital formation in 2007 (Table 1). The OFDI stock from Russia – which measures how much past Russian MNCs investments abroad resulted in terms of asset holding – peaked up at \$ 255 billion right before the global financial crisis in 2007, ranking Russia among the dozen most important foreign investors in the world. However, the crisis impacted the OFDI stock in 2008 and FDI outflows in 2009; both recovered one year after, following a trend comparable to OFDI from most emerging countries (Andreff, 2013). A last index leans us to assess that Russia went up to the *third step* of Dunning's IDP in the 2000s – and may come closer to the fourth step in the 2010s - which is the ratio between FDI outward and inward stock, in the range of 75% to 95% from 2007 to 2011 - the fourth step is characterised by a stabilised ratio over 100%³.

2. Outward FDI from Russia: comparison with other transition economies and China

Their EU accession strongly boosted Central Eastern European countries' (CEECs) inward and outward FDI (Kalotay, 2006). Firms based in the new EU members emerged as serious competitors in the market for OFDI of an enlarged Europe (M. & W. Andreff, 2005) – FDI outflows from the CEECs have multiplied by 28 in eight years, from €100 million in 1995 to

² The drastic growth of Russian OFDI may be somewhat overestimated due to data collection methodology, improving throughout the 2000s, namely with a better accounting for cumulative investments made in previous years. Nevertheless, it is by far not enough to explain all the observed dramatic OFDI growth (Filipov, 2010).

³ Kalotay (2004b) underlines that Russian FDI outflows passed over FDI inflows as early as 2001-2002.

€2.8 billion in 2003. This success story of MNCs from transition economies is rooted in their specific competitive advantages: a unit labour cost much lower than in EU incumbent members, a swift productivity growth since 2000, a lax tax system rather easy to circumvent, and soft enforcement of some harmonised European rules (*acquis communautaire*).

Despite such a momentum in their expansion abroad fuelled by EU enlargement, MNCs from the CEECs have not been growing as fast as Russia-based MNCs in the 2000s; the growth of the former OFDI stock – multiplied by 10 between 2000 and 2007 - was not as swift as the latter's – multiplied by nearly 13 (Table 2). Consequently, the magnitude of the OFDI stock from Russia was three times bigger than the one from the ten CEECs altogether in 2000; it went up to four times bigger in 2007. From 1999 to 2007, the growth of OFDI from Russia has also been faster than the one from the so-called BRICs (Andreff, 2013). For instance, Chinese OFDI (Hong Kong excluded) multiplied by 3.5 from 2000 to 2007. In 2000, the OFDI stock from China was bigger than from Russia; in 2007, the latter was 2.5 times bigger than the former. If we consider China and Hong Kong together, the OFDI stock multiplied by 2.7 from 2000 to 2007 and was 4 times bigger than the Russian one in 2007. Anyway, in the early 2000s, *Russian OFDI achieved a world record in terms of growth.*

Insert Table 2 about here

In relative terms (Table 3), Russian OFDI upgraded its structure compared with the 27 transition countries when it comes to the two following criteria: a ratio between the OFDI stock and domestic GDP on the one hand and, on the other hand, a ratio of outward to inward FDI stock. In 1999, according to the first ratio, Russia was ranked 8th among transition countries and was already on the top regarding the second ratio. In 2007, its ranking had improved as regard the first ratio (2nd rank behind Estonia) and still had the lead with the second ratio. In 2011, Russia was top for both ratios. If we require both a ratio of OFDI stock to GDP markedly higher than 5% and an outward/inward FDI stock higher than 25% as the thresholds to the third step of Dunning's IDP model, Russian OFDI has clearly reached it before the financial crisis, joining there the most advanced transition economies in terms of OFDI such as Estonia, Slovenia and Azerbaijan in 2007 (Hungary and Poland reached it in 2011). OFDI from mainland China (Hong Kong excluded), still ahead of Russia as to the first ratio in 1999, paradoxically⁴ reached the third step of IDP model only after 2007, *later than*

⁴ Of course, in part this is due to the big size of China's GDP, now the second biggest in the world.

*Russian OFDI*⁵. If one accounts for Hong Kong together with China, they are in the third step since the early 1990s.

Insert Table 3 about here

From their swift pre-crisis expansion the biggest Russian MNCs held important assets abroad in 2007 and had big enough overall revenues in 2009 (Table 4). Their average size is much bigger than the one of MNCs based in other transition countries. Calculated after UNCTAD data in dividing the OFDI stock by the number of foreign subsidiaries, the average size of a Russian MNC's subsidiary was \$70 million (in 2004). This is quite bigger than even the average size of Latvian (\$41 million in 2008), Polish (\$19 million in 2001), Estonian and Lithuanian (\$5 million in 2007), and Slovak (\$4 million in 2008) MNC's parent companies. With regards to the average size of foreign subsidiaries, it ranges between a few hundred thousand dollars with subsidiaries of Polish and Czech MNCs up to about \$2 million for Estonian subsidiaries. Russian MNCs look like giants in a population of dwarfs. In terms of overall revenues 30 Russian multinational parent companies ranked among the biggest 500 European firms in 2009. Most of the biggest Russian MNCs (14 out of 25 in the 2007 list and 20 out of 30 in 2009) are directly or indirectly natural resource-based in oil-gas, mining and metallurgical industries. Until 2007, Russian MNCs showed a double-digit growth and high profitability (Kalotay, 2008b).

Insert Table 4 about here

Probably less than 1,000 Russian firms⁶ may have invested abroad. However, despite their growing size, no one Russian MNC has entered yet the list of top 100 biggest non financial MNCs ranked by UNCTAD according to the value of their foreign assets. Jardin Matheson (Hong Kong) came into this ranking in 2005 (98th), Hutchinson Whampoa (Hong Kong) and CITIC (as the 100th) in 2007. In the *Fortune Global 500*, 29 Chinese MNCs are found in 2008 (61 in 2011) and only 5 Russian MNCs (7 in 2011). In the *Forbes* ranking of 2,000 global companies, before the crisis (in 2007), there were 109 Chinese (including Hong Kong), 48 Indian, 34 Brazilian and only 29 Russian MNCs. In the *BCG 100* list of emerging MNCs (2008), 41 were Chinese, 20 Indian, 13 Brazilian and only 6 Russian.

3. Russian outward FDI muddling through the crisis

⁵ In 2011, Russia was first ranked as regard both ratios in comparison with all other BRICs as well; OFDI stock/GDP was 8.1% in Brazil and 6.0% in India, outward/inward FDI stock respectively was 30.3% and 55.8%.

⁶ The exact number of Russian multinational parent companies is unknown; the UNCTAD reckoned 1,176 foreign subsidiaries of Russian companies in 2004.

What is at stake during the current global financial crisis and economic recession is to know whether Russian OFDI would be able to get closer to the fourth IDP step with an outward stock steadily bigger than its inward stock. The crisis has triggered a collapse of world FDI outflows, primarily from developed countries, in 2008 and 2009; but it has only slowed down the growth of the OFDI stock worldwide in 2009, according to UNCTAD data. As against this worldwide trend, Russian OFDI was harshly affected by the crisis with a cut in its stock value (not only a fall in outflows) in 2008, due to both divestments from abroad and foreign asset depreciation. In 2009, its renewed growth was not enough to recover its 2007 level. Russian MNCs have been stifled by a lack of external finance. Moreover, the corporate debt of large Russian firms rose (up to \$110 billion in 2009). MNCs like Rusal, Norilsk Nickel, TMK and Sistema were among the most indebted Russian companies. However, Russian OFDI stock grew again by 74% in 2010 fuelled by new investments abroad, foreign asset appreciation and likely capital flight; it lost 17% in 2011. This did not compromise its overall growing trend (the stock was 18 times bigger in 2011 than 2000); but these figures exhibit that crisis entails a *much higher instability in OFDI from Russia*, just like from many countries. This might postpone Russia breaking through the threshold of the IDP model's fourth step.

OFDI from the new EU members was apparently less affected by the crisis with an overall stock still growing every year between 2007 and 2011. However this is due to a fast growing trend in OFDI from Poland and Slovakia. OFDI suffered from the crisis with a sharp decline in Estonia and Latvia since 2009, Lithuania, Romania and Slovenia since 2010, and Hungary only in 2008. Eventually Russian OFDI did not perform that bad comparatively to transition countries when it comes to muddling through the crisis. The OFDI stock from China did even better so that it slightly passed over the value of the Russian one again in 2011.

Insert Table 5 about here

A more negative impact of the crisis on OFDI may be that a number of MNCs divest from abroad. Selling the assets of foreign subsidiaries can help finance a parent company in financial distress. A MNC can always take the crisis as an excuse for cutting down some less profitable activities located in a subsidiary abroad. This obviously happened to Russian MNCs' foreign subsidiaries since 2008 (Table 5) whose foreign direct divestment was primarily concentrated in the EU and CIS countries, in particular Ukraine. [Russian divestment also occurred in tax havens. Two examples are Millhouse, a Russian-owned asset management fund \(a Roman Abramovich's property\) which divested from the company Primerod International Ltd located in the Virgin Islands in 2009, and Gazprom which sold its holding ZGG Cayman Holding in the Cayman Islands in 2010.](#)

The OFDI stock from Russia was 1.4 times bigger in 2011 than 2007 in spite of the crisis impact. The crisis shock has been dramatic, not radical. Russian MNCs were born in such an unstable domestic business and institutional environment surrounded by transformational recession, then they went through the 1998 Russian financial crisis. From all these sequences they have learned a lot about how adapt to financial crash and credit crunch. This underlies their resilience to adverse economic effects in the global financial crisis.

4. From outward FDI determinants to MNCs strategies: an analytical synthesis

The rest of this chapter refers to an analytical framework which must be briefly reminded. Contemporaneous analyses of OFDI regarding emerging countries and their MNCs often distinguish between pull factors and push factors (Dunning, 2008; Gugler and Boie, 2008). *Pull factors* are those which attract and drive inward FDI into a given country, otherwise coined host country's factors of attractiveness to FDI. They differentiate *host countries*. Some well-known and tested examples are: host investment climate and country risk, the judicial and fiscal environment provided to foreign investors and host government policies (of which liberalisation and privatisation), host country's inflation rate, growth rate, interest rate and spread, fiscal deficit, exchange rate, unemployment rate, unit labour cost, market size, tax pressure, access to local high technology or natural resources, and the quality of local institutions such as the rule of law, the efficiency of government expenditure, political stability and control of corruption (tested in M. & W. Andreff, 1997 & 2005), as well as host country's participation to regional international agreements and trade areas. Thus, when analysing OFDI, the explanatory power of pull factors is basically to point out which host countries do attract foreign investments flowing from any home country. In other words, pull factors definitely are the *determinants of the geographical distribution* between host countries of OFDI from (a given set of) home countries.

Push factors usually are referred to as *home country-specific*. They basically are drivers for a home country substituting investment abroad to domestic investment; they explain why investment is pushed outwards the domestic borders. Push factors obviously underlie the IDP model such as the domestic market size (GDP or population as a proxy) and economic development (GDP per capita), its technological level, its industrial structure (the distribution of value added across different industries) and less stable variables such as growth rate and exchange rate (Andreff, 2003c). In addition, often listed push factors are: excess domestic production capacity, domestic market saturation, home competitive pressures, trade barriers,

increasing domestic production costs, inflation hikes, using the domestic natural resource base for expanding abroad, underdeveloped domestic capital market, bad or worsening local business environment that triggers investing abroad to hedge against domestic uncertain investment climate, domestic government policies; and, in post-communist countries, escaping the troubles of an economic system in transition (Bulatov, 1998).

