

**CONCERNING SOME ASPECTS OF OUTWARD FOREIGN
DIRECT INVESTMENTS FROM RUSSIA**

By

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Submitted to

Central European University

Department of Political Science

In partial fulfillment of the requirements for the degree of Master of Arts

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Budapest, Hungary

(2014)

DECLARATION

I hereby declare that this dissertation contains no materials accepted for any other degrees, in any other institutions. The dissertation contains no materials previously written and/or published by any other person, except where appropriate acknowledgement is made in the form of bibliographical reference.

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June 11, 2014

ABSTRACT

The thesis examines the relationship between Russian outward foreign direct investments (FDI) and domestic institutions. Russian outward FDI increased significantly in the 2000s moving Russia to the top position among investing economies. However, the role of institutions and their impact on motivations for outward FDI remained largely unexplored. By applying an institutional theory to the analysis, it is shown that FDI outflow driven by a non-economic or ‘system-escape’ motivation is linked to the poor state of Russian institutions. Therefore, this motivation is considered as an important force behind the increase of Russian outward FDI.

ACKNOWLEDGEMENTS

I am sincerely thankful to the people who constantly supported me during my studies this year. First of all, I would like to express the deepest gratitude to my supervisor Julius Horvath for guiding me on the road of thesis writing, for being patient, supportive and always encouraging. I am also grateful to the Political Economy instructors: Attila Folsz, Béla Greskovits, and László Csaba. I received sufficient inputs and advanced my understanding of the issues attending their courses. I would like to thank my academic writing instructor Zsuzsanna Toth as well, due to her valuable advice I managed to produce more coherent writing pieces. Furthermore, I greatly appreciated the opportunity to present my proposal at the Thesis writing workshop and at the Political Economy Research Group (PERG). The feedback I received became very helpful for developing and structuring my ideas. I would like to dedicate this thesis to my family. I am deeply indebted to my husband Igor for his constant support, love and patience.

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LIST OF ABBREVIATIONS

BOP	balance of payments
CIS	Commonwealth of Independent States
FDI	foreign direct investments
GDP	Gross Domestic Product
GNP	Gross National Product
GQ	Global Competitiveness
IB	international business
IDP	Investment Development Path
IIP	international investment position
IMF	International Monetary Fund
MNC	multinational corporation
MNE	multinational enterprise
Rosstat	Rossiiskaya Sluzhba Gosudarstvennoi Statistiki (Russian Federal State Statistical Service)
SME	small and medium sized enterprises
TNC	transnational corporation
UNCTAD	United Nations Conference on Trade and Development
UNCTC	United Centre on Transnational Corporations
USSR	Union of Soviet Socialist Republics
WIQR	World Institutional Quality Ranking
WIR	World Investment Report

INTRODUCTION

After the collapse of the USSR in 1991, Russia started to integrate into the world economy and to participate in the international capital movement. Russian capital moved abroad both through legal and illegal channels. In the 1990s the share of outward foreign direct investments (FDI) in the total volume of Russian capital export was estimated rather modestly partly because of existing imperfections of the methodology of the data presentation used by the Bank of Russia (the central bank of the Russian Federation). The Bank of Russia published a separate statistics on outward FDI only for the financial sector, while statistics on the non-financial sector included both outward FDI and portfolio investments. Additionally, the scale of capital flight from Russia in the 1990s was estimated as very high and varied from \$23 to \$35 billion in 1992-1993 and from \$15 to \$21.3 billion in 1994-1997 (Bulatov 1998; Loukine 1998; Abalkin and Whalley 1999; Loungani and Mauro 2001). Therefore, there was no “accurate description of either the amount or the destinations” of both legal and illegal capital outflow from Russia in the 1990s (Liuhto 2001, 9).

In the 2000s, on the one hand, the Bank of Russia improved the methodology of data collection and presentation, so more precise data on outward FDI became available. On the other hand, in order to curb “a massive capital flight” (Andreff 2003, 109) from the country, in December 2003 the State Duma of the Russian Federation (the lower house of the Russian parliament) adopted a new Currency Law, according to which any capital outflows above \$10 million have to be approved by the Central Bank (K. P. Sauvant 2005). As a result, capital outflow from Russia acquired new features in the 2000s. New data on Russian outward FDI flows indicated sharp increase and rapid growth during the pre-crisis period. In 2009 Russian FDI outflows were hit by the world financial and economic crisis, however, in 2010 they recovered and kept on growing (see Annex figure 1.1). In 2012 Russia ranked eighth among

the top 20 investor economies, its annual outward FDI flows reached \$49 billion (UNCTAD 2013, 6). Furthermore, Russian outward FDI stock has been growing rapidly as well, in comparison with \$20 billion in 2000, it came to \$413 billion in 2012, having increased more than 20.5 times (see Annex figure 1.2).

For further analysis it is necessary to clarify the meaning of a few terms. Foreign direct investments are defined as “a cross-border investment by a resident entity in one economy with the objective of obtaining a lasting interest in an enterprise resident in another economy” (OECD 2014). Usually the “lasting interest” implies, firstly, a long-term cooperation between an investor and a foreign enterprise and, secondly, it assumes a high degree of influence exercised by the investor on the management of the enterprise. Ownership of at least 10% of the voting power is considered to represent the influence of the investor (OECD 2014). The international business (IB) literature conventionally links FDI with the activity of multinational or transnational corporations – MNCs or TNCs. Dunning and Lundan (2008) specify the difference between the terms – TNCs and MNCs,¹ in the present context they are used interchangeably, as well as the terms ‘enterprise’, ‘firm’, ‘corporation’ and ‘company’ (765).

In a broad context FDI flows include other components as well. Furthermore, the official statistics on FDI is not limited to transactions of multinational corporations (Loewendahl 2010). The Bank of Russia providing the data on Russian outward FDI includes in this category four different types of FDI outflows, namely: 1) “not exclusively financial investment abroad by

¹The term transnational corporation (TNCs) was adopted in 1974 by the United Centre on Transnational Corporations (UNCTC), following the request of Latin American countries who wished to distinguish between Latin American companies, investing in another, from the companies originating from outside the region. The term multinational corporations (MNCs) is more preferable for nomenclature of the developed countries, the business community and most academic scholars. Over time, the terminological differences have become increasingly obscure (Dunning and Lundan 2008, 765).

Russian firms and banks,” 2) “individual investment by Russian citizens in real estate abroad,” 3) “round tripping FDI”², and 4) “investment abroad by Russian investment funds and some minor investments” (Kuznetsov 2010, 4; Andreff 2013, 10). These four types of FDI outflows are not separated in the statistics. As a result, no precise data on outward FDI of Russian MNCs are available.

With respect to the motivations for FDI, the international business literature extensively discusses the motivations of MNCs to invest abroad. On the whole, it is argued that the motivations vary depending on the type of activity MNCs are engaged in. Dunning (2002) refers to the four main types of business motivations driving companies’ foreign direct investments, namely, natural-resource-seeking, market-seeking, efficiency-seeking, and strategic-asset-seeking motivations. Along with the business motivations, Dunning (2002) also identifies ‘escape investments,’ which are driven by “restrictive legislation or macro-organizational policies by home governments”(74). However, Tulder (2010) criticizes Dunning for not elaborating further on the importance of this motivation. The major focus in the literature is made on the business motivations driven the internationalization of firms.

In the Russian context market-seeking, natural-resource-seeking, and to some extent efficiency-seeking motivations are seen as leading business motivations of Russian MNCs to invest abroad (Heinrich 2005; Kalotay 2004; Kalotay and Sulstarova 2010; Andreff 2013). In addition to business motivations a ‘system-escape’ motivation is highlighted as a force fuelling outward FDI of Russian MNCs as well (Bulatov 1998) Sauvant et. al 2010; Hanson 2010). The ‘system-escape’ motivation is not limited to the activity of MNCs and could be also considered

² “Round-tripping” investments are “implied by a very high correlation of inward and outward investment flows” between the country and offshore financial hubs (UNCTAD 2013, 65).

as a driver of other types of FDI outflow, as it closely relates to the institutional environment of the country.

Institutions are broadly defined as a set of certain ‘rules of the game’ (North 1995) or ‘working rules’ (Ostrom 1991) widespread in the society. These rules could keep the capital within the country or push it abroad, affecting the “desire of investors to diversify assets as a safeguard against domestic instability” (Kalotay 2008b, 97). However, the role of institutions and their impact on the motivations for outward FDI remained largely unexplored.

Therefore, the main objective of the thesis is to provide an overview of the key features of Russian outward FDI and to explore to what extent the domestic institutional environment affects Russian FDI. In addition, the thesis seeks to examine to what extent a ‘system-escape’ motivation is important and whether there is an additional empirical support for it. Studying the impact of the institutional environment on Russian outward FDI will facilitate understanding of the distinct features of FDI outflows from Russia and will help to assess deep processes accelerating in the Russian economy and society. In order to answer these questions the thesis applies an institutional theory and presents a qualitative assessment of the phenomenon. The thesis is organized as follows: the first chapter sets a theoretical framework for the analysis, the second chapter provides an overview of the methods and scope of the thesis and the third chapter reveals the distinct features of Russian FDI and links them to the domestic institutional environment.

CHAPTER 1: THEORETICAL OVERVIEW OF LITERATURE

The theory of foreign direct investments has been largely developing within the theory of the firm. With the passage of time it became clear that the domestic context significantly influences the motivations for investments abroad. The chapter provides an overview of the debates on how existing FDI theories could explain the rise of outward FDI from Russia and shows that traditional theories of internationalization need some extension in order to explore the domestic context more.

1.1 Existing Explanations of Russian Outward FDI

The rise of outward FDI from Russia, in particular, and from emerging markets (including developing and transition economies), in general, challenges existing theories. According to neoclassical theories of international capital movement, capital flows from rich countries to poor (Obstfeld 2003). However, the current trend of capital movement shows the opposite (Lucas 1990). Gammeltoft, Pradhan, and Goldstein (2010) have compounded the growth rate of FDI flows for developed, developing, and transition economies in the period 2000-2008, which amounted 28, 51, and 151³ percent respectively (in comparison with 47, 57, and 38 percent in the period 1990-1999). Increasing FDI outflows from emerging markets are assessed differently by various scholars. The scholars in the first stream of literature (Andreff 2003; 2013; Dunning 1979; 1981; 1993; 2002; 2008; Kalotay 2004; 2005; 2008a; 2008b; Kalotay and Sulstarova 2010; Kuznetsov 2007; 2010; Stoian 2013) view this phenomenon within the western theories of internationalization of the firm and argue that it is MNCs that drive Russian FDI outflows. The scholars in the second stream of literature (Bulatov 1998; 2011a; 2011b; 2012; Kheifec 2009; 2010; 2013) study the peculiarities of Russia's participation

³ Outward FDI flows from transition countries are largely driven by Russia, for which the compounded rate of growth of FDI flows equals 38 percent in the period 1990-1999 and 151 percent in the period 2000-2008 (Gammeltoft, Pradhan, and Goldstein 2010).

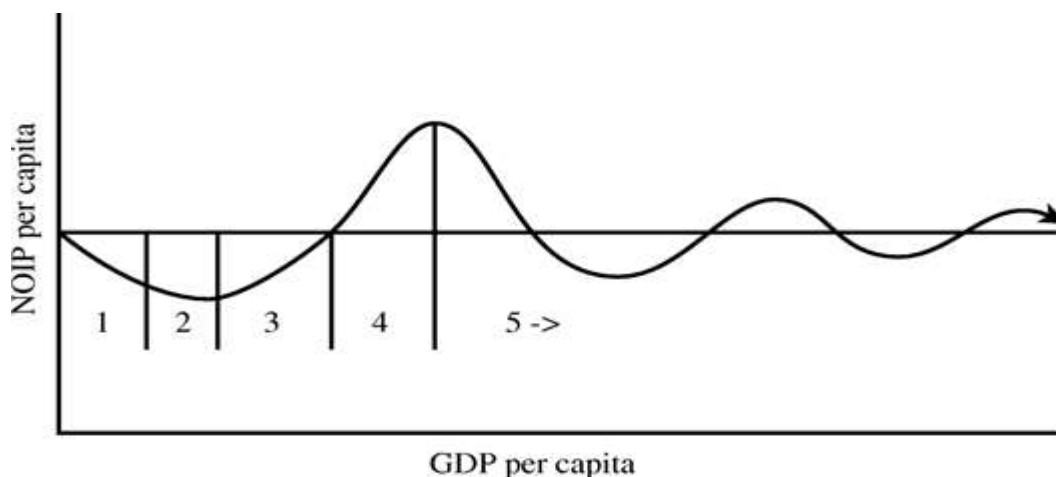
in the international capital movement and claim that Russian capital export has particular features which are different from traditional motivations of MNCs to internationalize. Both streams coincide suggesting that the domestic institutional environment has to be taken into consideration as well.