Now, which are the relationships between OFDI pull and push factors on the one hand and, on the other hand, the strategies of MNCs? Pull factors are the *determinants of a MNC* (outward investor) *trade-off* between host countries and between resource-seeking, market-seeking, efficiency-seeking and asset-seeking strategies typified by Dunning, and a possible global strategy. The latter is a MNC multi-faceted strategy – not only restricted to a geographical dimension or a set of industries – and merges market, efficiency, resource and asset-seeking FDI motives. It is analysed in depth as global in scope, distributing all the MNC's chain value all over the globe, maximising the parent company's global (consolidated) profit typical in global oligopolies, based on a post-Fordist high tech and flexible production process that can easily be fragmented and relocated (Andreff, 2009a), a networking organisation, strategic alliances with other MNCs, and the internationalisation of shareholding (Andreff, 1999a & 2003a; Yip 1997). Pull factors *determine a MNC choice* to invest in one host country rather than another one on the basis of their attractiveness variables (Andreff 1999b; Michalet 1997 & 1999). Thus, they appeal MNCs in various host countries, largely shape the OFDI geographical distribution and provide the rationale for the different strategies used to invest in various host countries, including the best appropriate mode of entry to each strategy.

The relationships between OFDI push factors and MNC strategies are straightforward. Push factors are the determinants of a company's propensity to substitute OFDI to domestic investment and they are embedded in the *home country's* economy: the domestic market size, its level of economic development, its macroeconomic variables (inflation, growth, unemployment, exchange rates, etc.), the domestic costs of factors of production, home investment regulation, if any, and institutions, how the home government interacts with companies' investment decisions, all factors that may depend on domestic industries and markets a company is involved in. Therefore, push factors are determined by domestic macroeconomic dynamics and industrial structure and, thus, widely determine home country's MNCs from one industry rather than another to invest abroad. They are drivers of the FDI outflows, foreign assets and foreign subsidiaries *industrial distribution* achieved by home-based MNCs, and to some extent they are linked to the IDP step a home country is evolving in. Consequently, push factors influence the FDI "mode of leaving" a home country, namely a

MNC's *trade-off* between greenfield investment, mergers and acquisitions (M&As), round tripping FDI and capital flight.

Thus, a MNC undertakes a FDI when *pull and push factors fit together* - and the mode of leaving a home country is in accordance with the mode of entry in a given host country. A MNC operating in a small or slow-growing or saturated domestic market adopts a market-seeking strategy geared towards bigger or fast-growing host markets. High or increasing domestic unit production costs determine MNCs to seek host countries with lower unit costs through an efficiency-seeking FDI. Scarce or shortening natural resources at home push MNCs to secure their input supply from well-endowed host countries with a resource-seeking strategy. These double fits between domestic push factors and host countries' pull factors crucially determine the OFDI geographical distribution and industrial structure.

5. Specificities and determinants of outward FDI from Russia

Although OFDI from Russia is the 15th most important source of OFDI worldwide in 2011, just behind China and right ahead of Sweden, it is sometimes coined "non-conventional" (Kuznetsov, 2010a). For sure, it is quite specific with regards to its geographical distribution, industrial structure, and determinants.

5.1. Geographical and industrial specificities of Russian outward FDI

Data collection by the Central Bank of Russia covers four different FDI outflows: a/ Not exclusively financial investment abroad by Russian firms and banks. b/ Individual investment by Russian citizens in real estate abroad, including the money invested by new rich, some *maffiosi*, capital flight, and money laundering. c/ Round tripping FDI, *i.e.* investment by Russian enterprises and citizens in offshore companies, in particular in Cyprus, the Virgin Islands and other tax havens, in view of reinvesting the corresponding capital later on in Russia⁷; since Russian OFDI located in tax havens still represents a significant share among host countries (Table 6), round tripping probably has not ceased yet⁸. d/ Investment abroad by

⁷ This so-called circular investment, transferred through FDI in order to come back to Russia is analysed in detail by Peltó, Vahtra and Liuhto (2003).

⁸ On the contrary, since the 2008-on crisis round tripping and trans-shipping FDI received in offshore economies has accelerated again to reach up to two-thirds of Russian OFDI. Its final destination is the CIS, the CEECs and primarily the Russian Federation herself.

Russian investment funds and some minor investments⁹. Statistical knowledge about the last three sorts of FDI outflows is blurred – when not entirely hidden – by non transparent transactions; the first and third kinds of FDI outflows are the most tightly related to the booming expansion of Russian MNCs.

The initial *geographical orientation* of Russian OFDI was geared towards the “close abroad”, *i.e.* the CIS independent member states, as a legacy from the past. Various studies confirmed a significant involvement of Russian FDI in Belarus, Kazakhstan and Ukraine (Yeremeyeva, 2009; Blyakha, 2009). The next most important host countries are the CEECs as former CMEA (Comecon) members in which, like in the CIS, Russian companies enjoy familiarity with local business conditions. Then follow the EU incumbent members which, in a short lapse of time, have taken place among the significant host countries for Russian OFDI (Andreff, 2003c). Such geographical distribution was specific to the first decade of Russian companies’ expansion abroad. It can still be traced back from the distribution of foreign assets in the biggest 20 Russian non financial MNCs in 2008: 23% were located in CIS countries, 49% in Europe, 17% in North America, 7% in Africa, 4% in Asia and peanuts in Latin America.

Insert Table 6 about here

In the past recent years, the OFDI geographical distribution has started changing (Table 6). More non European countries now appear among the major host areas for Russian MNCs settlement, namely the U.S., Canada, the United Arab Emirates, and India. Since 2005, Russian MNCs have made noticeable acquisitions in developing countries, focusing on Asia and Africa (Kalotay, 2008b). To some extent, Russian MNCs are somewhat loosing their specificity as companies from emerging countries supposed to achieve most of their OFDI on an “intra-regional” base in countries located in the same region of the world as their home country¹⁰. Thus, some Russian MNCs are on the brink of a global strategy in which foreign subsidiaries are located anywhere in the world if their profitability there is higher. The only exception so far is Latin America – with no one of the first 30 host countries for Russian FDI that belongs to – due to its remote location from Russia and institutional barriers such as absent bilateral non double taxation and investment treaties with Russia.

⁹ For example, the purchase of Western European football teams by Russian oligarchs (ex: Chelsea by Roman Abramovich).

¹⁰ However, a same evolution of investing far beyond an intra-regional base, in developed countries, is witnessed with Chinese and Indian MNCs as well, which is not without raising new theoretical challenges that are tackled by Andreff and Balcet (2013); see their contribution to this volume (chapter n).

Note that tax havens are highly ranked among the major host countries for Russian OFDI: Cyprus, the Virgin Islands, Luxembourg, Jersey, Gibraltar, Bahamas, St Vincent & Grenadines, St Kitts & Nevis, Bermuda, and the Isle of Man; together they attract about 58% of overall OFDI. Most of them, like Cyprus, are well-known rocket pads for round tripping circular investment. Apart from tax havens, the major host countries for Russian MNCs show up one of the four following characteristics: a/ they belong to major export markets for Russian products (the Netherlands, the UK, Germany, Austria, Turkey, Spain, Bulgaria, France); b/ they share a common culture and use Russian as business language (Belarus, Ukraine, Kazakhstan, Lithuania, Armenia, Uzbekistan); c/ they have tight political links with Russia (Belarus engaged talks for years in view of merging with Russia, Kazakhstan joined a free trade area with Russia and Belarus); d/ and a few markets are located at a remote trade distance from Russia (USA, Canada). These characteristics tend to validate the assumption that Russian firms' internationalisation proceeds step by step (as meant in the Uppsala theory: Johanson & Vahlne, 1977) starting with exporting to foreign markets then, when such exports are a success story, accompanying the export business with OFDI.

The *industrial structure* of Russian OFDI¹¹ is also specific when compared to both emerging countries' OFDI and the structure of the domestic economy in Russia. In 2008, as to Rosstat data, the Russian economy's GDP broke down into: 21.3% for trade, 18.0% for the manufacturing industry, 15.0% for services (including finance), 9.6% for transport and communication, 9.5% for the mining industry, 6.7% for construction, 5.9% for education, health and the social sector, 5.1% for administration, defence and social insurance, 5.0% for agriculture, and 3.0% for electricity, gas and water. The industrial distribution of Russian OFDI is much more concentrated on few industries. First, Russian MNCs are overrepresented in natural resource exploitation, mining and metallurgical industries, then in traditional manufacturing industries, all inherited from the top pecking order of heavy industries in the former Soviet system. Cases in point are Gazprom (gas, oil), Lukoil, Itera, Tatneft, Novatek in the oil industry; Severstal, Evraz, Norilsk Nickel, Alrosa, Basic Element (a conglomerate which owns Rusal), NMLK, Mechel, TMK, Koks, Metalloinvest, MMK, and Novolipetsk Steel in the metallurgical industry; Renova, OMZ and Borodino in machinery; AvtoVAZ, GAZ, UAZ and KAMAZ in the automobile industry; and in various industries, Investlesprom (paper-wood), Eurocement and LSR Group (building materials), Eurochem (chemical

¹¹ The Central Bank of Russia does not publish (yet) a breakdown of OFDI by industry that can compare with the MOFCOM data used below for the industrial structure of Chinese OFDI. **However, Chinese data are somewhat blurred with regards to those flows transiting through Hong Kong.**

fertilizers), Acron (agro-chemistry), Vostok-service and Gloria Jeans (clothing), Kalina (perfumes, cosmetics), WimmBillDann, Russian Solod, SGI Group, Alterwest and Russian Wine Trust (agro-food industry) and Inter RAO UES (electricity).

However, it is to be noticed that Russian OFDI also started booming in the 2000s in a more modernised part of the manufacturing industry with the Sistema group (to which belong MTS in telephone production, Sitronics in telecommunication equipment, and RTI Systems in aerospace and missiles production), Vimpelcom, Altimo, Megafon and the Alfa Group in telecommunications, Korolev Rocket and Space Corporation Energia (aeronautics), NPO Mashinostroyeniya (military equipment), as well as most of the big Russian insurance and financial companies, big banks such as Sberbank, VTB, Gazprombank, Alfa-bank and Bank of Moscow, and transportation networks (Sovcomflot). Such MNCs exemplify a more recent industrial diversification of Russian OFDI which spreads over high tech industries and services resulting from the modernisation of the Russian manufacturing industry which was launched at the dawn of the post-Soviet transition and became more deeply rooted after 1999.

5.2. The determinants of OFDI and trans-border mergers and acquisitions

A genuine theory specifically explaining the strategies of Russian MNCs and the determinants of their OFDI is not available so far. Obviously, such theory should not be far away from the analysis of OFDI determinants from the BRICs and emerging countries in the framework of the IDP model. Though successfully tested for transition countries taken together (Andreff, 2003c), the latter does not entirely account for the whole specificity of Russian MNCs. It is even contented that Russian OFDI is not actually verifying the IDP model (Kalotay, 2008a) because it started up as a form of capital flight linked to bad domestic investment climate until 1998. Moreover, a number of companies became MNCs overnight with the break-up of the former Soviet Union whereas those assets grabbed by a handful of powerful oligarchs in the privatisation drive had rapidly evolved into MNCs. Besides, a number of Russian MNCs compare to those MNCs based in developed countries (Kuznetsov, 2010b), as if Russia was on the verge of reaching the fourth step of IDP model. Companies with a rapid internationalisation in telecommunications (Sistema, Vimpelcom) and middle technology-based Russian MNCs such as Tecnoserv, Croc, LANIT and Playton are standing there.

Kalotay and Sulstarova (2010) have suggested the following explanatory model¹², supposed to specifically fit with Russian OFDI. Econometric testing relies only on data about trans-border M&As involving Russian firms which is indeed a major part of Russia's overall OFDI. The model primarily takes on board pull factors:

$$FDIMA_{rh} = a + b.GDP_h + c.GDP_r + d.NR_h + e.SER_h + f.DIST_{rh} + g.\tau_{rh} + i.CIS + j.PAT_h + u_h$$

where the independent variable $FDIMA_{rh}$ stands for OFDI from Russia to a host country h achieved by means of merging or acquiring a foreign company. Independent variables are:

- . Russia's and host country's GDP, as proxies for the respective size of their markets;
- . the share NR_h of natural resources and raw materials in overall Russian exports to each host country h , which is assumed to reflect its comparative endowment in natural resources;
- . the share of services in the host country's GDP SER_h ;
- . the geographical distance between Russia and each host country $DIST_{rh}$, a classical gravity variable;
- . the rouble exchange rate against a host country's currency τ_{rh} ;
- . a dummy variable standing for CIS membership which is assumed to represent a cultural proximity between Russia and a host country;
- . the number of patents registered in a host country PAT_h showing whether a country h is a favourable location for Russian MNCs where to acquire technological assets.

It results from econometric testing that market size is the most significant explanatory variable: Russian MNCs first invest abroad to capture foreign markets. The NR_h variable is also significant: Russian MNCs invest abroad to secure their supply of natural resources. The share of the tertiary sector (services) in the host economy, the distance from Russia, exchange rate, and the cultural proximity are not significant determinants of Russian OFDI. Despite its obvious interest, this modelling is submitted to two limitations: it does not explain at all the determinants of Russian greenfield investment abroad – if by chance they were different from those of M&As - and, more basically, it does not introduce either a dummy variable for the influence of Russian government¹³ on the strategies conducted by Russian MNCs, whatever state-owned or privately-owned, or any other push factor.

¹² Technically speaking, it is a log-linear model which all variables are in log except the geographical distance and a dummy for CIS membership.

¹³ Kalotay and Sulstarova (2010) take into account a change in the government policy with simply distinguishing the period when B. Yeltsin was the President of the Russian Federation from the one when V. Putin stepped in. Kalotay (2008a) stressed an increasing role of the government in controlling those companies exploiting natural

6. Similarities and differences between Russian and Chinese multinational companies

Russian MNCs nearly caught up Chinese MNCs during the past decade while the latter still benefited from the first mover advantage of their front running OFDI which commenced more than thirty years ago. Nevertheless the result is a more similar than different OFDI regime.

6.1. Russian multinationals: from opacity to globalisation ...or copying China?

Russian MNCs are used to disclose a very little information with regards to their economic activity abroad¹⁴. This *strategy of opacity*, non transparency and information concealment is a typical feature of Russian MNCs, even though it is slightly stepping back now. The expansion of Russian MNCs abroad has often been interpreted in a first phase as capital runaway, if not an exodus, toward friendly, more stable, and less risky foreign investment climates than in the Russian domestic market (Bulatov, 1998; Kalotay, 2004b; Vahtra & Liuhto, 2004). Round tripping FDI is exemplary of such strategy which has been more widespread in the 1990s than in the 2000s before the crisis.

Another strategy in a sense follows up the one of former red multinationals developed to serve former Soviet foreign trade purposes. Rather frequent in Russian manufacturing industry, it is a *market-seeking* OFDI relaying previous export. Market-seeking FDI strategy pertains to traditional markets such as the CIS; it is also the rationale for Russian OFDI in Western markets where Russian firms face tough competition and are strongly challenged when entering in. Those Russian MNCs which invest abroad in mining, oil and gas industries have adopted a *resource-seeking* approach and attempted to take over their most needed suppliers abroad by means of M&As. Russian OFDI in the CIS is basically resource-seeking geared towards oil, gas and mining. The same strategy applies to the fairly recent Russian OFDI in Africa though it is mitigated here with a motive of accessing to new consumer markets.

Russian MNCs have not yet adopted an *efficiency-seeking* strategy although they could have envisaged it in lower production cost CIS and developing countries. However a sort of efficiency-seeking OFDI emerged with the purpose of consolidating or re-integrating assets located in CIS countries and the CEECs (Filipov, 2010). Finally, Russian companies have

resources as the most specific factor that impeded applying all the FDI explanatory theories to the analysis of Russian MNCs.

¹⁴ For example, Gazprom for years did not provide those data requested by UNCTAD for its world investment report.

conducted an asset-seeking strategy based on M&As in view of acquiring Western technology and R&D intensive units.

Insert Table 7 about here

Trans-border M&As enable Russian MNCs to consolidate their global competitiveness in creating or reaching the advantages of a monopoly or dominant oligopoly position in some foreign markets. The main target for M&As by Russian MNCs is to take over European and North American firms. Between 2005 and 2010, M&As have primarily targeted an entry in industries linked to natural resources in the U.S., Canada, Italy, Switzerland and South Africa (Table 7). Big trans-border M&As are less frequent in the “close abroad” whose firms are of smaller size and less attractive in terms of high tech assets. A few exceptions are the Vimpelcom-Kyivstar, Gazprom-Beltransgaz, and Evraz-Sukhaya Balka deals. The share of the primary sector is steadily around 60% of all M&A deals while the share of the manufacturing industry is below 25% since 1997 (Table 8). A predominant resource-seeking motive is obvious. The proportion of M&As in Europe (CEECs included) peaked up in 1997-2000 whereas the one in the CIS climaxed in 2001-2004. The first asset acquisitions appeared in developing countries since 2005 and the share of non-European (primarily North American) developed countries is around 20-25% of total M&A deals. The financial crisis impacted M&As undertaken by Russian MNCs downwards. While the overall number of trans-border M&A deals was 114 in 2007 and 119 in 2008, it fell down to 102 in 2009 and 70 in 2010 (Filipov, 2011).

Insert Table 8 about here

OFDI by Russian MNCs directly in R&D is less the rule than exception so far, but it is significant sign of a step forward toward a more global strategy. For instance, Sistema entered the stock equity of an Indian company in the mobile telecommunication industry in 2008 and then attempted to acquire a German firm involved in microelectronics, Infineon, in 2009 (Vahtra, 2010). Similarly, Sberbank had attempted (but failed) to participate into the purchase of Opel, a General Motors subsidiary, during the bankruptcy proceeding of this company, in view of capturing its high technology. In the iron and steel industry, Evraz, Severstal and Rusal have invested a big deal of money for technological development in their foreign subsidiaries whereas, in the oil industry, Lukoil and TNK-BP have acquired foreign firms in view of upgrading their own technological level. This spread of trans-border M&As by Russian MNCs in high-tech industries was backed and supported by the highest Russian authorities, even up to President Medvedev.

A few Russian MNCs seem to have turned to a *global strategy* in the past recent years, not only as far as their geographical orientation is concerned, but also in playing on all the cords of such a strategy (Andreff, 2003b). One of them consists in integrating all their value chain on a world scale; the different sequences of the production and trade process (input purchase, supply, production, products delivery, sales, and after-sale services) are allocated in various countries depending on profitability criteria. In recent years, this tendency was observed with Russian MNCs (Vahtra, 2010). In view of international chain value integration, the latter have often bought or merged assets located abroad, which is a second dimension of a global strategy. A third one is a global scope for asset-seeking OFDI, through M&As, into technological assets required for R&D and it often makes up for a decisive step forward on the path to globalising a MNC's strategy; here are some Russian MNCs today. A fourth dimension of global strategies lies in strategic alliances. Russian MNCs have formed strategic alliances with foreign partners – often other MNCs – since 2000: on average 40 per year with one 89 peak in 2007. This is one of the most representative evidence of evolving toward a global strategy and a sign of maturing strategies in some Russian MNCs. Moreover such alliances facilitate the entry into foreign markets. Still a few Russian MNCs are on the brink of switching to the above-defined genuine global strategy; some cases in point are Renova, TMK, and to some extent Gazprom, Lukoil, and NMLK.

In 2008, President Medvedev appealed to Russian companies to “copy China” by expanding overseas and going on in a global spread of their foreign assets, even though the government has not yet developed a consistent policy framework – such as a perspective specialised agency for investment support under the auspice of Vneshekonombank - for assisting Russian MNCs in their global expansion. Let us have a comparative view over the Chinese model of MNCs which was recommended to be copied by Russian companies.

6.2. Similarities between Chinese and Russian multinationals: easy copying

Chinese MNCs hold a *first mover advantage* compared to MNCs from all other transition economies. They began establishing subsidiaries abroad as early as 1979, primarily to open new export markets (Ye Gang, 1992). Since then they were ahead of Russian companies in investing abroad: OFDI from China in 1992 (\$7,401 million) was of about the same magnitude as the one from Russia in 1998 (\$7,385 million). In 2005, 3,429 parent companies of Chinese MNCs had settled about 280,000 foreign subsidiaries (and 948 Hong Kong MNCs with 9,072 additional subsidiaries abroad) while an unknown number – likely lower than

1,000 parent companies – of Russian MNCs were holding 1,176 foreign subsidiaries. In the 2000s, Russian MNCs benefited from an “accelerated internationalisation”, a common surge for late-coming MNCs, since they were lagging behind Chinese MNCs in OFDI business.

Insert Table 9 about here

It is often stressed that the growth of Chinese MNCs has been boosted by a *preliminary substantial inward FDI* of Western MNCs into China since 1979 in tune with the so-called LLL - Linkage, Leverage, and Learning - approach (Matthews, 2002). Richet (2013) stresses the importance of instilling spillovers, incubators and learning by doing business with foreign investors in mainland China as a push factor in the emergence of Chinese MNCs. The former USSR opened up to inward FDI comparatively later, in 1987, and the LLL process was much slower in the 1990s given the bad domestic investment climate in Russia (Andreff, 1999a). After past technology transfers from foreign MNCs resulting in productivity spillovers to domestic Chinese firms, it is expected that China’s OFDI would channel comparable transfers and spillovers from China to developing countries (Lian and Ma, 2011). It should make Chinese MNCs more acceptable in this sort of host countries.

Insert Table 10 about here

A significant share of Chinese OFDI consists in *round tripping*, since 75% of overall stock in 2010 are invested in tax havens¹⁵ (Table 10), which is a much higher share than with Russian OFDI (58% in 2011). It is what most Chinese OFDI in Hong Kong, Macau, the Virgin and Cayman Islands are all about. Chinese investments to mainland China moving through Hong Kong account for nearly two-thirds of total OFDI. As a consequence the OFDI boom from mainland China is overestimated in most comments of official (MOFCOM and UNCTAD) data at least as regard its magnitude if not its momentum. This incurs that *actual OFDI from mainland China was and still is markedly smaller than Russian OFDI* in the past recent years. Except offshore centres, the next major host countries for Chinese OFDI are located in the neighbouring South East Asia and East Asia, *i.e.* 15 among the first 36 host countries. Western advanced economies are the next most important hosts, first of all Australia and the US (the Pacific Rim). Hence, Chinese MNCs, like Russian ones, are lean to privilege first a close geographical area and, second, developed market economies. However, they have already significantly spread in some African (South Africa, Nigeria, Zambia, Congo DR) and remote Latin American (Brazil, Peru) countries. At the end of the day, the *geographical*

¹⁵ Indeed, only a part of Chinese OFDI transiting through tax havens, namely Hong Kong, are round tripping flows, but this applies to Russian OFDI as well. Unofficial assessment is that round tripping may be up to 50% of OFDI to Hong Kong.

distribution of Chinese OFDI is more *diversified* than the Russian one, namely in Latin America and Africa - where first Russian OFDI have emerged only recently.