The scholars within the first stream of literature (Andreff 2003; 2013; Dunning 1979; 1981; 1993; 2002; 2008; Kalotay 2004; 2005; 2008a; 2008b; Kalotay and Sulstarova 2010; Kuznetsov 2007; 2010; Stoian 2013) discuss how well traditional FDI theories could describe outward FDI from Russia and from emerging markets on the whole. Currently the Investment Development Path (IDP) model introduced by John Dunning (1981) is regarded as the most developed FDI theory (Stoian 2013). The model was developed as a dynamic approach within the eclectic paradigm (Dunning 1979) according to which MNCs have to possess certain “ownership-specific advantages,” “location-specific advantages,” and “internalization-specific advantages” in order to start expanding their activity abroad. According to the IDP model, changes in FDI stock abroad depends on whether MNCs have sufficiently developed these three types of advantages.

The Investment Development Path model relates the net international direct investment position of a country with its economic development, proxied by the net FDI stock and by gross national product (GNP) per capita. The net international direct investment position of a country is defined as “the sum of the direct investment by its own enterprises outside its boundaries minus the direct investment of foreign owned enterprises within its boundaries” (Dunning 1981, 103). Dunning (1981), using the data on the outward FDI flows (or changes in the direct capital stock) of sixty-seven countries during the period 1967-1978, reveals a “systematic relationship between the determinants of those flows and the stage and structure of a country’s economic development” (104).

According to the findings of the empirical testing, countries go through four stages (from “less developed” to “developed”) and their positions change from capital recipients to capital exporters. The Investment Development Path model also predicts that both inward and outward investment lead to particular sectoral changes in the economy. In the countries in stage 1 and 2 there are very little FDI outflows and those which exist are directed towards low-technology or resource-based industries. While in stage 3 the rate of outward FDI is growing faster and FDI outflows target high value-added activities. In stage 4 a country reaches the status of a “net outward investor” as its outward FDI stock exceeds or equals to the stock of inward FDI (Dunning 1981). Dunning (1981) highlights that in order to confirm his findings “an examination of time series data for individual countries over quite a long period” is needed (113). The model has passed through several revisions and has been extended to five stages (see Figure 1.1). It is argued that countries in stage 5 have a fluctuating net foreign direct investment position (stock) centred around zero (Dunning 2008).

Figure 1.1: The pattern of the investment development path



Source: Dunning (2008, 139)

UNCTAD (2006) tested the applicability of the International Development Path model to emerging market economies, correlating net outward investment stock per capita with GDP per capita (which is currently used for measurement of the level of development (Kuznetsov

2007)). The results have shown that particular countries (such as Brazil, China, South Africa, and Turkey) began undertaking outward FDI earlier than it was expected based on the model (UNCTAD 2006, 145). Andreff (2003) has further tested the model using a sample of 176 countries (including transition, developing, and developed economies). The dependant variable he explains is outward FDI stock per capita and the independent variables are the following: 1) GDP per capita, 2) sectoral distribution of GDP, 3) technological level, 4) GDP growth rate, and 5) exchange rate variation (Andreff 2003, 104–105). He expects economies in transition to be in between stages 1-3 and points out that GDP per capita and the sectoral distribution of GDP are the main explanatory variables for the increase of outward FDI stock per capita from transition economies (Andreff 2003). The main findings are that the level of economic development of home countries influences outward FDI stock in the countries considered. However, the link between the level of technological development and outward FDI is not confirmed. Andreff (2013) emphasizes that during the 2000s outward FDI stock from Russia skyrocketed and, the country moved to the third stage of the International Development Path model. He argues that Russia is on its way to the fourth stage (when outward FDI stock exceeds or equals to inward FDI stock), with the ratio between FDI outward and inward stock currently ranging from 0.75-0.95 (Andreff 2013, 3).

On the other hand, Kalotay (2004; 2005; 2008b), Kalotay and Sulstarova (2010) hold a rather sceptical position on how well the Investment Development Path model could predict changes in outward FDI stock from Russia. Kalotay (2004) argues that as early as 2001-2002 Russian FDI outflows exceeded FDI inflows. Meanwhile the country was classified as a lower-middle-income economy,⁴ with its GDP per capita being US\$1.726 (Kalotay 2004, 119).

⁴ The point is that till 2004 according to the gross national income per capita (GNP) indicator Russia was classified as a lower middle income economy with GNP per capita below \$4 085. In the period 2005-2011 Russia belonged to the upper middle income group. In 2012 it met the threshold and joined the high income group with GNP \$12 700 (The World Bank).

Kalotay (2005; 2008b) draws attention to the question how a lower-middle income Russia became a net capital exporter. In his view Russian net investment position performs completely the opposite dynamics to what the International Development Path model predicts: “instead of inward FDI exceeding outward FDI and growing faster than the latter, outward FDI exceeds inward FDI and grows faster than inward FDI” (Kalotay 2005, 13).

Moreover, compounding an exponential equation describing a relationship between outward and inward FDI stock and the GDP per capita, Kalotay (2008b) reveals that in 2004, instead of the 0.371 ratio predicted by the model, the actual one amounted 0.910 (89). Replicating the calculations in 2006, Kalotay (2008a) confirms these findings: while the expected ratio was 0.536 the actual one reached 0.793 (55). He considers two possible explanations for this “Russian paradox,” namely “the business economic environment” (Kalotay 2005, 15) and “the duality of the Russian economy and society” (Kalotay 2005, 15; Kalotay 2008b, 101). The former explanation is based on the assumption that the harder the economic and business environment is, “the more the net investment position is shifting toward outward FDI” (Kalotay 2005, 15). However, no further studies were undertaken to test this hypothesis. According to the latter explanation, a particular dualism exists in the Russian economy and society, with the majority classified as a lower middle income economy and being short of capital and a small segment behaving like a high income economy and being actively engaged in FDI outflow (Kalotay 2005, 16; Kalotay 2008b, 101). In particular, Kalotay suggests that a number of oligarchs could be a good proxy for Russian FDI outflows and reveals a strong relationship ($r=0.867$) between the total worth of billionaires in and outward FDI stock in 2002 (Kalotay 2005, 17).

Kuznetsov (2007) agrees that such “paradox” exists, however, he offers some alternative explanations. Firstly, he suggests that only ‘real’ FDI of Russian firms have to be taken into account (excluding “pseudo-FDI”, “illegal FDI”, and other forms of “capital flight” (Kuznetsov

2007, 5). Secondly, he questions whether the current GDP per capita is a sufficient measure for the level of economic development (Kuznetsov 2007, 6). In his view Russia could be only formally classified as a country in the second stage of the International Development Path model (when little FDI outflows target mainly low-technology or resource-based industries), as it had completed the stage of the industrialization in the 1930-1950s (Kuznetsov 2007, 8). Finally, he tested the idea of Kalotay (2005) concerning the duality of the Russian economy and has found that if to exclude the USA as an influential outlier from the sample, the correlation between “outward FDI stock and total worth of billionaires...is relatively modest” – 0.77 in the former case and 0.45 in the latter (Kuznetsov 2007, 9).

Recently Carmen Stoian (2013) has underlined that the International Development Path model needs some extension by taking into account the differences in home countries’ institutional context. Stoian (2013) suggests that the model does not “account for the ownership advantages of firms that are ‘embedded’ in the institutional context of their home country and that allow multinational enterprises (MNEs) to overcome the ‘liability of foreignness’ when expanding abroad” (Stoian 2013, 616). Compounding a sample of 20 post-communist economies⁵ and using a panel dataset for 15 years, Stoian (2013) confirms the general proposition of the Investment Development Path model that outward FDI are positively associated with GDP per capita and inward FDI.

However, she has not found any evidence of a relationship between outward FDI and the level of technologic development in the countries. Stoian (2013) included the following institutional variables in the model: 1) home country trade and foreign exchange liberalisation reforms, 2) home country privatisation reforms, 3) home country overall institutional reforms, and 4) home country competition reforms. The empirical testing has confirmed the hypothesis

⁵ She claims that the countries in the sample are in stage 2 of the IDP, except for Russia which is already in stage 3 (Stoian 2013, 623).

that these institutional factors do influence outward FDI from the post-communist economies. This study contributes to the international business literature by revealing the importance of domestic institutions which significantly affect the decisions of emerging MNCs to undertake outward FDI. The focus is made on the institutions that contribute and to some extent promote outward FDI, while FDI institutions prompting ‘escape-investments’ are not taken into account.

Witt and Lewin (2007) study outward FDI as an escape response to the institutional environment in a home country and argue that this phenomenon still remains “under-explored ... in the international business (IB) literature” (591). They build an empirical model and find the relationship between the level of societal coordination and increase in outward FDI position, including in the sample only twenty “advanced industrialized economies”. The findings suggest that “escape to avoid misalignment between firms’ strategic needs and home country institutional constraints” could be considered as an additional explanatory variable of variations in the values of outward FDI among sample countries (589). However, on the whole the scholars in the considered stream of literature view the rise in FDI outflows as a consequence of the activity of MNCs.

Linking outward FDI only with transactions of MNCs from emerging markets is rather limiting for the general understanding of the forces driving FDI outflows. The scholars belonging to the second stream of literature (Bulatov 1998; 2011a; 2011b; 2012; Kheifec 2008; 2010; 2013) provide a broader explanation for Russian outward FDI and focus on the distinct features of Russia’s participation in the international capital movement, elaborating on the peculiarities of Russian capital export.⁶

⁶ The scope of capital export is assessed based on the balance of payments statistics, which contains the following components: 1) foreign direct investments, 2) portfolio investments, 3) financial derivatives, and 4) other investments.

It was Bulatov (1998) who introduced a ‘system-escape’ motivation as an additional motivation for Russian firms to invest abroad (based on questionnaires of 22 Russian companies). Studying a broad pattern of participation of Russia in the international capital movement, Bulatov (2011a; 2011b; 2012) argue that *other investments* dominate capital export from Russia. Other investments include loans, credits, bank deposits, and also fictitious transactions related to “foreign trade in goods and services, securities trading, lending to nonresidents and fictitious transactions with money transfers to residents’ accounts abroad, which purpose is cross-border money transfer” (Bank of Russia). Therefore, in his view, a large extent of illegal capital export from Russia “can be attributed to the specific nature of ... country’s participation in the international movement of capital” (Bulatov 2012, 83). He examines the domestic institutional environment and claims that the increase of capital outflow from Russia deeply roots in “weak protection of property rights, excessive government pressure on business and its defencelessness against the police, combined with weak independence of the judicial system” (Bulatov 2012, 88). Kheifets (2008; 2012; 2013) expresses the view regarding Russian capital export in line with the position of Bulatov and highlights the spread of illegal practices when Russian capital is transferred abroad.

Scholars in the both streams of the literature along with some other experts (Matusevich 2012; Yaroshevich and Sargan 2013) emphasize that Russian capital largely targets offshore zones, while with a passage of time a part of investments comes back to Russia in the form of ‘round-tripping’ investments. The phenomenon of ‘round-tripping’ investments is argued to be driven by poor institutional environment in a home country (Dunning and Lundan, 2008).

1.2 Theoretical Framework

The theoretical overview reveals a certain mismatch between the two streams of literature in their analysis of Russian outward FDI. The scholars in the first stream (Andreff 2003; 2013; Dunning 1979; 1981; 1993; 2002; 2008; Kalotay 2004; 2005; 2008a; 2008b;

Kalotay and Sulstarova 2010; Kuznetsov 2007; 2010; Stoian 2013) narrowly link outward FDI to the activity of Russian MNCs⁷ and consider business motivations as driving Russian companies to expand their activity abroad. The scholars in the other stream (Bulatov 1998; 2011a; 2011b; 2012; Kheifec 2009; 2010; 2013) present a broad picture of Russian capital export, evaluating outward FDI as one of its dimensions. Bulatov (2012) brings into analysis the importance of domestic institutions. However, he does not operationalize the institutional environment and considers only a few selected indicators.

The thesis seeks to make a contribution to the literature on Russian outward FDI by raising the following research questions: *to what extent does institutional environment in Russia affect outward FDI and whether there is an additional support for a 'system escape' motivation as being an important force driving the rise of Russian outward FDI.* As follows from the literature overview presented above *the first hypothesis is that decrease in the quality of domestic institutions leads to increase of FDI outflow.*

In order to explore to what extent a 'system-escape' motivation is important and whether there is an additional empirical support for it, it is necessary to study the data on investment income and rates of returns on Russian outward FDI. *Therefore, the second hypothesis is that if non-economic ('system-escape') motivation prevails, then FDI outflows will grow despite low returns.* Having set the theoretical framework, the next step is to identify methods and scope of the analysis.

⁷ While Kuznetsov (2007; 2010) discuss in some extent the other components of Russian outward FDI his main focus is still on the activity of Russian MNCs.

CHAPTER 2: METHODS AND SCOPE OF ANALYSIS

The chapter outlines the research design, justifies the choice of a qualitative method as being appropriate for an assessment of macro data on Russian FDI and examines statistical sources on Russian outward FDI.