Chinese MNCs also invest in transition economies though the latter's share in Chinese OFDI is small (3% of 2010 overall stock) but its growth rate is the fastest in the past recent years, concentrated in the CIS and Mongolia (Korniyenko and Sakatsume, 2009), with an increased interest in Central Asia (Kazakhstan, Turkmenistan). However, the focus in this area is definitely on Russia, ranked the 9th host country for Chinese OFDI, and the 5th one after Australia, Singapore, the US and South Africa when excluding offshore destinations and Hong Kong. For instance, Hisense owns a sales base in Russia and a production centre in Hungary, TCL disposes of factories in Russia and Poland. Chery Automobile invested in an assembly line in Russia in 2006. Geely holds a joint production plant in Russia and sales companies in Ukraine. In the textile industry, there are many Chinese investments in Mongolia. CNOOC is a major shareholder in the Kazakhstan North Caspian Operations Company. Thus, Chinese MNCs harshly compete with Russian MNCs since the mid-2000s in the latter's privileged areas for OFDI: Central Asia, other CIS countries and to some extent the CEECs. A deep asymmetry lies in there: *China significantly invests in Russia whereas the reverse investment from Russia into China is much less impressive*. When visiting Russia east of the Urals, a number of Chinese investors can be seen, and the local population intensively feels their presence, while Russian investors are nearly invisible in most Chinese provinces.

Insert Table 11 about here

The most striking feature in the *industrial structure* of Chinese OFDI is the high share of services, between one-third and two-fifths in the total. If one adds banking and trade to other services, the share of the tertiary sector is up to about 60% of overall OFDI (Table 12), which resembles the industrial structure of OFDI from developed countries. Investing abroad in the tertiary sector is typical of the *global strategy* conducted by major Western MNCs (Andreff, 2003a). Chinese MNCs are about to stick to such strategy and likely to be ahead of Russian MNCs in this respect, none of the latter being known as a leader in the global services industry so far, except banking. The next important industry is mining where a *resource-seeking* strategy of Chinese MNCs is at work. However, it is far from the overwhelming share of mining, oil and gas in Russian OFDI. With a noticeable difference: while Russian MNCs in this industry invest abroad looking for both new supply sources and new markets (oil and gas stations), the Chinese strategy is almost exclusively geared towards securing a supply of raw materials for the domestic economy. Chinese MNCs look for securing their supply in natural resources all around the world: basically in Australia, Russia and Canada among the first host

countries, but increasingly in Latin America, Central Asia, and Africa. Chinese OFDI in the manufacturing industry is less significant than in mining and its share decreases in the total from 2004 to 2010 (while the share of banking is rising).

Insert Table 12 about here

State-owned enterprises (SOEs) as well as privately-owned MNCs differentiate with regards to their motives of internationalisation. Chinese SOEs are attracted in countries with large endowment in natural resources and rather risky political environment. Private MNCs are more purely *market seekers*. Although all Chinese public and private firms have strategic intent with *asset-seeking*, the attraction is to commercially viable technology rather than core research content. Such technological asset-seeking strategy is primarily adopted when investing in advanced developed economies where Chinese MNCs are motivated by an access to strategic assets corresponding to China's strategic needs (Deng, 2007). Chinese MNCs have been portrayed as internationalising in order to improve their access to foreign proprietary technology and enhance competitiveness through diversifying their activity. Asset-seeking has been used on purpose. With domestic wage inflation in the recent years, some Chinese companies started relocating their production in geographically close countries with markedly lower unit labour costs¹⁶ such as Vietnam and North Korea. This signals the emergence of a new *efficiency-seeking* strategy which is likely to develop in the years to come with the current rise of comparative unit labour cost in China.

Buckley *et al.* (2008) have tested the following explanatory model for the *determinants* (all variables in log) of Chinese OFDI:

$$OFDI = a.GDP_h + b.OIL_h + c.PATENT_h + d.TD94 + e.BIT_h + f.ACBIT + g.DTTh + i.ACDDT + j.WTO_h + k.CPh + l.DISH + m.RISK_h + n.PPP_h + o.ERATE_h + p.INF_h + q.EXPh + r.IMPh + s.INFDI_h + u_h$$

where GDP_h stands for GDP per capita in host countries h (captures market-seeking FDI motives), OIL_h for **oil and gas exports of h to China** (captures resource-seeking motives), and $PATENT_h$ for total annual patent grants in h (captures a technological asset-seeking strategy). The next variables are institutional one of which is endogenous $TD94$, the liberalisation of foreign exchange control in China in 1994. Exogenous institutional variables are: BIT_h the number of bilateral investment treaties concluded by a country with China, $ACBIT$ the total number of BITs a country has concluded, $DTTh$ the number of non double taxation treaties

¹⁶ And common former communist culture and working conditions in the factories.

concluded by a country with China, ACD_{TT} the total number of DTTs a country has concluded, WTO_h membership of a country h in the WTO, CPh cultural proximity to China, and $DISH$ the geographical distance of a country from China. The model is completed with control variables regarding political risk $RISK_h$, purchasing power parity PPP_h (to check the difference in inflation rates between a country h and China), exchange rate of the h country's currency against the *renminbi* $ERATE_h$, inflation INF_h , exports EXP_h to China, imports IMP_h from China, and a market openness to FDI index $INFDI_h$, *i.e.* the ratio of inward FDI to GDP. Note that the model basically gathers pull factors, the only push factor being the liberalisation of the *renminbi* exchange rate. Obviously, more variables about Chinese governmental policy toward OFDI are missing on the push factor side. The significant variables coming out from testing are the market size, WTO membership, cultural proximity, all in favour of *market-seeking determinants*. The exchange rate policy change ($TD94$) is significant but not with the expected sign: surprisingly, Chinese OFDI is negatively associated with the liberalisation of foreign exchange controls. In addition, OFDI should be determined by the 'go global' measures (7 below) but they are not actually tested here. No significant relationship is found between Chinese OFDI and economic and institutional variables; OIL_h and $PATENT_h$, paradoxically provide no support to resource-seeking and advanced technology and know how asset-seeking strategies by Chinese MNCs, no more than a gravity (distance) determination. All control variables are significant except host country risk; the contention that Chinese MNCs are attracted - or less reluctant to invest - in highly risky countries (Buckley *et al.*, 2007; Morck *et al.*, 2007) is not confirmed¹⁷. Compared with the above model for Russian MNCs, the primary strategy is market-seeking in either case whereas resource-seeking strategy is empirically (econometrically) more crystal-clear with Russian MNCs.

In an explanatory model rather similar to the previous one, Rodriguez and Bustillo (2011) introduce a host country's governance variable taken as usual as the average of the six World Bank's indicators of control of corruption, government effectiveness, political stability, regulation quality, rule of law, voice and accountability (Kaufmann *et al.*, 2008). They do not find any significant relationship between governance and Chinese OFDI; strong governance in a host country neither attracts Chinese OFDI nor does low quality (thus risky) institutional

¹⁷ Due to risks involved in institutional uncertainty, barter and networking business, *guanxi* relationships based on informal norms, mutual trust, personal connections, ethnic linkages, corruption and the like in the Chinese post-communist transition, Chinese companies are often assumed to be more capable (than Western MNCs) to deal with troublesome regulation and opaque political constraints. They easily survive in comparably weak institutions in Central Asian and African host countries. Such experiences are even considered as an intangible asset of Chinese MNCs by Morck *et al.* To say the least, Russian MNCs started evolving at home in no less corrupted, networking and informal surroundings in a first stage of Russia's economic transition, and they hold the same intangible asset.

framework hinder it. In addition, the *resource-seeking* motive is found significant which fits better with the actual strategies of Chinese MNCs observed at the enterprise level. However, poor institutions may well be linked to natural resource endowment anyway because rent appropriation leads to rent-seeking, patronage and corruption. This is what Kolstad and Wiig (2009) demonstrated meanwhile, testing the effect of the interaction between natural resources and poor institutions on Chinese OFDI. In host countries with poor institutions natural resources attract Chinese OFDI. Finally, Fung and Garcia-Herrero (2012) found that Chinese OFDI is more attracted (than Indian OFDI) to more corrupt countries, but this result is mostly driven by Chinese investment in African countries. Chinese OFDI primarily flows there into larger and poorer countries well endowed with fuels.

Insert Table 13 about here

The *M&A mode* of Chinese MNCs' entry suddenly took off after 2000 targeting both developed and developing countries, in particular since 2004 when the 'go global' measures had materialised. In October 2004, a circular issued by the National Development Research Council (NDRC) and the Export-Import Bank of China explicitly promoted trans-border M&As. *Renminbi* appreciation against the US dollar and the Euro in the recent years has reduced the cost of Chinese M&As over Western companies. From 2000 to 2010, Chinese MNCs merged or acquired 83 companies located in the EU countries (Clegg and Voss, 2012). In transition economies, CNPC bought a \$500 million stake during Rosneft's initial public offering and Sinopec acquired a 96.9% share in Udmurneft in Russia. CNPC acquired the North Buzachi oilfield in Kazakhstan through the purchase of Canada-based PetroKazakhstan and took a 25% stake in the Saylan oilfield in Azerbaijan, and so on (Table 13).

However, some Chinese MNCs have *failed in their M&A strategy*, for instance TLC and SAIC in South Korea. It is reported that 90% of the 300 trans-border M&As achieved between 2008 and 2010 failed and translated into a 40% fall in the stock value of those companies involved (Richet, 2013). Thus, in presence of very high country risk, Chinese MNCs prefer greenfield investment. When a host country has stronger national innovation ability or higher level of human capital, Chinese firms tend to choose M&As. An increase in the cultural distance appears to induce Chinese MNCs to select M&As as well (Hu *et al.*, 2012). The number and magnitude of *trans-border M&A deals by Chinese MNCs on average are much bigger* than those observed for Russian MNCs.

7. Which standing for multinationals in Russian and Chinese state capitalisms?

A study on MNCs based in the BRICs (Holtbrügge and Kreppel, 2012) concludes that while the internationalisation of Brazilian and Indian companies is primarily driven by economic motives, many Chinese and Russian firms also receive substantial political support from their governments to invest abroad, especially in strategically important industries. The Chinese government explicitly launched and then institutionalised a “go global” OFDI strategy while Russia proceeded with a less formal support policy to Russia-based MNCs relying on oral incentives, economic influence and some watchwords like “copy China”.

7.1. Russian multinationals: instrumental to Russia’s foreign policy

A nice typology of Russian MNCs has been put forward (Liuhto and Vahtra, 2007) by crossing two criteria: the level of a firm’s transparency, measured by its rating published in the *Standard and Poor’s Russian Transparency and Disclosure Survey*; and existing state control or ownership over the company. Thus, four types of Russian MNCs come out, respectively coined:

. *Non Transparent Patriots*: these companies are under tight state control, most often in strategic industries linked to natural resources (ex: Rosneft, OMZ);

. *Transparent Patriots*: refer to companies which somewhat disclose their financial accounts though they are in partial or overall state ownership; but they have already reached a strong position in international markets (ex: Gazprom¹⁸, Alrosa, Inter RAO UES);

. *Non Transparent Independents*: are those companies that are not (or only slightly) controlled by the state but whose corporate governance misses transparency; they often invest abroad through offshore subsidiaries located in tax havens (ex: Evraz, Severstal, Rusal);

. *Transparent Independents*: such companies are actually privately-owned and their strategies are not clearly influenced by the state or any political considerations (ex: Lukoil, Norilsk Nickel, Vimpelcom, MTS).

The problem is to know how these categories of Russian MNCs evolve in the context of Russian state capitalism¹⁹ (Andreff, 2007a & 2009). Before the crisis, Russian MNCs were described as a form of soft power which had replaced the military power of the Russian regime, in particular throughout the “close abroad” (Vahtra, 2005). During the Yeltsin era, the

¹⁸ Classifying Gazprom in this category, instead of the previous one, is obviously debatable.

¹⁹ Rutland (2008) prefers talking about a corporatist state or a hybrid form of oligarchic state capitalism; but a relative weakening of oligarchs’ power is to be noticed in the 2000s and again in the wake of the financial crisis.

government was proactive through its privatisation²⁰ programme in creating big privately-owned companies in monopoly or oligopoly situation which swiftly transformed into MNCs. However Russia did not promote OFDI under the Yeltsin presidency. Under the Putin presidency, the Russian state has clearly shifted its objectives toward promoting OFDI, mostly in the service of national strategic goals. Since then Russia conducts a “national champions” policy providing support to companies investing abroad in key industries.

In the 2000s, the government has reinforced its role in the economy through a swifter SOEs’ expansion and partial re-nationalisation in some industries. Since 2001, state ownership appeared to be on the rise in Russia and this affected Russian MNCs as well. Public participation in previously privatised Gazprom increased from 38.4% to more than 50%, Gazprom acquired the privately-owned Sibneft while the state-owned Rosneft acquired various assets of the defunct Yukos. State participation in the stock equity of some Russian MNCs and their internationalisation strategy have increasingly been influenced by Russia’s foreign policy. In addition, in 2007 seven big “state corporations” were launched whose CEOs were appointed directly by the president of the Russian Federation. The most important are Rostekhnologii, Rosnano, Rosatom, Rosoboronexport, and Vneshekonombank (VEB). These corporations are in charge of industrial restructuring through gathering activities into big industrial trusts under public control in aeronautics, shipyards, the nuclear energy, new technologies, and banking. They started up internationalising by acquiring technological assets abroad (Vahtra, 2010) while the pressure of the presidential administration on to them accentuated. They are not far from being MNCs whose strategies purely serve both a domestic policy of industrial modernising and Russia’s foreign policy.

Moreover, SOEs have widely participated to hostile raids over privately-owned companies at the Moscow stock exchange; Gazprom and primarily Rosneft have acquired the assets owned by Yukos and Samaraneftgaz. In 2008, when Dmitry Medvedev, a former CEO of Gazprom, was elected President of the Russian Federation, and Igor Sechin, a former CEO of Rosneft, was appointed Deputy Prime Minister, the relationships between the government and its state-owned MNCs tightened a lot. The dividing line between government and business became totally blurred, more than at any time since the dawn of transition. The weakening political influence of oligarchs since the Yukos case and the government taking the big industrial-

²⁰ Including as a result of the infamous and controversial scheme – even criticised by the World Bank – of loans for shares privatisation in 1996 which immediately came out with a phase of oligarchic capitalism in Russia (Andreff, 2005; Hedlund, 2001). These oligarchs are still today at the head of several significant Russian MNCs: Basic Element (Oleg Deripaska), Renova (Viktor Vekselberg), Alfa Group (Mikhail Friedman), Interros (Vladimir Potanin), Sistema (Vladimir Evtuchenkov) and so on (Kuznetsov, 2007).

financial groups owned by oligarchs in a firm hand strengthened the dimension of a state capitalism in Russia.

In a meeting with Russian CEOs from the manufacturing industry in 2007, V. Putin enjoined them to proceed more and more with a production diversification, export of high tech products and investment abroad. Thus Russian MNCs, whatever privately or state-owned, are incited by the state to go on internationalising. In industries linked to raw materials and natural resources, the government intends to keep an overall direct and indirect control over economic activity, including over Russian MNCs. A part of the manufacturing industry is considered by the state as strategic (aeronautics, ship building, automotive industry) and is hardly open to free competition while the government intervenes on Russian MNCs' decisions. The rest of the manufacturing industry which has modernised (ex: telecoms, telephone) is more open to competition and here MNCs are much less dependent from the state. Nevertheless, in the heath of the financial crisis, in November 2008, V. Putin asked the CEOs of big Russian enterprises to discuss with the state administration of their perspectives and future orientation, industry by industry. The hydrocarbons industry, and its MNCs, is especially turned into a tool to serve Russia's international relationships, including through controlling the network of oil pipelines and gas pipes, which is also a means for a state control over exports (Locatelli, 2007). Indeed, many Russian MNCs achieve their OFDI for the sake of the national economic interest as it is meant by highest governmental authorities. Russian state-owned MNCs are often heavily influenced by or incited to stick to major objectives of Russia's foreign policy.

However, the relationships between the state and big Russian companies/MNCs are no more rooted, as during the 1990s, in a context of state capture by private concerns (Andreff, 2007b), and no longer based on naked asset grabbing (Frye and Shleifer, 1997). Yakovlev (2010) showed that a sort of "model of exchange" has been reached in the relationships between the state and big companies. In this model, the latter benefit from subsidies, tax exemptions and various aids from the government but "in exchange" they have to bear without complaining some duties and additional costs such as a regulation of their product prices, frequent administrative supervision and a waste of time in their communication with the bureaucrats. Russian state capitalism has reached a kind of maturity in its evolution and adaptation to a globalisation context in crisis. Expansionist objectives of state-owned and privately-owned Russian MNCs are not autonomous vis-à-vis the government willingness to be a global player in the world economy. The Russian government trusts and supports them to become powerful actors in the world markets, in particular in the markets for energy. Russian political influence

is a push factor of Russian investment expansion for instance in Central Asia; the Russian government tries to help Russian MNCs in Asia and Africa as well.

In the wake of the subprime crisis, the financial situation deteriorated in Russia and the economy collapsed into a recession in 2009. Even the big fortunes were affected by the crisis, namely those Russian oligarchs indebted to Western banks²¹. The government took advantage of the crisis to spread its grips over the whole Russian economy. Government assistance to indebted Russian MNCs came from the state-owned VEB which bailed them out and placed a representative in the companies boards who has the right to veto any debt or major asset sale. It took over Norilsk Nickel and should definitively own 25% of its stockholding equity belonging to O. Deripaska if he would not be able to reimburse a safety loan that he got from the government. M. Friedman, the CEO of Alfa Group, obtained \$2 billion from VEB in order to rescue Vimpelcom, the biggest Russian mobile phone operator. NPO Saturn, a missile and aircraft engine builder received a financial aid from the government in exchange for 48.8% of its stockholding equity. Taking excuse of the crisis to help Russian MNCs the government sealed a deeper alliance with them typical of Russia's state capitalism evolving in the framework of a globalised economy.

Finally the current specificity of Russian MNCs is due to how they are inserted into domestic state capitalism with: 1/ they benefited from the fastest international growth in the world, compared to MNCs of any other country, during the 2000s, until 2007, 2/ a competitiveness based on natural resources available in the homeland, 3/ an expansion abroad in which the Russian government plays an important role after 1999, even increasing since 2008; 4/ that is primarily achieved through merging and acquiring foreign companies by means of transactions which are not entirely transparent. However the more Russian MNCs will invest in Western Europe and North America, the more they will be requested to reveal their shareholders' structure and introduce more transparency in their transactions and finance. Overall, the WTO accession of the Russian Federation in December 2011 may trigger a new impetus for both OFDI from Russia and more transparent strategies.

7.2. "China Incorporated": state promotion of Chinese multinationals

State intervention in Chinese OFDI relies on the government quest for natural resources in short supply at home, a high degree of regulation and control over Chinese OFDI, and a high

²¹ The richest 25 Russian oligarchs together have lost \$240 billion from May to October 2008, according to Bloomberg.

number of state-owned MNCs. The role of the state in Chinese firms' OFDI is to formally push these emerging MNCs to go overseas by releasing various motivating policies and providing a support from the bureaucratic administration, formally use a state-oriented OFDI strategy to be enforced in Chinese MNCs' behaviours, and informally shape their choices through propagating a firm state ideology and national pride. In this perspective, the Chinese government had adopted a 'go global' (*zou chu qu*) policy in 1999, officially expressed by President Jiang Zemin and Premier Zhu Rongji, which explicitly supported OFDI by Chinese companies; not only explicit, and contrary to Russia, this support was eventually materialised in three fiats passed in 2004-05²² which both promoted and regulated OFDI.

Chinese OFDI is thus subject to multiple layers of hierarchical bureaucratic supervision and regulation. The first layer is the State Council which blueprints China's overall OFDI in the long term. A second layer, the NDRC (formerly the National Planning Commission) is responsible for putting forward OFDI strategies and plans. Guided by the NDRC strategic plan, the Department of Foreign Capital and Overseas Investment (a unit of NDRC) drafts a list of privileged industries for OFDI, examines and approves key OFDI projects. Then the Ministry of Commerce (MOFCOM) is responsible for conducting multilateral negotiations on foreign investment and trade treaties. The Department of Outward Investment and Economic Cooperation, part of MOFCOM, drafts operational OFDI regulation and supervises OFDI of non-financial enterprises. The Ministry of Finance conducts the taxation policy and provides financial support to OFDI through special funds. The State-owned Assets Supervision and Administration Commission (SASAC), established in 2003 under the State Council authority to reform SOEs so as to create profitable "national champions", is in charge of managing and supervising state-owned assets in non-financial industries, including those invested abroad. A third layer consists in several other departments which have to implement the policies designed by the above authorities such as the State Administration of Foreign Exchange (SAFE) which surveys and approves the sources of funds, checks the legality of payments involved in OFDI, regulates and manages overseas foreign exchange accounts, the China Development Bank, the Export-Import Bank of China and the China Export & Credit Insurance Corporation.

Most Chinese OFDI are undertaken after a state approval and with lax credits that fuel a soft budget constraint in state-owned MNCs. The approval **procedure** involves the NDRC to check

²² "Interim Administrative Measures on the Approval of Overseas Investment Projects" taken by the NDRC; "Circular on the Supportive Credit Policy on Key Overseas Investment Projects Encouraged by the State" (NDRC and Export-Import Bank of China); and in 2005, "Provisions on Issues Concerning the Approval of Overseas Investment and Establishment of Enterprises" (Ministry of Commerce).

the firms' capabilities, the SAFE to approve the sources of funds, and the MOFCOM to check the conditions of the host country. Chinese embassies provide additional support to Chinese foreign investors by achieving feasibility studies for Chinese investment projects in the host country. Provincial officials are also involved: starting in 2003, the SAFE and the MOFCOM allowed foreign investments of less than U.S. \$3 million to be approved at the provincial level. Thus, the state could act as the major player by explicitly and implicitly influencing firms' decision making as regard OFDI.

In 2003, the NDRC defined the content of key OFDI projects which included: a/ natural resource seeking in areas where China is in short supply; b/ investment in manufacturing that promotes export of technologies, products, and equipments; c/ R&D collaborative projects which could bring in advanced technologies, managerial experience and talents; d/ M&As to increase firms' international competitiveness and spread their market. The state control over international activities of Chinese MNCs has been relaxed in recent years partly as China's WTO accession commitment and in response to increasing marketisation of the domestic economy (Sauvant, 2005). The government deregulated OFDI approval and foreign exchange control. Since 2006, it overtly conducted a national champions' policy fuelled with accumulated foreign exchange reserves, just like in Russia; or even the promotion of actually global champions since 2010. A new regulatory framework implemented in 2009 further eased and decentralised the OFDI approval procedures, eased the foreign exchange management for overseas projects, and broadened the sources of finance available for OFDI. Since 2010, in the 12th Five-year Plan, an "accelerating go-out" strategy has been pushed forward which encourages Chinese companies to invest abroad under policy guidance and with a promised corporate autonomy. New rules for promoting OFDI with *renminbi* settlements have been announced in 2011.