2.1 Research Design

The present research is a case study of Russian outward FDI aimed to provide a general overview of the main features of Russian outward FDI and to explore to what extent domestic institutional environment affects Russian FDI. In addition, the thesis examines whether a ‘system-escape’ motivation is important and if there is an additional empirical support for this motivation. Russian outward FDI are worth investigating as they have been strikingly increasing since the 2000s. As Gammeltoft, Pradhan, and Goldstein (2010) have revealed, the rate of growth of Russian outward FDI flows in the period 2000-2008 amounted 151 percent (compared with 38 percent in the period 1990-1999). In 2013 Russia jumped to fourth place in the rating of the top 20 investor economies (Global Investment Trends Monitor, 2014). Therefore, tracing the impact of institutional factors on Russian FDI outflows could facilitate general understanding of the forces prompting outward FDI from emerging markets.

The analysis of FDI is possible to undertake applying a macroeconomic or a microeconomic approach, while both could also be considered as complementary to each other. In order to understand broad trends of FDI outflow the macroeconomic approach seems to be more appropriate, since macro data are comprehensive and are widely available. The microeconomic approach is constrained by the activity of MNCs and there are no accurate data on FDI made by MNCs. Additionally, in the Russian context there are two main problems usually tied with the research of Russian MNCs. The first problem relates to the limited transparency of Russian companies, some of which publish rather fragmented information

concerning their foreign transactions. The second problem stems from the fact that while the number of Russian companies operating abroad is increasing (and “probably exceeds 1 000” (Panibratov and Kalotay 2009, 2)), no unified rating of Russian MNCs has emerged so far.

Separate ratings of Russian firms are published regularly; however they use different methodologies and could not be properly compared. For instance, the American edition of Forbes magazine annually presents the rating of the 2000 World’s Biggest Public Companies, evaluating the companies’ performance based on their sales, profits, assets, and market value. This rating covers only the largest companies operating globally. In 2014, for example, 28 Russian companies were listed in the rating. From 2006 the Russian edition of Forbes magazine annually publishes the rating of the top 200 Russian private firms, which does not include state-owned companies. Another Russian business magazine – Expert – annually publishes the rating “Expert 400” which includes 400 of the largest Russian enterprises based on the volume of their sales. However, it does not contain any information about foreign assets of the companies and focuses mainly on domestic transactions. Acknowledging these shortcomings, the Institute of International Economics and International Relations of the Russian Academy of Science implemented two research projects in 2009 and 2011 aimed to compile the rating of the largest Russian MNCs and to describe their distinctive features. However, the emerged rating has included only non-financial companies operating abroad. The rating also does not contain the Russian state-owned oil corporation Rosneft, which was ranked second after the Gazprom company in the rating of the 2000 World’s Biggest Public Companies in 2014 (Forbes 2014).

As a result, most studies of the activity of Russian MNCs are based on the microeconomic approach and are company specific or sector specific. I believe a macroeconomic approach enables us to make general inferences concerning both the reasons and the features of FDI outflow from Russia, providing a broader possibility for the analysis. That is why the macro data on Russian outward FDI constitute a foundation for the research.

The increase of Russian FDI outflows and the growth of Russian FDI stock abroad is a relatively recent phenomenon; therefore, a qualitative study presents a more appropriate methodological tool than a quantitative research and is suitable for a more indebt assessment of the causal relationship between the dependent and independent variables. Russian outward FDI stock abroad seems to be a proper dependant variable. However, it represents a cumulative value of Russian FDI outflows abroad in addition to valuation changes of the assets and other adjustments made by the Bank of Russia throughout the year. While valuation changes significantly influence Russian FDI stock abroad (see Chapter 3), they are caused mainly by economic fluctuations and changes both in the prices of foreign assets and in the exchange rates. Therefore the focus of the present study is on Russian *outward FDI flows* that are considered as *a dependent variable*. In order to assess to what extent and whether at all Russian institutional environment influences outward FDI flows, the impact of the following *independent variables* is studied:

The first independent variable is a *formal institutional environment* in the country. It is assessed through the following dimensions: legal, political, and economic. A number of additional indicators are considered as well, that is:

- rule of law;
- protection of property rights;
- independent judiciary system;
- taxation rates.

The second independent variable is the income on Russian FDI outflows.

The period I am investigating is from 2000 when Russian outward FDI started growing till 2012 when the latest data are available.

The dependent variable is studied based on the data provided by the Russian domestic institutions - the Bank of Russia and the Russian Federal State Statistical Service (Rosstat), as well as by the international organizations, namely the International Monetary Fund (IMF) and the United Nations Conference on Trade and Development (UNCTAD). Some complementary statistics is also provided in the thematic publications of UNCTAD that is the World Investment Report and the International Investment Trends Monitor.

Independent variables are assessed using the following data. Formal institutional environment is evaluated based on the indicators provided by the Institutional quality database. This dataset provides comprehensive and reliable information regarding the three institutional dimensions: legal, political, and economic. The indexes of institutional quality are presented based on a sophisticated methodology of aggregation, unifying different institutional characteristics. A full list of the sources used for the data collection is presented in Annex table 2.1. However, there are two limitations to this dataset. Firstly, the data are available only till 2010, and secondly, evaluating the economic institutions a tax rate is not taken into account. For the purpose of the present research the taxation rate is considered as a significant criterion to take into account when evaluating institutional determinants of FDI outflows. Therefore, acknowledging these shortcomings, additional sources of data are applied in order to complement the basic statistics by the Institutional quality database, namely: Doing Business Reports by World Economic Forum, Paying Taxes Report, Global Competitiveness Report.

2.2 Methodological Note Regarding Data on Russian FDI

The Russian Federal State Statistical Service (Rosstat) and the Bank of Russia use different methodologies for the collection of the data on Russian outward FDI, as a result, their estimations differ from each other. There are significant discrepancies between the statistics published by Rosstat and by the Bank of Russia (see Table 2.1). For instance, in 2000 the former estimated FDI outflows only in \$382 millions, while the latter in \$3 177 millions, which is eight

times higher. Even in 2012 substantial discrepancies between the two still remained – Rosstat published the data three times lower than the Bank of Russia did (\$17 426 and \$48 222 millions respectively).

Table 2.1: Russian outward FDI flows, selected years (in \$ million)

Year	Bank of Russia	Rosstat
2000	3 177	382
2005	17 880	558
2006	29 993	3 208
2007	44 801	9 179
2008	55 663	21 818
2009	43 281	17 454
2010	52 616	10 271
2011	66 851	19 040
2012	48 222	17 426

Source: Bank of Russia, External Sector Statistics, available at:

<http://www.cbr.ru/statistics/?PrId=sv>;

Rossiiskii Statisticheskii Ezhegodnik (2013, 590; 2012, 663)

The calculations of Rosstat are purely based on companies' reports, without taking into consideration information about monetary authorities and commercial banks (2013a, 592). This approach limits the scope of collected data. However, Rosstat is the only source of the data on the sectoral composition of Russian FDI outflows (Kuznetsov 2011a; 2011b), as well as on the geographical distribution of Russian outward FDI stock in the top-ten recipient countries and in the member countries of the Commonwealth of Independent States (CIS). Kuznetsov (2011a) has indicated that Rosstat collected companies' reports filled in in accordance with the form 1-*Invest Data on Investment in Russia and from Russia Abroad* ("Svedenia ob Investitsiakh v Rossiyu iz-za Rubezha i Investitsiakh iz Rossii za Rubezh") along with a form № P-6 *Data on Financial Investment* ("Svedenia o Finansovykh Vlozheniakh"). However, recently both forms have become invalid by the order of the Federal State Statistical Service (2013b) №382 *Concerning Approval of Statistical Tools for Organization of Federal Statistical Monitoring of Foreign Investment and Financial Investment* ("Ob Utverzhdenii Statisticheskogo

Instrumentaria dlia Organizatsii Federalnogo Statisticheskogo Nabludeniya za Inostrannymi Investitsiami i Finansovymi Vlozheniyami”). Starting from the first quarter of 2014 companies have to present their quarterly reports according to a new form № P-6 *Data on Financial Investment and Liabilities* (“Svedeniya o Finansovykh Vlozheniyakh i Obyazatelstvakh”). To reveal whether the new form helps to collect more accurate data will be possible only later when the recent statistics on Russian outward FDI will be published by Rosstat.

By contrast, the statistics provided by the Bank of Russia is more precise and largely consistent with the recommended international standards. The Bank of Russia started to provide the data on outward FDI flows and stock according to the 5th Edition of Balance of Payments and International Investment Position Manual in 1992 and 2001, respectively. At the moment the Bank of Russia presents the data following the methodology of the 6th Edition of the Manual adopted by the International Monetary Fund (IMF) in 2009. The balance of payments (BOP)⁸ statistics was published according to the 6th Edition of Balance of Payments and International Investment Position Manual for the period 2005-2013; while the data on the international investment position (IIP)⁹ was firstly presented according to the new edition only in 2012.¹⁰ As Gohrband and Howell (2013) emphasize “the reorganized presentation of the financial account of the BOP and of the IIP provides a uniform classification of international transactions

⁸ The balance of payments is “a statistical statement that summarizes transactions between residents and nonresidents during the period. It consists of the goods and services account, the secondary income account, the capital account, and the financial account” (IMF 2009, 9).

⁹ The international investment position is “a statistical statement that shows at a point in time the value of: financial assets of residents of an economy that are claims on nonresidents or are gold bullion held as reserves assets; and the liabilities of residents of an economy to nonresidents” (IMF 2009, 7).

¹⁰ However, some discrepancies still exist between the presentation of the data in the international investment position by the Bank of Russia and the IMF, as the former lists the changes in the international investment position happened due to 1) transactions, 2) valuation changes, and 3) other adjustments, while the latter specifies only the following changes: 1) transactions, 2) other changes in volume, 3) exchange rate changes, and 4) other price changes (IMF 2009, 121).

and positions, with greater comparability between ... countries that follow the international guidelines” (5). The statistics on Russian outward FDI is distributed geographically between the two broad groups – the CIS countries and the non-CIS countries (referred to as far abroad) (IMF 2007, 436).

The Bank of Russia calculates outward FDI following a sophisticated methodology by collecting information from various sources (see Annex table 2.2). They include data from custodian institutions, stock exchanges, and central banks in partner countries; companies’ reports, enterprise and household surveys, and econometric estimates¹¹ (IMF 2007, 438; Kuznetsov 2011b, 2). The Instruction of the Central Bank of the Russian Federation (2009) *Concerning List, Forms and Procedure of Compilation and Submission of Reporting Forms for Monetary Organizations to Central Bank of Russian Federation № 2332-U* (“Ukazanie o Perechne, Formakh i Poriadke Sostavleniia i Predostavleniia Form Otchetnosti Kreditnykh Organizatsii v Tsentralnyi Bank Rissiiskoi Federatsii”) specifies the list of documents that is necessary for monetary organizations to submit about their international transactions, clarifying the order of their compilation. The data published by the Bank of Russia are considered reliable and are widely used by the international organizations.

The United Nations Conference on Trade and Development (UNCTAD) provides data on Russian FDI in its annual report, the World Investment Report (WIR), and in its dataset, UNCTADstat. The statistics is collected “from central banks, statistical offices or national authorities ... and further are complemented by the data obtained from the IMF” (UNCTAD 2003, 244). In fact, the data are based on preliminary calculations of the Bank of Russia (Kuznetsov 2012). The data are published in the World Investment Report and then appeared in the UNCTADstat dataset (see Annex tables 2.3-2.4). The methodological note of the Report

¹¹ When the exact data are not available (Kuznetsov 2011b, 2).

specifies that the information is constantly held in the process of adjustment –“all FDI data and estimates in WIR are continuously revised... because of ongoing revisions, FDI data reported in WIR may differ from those reported in earlier Reports” (UNCTAD 2009, 245). The data on Russian outward FDI published by the IMF are also based on the preliminary calculations of the Bank of Russia and may differ from the final statistics (see Annex tables 2.5-2.6).

On the whole the data on Russian outward FDI in the UNCTADstat dataset and the updated statistics published by the IMF are consistent with the information provided by the Bank of Russia regarding both Russian outward FDI flows and stock (see Annex table 2.7). Therefore, the data published by the Bank of Russia constitutes the foundation for further analysis of Russian outward FDI.

CHAPTER 3: RUSSIAN OUTWARD FDI AND DOMESTIC INSTITUTIONS

The chapter presents an empirical assessment of the data on Russian outward FDI and Russian domestic institutions. The composition, geographical distribution, and yielded income on Russian outward FDI have acquired quite specific features. These features are considered to relate to the Russian institutional environment, which is evaluated as rather poor. As a result, an additional empirical support is provided that a ‘system-escape’ motivation is an important driving force prompting Russian outward FDI.

3.1 Peculiarities of Russian outward FDI

A sharp increase and a rapid rise of Russian outward FDI became one of the notable features of Russia’s participation in the international capital movement. The peculiarities of Russian outward FDI reflect important processes accelerating in the Russian economy.

3.1.1. Instrumental Composition

The Bank of Russia provides data on outward FDI stock in the international investment position statistics¹². The value of outward FDI stock is presented for the beginning and for the end of each year. The value of FDI stock at the end of the year represents a cumulative value of transactions, valuation changes of the assets and other adjustments. Transactions equal to FDI outflows, while for some years minor discrepancies are observed. On the whole the share of transactions in the total value of Russian FDI stock abroad till 2006 was relatively modest, ranging from \$2 533 to \$12 151 millions in 2001 and 2005 respectively. In 2007 their share almost doubled in comparison with 2006 and reached \$45 916 millions. Since then the value of transactions remained high. Furthermore, during the recent crisis outward FDI flows

¹² From 2012 the Bank of Russia started to publish the international investment position based on the 6th Edition of Balance of Payments and International Investment Position Manual, which recommend providing more detailed data on FDI stock (see Annex table 3.1).

experienced only a moderate decrease, while in the value of Russian outward FDI stock sharp fluctuations are observed (see Table 3.1).

Table 3.1: Russian net international direct investment position, 2001-2012 (in \$ million)

Year	Beginning of period	Changes in position due to:			End of period
		Transactions	Valuation changes	Other adjustments	
2001	20 141	2 533	21 549	-3	44 219
2002	44 219	3 532	14 564	34	62 350
2003	62 350	9 727	31 179	-12 382	90 873
2004	90 873	13 782	2 497	139	107 291
2005	107 291	12 768	19 135	7 485	146 679
2006	146 679	23 151	32 305	14 339	216 474
2007	216 474	45 916	106 716	1 024	370 129
2008	370 129	55 594	-220 721	545	205 574
2009	205 547	43 665	53 122	208	302 542
2010	302 542	52 523	15 489	-4 253	366 301
2011	366 301	67 431	-78 415	6 785	362 101
2012	361 750	48 822	-6 955	2 677	406 295

Source: the Bank of Russia, External Sector Statistics, available at: <http://www.cbr.ru/statistics/?PrtId=sv>

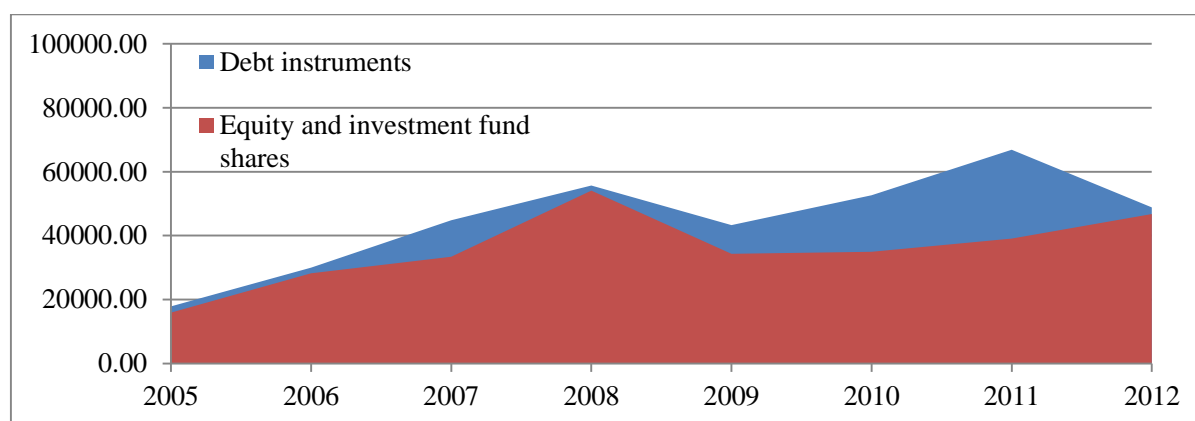
The Bank of Russia also publishes separate data on outward FDI flows in the financial account of the balance of payments (subtitled Net acquisition of financial asset). It is further divided into two categories, namely, equity and investment fund shares¹³ and debt instruments¹⁴. The principal difference between the two is that investments in equity and

¹³ “Equity represents the owners’ funds in the institutional unit” and may be split into the following components: listed shares, unlisted shares, and other equity (IMF 2009, 84). Investment fund shares represent “collective investment undertakings through which investors pool funds for investment in financial or nonfinancial assets” (IMF 2009, 85). Investment funds tend to invest in a wide range of assets, such as “debt securities, equity, commodity-linked investments, real estate, shares in other investment funds, and structured assets” (IMF 2009, 85).

¹⁴ Debt instruments usually require the payment of the interest at a certain point in the future and include such instruments as “SDRs, currency and deposits, debt securities, loans, insurance technical reserves, pension and related entitlements, provision for calls under standardized guarantees, and other accounts receivable/payable” (IMF 2009, 85).

investment fund shares instruments do not provide an owner with a right to “a predetermined amount or an amount determined according to a fixed formula”, while investments in debt instruments do (IMF 2009, 83). As a result, returns on equity are largely dependent on the economic performance of the issuer and have no guaranteed profit, while debt instruments give more stability to its holders (IMF 2009, 85-86). As follows from Figure 3.1, equity and investment fund shares dominate Russian outward FDI flows.¹⁵ According to UNCTAD (2013) it is quite typical for emerging markets on the whole. The Global Investment Trend Monitor (2014) indicates that in 2013 “almost half of FDI from developing and transition economy TNCs was in equity, while developed country TNCs continued to hold large amounts of cash reserves in their foreign affiliates as part of reinvested earnings” (1).

Figure 3.1: Instrumental composition of Russian FDI outflows, 2005-2012 (in \$ million)



Source: Bank of Russia, External Sector Statistics, available at:

<http://www.cbr.ru/statistics/?PrtId=sv>

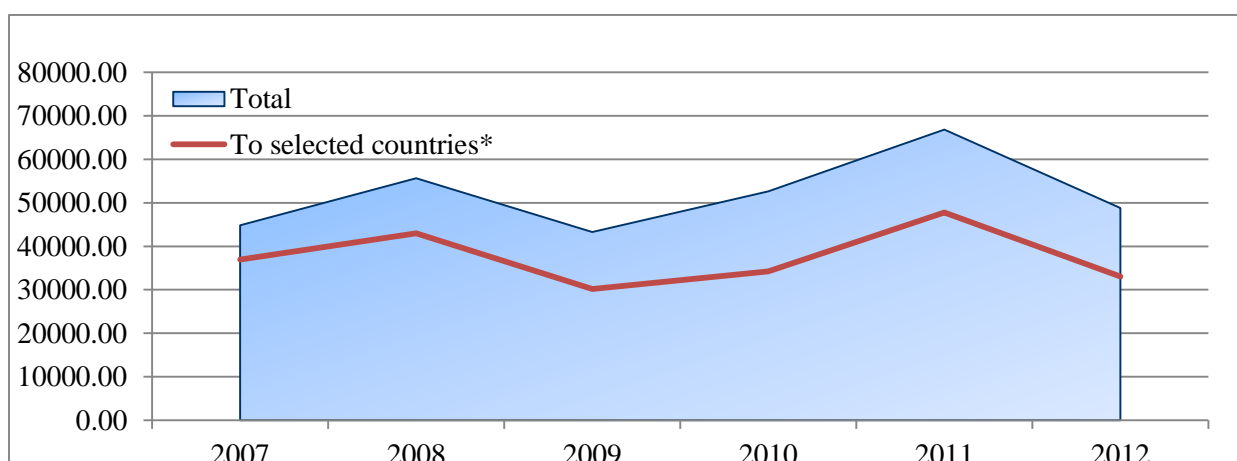
The analysis of the instrumental composition of Russian FDI based on the balance of payments data revealed that these data does not distinguish between different types of FDI outflows. Therefore, using these aggregate data it is possible to trace geographical distribution and income on Russian FDI.

¹⁵ In addition, the subcategory investment in equity consistently prevails over reinvestment of earnings subcategory (see Annex table 3.2).

3.1.2. Geographical Distribution

Russian FDI outflows have a number of distinct features regarding their geographical distribution. The first feature is that offshore zones account for a significant share of Russian FDI outflows (see Figure 3.2), among the top ten recipients of Russian outward FDI classified as far abroad only Germany has no network of offshore territories (see Annex table 3.3).

Figure 3.2: FDI outflows from Russia, 2007-2012 (in \$ million)



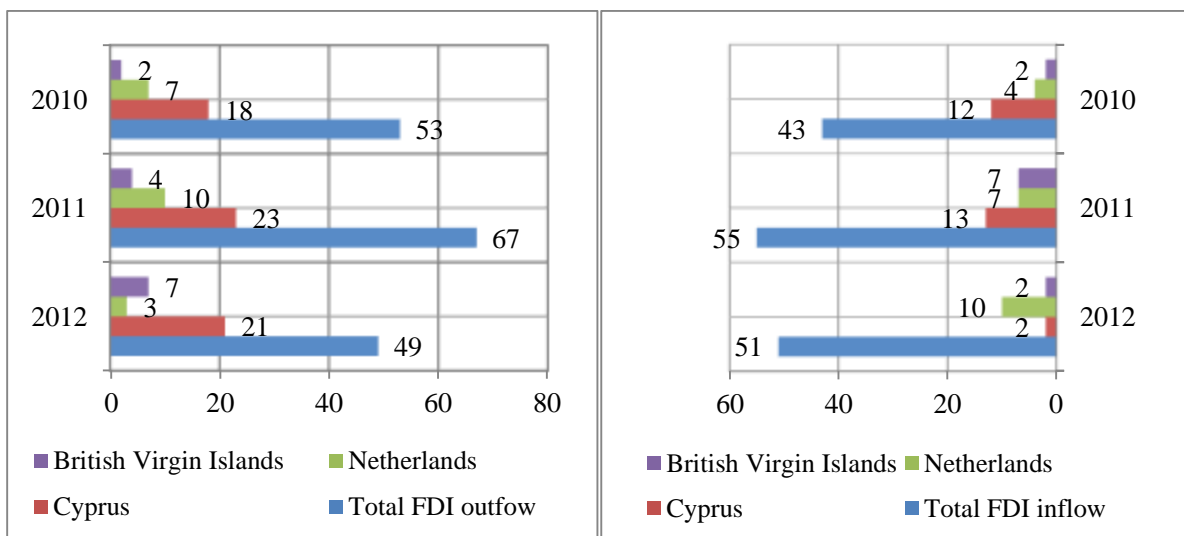
*Selected countries include Bermuda Islands, British Virgin Islands, Cyprus, Gibraltar, Luxemburg, Netherlands, Switzerland, UK, US.

Source: Bank of Russia, External Sector Statistics, available at: <http://www.cbr.ru/statistics/?PrtId=sv>

A number of scholars (Bulatov 2012, Hanson 2010, Kalotay 2004; 2010) highlight the excessively high share of offshore zones in Russian FDI outflows. For instance, Hanson (2010) argues that MNCs all around the world happen to use tax heavens, however, “the extent to which Russian big business ownership is (a) concentrated and (b) exercised through offshore holding companies looks to be unusually great (640). In addition, he stresses that this trend of outflow of Russian FDI to offshores shows “something much more than the simple payment of dividends to beneficiary owners registered offshore ... these are flows of capital, not income (Hanson 2010, 640).

Furthermore, the second distinct feature of the geography of Russian outward FDI flows - “round-tripping” – is closely related to the first feature. ‘Round-tripping’ implies a high correlation of outward and inward investment flows between the country and offshore financial hubs (UNCTAD 2013, 65). It is acknowledged that, in a global scale, investments to tax heavens remain “at historically high level... and tax heaven economies now account for a non-negligible and increasing share of global FDI flows” (UNCTAD 2013, 15). However, Russian practice to transfer capitals to tax heavens and then - back to the country seems to reach exceptionally high spread. In fact, it is the three largest investors – Cyprus, the Netherlands and the British Virgin Islands – that account for a significant share of both inward and outward Russian FDI stock (see Figure 3.3).

Figure 3.3: ‘Round-tripping’ investments between Russia and offshore territories, 2010-2012 (in \$ billions)



Source: Author’s calculations based on Bank of Russia’s External Sector Statistics, available at: <http://www.cbr.ru/statistics/?PrtId=sy>

To some extent a favourable legislation existing between offshore zones and the Russian Federation could explain outflow of Russian FDI. It is the Bank of Russia and the Ministry of Finance of the Russian Federation that approve the status of a territory to be considered as an offshore. The latter also regulates the relationships of Russian resident institutions with non-resident institutions registered in the offshore territories. According to the Instruction of the

Bank of Russia (2003) № 1317-I *Concerning the Order of Establishment by Authorized Banks Correspondent Relations with Non-Resident Banks, Registered at States and Territories Offering Beneficial Tax Treatment and (or) Not Supposed to Disclose and to Report Data on Financial Transactions (Offshore Areas)* (“O Poryadke Ustanovleniya Upolnomochennymi Bankami Korrespondentskikh Otnoschenii s Bankami-Nerezidentami, Zaregistrirovannymi v Gosudarstvakh i Territoriyakh, Predostavlyayuschikh Lgotnyi Nalogovyi Rezhim Nalogooblozheniya i (ili) Ne Predusmatrivayuschikh Raskrytiya i Predostavleniya Informatsii pri Provedenii Finansovykh Operatsii (Ofshornye Zony)”)¹⁶ 1) authorized banks were entitled to establish correspondent relations with non-resident banks registered in the states and territories listed in the supplement and belonging to the first group without taking into consideration conditions of the subsection 3 of the Instruction, 2) while authorized banks could establish correspondent relations with non-resident banks registered in the states and territories and belonging to the second and third group only under one of the two conditions listed in the Instruction.¹⁷

The Ministry of Finance of the Russian Federation (2007) by its Order №108n *Concerning Approval of the List of States and Territories Offering Beneficial Tax Treatment and (or) Not Supposed to Disclose and to Report Data on Financial Transactions (Offshore Areas)* (“Ob Utverzhdenii Perechnya Gosudarstv i Territorii, Predostavlyayuschikh Lgotnyi Nalogovyi Rezhim Nalogooblozheniya i (ili) Ne Predusmatrivayuschikh Raskrytiya i

¹⁶ With several revisions, the most recent one dated 18 February 2014.