The efforts of China's big businesses to "go global" can be thought of as being part of a national power-building of China state capitalism's globalisation strategy. Facilitated by extended protection from the state, reaching beyond China's national boundaries, Chinese large SOEs raise investment capital and take risks that their foreign competitors, submitted to a hard budget constraint, do not (Yao *et al.*, 2010). Indeed, the great bulk of Chinese OFDI stock is held by state-owned MNCs: 160 of them currently managed by the SASAC account for an estimated 84% of overall OFDI²³. It is somewhat an overestimation since small scale investments are unlikely to be registered or approved by MOFCOM. A great number of small

²³ Although MOFCOM does not publish a clear breakdown of Chinese OFDI by the respective shares of SOEs and private enterprises.

enterprises have invested abroad, in particular since 2006, but the average size of their foreign investment projects is comparatively small (Gugler and Boie, 2008).

Moreover, the government has effectively been the key operational decision maker in many investment projects and, with the creation of a sovereign investment fund in 2007, the China Investment Corporation (CIC), very active in trans-border M&As, it is not less so. The CIC is accountable for tunnelling foreign currency reserves into foreign equities, industrial OFDI, and investment banks and hedge funds. The first investments made by the CIC, including a stake in the U.S. investment finance company Blackstone, the investment bank Morgan Stanley and the Goldman Sachs distress fund resulted in major losses, partially a consequence of global financial crisis. Facing harsh criticism, the CIC reassessed its investment strategy and since then made smaller and more profitable acquisitions such as Apax Finance, Blackrock, Diaego, Nobel Holdings (Russia), South Gobi Energy or a share in Penn West and GDF-Suez.

Chinese SOEs are large domestic players in major industries and backed up by the state as officially-recognised monopolies, for example in natural resources, infrastructure and telecommunications. As MNCs they are suspected by international competitors to still behave as monopolies outside China. Another fear deriving from Chinese OFDI by SOEs in some host countries is that it may act as a Chinese state increasing power and influence abroad (like with Russian MNCs), promoting the interests of the Chinese government and Communist Party. It is so because Chinese state-owned MNCs receive high level of state support in the form of credit lines and low interest rate loans from state-owned banks that reduce their capital cost and give them a competitive advantage over Western MNCs usually submitted to a hard budget constraint. Moreover, the CEOs of the largest 53 Chinese state-owned MNCs are directly appointed by the Communist Party and senior managers of most SOEs are largely appointed by the SASAC which is a concern both in terms of weak corporate governance structure and state influencing the whole companies' management.

Even partly privately-owned MNCs such as Haier, Lenovo, Huawei, which promote themselves as private companies, though benefiting from some flexibility, keep strong ties with the government. Chinese SOEs not only possess more firm-specific advantages than private companies (Liu and Scott-Kennel, 2011) but benefit from competitive advantages built up by state OFDI regulation and promotion. However, the OFDI determinants are different for Chinese state-owned MNCs and privately-owned MNCs as tested by Amighini *et al.* (2012). Private MNCs are attracted in large markets and by host country strategic assets; they are averse to economic and political risks when choosing their location abroad on the one

hand; on the other hand, state-owned MNCs follow China's strategic needs and thus invest more in natural resources abroad, and are widely indifferent to political and economic conditions in host countries – a result which is in tune with the one found for all Chinese MNCs by Rodriguez and Bustillo (2011). This means that state-owned MNCs have definitely a dominant strategic role in Chinese OFDI and are very sensitive to push factors while privately-owned MNCs react more intensively to pull factors.

A significant difference between Chinese state-owned and Russian MNCs is that enterprise capabilities of the former have not been upgraded through privatisation; 'corporatisation' was basically considered as enough to improve corporate governance in China. Listing their stocks in financial markets, at home and abroad, corporatised SOEs were transformed into joint stock companies benefiting from larger access to finance. However their highly concentrated ownership in state hands gives their largest or unique shareholder a substantial discretionary power to use the firm resources; therefrom result even more serious issues of insider control and possible minority shareholder despoilment than after Russian privatisations (Andreff, 2005). A dominant control by the government also plants the worst seeds for flourishing corruption (Luo & Tung, 2007). Therefore, when transforming into MNCs, Chinese SOEs met deep criticisms, at least from Western competitors and host countries, about the accountability, transparency, and trustworthiness of their corporate governance, a criticism sometimes heard about state-owned Russian MNCs too.

In such context, it may be contended (Ren *et al.*, 2010) that three strategic motives of Chinese firms in conducting OFDI are to pursue country-level political objectives, seek for firm-level global competence, and escape domestic institutional constraints. The state has played a central and crucial role by designing formal and informal institutional framework to push up OFDI business. The authors argue that formal and informal institutional supports are sources of comparative ownership advantages for Chinese firms, *i.e.* a push factor for OFDI which is nevertheless contingent on the firm's size (small enterprises versus large MNCs) and ownership (private companies versus SOEs). Moreover, the recent rise of China in the global political and economic scene reflects a significant impact of informal institutions such as national pride and state ideology. What is good for Chinese MNCs is good for China, such is the state capitalist "China Incorporated" slogan nowadays.

An avenue for further comparative research dwelling upon detailed firms' surveys would be to classify Chinese MNCs into the four aforementioned categories used for Russian MNCs. As a first sketch, most of the 160 biggest Chinese state-owned MNCs are likely to be *Non Transparent Patriots*; companies such as Haier, Huawei, Lenovo, Geely seem to increasingly

resemble *Transparent Patriots* while private companies such as Nanchuan-Bosai or Luanhe and small Chinese investors abroad probably are *Transparent Independents* except those which are not even registered (*Non Transparent Independents*) at the MOFCOM.

7.3. Similarities and differences: a final snapshot

Structural²⁴ and strategic similarities and differences between Russian and Chinese MNCs are summarised in Table 14. The most striking observation is that both have adopted a *same regime of expansion abroad through OFDI* (similar positive or negative signs on a same line are dominant). There is no surprise in that since Russian and Chinese MNCs originate together from the BRICs group and, even further, from the two only BRICs which have endeavoured a post-communist transition to a market economy. Within a same regime, their most visible differences are: less capital flight OFDI from China, less preliminary role of inward FDI in Russia, less Russian OFDI geared toward Latin America, an asymmetry between Chinese MNCs significantly investing in Russia and its “close abroad” while Russian MNCs are still shy investors in China and its neighbourhood, more privatised Russian than Chinese MNCs despite the back-peddalling nationalisation in Russia, more institutionalised OFDI promotion and the benefit of home currency appreciation in China. Some of these differences – strong currency, bigger foreign reserves and more structured state promotion of OFDI – may explain why Chinese MNCs practically were only slightly, if at all, affected by the crisis from 2009 on (Davies, 2010), contrarily to Russian MNCs.

Insert Table 14 about here

Conclusion

The boom of Russian-based just like BRICs-based MNCs was really impressive in the past decade. Is Russia turning into a normal economy? Shleifer and Treisman (2005) contend it is so and contest the assumptions of an oligarchic capitalism or a “kleptocracy” or a corrupted economy prevailing in Russia. The same question mark is to be raised about China. Indeed, the most significant outcome of Russian transition is no longer or not only asset grabbing by a handful of oligarchs. A strategic coordination between big Russian MNCs and Russia’s economic and foreign policies was strengthened by the government’s decisions to counteract the effects of global crisis. The foundations of a state capitalism intending to weigh on the

²⁴ By contrast with a purely individual, behavioural and entrepreneurial point of view.

global scene are more and more deeply rooted. Is this original? Not at all if we refer to the experience of various emerging countries with a strong state, of which China. Nowadays, state capitalisms accept to play the globalisation game in its own right and play on all cords of state influence and intervention in view of providing “institutionally embedded” competitive advantages to their state-owned MNCs. It is a success story so far: are not Gazprom, Lukoil, CNOOC, Sinochem, Norilsk Nickel, Vimpelcom, Huawei, Geely actually flourishing companies today and accounted for as standing among the global leaders in their respective industries?

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Table 1: Outward foreign direct investment from Russia, 1994-2011

	(\$ million)								
	1994	1997	2000	2004	2007	2008	2009	2010	2011
FDI outward stock	386	6410	20141	81974	255211	202837	248894	433655	362101
FDI outflow	101	3184	3177	9601	45916	55594	43665	52523	67283
FDI outflow/GFCF*	0.2%	3.8%	7.3%	9.2%	16.8%	15.0%	16.5%	17.4%	17.3%
FDI outward stock/GDP	0.1%	1.5%	7.8%	14.0%	19.8%	12.0%	20.4%	29.2%	19.7%
Outward/inward FDI stock	18.9%	44.6%	79.8%	83.2%	75.4%	95.3%	80.9%	74.7%	79.2%

Source: UNCTAD (2012) and previous years.

* Gross fixed capital formation

Table 2: Outward FDI stock from Russia and transition economies, 1997-2011

	(million dollars)						
	1997	2000	2007	2008	2009	2010	2011
RUSSIA	6410	20141	255211	202837	248894	433655	362101
Armenia	..	33	13	24	77	85	163
Azerbaijan	..	652	4676	5232	6114	5790	6323
Belarus	..	16	37	50	81	205	284
Georgia	..	57	80	130	122	155	742
Kazakhstan	..	18	2149	5842	6786	16176	19924
Kyrgyzstan	..	1	18	18	15	1	2
Moldova	19	19	41	75	64	68	88
Uzbekistan	222	321	..	..	..	..	-
Tajikistan	..	23	..	..	..	..	-
Turkmenistan	..	31	..	..	..	..	-
Ukraine	134	106	6077	7005	7259	7966	8158
CIS	6785	21418	268301	221213	269682	464101	389627
Bulgaria	35	88	599	1248	1309	1486	1697
Estonia	215	429	5873	6686	6618	5779	4740

Hungary	900	2012	18282	14179	17494	20685	23756
Latvia	222	241	776	1066	1006	833	887
Lithuania	26	29	1565	1990	2310	2092	2014
Poland	678	1491	19644	21814	26211	36839	50044
Czech Republic	548	784	6971	9913	13871	15523	15470
Romania	114	122	917	912	1731	1486	1487
Slovakia	234	320	1609	1901	2744	2830	4210
Slovenia	424	655	6123	8650	8745	7603	7142
New EU members	3396	6171	62359	68359	82039	95156	111447
Albania	68	82	19	147	171	145	202
Bosnia-Herzegovina	5	40	15	29	52	82	153
Croatia	638	1052	3495	3635	5849	4154	4529
Macedonia	..	5	39	54	57	91	95
Serbia	..	..	..	..	4268**	3928	3972
Montenegro	..	..	219	310	**	375	379
South Eastern Europe	711	1179	3786	4174	10397	8775	9330
CHINA*	20416	27212	95799	147949	229600	297600	365981
CHINA & Hong Kong	157928	411944	1122386	923869	1063689	1246094	1411901

* Excluding Hong Kong

** Serbia and Montenegro

Source: UNCTAD (2012) and previous years.