¹⁷ The *first condition* implies for a non-resident bank to have an equity capital amounting to at least €100 millions, calculated at the exchange rate of central bank of the state where a non-resident bank is registered and to have a permanent office in the state where the non-resident bank is registered (the submitted documents should be also translated into Russian and be notarized). The *second condition* assumes for a non-resident bank 1) to have a credit rating not below than Aa3 (by Moody’s) or AA- (by Standard and Poor/FITCH Ratings or 2) to be listed in *Bankers' Almanac* (by *Reed Business Information*) among 1000 world banks with the largest assets.

Predostavleniya Informatsii pri Provedenii Finansovykh Operatsii (Ofshornye Zony)”)”¹⁸ approves the list of states and territories considered as offshore as well. However, there are particular discrepancies between the lists of the Bank of Russia and the Ministry of Finance of the Russian Federation. The classification of the former is more sophisticated, while the latter lists the offshore simply in the alphabetical order.

The most notable revision was made by both institutions excluding Cyprus from the list of offshore zones (the Instruction of the Bank of Russia¹⁹ dated 8 February 2010 № 2394-I and the Order of the Ministry of Finance of the Russian Federation (2012) № 115n²⁰ and come into force on 1 January 2013). As a result, the value of Russian FDI outflows to Cyprus is expected to decrease in the nearest future.

On the whole, the legislation could be considered as a ‘pull’ factor, making offshore territories attractive for Russians to invest in. However, the major question is why Russian investors prefer to move their capitals abroad instead of investing in their home country, what are these ‘push’ factors driving Russian FDI abroad. The phenomenon of ‘round-tripping’ investments is argued to be related to the poor institutional environment in a home country (Dunning and Lundan, 2008). Before studying the institutional environment in Russia, it is necessary to have a look at another important aspect of motivations for FDI, namely –income on Russian FDI.

¹⁸ The Order came into force on 1 January 2008.

¹⁹ “Ukazanie Banka Rossii.”

²⁰ *Concerning Changes to the List of States and Territories Offering Beneficial Tax Treatment and (or) Not Supposed to Disclose and to Report Data on Financial Transactions (Offshore Areas), Approved by the Order of the Ministry of Finance of the Russian Federation Dated 13 November 2007 № 108N* (“O Vnesenii Izmnenii v Perechen Gosudarstv i Territorii, Predostavlyayuschikh Lgotnyi Nalogovyi Rezhim Nalogooblozheniya i (ili) Ne Predumtrivayuschikh Raskrytiya i Predostavleniya Informatsii pri Provedenii Finansovykh Operatsii (Ofshornye Zony), Utverzhdenyi Prikazom Ministerstva Finansov Rossiiskoi Federatsii ot 13 Nojabrya 2007 № 108N”).

1.1.3 Income on Russian FDI

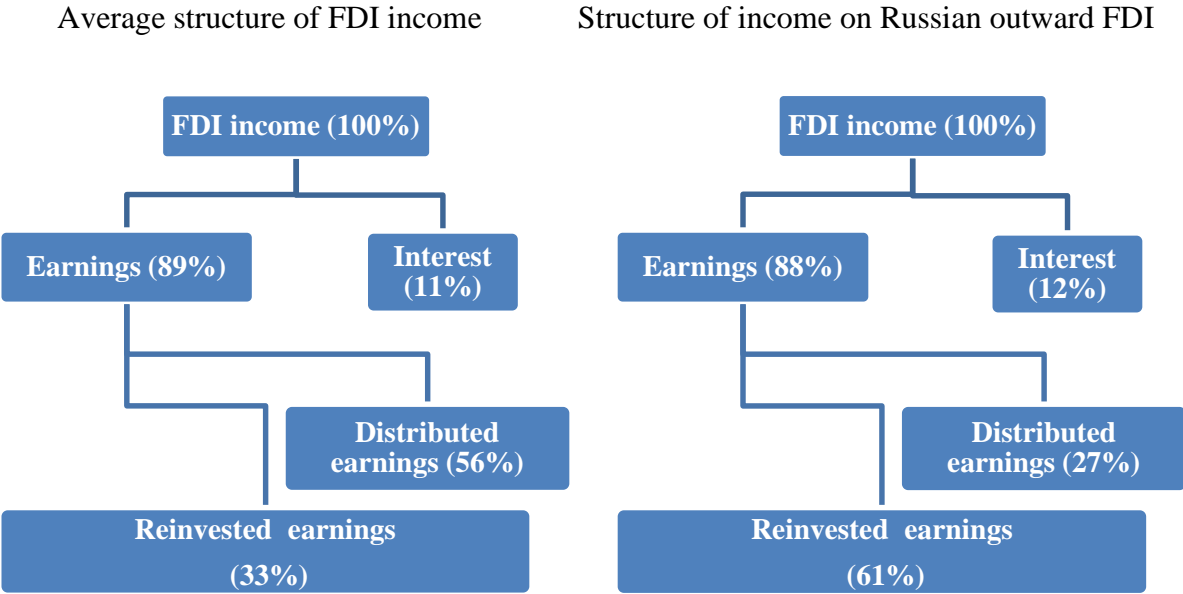
The rate of return on FDI is not published in the official statistics. However, the balance of payments includes a special category - FDI income. With FDI growing globally, FDI income has become an important component of the balance of payments, contributing to FDI itself (UNCTAD, 2013). FDI income when increasing plays “an important role in the overall economy as a source of domestic income or as an income outflow” (UNCTAD 2013, 31). The data provided by the Bank of Russia are sufficient enough for an assessment of the income Russian investors receive abroad (see Annex table 3.4).

Structure of FDI income is the first issue for taking into consideration, as in a global economy, for home economies, outward FDI “provide opportunities for TNCs to earn profits on economic activities conducted outside the TNCs home economy” (UNCTAD 2013, 31). Therefore, it is important to reveal the main components of FDI income and to assess their distribution. FDI income consists of two broad categories, that is earnings (profits) on equity investments and interests received on debt instruments. Earnings category is further divided into reinvested earnings and repatriated (distributed) earnings subcategories.

UNCTAD (2013) calculated the average structure of FDI income for the period 2005-2011. On the whole FDI income is compound by two categories, namely, earnings and interest. In its turn, former is further divided into reinvested earnings and distributed earnings. Compared the average structure of FDI income with the structure of income on Russian outward FDI, two features can be observed. The first feature is that regarding the distribution of income between earnings and interest, Russia closely follows the world trend. Earnings and interest are distributed quite identical (89 and 11 percent on average and 88 and 12 percent in Russia) (see Figure 3.4). However, the second feature reveals that the distribution of income within the earnings category looks different. According to the average distribution, out of 89 percent of

total earnings, 56 percent are constituted by distributed earnings and 33 percent – by reinvested earnings. By contrast, in the structure of income on Russian FDI out of 88 percent of total earnings, only 27 percent are constituted by distributed earnings and 61 percent - by reinvested earnings.

Figure 3.4: Structure of FDI income: average and on Russian outward FDI, 2005-2011

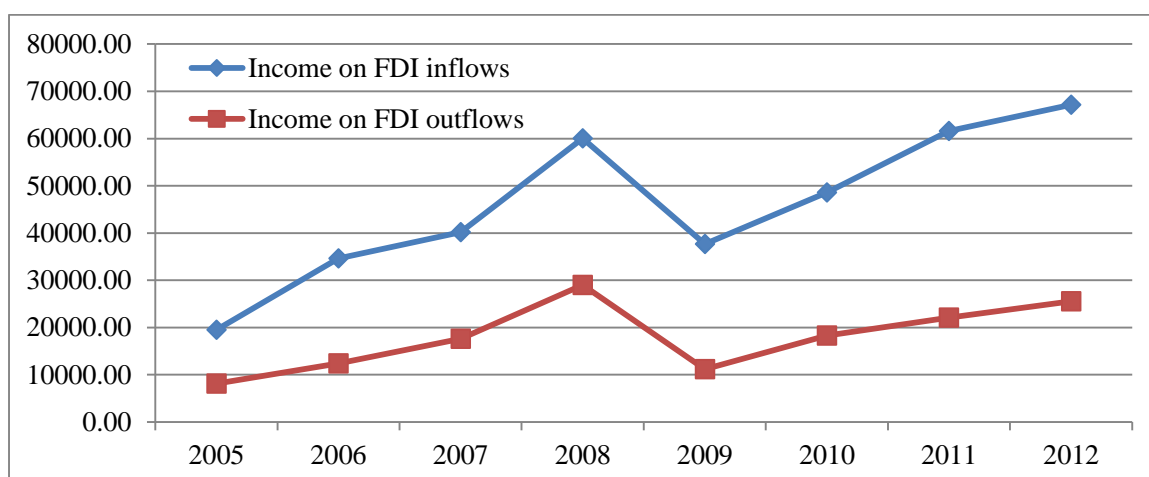


Source: UNCTAD (2013, 31); author’s calculations based on Bank of Russia’s External Sector Statistics, available at: <http://www.cbr.ru/statistics/?PrId=sy>

It is notable that reinvested earnings tend to be retained within the host economy. They include capital expenditures, and cash reserves (UNCTAD 2013, 31). This means that a major part of FDI income received abroad does not come back to Russia and is invested in a host economy or is held in cash, which contradicts the global trend.

Another important aspect to consider concerning FDI income is the relationship between the income on FDI outflows and inflows. The data show a striking difference between the two, as the income received by Russian investors abroad is considerably lower than the income received by foreign investors in Russia. As Figure 3.5 documents, in 2005 the difference was more than \$11 414 millions, while in 2012 it reached \$46 619 millions.

Figure 3.5: Income on Russian FDI outflows and inflows, 2005-2012 (in \$ millions)



Source: Bank of Russia, External Sector Statistics, available at:

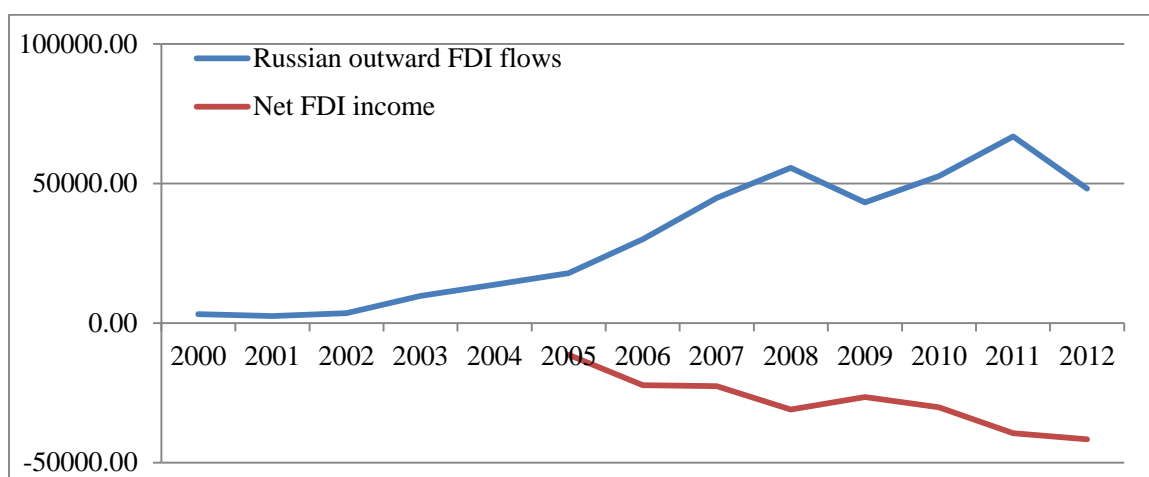
<http://www.cbr.ru/statistics/?PrtId=sv>

On a global scale in 2011 the average rate of return on FDI was about 7.2 percent, with higher rates in emerging market economies than in developed countries (UNCTAD 2013, 33). Even during the recent crisis returns in the former remained higher than in the latter. Moreover, based on the data for 2011, UNCTAD ranked Russia among the top 20 economies with the highest returns on FDI amounting 13 percent (UNCTAD 2013).

Traditionally investments in economies with higher risks yield higher returns. Therefore, on the one hand, it might seem quite surprisingly that Russians prefer investing abroad with lower returns rather than investing domestically with higher returns. On the other hand, as Russian investors are aware of existing risks, they choose stability and prefer to move their capitals abroad. As a result, Russian outward FDI flows are still increasing, even when the net FDI income²¹ is decreasing (see Figure 3.6).