Table 3: Comparative features of outward FDI from transition countries, 1999-2011

(in %)

Country	Outward FDI stock / GDP			Outward / Inward FDI stock			IDP phase*		
	1999	2007	2011	1999	2007	2011	1999	2007	2011
Albania	2.9	0.2	1.6	17.9	0.8	4.3	1	1	1
Armenia	1.3	0.1	1.6	5.7	0.5	3.2	1	1	1
Azerbaijan	10.6	15.9	10.0	13.0	70.9	69.4	2	3	3
Belarus	0.1	0.1	0.5	1.4	0.8	2.2	1	1	1
Bosnia-Herzegovina	1.5	0.1	0.8	24.2	0.3	2.3	1	1	1
Bulgaria	0.7	1.5	3.2	3.7	1.6	3.6	1	1	1
CHINA	2.5	3.0	5.0	8.4	29.3	51.4	2	2	3
with Hong Kong	15.9	30.3	18.7	45.3	74.3	76.3	3	3	3
Croatia	5.1	6.8	7.1	25.4	7.8	14.7	2	2	2
Czech Republic	1.3	4.0	7.2	4.0	6.9	12.4	2	2	2
Estonia	5.3	27.6	21.4	11.1	35.4	28.3	2	3	3
Georgia	..	0.8	5.2	13.7	1.5	8.0	1	1	1
Hungary	3.2	13.2	17.0	8.1	18.8	28.1	2	2	3
Kazakhstan	..	2.1	10.7	0.2	5.0	21.3	1	1	1
Kyrgyzstan	..	0.5	..	0.2	2.2	0.2	1	1	1
Latvia	3.7	2.9	3.1	13.6	7.4	7.3	2	2	2
Lithuania	0.2	4.1	4.7	1.3	10.7	14.5	1	2	2
Macedonia	0.1	0.5	0.9	1.9	1.3	2.0	1	1	1
Moldova	1.7	0.9	1.3	6.0	2.3	2.1	1	1	1
Montenegro	..	..	8.3	..	8.8	6.5	1	1	1

Poland	0.9	4.7	9.7	5.2	13.8	25.3	2	2	3
Romania	0.4	0.6	0.8	2.4	1.5	2.1	1	1	1
RUSSIA	2.3	19.8	19.5	51.9	75.4	79.2	2	3	3
Slovakia	1.5	2.1	4.4	9.1	4.0	8.2	2	2	2
Slovenia	2.9	13.3	7.4	22.6	59.2	47.2	2	3	3
Tajikistan	..	..	..	..	..	..	1	1	1
Turkmenistan	..	..	..	..	..	..	1	1	1
Ukraine	0.3	4.3	4.9	3.2	16.0	12.5	1	2	2
Uzbekistan	..	..	..	..	..	..	1	1	1

* Phase ranking in Dunning's investment development path model

Author's calculation with UNCTAD data.

Table 4: The biggest Russian multinationals, 2004-2009

Company, 2004*	Foreign assets	Company, 2007*	Foreign assets	Company 2009**	Revenue	Rank***
Lukoil	10579	Lukoil	20805	Gazprom	67806	12
Gazprom	2951	Gazprom	17236	Lukoil	49654	23
Sovcomflot	1762	Norilsk Nickel	12843	Rosneft	25325	57
Norilsk Nickel	1413	Evrax	6221	TNK-BP	24124	61
MTS	994	Severstal	5130	Gazpromneft	14758	106
Rusal	743	Sovcomflot	4874	Surgutneftegaz	13584	114
FESCO	675	Rusal	4533	Sistema	13015	118
Severstal	666	MTS (Sistema)	3812	Severstal	9529	164
PriSCO	657	Vimpelcom	3572	IDGC	9299	168
Vimpelcom	602	Novolipetsk Steel	1594	Tatneft	8629	177
TNK-BP	438	PriSCO	1208	Norilsk Nickel	7302	197
OMZ	347	TNK-BP	1150	MTS	7064	203
InterRAO	261	FESCO	1055	Evrax	6783	210
Acron	119	OAo Koks	978	Transneft	6478	224
Ritzio						
Entertainment	47	Eurochem	901	X 5 Retail	6363	227
Alrosa	31	InterRAO	799	Vimpelcom	6353	228
Sitronics	31	TMK	606	Rusal	5871	245
Evrax	0	Mirax	470	AvtoVAZ	4525	284
Novolipetsk Steel	0	GAZ	384	Novolipetsk Steel	4482	288
IMH/OAO Koks	0	ChTPZ	262	Mechel	4138	306
Eurochem	0	Acron	261	GAZ Avto	4015	312
TMK	0	Alrosa	231	Magnit	3908	317
Mirax	0	Sitronics (Sistema)	226	Magnitogorsk Steel	3709	327
ChTPZ	0	OMZ	207	Bashneft	2872	394
		Ritzio				
GAZ	..	Entertainment	200	Aeroflot	2718	416
				Rushydro	2621	431
				Mosenergo	2590	441
				Salavatnefteorgsintez	2471	457
				Slavneft	2460	461

Sources: * Skolkovo (2008) in million \$.

** Handelsblatt Research 2010: in million €.

*** rank among the biggest 500 European companies.

Table 5: Significant divestment deals by Russian companies in 2008-2010

Vendor	Foreign assets located in:	Industry	Acquiring firm based in:
2008			
Arbat Prestizh	Ukraine	perfumes, cosmetics	Ukraine
N Trans	Estonia	seaport operator	Netherlands
Lukoil	Poland	gas stations	Poland
Gazprom Media	Moldova	media services	USA
Nakhodka Re	Ukraine	reinsurance services	USA
2009			
TMK	USA	metallurgy	USA
Atomredmetzoloto	Kazakhstan	uranium mining	Netherlands
Rolf GK	Netherlands	car dealer	Japan
Bryansk Machine Building	Ukraine	machine building	Ukraine
AvtoVAZ	Finland	car manufacturing	United Kingdom
Managing company Estar	Ukraine	steel manufacturing	Ukraine
Gidromashservis	Ukraine	electric engine manuf.	Ukraine
Antanta PIO Global Invt. Group	Ukraine	holding company	Ukraine
Basic Element	Austria	asset invt. holding	Austria
Nutritek	Estonia	food	Estonia
Veritas SPA	Italy	services	Italy
Millhouse LLC	Virgin Islands	asset management	Virgin Islands
2010			
Farmstandart	Latvia	pharmaceuticals	Latvia
Gazprom	Cayman Islands	oil, gas	Ireland
Baltika	Kazakhstan	beer manufacturing	Kazakhstan
Petrovsky Bank	Bosnia Herzegovina	banking	Bosnia Herzegovina
Ingosstakh	Austria	insurance services	Belgium
Russian Alcohol Group	Georgia	alcohol manufacturing	Georgia
Mirax Group	Turkey	construction services	Turkey
Kavitatsionnye Tekhnologii	Ukraine	railway wagons	Ukraine

Adapted from Filipov (2011).

Table 6: Major host countries for Russian FDI, 2011 stock

(million \$)

Host country	Russian FDI	%	Host country	Russian FDI	%
Cyprus	121596	33.6	St Kitts & Nevis	2681	0.7
Netherlands	57291	15.8	Kazakhstan	2514	0.7
Virgin islands	46137	12.8	Bermuda	2497	0.7
Switzerland	12679	3.5	France	1989	0.5
Luxembourg	11599	3.2	Ireland	1849	0.5
United Kingdom	10662	2.9	Isle of Man	1546	0.4
United States	9501	2.6	Serbia	1496	0.4
Jersey	7035	1.9	Lithuania	1464	0.4

Germany	6692	1.8	Czech Republic	1463	0.4
Gibraltar	5701	1.6	Italy	1435	0.4
Bahamas	5481	1.5	Armenia	1417	0.4
Belarus	4663	1.3	Sweden	1414	0.4
St Vincent Grenad.	4421	1.2	Vietnam	1078	0.3
Ukraine	4395	1.2	Montenegro	1072	0.3
Austria	4229	1.2	Finland	1038	0.3
Turkey	3654	1.0	India	982	0.3
Spain	3535	1.0	Uzbekistan	947	0.3
Bulgaria	2748	0.8	Canada	850	0.2

Source: Central Bank of Russia.

Table 7: Significant transborder mergers-acquisitions achieved by Russian companies in 2005-2010

Buyer	Acquired company	Target country	Industry	acquired %	Value million \$
Norilsk Nickel	Lion Ore Mining	Canada	Mining, metallurgy	100	5650
Vimpelcom	ZAO Kyivstar GSM	Ukraine	Telecommunication	100	5500
Evraz	IPSCO Canada	Canada	Mining, metallurgy	100	4200
Rusal	SUAL Glencore	Switzerland	Metallurgy	n.a.	3600
Altimo	Turkcell	Turkey	Telecommunication	13	3200
Gazprom	Beltransgaz	Belarus	Oil, gas	50	2500
Evraz	Oregon Steel	USA	Mining, metallurgy	100	2300
Evraz	Sukhaya Balka GOK	Ukraine	Iron ore	99	2189
Lukoil	Nelson Resources	United Kingdom	Oil, gas	100	2000
Lukoil	ISAB	Italy	Oil, gas	49	1850
Renova	Oerlikon	Switzerland	High tech	45	1600
Alfa Group	Turkcell	Turkey	Telecommunication	7	1600
Mechel	Oriel Resources	United Kingdom	Mining, metallurgy	47	1500
Norilsk Nickel	Gold Fields Ltd	South Africa	Mining, metallurgy	20	1200
TMK	IPSCO Tubulars	USA	Steel pipes, tubes	100	1200
Severstal	Penfold Capital Acq.	Canada	Finance	95	1115
Severstal	Esmark	USA	Mining, metallurgy	100	978
Pyaterochka Holding	Formata Holding	Netherlands	Grocery stores	100	940
Gazprom	NIS	Serbia	Oil, gas	51	900
Severstal	PBS Coal	USA	Mining, metallurgy	100	877
Novolipetsk Steel	Duferco	USA & EU	Metallurgy	n.a.	806
NMLK	Steel Invest Finance	USA, IT, BEL	Mining, metallurgy	50	800
Severstal	Sparrows Point	USA	Mining, metallurgy	100	775
Renova	Sulzer	Switzerland	Machinery	32	725
Severstal	Lucchini Spa	Italy	Metallurgy	n.a.	700
Renova	Energetic Source	Italy	Electricity	80	700
Evraz	Highvel Steel	South Africa	Mining, metallurgy	79	678
Evraz	Palini & Partoli	Italy	Mining, metallurgy	75	620
Lukoil	SNG Holdings	Uzbekistan	Oil, gas	100	575
Lukoil	Jet Petrol Stations	CZ,PL,HU, FIN	Oil, gas	n.a.	560
Basic Element	Hochtief AG	Germany	Metallurgy	n.a.	525

Vimpelcom	ArmenTel	Armenia	Telecommunication	100	500
Global Info. Services	Altis semiconductors	France	Machinery	n.a.	449
Severstal	WCI Steel Inc.	USA	Mining, metallurgy	100	443
Rusal	Eurallumina Spa	Italy	Metallurgy	n.a.	420
Norilsk Nickel	OMG Nickel Assets	AU & FIN	Metallurgy	n.a.	408
Severstal	Celtic Resources Plc	Ireland	Mining	n.a.	315
Evraz	Vikovice Steel	Czech Republic	Machinery	n.a.	287
Amtel	Vredestein Banden	Netherlands	Chemicals	n.a.	201

Source: adapted from UNCTAD, Filipov (2010) and Vahtra (2010).

Table 8: Trans-border mergers and acquisitions achieved by Russian companies: industrial and geographical distribution, 1992-2008

million \$ (%)

Industry	1992-1996	1997-2000	2001-2004	2005-2008
Total	511	1700	5498	55850
Primary sector	45 (8,8)	1098 (64,6)	2980 (54,2)	33485 (60,0)
Manufacturing industry	451 (88,3)	146 (8,6)	661 (12,0)	13430 (24,0)
Services	15 (2,9)	456 (26,8)	1857 (33,8)	8935 (16,0)
Region				
CIS countries	..	61 (3,6)	1233 (22,4)	9039 (16,2)
Europe	311 (60,9)	1237 (72,8)	3069 (55,8)	29888 (53,5)
Other developed countries	200 (39,1)	402 (23,6)	1196 (21,8)	13712 (24,6)
Developing countries	..	..	..	3210 (5,7)

Adapted from Vahtra (2010).