²¹ Net FDI income is calculated as difference between income on FDI outflows and inflows.

Figure 3.6: Russian outward FDI and net FDI income, 2000-2012 (in \$ million)



Source: Bank of Russia, External Sector Statistics, available at:

<http://www.cbr.ru/statistics/?PrtId=sv>

This empirical evidence provides an additional support that a ‘system-escape’ motivation is an important force fuelling Russian outward FDI. Therefore, the second hypothesis that *if non-economic (‘system-escape’) motivation prevails, FDI outflows will grow despite low returns* is confirmed by the analysis.

3. 2 Russian Institutional Environment

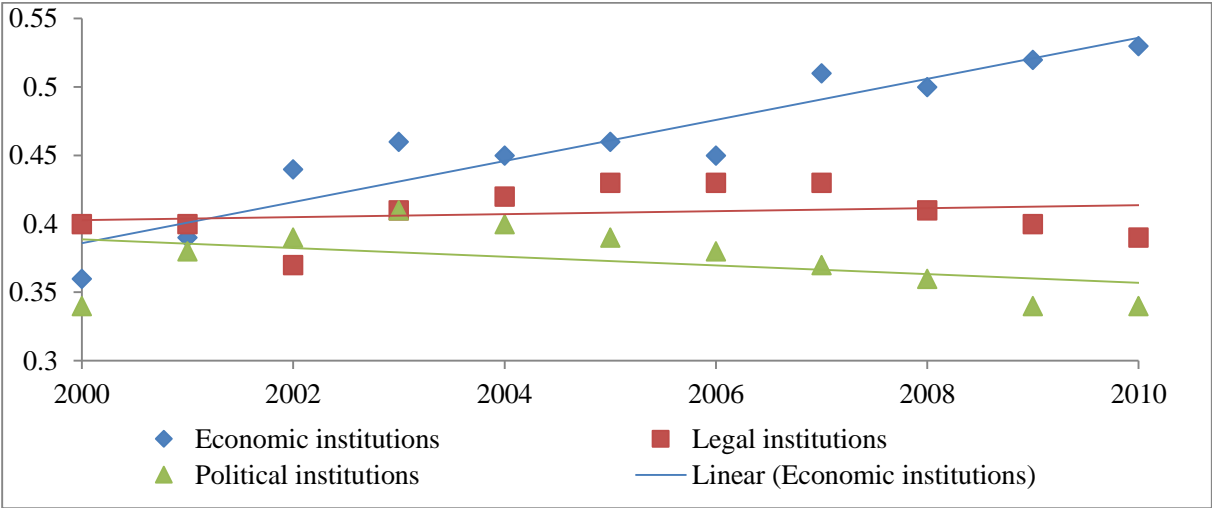
From the beginning of the period of transformation in the 1990s Russian institutional environment was considered as volatile and unstable. While in the 2000s the macroeconomic stability was generally achieved, high legal and political risks emerged.

3.2.1 Key indicators and long-lasting trends

An institutional environment in the country being an important condition for economic development is quite difficult to operationalize. Institutional quality database created by Aljaz Kuncic (2012) to a large extent captures formal institutional environment, operationalized through the following dimensions: legal, political, and economic. Furthermore, according to the institutional performance, the countries in the database (in total 121 countries) are clustered

into five groups, based on 1-5 scale.²² Russia belongs to the numerous second group (including 48 countries) which is assessed as follows: “in terms of the legal environment, cluster 2 scores poorly, ... in terms of the political environment, cluster 2 does not have excessively bad scores, but is very corrupt... finally, in terms of economic freedom, cluster 2 is bad, with scores significantly below the average” (Kuncic 2012, 9). The data are presented in absolute and relative terms. The former is applicable for the analysis of institutional progress/regress within a single country (based on 0-1 scale), while the latter presents the assessments of institutional quality of a particular country relatively to other countries. Indicators in this group are more appropriate for a comparative study. For the purpose of the present research, the data in absolute terms are evaluated. Figure 3.7 presents the trends in the absolute quality of Russian institutions and indicates that the country performs a slight progress in terms of the economic environment, while a certain rollback is observed in terms of the political environment, the trend in terms of the legal environment is unclear.

Figure 3.7: Absolute quality of Russian institutions, 2000-2010 (scale 0-1)



Source: Institutional Quality Dataset, available at: <http://www.qog.pol.gu.se/data/>

²² Countries in the first group are considered as the least developed in terms of their institutional environment, while the countries in the fifth group - as the most developed.

The dataset also ranks all countries in the so-called World Institutional Quality Ranking (WIQR). Based on the institutional dynamics Russia is listed among the bottom five countries for its regress in legal and economic institutions along with Venezuela, Zimbabwe, and Cote d'Ivoire²³ (see Table 3.2).

Table 3.2: Quality of Russian institutions, 2000-2010

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Cluster Membership	2	2	2	2	2	2	2	2	2	2	2
Economic Institutional Quality, <i>Absolute*</i>	0.36	0.39	0.44	0.46	0.45	0.46	0.45	0.51	0.50	0.52	0.53
Legal Institutional Quality, <i>Absolute</i>	0.40	0.40	0.37	0.41	0.42	0.43	0.43	0.43	0.41	0.40	0.39
Political Institutional Quality, <i>Absolute</i>	0.34	0.38	0.39	0.41	0.40	0.39	0.38	0.37	0.36	0.34	0.34
Economic Institutional Quality, <i>Relative**</i>	-1.20	-1.10	-0.74	-0.68	-0.88	-0.84	-1.06	-0.79	-0.87	-0.68	-0.63
Legal Institutional Quality, <i>Relative</i>	-1.03	-1.02	-1.02	-1	-1.17	-1.24	-1.19	-1.20	-1.29	-1.16	-1.23
Political Institutional Quality, <i>Relative</i>	-0.78	-0.81	-0.87	-0.79	-0.87	-1.00	-0.99	-1.07	-1.16	-1.16	-1.12

* 0-1 scale.

** - 2 + 2 scale.

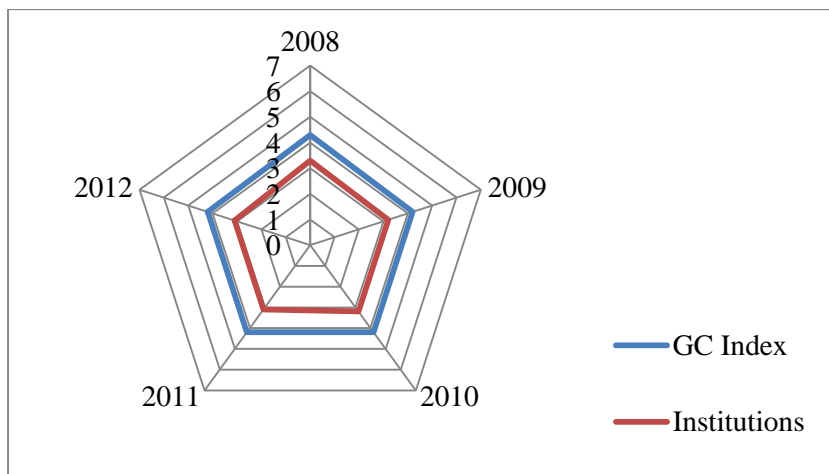
Source: Institutional Quality Dataset, available at: <http://www.qog.pol.gu.se/data/>

Institutional quality dataset provides essential background information regarding the general quality of institutions. As follows from the above, the state of Russian institutions is

²³ In relative terms.

evaluated as quite poor. In order to confirm the reliability of this finding, some alternative assessments of Russian institutions are needed as well. For instance, The World Competitiveness Report contains the Global Competitiveness (GC) Index for the period 2008-2012. The data are presented according to twelve pillars, with the first pillar being Institutions. As Figure 3.8 shows, there is a stable trend both in the Russian GC Index and in the assessment of Russian institutions. While the country seems to be lacking behind with excessively low score for institutional dimension, according to which Russia ranked 110 and 121 in 2008 and 2013 respectively. On the whole, the data provided in The World Competitiveness Report is consistent with the statistics obtained from the Institutional Quality dataset. Both indicate the poor state of institutions in Russia.

Figure 3.8: Russian Global Competitiveness Index and Institutions, 2008-2012 (1-7 scale)



Source: World Competitiveness Report for corresponding years, available at: <http://www.weforum.org/reports>

For making a more in-depth analysis of Russian institutions, it is necessary to assess a number of additional dimensions, affecting decisions of investors, namely_1) rule of law, 2) protection of property rights, 3) independent judiciary system, 4) corruption and 5) taxation rates. Presented pillars in the World Competitiveness Report contain some of these indicators, in particular, property rights, tax rate, judicial independence, in addition to efficiency of legal framework. Till 2011 the countries received no scores, but were just ranked according to their

performance. However, as every year a number of countries evaluated varied, the comparison of Russia's performance could be made only superficially and only in relative terms. As Table 3.3 indicates, the Russian position worsens in relative terms significantly.

Table 3.3: Russian Federation in the World Competitiveness Report, 2008-2012

	2008-2009	2009-2010	2010-2011	2011-2012	
	Rank (out of 134)	Rank (out of 133)	Rank (out of 139)	Rank (out of 142)	Score (1-7)
Global Competitiveness Index	51	63	63	66	4.2
Institutions, <i>including:</i>	110	114	118	128	3.1
Property rights	122	121	128	130	2.8
Judicial independence	109	116	115	123	2.6
Efficiency of legal framework (in setting disputes)	107	109	114	123	2.8
Total tax rate	94	87	95	95	46.5*

*percent of profit

Source: Global Competitiveness Report, for corresponding years, available at: <http://www.weforum.org/issues/global-competitiveness>

The World Competitiveness Report also presents the results of the Executive Opinion Survey²⁴ revealing the most problematic factors for doing business (see Table 3.4).

Table 3.4: The Executive Opinion Survey: the most problematic factors for doing business, 2008-2012

	2008-2009	2009-2010	2010-2011	2011-2012
Corruption	19.4	19	21.2	22.8
Tax regulation	14.8	11.6	11.4	6.2
Access to financing	12.8	16.9	15.5	7.6
Inefficient government bureaucracy	11.5	8.2	8.4	13.3
Tax rates	9.2	8.2	7.5	9.1
Crime and theft	3.8	9.0	9.4	10.1

Note: From a list of 15 factors, respondents were asked to select the five most problematic for doing business in their country and to rank them between 1 (most problematic) and 5.

Source: Global Competitiveness Report, for corresponding years, available at: <http://www.weforum.org/issues/global-competitiveness>

²⁴ Details of the respondents see in Annex table 3.5.

Both corruption and tax regulation/rates are listed among the most problematic factors for doing business. The extent of corruption is taken into account when calculating the indicator for political environment in the Institutional Quality dataset, while the extent of tax regulation is not taken into account. Doing Business Report covers the activity of small and medium sized enterprises (SMEs). It started to provide information concerning tax rates from 2007 (in cooperation with PricewaterhouseCoopers). The indicators presented in the Table 3.5 measure all taxes and contributions (at all levels) which include: “the profit or corporate income tax, social contributions and labor taxes paid by the employer, property taxes, property transfer taxes, dividend tax, capital gains tax, financial transactions tax, waste collection taxes, vehicle and road taxes, and any other small taxes or fees” (Doing Business 2012, 52). As follows from the above, Russia’s rank in the ease of doing business worsens in 2012 compared with 2007 (120 and 96 respectively), while the paying tax rank was more stable, but still remained very low (105 and 98 respectively). Additional indicators suggest some minor improvements, possibly related to the decrease of the corporate income tax from 24 to 20 percent adopted in 2008.

Table 3.5: Doing Business Report: Russia’s assessment, 2007-2012 (selected indicators)

Year	2007	2008	2009	2010	2011	2012
Category						
Ease of doing business rank	96	106	120	120	123	120
Paying taxes rank	98	130	134	103	105	105
Payments (№ per year)	23	22	22	11	11	9
Time (hours per year)	256	448	448	320	320	290
Total tax rate (% of profit)	54.2	51.4	48.7	48.3	46.5	46.9

Source: Doing Business Report for corresponding years, available at: <http://www.doingbusiness.org/reports/global-reports/>

On the whole after studying the institutional environment in Russia the first conclusion is that there is no or moderate decrease in the quality of observed institutions. During the period considered it remained rather stable. Therefore, the first hypothesis that *decreases in the quality*

of domestic institutions leads to increase of FDI outflow has to be rejected, as a sharp increase in Russian outward FDI flows was not accompanied by a sharp decrease in the quality of Russian institutions. However, the second conclusion is that despite being stable the institutional environment in Russia is assessed as poor. Therefore, it might be implied that it is not the decrease of the quality of institutions but the poor state of Russian institutions which possibly leads to FDI outflow from the country.

3.2.2. Concerning real extent of capital outflow from Russian

After elaborating on the formal institutional environment in Russia it is also necessary to mention that informal institutions could influence capital outflow from the country as well. Furthermore, balance of payments contains data which enables us to make some estimates of the extent of illegal capital outflow from the country. Loukine (1998), Bulatov (2012) emphasize that there are two categories in the balance of payments which have to be taken into account when estimating the scale of illegal capital outflow from the country, namely Net errors and omissions and Suspicious transactions. As Table 3.6 documents, the capital flight from the country is progressing quite rapidly.

Table 3.6: The extent of capital flight from Russia, 2005-2012 (in \$ millions)

	2005	2006	2007	2008	2009	2010	2011	2012
Net errors and omissions	5 004	-11 248	9 733	3 051	6 394	9 136	8 655	10 371
Suspicious transactions	27 535	21 302	34 497	50 635	24 559	25 904	33 263	38 816
<i>Capital flight</i>	32 539	10 054	44 230	53 686	30 953	35 040	41 918	49 187

*Fictitious transactions relate to foreign trade in goods and services as well as securities trading (all signs are reversed).

Source: Bank of Russia, External Sector Statistics, available at: <http://www.cbr.ru/statistics/?PrtId=sv>

In this light it could be argued that it is not only formal institutional environment but also informal institutions which have to be taken into account when studying the forces driving

capital outflow from the country. Ledeneva (2001; 2006) highlights the significance of informal practices so called, ‘unwritten rules’, widely spread in Russia and argues that Russia is “a country of unwritten laws and unwritten rules (Ledeneva 2001, 2). Therefore, further research of informal practices and their impact on capital outflow from Russia is needed.

On the whole, after conducting an analysis based on the balance of payments data, it is important to mention what information it includes and what it does not present. The balance of payments data are generally recorded on a directional basis, that is resident activity abroad and nonresident activity in the recording economy. Regarding FDI, balance of payments statistics shows the minimum value of FDI flows, as it does not provide information about the “total assets or extent of activity in a foreign affiliate, but rather represent the proportion of financing for the foreign affiliate that originates in the home country” (Dunning and Lundan 2008, 12). However, as it was revealed in the previous chapter, the balance of payments is the most reliable source on FDI data which is widely used both by domestic and international institutions.

Another important aspect of methodology of data collection for the balance of payments statistics is the issue of residence, as all information summarizes “the economic relationship between residents of that economy and non-residents” (IMF 2009, 248). According to the recommendation of the International Monetary Fund (IMF), the residence of each institutional unit defined as “an economic territory with which it has the strongest connection, expressed as its center of predominant economic interest” (IMF 2009, 70). In addition, each institutional unit is as a resident of one and only one economic territory and can be considered as a legal entity in the economic territory under whose laws it is incorporated or registered (IMF 2009).

As follows from the above, the extent of Russian FDI outflow is higher than it is indicated in the balance of payments, as firstly, Russian companies abroad use other non-

ownership-based (contractual) activities as well, which are not reflected in the official statistics. Secondly, the number of Russian businessmen changed citizenship is increasing, as a result, their investments are not considered as FDI undertaken by Russian residents and are not reflected in the balance of payments.

CONCLUSION

The analysis of the relationship between Russian outward FDI flows and domestic institutions revealed a number of peculiarities of Russian FDI. Firstly, there is an obvious mismatch between the conventional definition of FDI, implying a supply of capital to a foreign entity with the purpose of establishing “*a lasting relationship with that company*” (IMF 2009, 20) and the essence of Russian FDI. This mismatch exists because the international business literature links FDI with the activity of multinational corporations. Therefore, it is necessary to explore the other components of FDI outflows and the motivations behind them as well in order to extend the general understanding of FDI.

Secondly, Russian FDI outflows have a quite striking geographical distribution, namely, the share of offshore territories in the value of Russian outward FDI flows is very high, in addition, the phenomenon of ‘round-tripping’ can be observed. As a result, the sharp rise of Russian FDI outflows is more likely to reflect “the distortions of the market” (Dunning and Lundan 2008, 12) but not the real economic activity.

Thirdly, a macroeconomic approach applied in the analysis revealed other important features of Russian outward FDI relating to the income received on Russian FDI. On the one hand, the dominance of reinvested earnings in the total share of Russian FDI income suggests that a large part of the income received abroad is not moved back to Russia, but is either spent on capital expenditures or is simply kept in cash. On the other hand, the analysis discovered another important fact that the rates of returns on Russian investments abroad are quite low (especially compared with the rates of returns on investments made by foreign investors in Russia). However, Russian FDI outflow still keeps on growing even in the conditions of low returns. One possible explanation for this is that a non-economic or a ‘system-escape’ motivation is an important driver of Russian outward FDI. Therefore, Russian investors prefer

investing in a stable environment abroad to a risky and unpredictable environment in their home country. This finding confirms the second hypothesis that *if non-economic ('system-escape') motivation prevails, FDI outflows will grow despite low returns.*

Finally, studying the institutional environment in Russia revealed that there is no or moderate decrease in the quality of observed institutions, as during the period considered it remained rather stable. Therefore, the first hypothesis that *decrease in the quality of domestic institutions leads to increase of FDI outflow* has to be rejected, as a sharp increase in Russian outward FDI flows was not accompanied by a sharp decrease in the quality of Russian institutions. However, the state of the Russian institutional environment being stable remains quite poor. Therefore, it might be implied that it is not the decrease of the quality of institutions but the poor state of institutions which possibly could lead to FDI outflow from the country.

Further research is needed to confirm these findings and to provide additional support to them. In particular, a comparative study of emerging market economies investing abroad could facilitate deeper understanding of the relationship between outward FDI and the domestic institutional environment.

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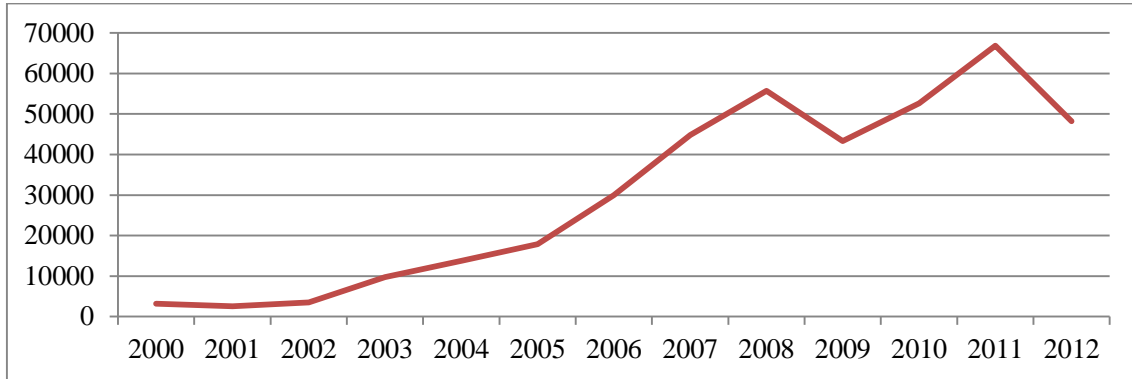
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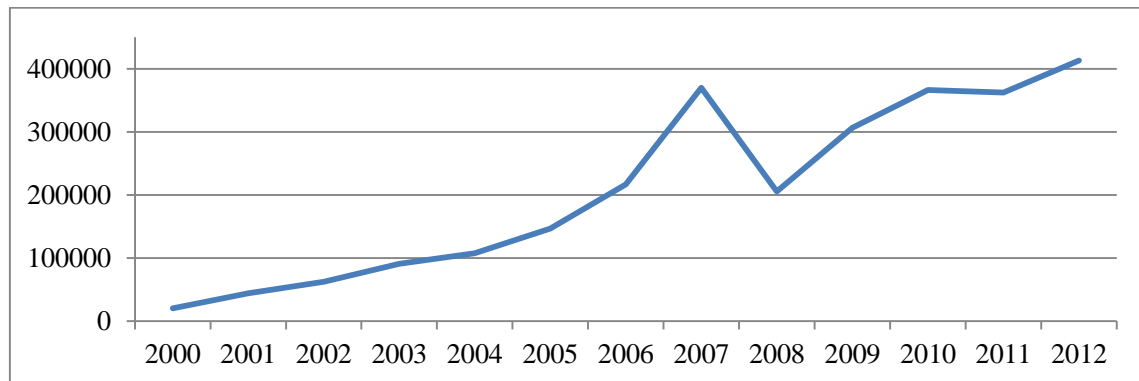
ANNEX TABLES AND FIGURES

Annex figure 1.1: Russian outward FDI flows, 2000-2012 (in \$ million)



Source: Bank of Russia, External Sector Statistics, available at:
<http://www.cbr.ru/statistics/?PrtId=sv>

Annex figure 1.2: Russian outward FDI stock, 2000-2012 (in \$ million)



Source: Bank of Russia, External Sector Statistics, available at:
<http://www.cbr.ru/statistics/?PrtId=sv>

Annex table 2.1: Data sources for the International Institutional Quality Dataset

Institutional group	Data source
Legal Institutions	
Index of Economic Freedom: Property rights	The Heritage Foundation and The Wall Street Journal
Freedom of the Press: Legal Environment	Freedom House
Freedom in the World: Civil Liberties: Rule of Law	Freedom House
Freedom in the World: Civil Liberties	Freedom House
EFW Index: Legal Structure and Security of Property Rights: Judicial independence	Fraser Institute
EFW Index: Legal Structure and Security of Property Rights: Impartial courts	Fraser Institute
EFW Index: Legal Structure and Security of Property Rights: Protection of property rights	Fraser Institute
EFW Index: Legal Structure and Security of Property Rights: Military interference in rule of law and the political process	Fraser Institute
EFW Index: Legal Structure and Security of Property Rights: Integrity of the legal system	Fraser Institute
EFW Index: Legal Structure and Security of Property Rights: Legal enforcement of contracts	Fraser Institute
Law and order	ICRG
Rule of Law	WB World Governance Indicators
Political Institutions	
Freedom of the Press: Political Environment	Freedom House
Freedom in the World: Political Rights: Electoral Process	Freedom House
Freedom in the World: Political Rights: Political Pluralism and Participation	Freedom House
Freedom in the World: Political Rights: Functioning of Government	Freedom House
Freedom in the World: Political Rights	Freedom House
Institutionalized Democracy - Institutionalized Autocracy	Polity IV
Checks and balances	World Bank DPI
Democratic accountability	ICRG
Corruption	ICRG
Bureaucratic quality	ICRG
Control of Corruption	WB World Governance Indicators
Corruption perceptions index	Transparency international
Political terror scale	Political terror scale
Economic Institutions	
Index of Economic Freedom: Financial Freedom	The Heritage Foundation and The Wall Street Journal
Index of Economic Freedom: Freedom from Corruption	The Heritage Foundation and The Wall Street Journal
Regulatory Quality	WB World Governance Indicators
Freedom of the Press: Economic Environment	Freedom House
EFW Index: Regulation of Credit, Labor, and Business: Credit market regulations	Fraser Institute
EFW Index: Regulation of Credit, Labor, and Business: Labor market regulations	Fraser Institute
EFW Index: Regulation of Credit, Labor, and Business: Business Regulation	Fraser Institute
Business freedom	The Heritage Foundation and The Wall Street Journal

Source: Kuncic 2012, 6.

Annex table 2.2: Information base for the Russian balance of payment statistics

Category title	Information source
Net acquisition of financial assets	
<i>Equity and investment fund shares</i>	Form 0409405; Reports of the Federal Financial Markets Service (FFMS) about the value of the net assets of investment funds
<i>Equity other than reinvestment of earnings</i>	Forms 0409401, 0409402, 0409404, 0409405, 0409407, 0409410, 0409664, 0409665.
Direct investor in direct investment enterprises	Estimates based on: - reports of companies operating under production-sharing agreement;
Direct investment enterprises in direct investor (reverse investment)	- reports of certain companies on certain transactions;
Between fellow enterprises	- data provided by partner countries.
<i>Reinvestment of earnings</i>	Calculations of reinvested earnings are based on reports of certain companies, compiled in accordance with International Financial Reporting Standards (IFRS), US Generally Accepted Accounting Principles (US GAAP), and Russian Accounting Standards (Rossiiskie Pravila Buhgalterskogo Utcheta i Otchetnosti)
Debt instruments	Forms 0409405, 0409665.
Direct investor in direct investment enterprises	Data on bank control records and transaction report forms
Direct investment enterprises in direct investor (reverse investment)	
Between fellow enterprises	

Source: Bank of Russia, External Sector Statistics, available at: <http://www.cbr.ru/statistics/?PrtId=sv>

Annex table 2.3: Data on Russian outward FDI flows, World Investment Report and UNCTADstat, 2000-2012 (in \$ million)

Year	WIR 2003	WIR 2004	WIR 2005	WIR 2006	WIR 2007	WIR 2008	WIR 2009	WIR 2010	WIR 2011	WIR 2012	WIR 2013	UNCTAD stat
2000	3 177	3 177										3 177
2001	2 533	2 533										2 533
2002	3 284	3 533	3 533									3 533
2003		4 133	9 727	9 727								9 724
2004			9 601	13 782	13 782							13 782
2005				13 126	12 763	12 767			12 767			17 880
2006					17 979	23 151	23 151		23 151	23 151		29 993
2007						45 652	45 916	45 916	45 916	45 916	45 879	45 879
2008							52 390	56 091	55 594	55 594	55 663	55 663
2009								46 057	43 665	43 665	43 281	43 281
2010									51 697	52 523	52 616	52 616
2011										67 283	66 851	66 851
2012											51 058	51 058