Table 9: The biggest 50 Chinese multinationals ranked by foreign assets, 2010

Rank	Company	Rank	Company
1	China Unicom Corporation	26	China Huneng Group
2	China National Petroleum (CNPC)	27	China Communication Construction Co, Ltd
3	China Petrochemical Corporation	28	China Vanke Co, Ltd
4	China Resources (Holdings) Co, Ltd	29	China Metallurgical Group
5	China National Offshore Oil (CNOOC)	30	Ynazhou Coal Mining Company Ltd
6	China Merchants Group	31	SINOTRANS Changjiang NI Shipping Corp.
7	China State Construction Engineering Co	32	State Grid Corporation of China
8	China Ocean Shipping Company (COSCO)	33	China North Industries Group Corporation
9	Sinochem Corporation	34	Guangzhou Yuexiu Holdings Limited
10	China Mobile Communications Corporation	35	China Guandong Nuclear Power Holding
11	Huawei Technologies Co, Ltd	36	China Ship Buiding Industry Corporation
12	Aluminum Corporation of China	37	ZTE Corporation
13	China National Cereals, Oils & Foodstuffs	38	Shougang Corporation
14	China Power Investment Corporation	39	China National Chemical Corporation
15	Legend Holdings Ltd	40	Yantai Xinyi Investment Ltd
16	Geely Holding Group	41	Shanghai Baosteel Group Corporation
17	China Minmetals Corporation	42	Changsha Zoomlion HI S&T Development
18	CITIC Group	43	Shum Yip Holdings Company Ltd
19	China Poly Group Corporation	44	China Non Ferrous Metal Mining & Constr.

20	Beijing Enterprises Group Company Ltd	45	SINOHYDRO Co, Ltd
21	Hunan Valin Iron & Steel Co, Ltd	46	Jiangsu Shagang Group
22	China Shipping Company	47	China International Marien Containers Ltd
23	China National Aviation Holding Corp.	48	Wuhan Iron & Steel Corporation
24	GDH Limited	49	China National Gold Group Corporation
25	SinoSteel Corporation	50	Jinchuan Group Ltd

Source: MOFCOM Statistical Bulletin.

Table 10: Major host countries for Chinese OFDI, 2010 stock

Host country	Chinese FDI	%	Host country	Chinese FDI	%
Hong Kong	199056	62.8	Nigeria	1211	0.4
Virgin Islands	23243	7.3	Indonesia	1150	0.4
Cayman Islands	17256	5.4	Cambodia	1130	0.4
Australia	7868	2.4	Japan	1106	0.3
Singapore	6069	1.9	Thailand	1080	0.3
Luxembourg	5787	1.8	Vietnam	987	0.3
USA	4874	1.5	Zambia	944	0.3
South Africa	4153	1.3	Algeria	937	0.3
Russia	2788	0.9	Brazil	924	0.3
Canada	2603	0.8	Laos	846	0.3
Macau	2229	0.7	United Arab Emir.	764	0.2
Myanmar	1947	0.6	Saudi Arabia	761	0.2
Pakistan	1828	0.6	Iran	715	0.2
Kazakhstan	1591	0.5	Malaysia	709	0.2
Germany	1502	0.5	Turkmenistan	658	0.2
Sweden	1479	0.5	Peru	654	0.2
Mongolia	1436	0.5	South Korea	637	0.2
United Kingdom	1358	0.4	Congo DR	630	0.2

Source: calculated from MOFCOM 2010 Statistical Bulletin.

Table 11: Geographical distribution of Chinese FDI outflows, 2005-2010

Region	%	Region	%
South East Asia	13	Latin America	13
East Asia	11	North America	12
South Asia	5	Africa (sub Saharan)	10
Total Asia*	29	Oceania	7
Western Europe	23	Middle East & North	
Central Eastern Europe	1	Africa	5
Total Europe	24	Total	47

* without Hong Kong

Source: Apoteker (2012).

Table 12: Industrial structure of the Chinese OFDI stock, 2004-2010

(%)

Industry	2004	2007	2010

Agriculture, forestry, fishing	1.9	1.0	0.8
Mining	13.3	12.7	14.1
Manufacturing	10.1	8.1	5.6
Construction, real estate, infrastructures	4.8	6.5	5.7
Transport, storage	10.2	10.2	7.3
Trade (wholesale & retail)	17.5	17.2	13.2
Banking	0	14.2	17.4
Services	42.2	30.1	35.9

Source: adapted and calculated from the MOFCOM 2010 Statistical Bulletin

Table 13: Significant transborder mergers-acquisitions achieved by Chinese companies in 2004-2011

Buyer	Acquired company or country of acquisition	Industry	Value million \$
CNOOC (1)	Unocal	Oil	18500
Chinalco	Rio Tinto (12%)	Mining	14280
Sinopec	Addax Petroleum (Switz.)	Oil	7200
Sinopec	Repsol, Brazil (40%)	Oil	7100
China Investment Corp	Morgan Stanley (9.9%)	Banking	5000
Sinopec	Conoco Phillip, Canada (9%)	Oil	4650
COSL	Awilco Offshore	Drilling	3890
Huaneng Power	Tuas Power (Singapore)	Power	3070
Sinopec	Udmurneft	Oil	3500
CNPC	PetroKazzakhstan	Oil	3960
CNOOC	Bridas (Argentina)	Oil	3100
Sinochem	Peregrino field (Brazil) 40%	Oil	3070
China Investment Corp	Blackstone Group L.P.	Private equity	3000
Yanzhou Coal	Felix Resources (Australia)	Coal	2950
CNPC	KaMunaigas	Gas	2600
CNOOC	Awilco Offshore (Norway)	Oil	2500
CNOOC	Pan American, Argentina 30%	Oil	2470
Sinopec	Occidental (Argentina)	Oil	2450
CNOOC	South Atlantic Petroleum	Oil	2268
CNOOC	Chesapeake Energy, US (33%)	Oil	2200
Investor Group	Kazakhstan	Energy	1874
Geely	Volvo	Automobile	1500
Lenovo Group	IBM PC Business	Computers	1760
CNPC	National Iranian Oil Company	Oil	1760
CNPC	Athabasca Oil Sands	Oil	1740
Wanhua Polyurethanes	Borsodchem (Hungary)	Chemicals	1701
China Investment Corp	Lexington Partners (USA)	Finance	1500
CNPC	Shell Syria	Energy	1500
Sinochem	Makhteshim-Agan, Israel, 60%	Agriculture	1440
CNPC	Canadian Energy	Oil	1420
Minmetals	Oz Minerals	Mining	1350
Sinosteel	Midwest (Australia)	Iron	1300

Haier America Trading	Maytag Corp	Appliances	1280
CNPC	Mynamar Oil & Gas	Construction	1280
Huaneng Power	IntrerGen, US (50%)	Power	1230
China Investment Corp	Penn West, Canada (5%)	Oil	1220
Xingxing Iron & Minmetals	Kelachandra & Manasara	Steel	1200
Bosai Minerals	Ghana Minerals	Aluminium	1200
Jiangsu	Itaminas (Brazil)	Iron	1200
PetroChina	Keppel, Singapore Petroleum	Oil	1020
CITIC Securities	Bear Stearns (9.9%)	Banking	1000
State Grid	Cobra Elecnor & Isolux, Brazil	Power	990
China Investment Corp	Apax Finance	Finance	960
Sinochem	Emeral Energy	Energy	880
Hunan Valin Iron & Steel	Fortescue Metals (16.5%)	Iron	770
Sinopec	Chevron Indonesia	Gas	680
Hudian	Sintez (Russia) (51%)	Gas	650
China Investment Corp	Goldman Sachs distress fund	Finance	600
Sinopec	AED (Australia) (60%)	Oil	560
China Merchants Group	Loscam	Shipping	550
China Investment Corp	Blackrock	Finance	530
China Metallurgical	Palmer's Mineralogy (10%)	Coal	520
Shanghai Automobile	Ssangyong Motors	Automobile	509
Sinochem	Soco (Yemen)	Oil	470
China Merchants Group	Aitken Spence, Sri Lanka	Shipping	450
Jinchuan	Continental Metals, Canada	Mining	420
Wuhan Iron & Steel	MMX Mineracao, Brazil 22%	Iron	400
Guandong Rising Asset	Caledon (Australia)	Coal	400
China Investment Corp	Diaego	Food	370
Huawei Technologies	3Com Corporation (16.5%) (2)	Telecommunication	363
Chalco	GIIG (Malaysia)	Aluminium	350
China Int. Marine Containers	Yantai Raffles Shipyard	Shipping	330
Shanghai Automobile	GM India (50%)	Automobile	330
China Minsheng	UCBH Holdings (10%)	Banking	317
China Investment Corp	Nobel Holdings (Russia)	Oil	300
Tencent	Digital Sky, Russia (10%)	Technology	300
Jiangsu Shagang	Bulk Minerals & Grange	Iron	270
China Railway Materials	African Minerals, Sierra Leone	Iron	260
Zoomlion	Compagnia Forme Acciaio	Construction	250
China Investment Corp	South Gobi Energy, Mongolia	Coal	250
Baosteel	Aquila Resources (Australia)	Iron	240
Jinchuan Group	Wesizwe Platinu	Mining	230
Nanjing Automobile	MG Rover	Automobile	205
Mindray Medical	Datascope Corporation unit	Medical devices	202
CNPC	Pluspetrol Norte	Oil	200
Hanlong Mining	Moly Mines	Iron	200
BAIC	Saab	Automobile	200
Baiyin, CITIC & Chang Xin	Oxus (Uzbekistan)	Mining	190
Ningbo Qingchun Clothing	Youghwa Weaving & Dyeing	Textile	184

Cosco	Peninsular & Oriental Steam Navigation	Shipping	181
Three Gorges	EuroSibEnergo (Russia)	Power	170
China Merchants Group	Ming Wah Universal	Transportation	168
CNPC	Turkmenistan	Motor, transport	167
Sinopec	First International Oil	Oil	160
WuXi PharmaTech	AppTec Laboratory	Biopharmaceuticals	151
Great Wall Motor	Litex Motors (Bulgaria)	Automobile	120
China Investment Corp	GDF Suez (30%)	Electric services	n.a.

(1) Eventually failed due to national security issues.

(2) Failed due to political objections and national security reasons.

Source: adapted from H. Rui, G.S. Yip, S. Prashantham (2010) and Salidjanova (2011).

Table 14: Similarities and differences between Russian and Chinese multinationals

OFDI features and MNCs strategies	Russian MNCs	Chinese MNCs
Market-seeking strategy	++	++
Resource-seeking strategy	++	++
Efficiency-seeking strategy	--	--
Asset-seeking strategy	++	++
Global strategy (being on the brink of)	--	--
Transborder mergers & acquisitions	++	++
Round tripping OFDI	+	++
Capital flight OFDI	+	--
Preliminary LLL role of inward FDI	--	+
Privileging close markets for OFDI	++	++
OFDI in developed countries' markets	+	+
OFDI in Latin America	--	+
OFDI in Africa	+	++
Mutual bilateral FDI*	--	++
FDI on reciprocal privileged markets**	--	+
Proportion of SOEs among big MNCs	+	++
MNCs originating in the privatisation drive	+	--
Monopoly/dominant oligopoly in home market	++	+
State appointment of SOEs/MNCs managers	++	++
MNC corporate governance transparency	--	--
State (government) support to OFDI	+	++
Institutional (state) OFDI promotion	--	+
State interference/control in OFDI	++	+
Informal institutions, corruption, networks	++	++
National pride and state ideology	+	++
OFDI in the primary sector (oil, mining, etc.)	++	+
OFDI in the manufacturing industry	+	+
OFDI in the tertiary sector	+	++
State foreign reserve accumulation	+	++
Exchange rate appreciation	0	+

(++) += (very) strong or significant

0 = absent

-- = weak or of secondary importance

* Chinese OFDI in Russia and Russian OFDI in China

** Chinese OFDI in Russian "close abroad" and Russian OFDI in China's close Asia