Source: World Investment Report, UNCTAD, New York and Geneva, 2001-2013;

UNCTADstat, available at:

http://UNCTADstat.unctad.org/ReportFolders/reportFolders.aspx?sCS_referer=&sCS_ChosenLang=en

Annex table 2.4: Data on Russian outward FDI stock, by World Investment Report and UNCTADstat, 2000-2012 (in \$ million)

Year	WIR 2003	WIR 2004	WIR 2005	WIR 2006	WIR 2007	WIR 2008	WIR 2009	WIR 2010	WIR 2011	WIR 2012	WIR 2013	UNCTAD stat
2000	12 394	20 141	20 141	20 141	20 141	20 141	20 141	20 141	20 141	20 141	20 141	20 141
2001	14 734											44 219
2002	18 018	47 676										62 350
2003		51 809										90 873
2004			81 874									107 291
2005				120 417								146 679
2006					156 824							216 474
2007						255 211						370 129
2008							202 837					205 547
2009								248 894				306 542
2010									433 655			366 301
2011										362 101		362 101
2012											413 159	413 159

Source: World Investment Report, UNCTAD, New York and Geneva, 2001-2013;

UNCTADstat, available at:

http://UNCTADstat.unctad.org/ReportFolders/reportFolders.aspx?sCS_referer=&sCS_ChosenLang=en

Annex table 2.5: Data on Russian outward FDI flows, by IMF and Bank of Russia, 2000-2006 (in \$ million)

Year	IMF 2001	IMF 2002	IMF 2003	IMF 2004	IMF 2005	IMF 2006	IMF 2007	Bank of Russia
Russian outward FDI flows								
2000	3 208	3 177	3 177	3 177	3 177	3 177	3 177	3 177
2001		2 533	2 533	2 533	2 533	2 533	2 533	2 533
2002			3 284	3 533	3 533	3 533	3 533	3 533
2003				9 727	9 727	9 727	9 727	9 727
2004					10 346	13 782	13 782	13 782
2005						12 900	12 767	17 880
2006							22 657	29 993

Source: IMF Balance of Payment Statistics Yearbook, Part 1, 2001-2007;

Bank of Russia, External Sector Statistics, available at: <http://www.cbr.ru/statistics/?PrtId=sv>

Annex table 2.6: Data on Russian outward FDI stock, by IMF and Bank of Russia, 2000-2006 (in \$ million)

Year	IMF 2001	IMF 2002	IMF 2003	IMF 2004	IMF 2005	IMF 2006	IMF 2007	Bank of Russia
Russian outward FDI stock								
2000	1 368	12 394	20 141	20 141	20 141	20 141	20 141	N/A
2001		14 734	32 437	32 437	44 219	44 219	44 219	44 219
2002			47 511	54 608	62 348	62 349	62 350	62 350
2003				72 273	90 873	90 873	90 873	90 873
2004					103 692	107 291	107 291	107 291
2005						138 845	146 679	146 679
2006							209 559	216 474

Source: IMF Balance of Payment Statistics Yearbook, Part 1, 2001-2007;

Bank of Russia, External Sector Statistics, available at: <http://www.cbr.ru/statistics/?PrtId=sv>

Annex table 2. 7: Comparison of data on Russian outward FDI published by Bank of Russia, UNCTADstat and IMF, 2000-2012 (in \$ million)

Year	Outward FDI flows			Outward FDI stock		
	Bank of Russia	UNCTADstat	IMF*	Bank of Russia	UNCTADstat	IMF*
2000	3 177	3 177	3 177	N/A	20 141	20 141
2001	2 533	2 533	2 533	44 219	44 219	44 219
2002	3 533	3 533	3 533	62 350	62 350	62 350
2003	9 727	9 724	9 727	90 873	90 873	90 873
2004	13 782	13 782	13 782	107 291	107 291	107 291
2005	17 880	17 880	12 767	146 679	146 679	146 679
2006	29 993	29 993	22 657	216 474	216 474	209 559
2007	44 801	45 879		370 129	370 129	
2008	55 663	55 663		205 547	205 547	
2009	43 281	43 281		302 542	306 542	
2010	52 616	52 616		366 301	366 301	
2011	66 851	66 851		362 101	362 101	
2012	48 222	51 058		406 295	413 159	

*IMF data are available only till 2006.

Source: UNCTADstat, available at:

http://UNCTADstat.unctad.org/ReportFolders/reportFolders.aspx?sCS_referer=&sCS_ChosenLang=en;

Bank of Russia, External Sector Statistics, available at: <http://www.cbr.ru/statistics/?PrtId=sy>;

IMF Balance of Payment Statistics Yearbook, Part 1, 2007

Annex table 3.1: Russian outward FDI stock, international investment presentation,
2012, (in \$ million)

	Beginning of period IIP 01.01.2012	Changes in position due to:			End of period IIP 01.01.2013
		Transactions	Valuation changes	Other adjustments	
<i>Assets</i>					
<i>Direct investment</i>	361 750	48 822	-6 955	2 677	406 295
<i>Equity and investment fund shares</i>	287 229	48 744	-8 338	-1 402	324 231
Direct investor in direct investment enterprises	287 214	46 731	-8 338	-1 402	324 204
Direct investment enterprises in direct investor (reverse investment)	14	11	0	0	25
Between fellow enterprises	0	2	0	0	2
<i>if ultimate controlling parent is resident</i>	0	1	0	0	1
<i>if ultimate controlling parent is nonresident</i>	0	1	0	0	1
<i>if ultimate controlling parent is unknown</i>	0	0	0	0	0
<i>Debt instruments</i>	74 521	2 079	1 384	4 080	82 064
Direct investor in direct investment enterprises	42 206	395	1 379	3 961	47 942
Direct investment enterprises in direct investor (reverse investment)	12 706	755	5	-106	13 359
Between fellow enterprises	19 609	929	0	225	20 763

Source: the Bank of Russia, External Sector Statistics, available at:
<http://www.cbr.ru/statistics/?PrtId=sv>

Annex table 3.2 Instrumental composition of Russian outward FDI flows,
2005-2012 (in \$ million)

Direct investment	2005	2006	2007	2008	2009	2010	2011	2012
Net acquisition of financial assets	17 880	29 993	44 801	55 663	43 281	52 616	66 851	48 822
<i>Equity and investment fund shares</i>	15 927	28 223	33 389	54 067	34 308	34 941	39 070	46 744
<i>Equity other than reinvestment of earnings</i>	9 053	17 451	17 789	29 414	26 738	20 891	23 510	31 186
Direct investor in direct investment enterprises	9 053	17 449	17 787	29 381	26 735	20 888	23 506	31 173
Direct investment enterprises in direct investor (reverse investment)	0	2	3	33	3	3	4	11
Between fellow enterprises	0	0	0	0	0	0	0	2
<i>Reinvestment of earnings</i>	6 875	10 772	15 600	24 654	7 570	14 049	15 560	15 558
Debt instruments	1 953	1 770	11 412	1 595	8 973	17 676	27 781	2 079
Direct investor in direct investment enterprises	830	1 639	9 923	1 748	1 545	10 078	17 053	395
Direct investment enterprises in direct investor (reverse investment)	900	145	698	41	3 035	3 100	4 969	755
Between fellow enterprises	223	-14	791	-193	4 393	4 498	5 760	929

Source: Bank of Russia, External Sector Statistics, available at:

<http://www.cbr.ru/statistics/?PrtId=sv>

Annex table 3.3: Geographical distribution of Russian outward FDI flows, 2007-2012
(in \$ million)

Year	2007	2008	2009	2010	2011	2012
Total	44 801	55 663	43 281	52 616	66 851	48 822
CIS countries, <i>including:</i>	3 642	3 563	3 890	1 338	4 430	2 340
Belarus	813	1 032	1 370	934	2 819	593
Kazakhstan	107	326	1 028	-225	674	845
Ukraine	1 667	146	678	485	703	600
Uzbekistan	355	414	217	151	92	9
Not allocated geographically	231	1 150	232	0	0	0
Non-CIS countries, <i>including</i>	41 159	52 100	39 392	51 277	62 421	46 482
Bermuda Islands	2 734	1 306	854	1 056	1 072	1 136
British Virgin Islands	1 345	3 962	2 301	1 834	3 861	7 395
Cyprus**	14 700	15 524	15 288	18 309	22 930	20 920
Germany	673	1 860	1 488	1 880	971	1 118
Gibraltar	886	1 311	2 178	-533	1 186	93
Luxemburg**	497	2 633	765	2 483	2 005	-504
Netherlands***	11 991	4 684	3 376	7 035	9 901	2 599
Switzerland***	1 404	2 426	1 806	1 750	3 719	76
UK***	2 454	3 886	1 997	1 232	1 474	632
US***	973	7 264	1 634	1 060	1 625	688
Not allocated geographically	-543	869	1 256	2 001	2 481	-38

Note: In the period 2007-2009 data on direct investments of banking sector are included in «not allocated geographically» category, starting from 2010 data on direct investments both of banks and non-banking corporations are broken down by the country.

** Were excluded from the list of offshore zones.

***Have a network of offshore jurisdictions.

Source: Bank of Russia, External Sector Statistics, available at: <http://www.cbr.ru/statistics/?PrtId=sy>

Annex table 3.4 Income on Russian FDI outflows and inflows, 2005-2012 (in \$ million)

Source: Bank of Russia, External Sector Statistics, available at: <http://www.cbr.ru/statistics/?PrtId=sy>

<i>Assets</i>	2005	2006	2007	2008	2009	2010	2011	2012
<i>Direct investment</i>	-11 414	-22 238	-22 618	-30 984	-26 490	-30 248	-39 529	-41 619
Credit	8 092	12 357	17 577	29 021	11 166	18 313	22 071	25 555
Debit	19 506	34 594	40 195	60 005	37 656	48 561	61 600	67 174
<i>Income on equity and investment fund shares</i>	-11 185	-21 955	-22 329	-30 668	-26 171	-29 320	-38 118	-40 398
Credit	8 078	12 328	17 269	28 540	10 102	16 976	20 073	22 508
Debit	19 263	34 282	39 598	59 208	36 273	46 297	58 191	62 906
<i>Dividends and distributed profits</i>	-8 699	-18 010	-15 662	-21 872	-18 307	-24 726	-32 405	-32 414
Credit	1 203	1 556	1 669	3 886	2 532	2 927	4 514	6 950
Debit	9 902	19 566	17 331	25 759	20 839	27 652	36 919	39 364
Direct investor in direct investment enterprises	-8 699	-18 010	-15 662	-21 872	-18 307	-24 726	-32 405	-32 414
Credit	1 203	1 556	1 669	3 886	2 532	2 927	4 514	6 950
Debit	9 902	19 566	17 331	25 759	20 839	27 652	36 919	39 364
Direct investment enterprises direct investor (reverse investment)	0	0	0	0	0	0	0	0
Credit	0	0	0	0	0	0	0	0
Debit	0	0	0	0	0	0	0	0
Between fellow enterprises	0	0	0	0	0	0	0	0
Credit	0	0	0	0	0	0	0	0
Debit	0	0	0	0	0	0	0	0
<i>Reinvested earnings</i>	-2 487	-3 944	-6 666	-8 796	-7 865	-4 595	-5 713	-7 984
Credit	6 875	10 772	15 600	24 654	7 570	14 049	15 560	15 558
Debit	9 361	14 716	22 266	33 449	15 435	18 644	21 273	23 542
<i>Interest</i>	-229	-283	-290	-316	-319	-927	-1 411	-1 221
Credit	14	29	308	481	1 064	1 337	1 997	3 047
Debit	243	312	597	797	1 383	2 265	3 408	4 267
Direct investor in direct investment enterprises	-229	-283	-290	-316	-319	-927	-1 411	-903
Credit	14	29	308	481	1 064	1 337	1 997	1 228
Debit	243	312	597	797	1 383	2 265	3 408	2 132
Direct investment enterprises in direct investor (reverse investment)	0	0	0	0	0	0	0	-882
Credit	0	0	0	0	0	0	0	456
Debit	0	0	0	0	0	0	0	1 339
Between fellow enterprises	0	0	0	0	0	0	0	565
Credit	0	0	0	0	0	0	0	1 362
Debit	0	0	0	0	0	0	0	797

Annex table 3.5: Respondents to the Executive Opinion Survey, 2008-2012 (sample and firm size)

	2008-2009	2009-2010	2010-2011	2011-2012
Sample size	343	368	346	377
Number of employees				
<101 (%)	17	26	32	N/A
101-500 (%)	21	27	18	N/A
501-1000 (%)	33	27	31	N/A
1001-5000 (%)	21	15	14	N/A
5001-20000 (%)	4	1	3	N/A
20000 > (%)	2	2	2	N/A
No response (%)	1	0	1	N/A

The Survey asks the executives to provide their expert opinions on various aspects of the business environment in which they operate.

Source: Global Competitiveness Report, for corresponding years, available at: <http://www.weforum.org/issues/global-competitiveness>