NEW TRENDS REGARDING OFDI FROM RUSSIA

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ABSTRACT: *Among emerging economies, the Russian Federation is the second largest outward investor, surpassed only by China, but ahead of Brazil, India and South Africa. Alongside other multinationals from BRICS countries, TNCs from Russia started to emerge in the international rankings of global companies. The propose of the paper is to present the importance of developing and transition economies as investors, to provide background information and new trends of OFDI from BRICS countries, pointing out the outward expansion of Russian multinational corporations in recent years. The paper basically investigates the main patterns of Russian outward foreign direct investment (OFDI), including its dynamics and geographical destinations.*

KEY WORDS: *FDI, outward FDI, BRICS countries, Russian TNCs.*

JEL CLASSIFICATIONS: *F20, F21, F23.*

1. INTRODUCTION

Foreign direct investments (FDIs) are an essential part of international economic integration representing significant funding alternatives for investment and valuable tools for company development. Inward FDI and outward FDI depend on the direction of money flow. Inward FDI occurs when foreign capital is invested in local resources (investment by foreigners in enterprises resident in the reporting economy), while outward FDI represents direct investment abroad (investment by entities resident in the reporting economy in an affiliated enterprise abroad). FDI flow refers to amount of FDI over a period of time, usually one year (new investments made during the reference period), while FDI stock represents the total accumulated value of foreign owned assets at a given point of time (Hill, 2011).

Inflows of FDI are the flows of FDI into a country, while outflows of FDI are the flows of FDI out of a country. According to the World Bank, FDI net inflows are the value of inward direct investment made by non-resident investors in the reporting

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economy and FDI net outflows are the value of outward direct investment made by the residents of the reporting economy to external economies.

Nowadays, FDI gains increasing importance as an indicator of the international economic climate because provides significant benefits for both investor and host countries.

Table 1. Indicators of FDI, 1990-2012 (value at current prices - Billions USD)

Indicator	1990	2005-2007*	2010	2011	2012
FDI inflows	207	1491	1409	1652	1351
FDI outflows	241	1534	1505	1678	1391
FDI inward stock	2078	14706	20380	20873	22813
FDI outward stock	2091	15895	21130	21442	23593

*Source: UNCTAD, World Investment Report, 2013, Note: * pre-crisis average*

However, the overwhelming part of literature is still focused on the impact of outward FDI from developed countries into recipient developing countries, in recent years there are more and more studies and a growing academic interest on outward investment from emerging and developing economies. The literature of the last years is very rich in statistical data regarding the climbing up of BRICS[1] (Brazil, the Russian Federation, India, China and South Africa) on the international business stage.

2. OUTWARD FOREIGN DIRECT INVESTMENT FROM BRIC COUNTRIES

Technological capabilities accumulation and firm specific advantages sufficient to expand their operations to other countries allow many transnational corporations (TNCs) from emerging and developing economies to increase significantly their flows of outward investment, in quantitative terms (Gammeltoft, 2008).

Although developed countries remain the leading source of outward foreign direct investment, developing and transition economies have emerged as an important source of outward FDI and among them the BRICS countries have meaningful international role in the world economy being important outward investors.

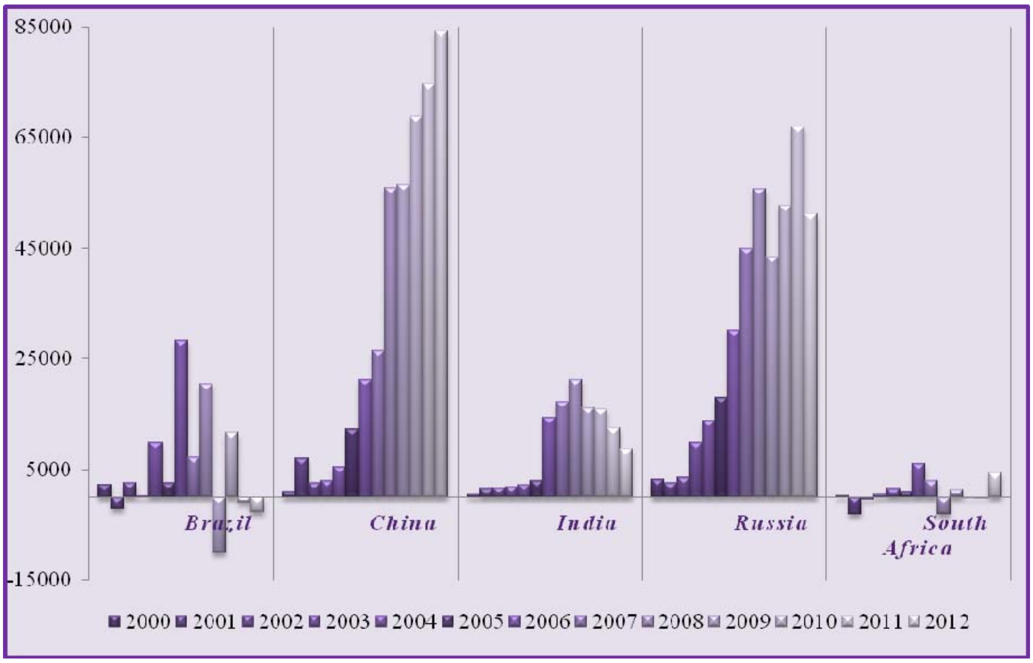
Available evidence suggests that in recent years BRICS countries are increasingly important outward investors. FDI outflows from these economies show certain key features, such as (UNCTAD, 2013b):

- the rise in FDI outflows started a bit later than that of inflows;
- in 2009 outflows from BRICS decreased by only 26%, compared to 41% for the world as a whole, due to BRICS investors resilience to the crisis;
- BRICS countries are significant investors in Africa, in 2010 their share of outward FDI flows and stock to this continent reaching 14% and 25% in total;

[1] BRICS are the acronyms used to refer jointly to Brazil, Russia, India, China and South Africa.

- the bilateral FDI stock among BRICS countries is rather low, although there was a fast growth over the last years; BRICS outward stock in other BRICS countries increased from 0.1% in 2003 to 2.5% in 2011;
- the role of BRICS as investors grew substantially, accounting for 10% of world outflows in 2012 whereas ten years before that share was only 1%;
- from the group, China and the Russian Federation score for the most part of flows, with 54% and 40% respectively.

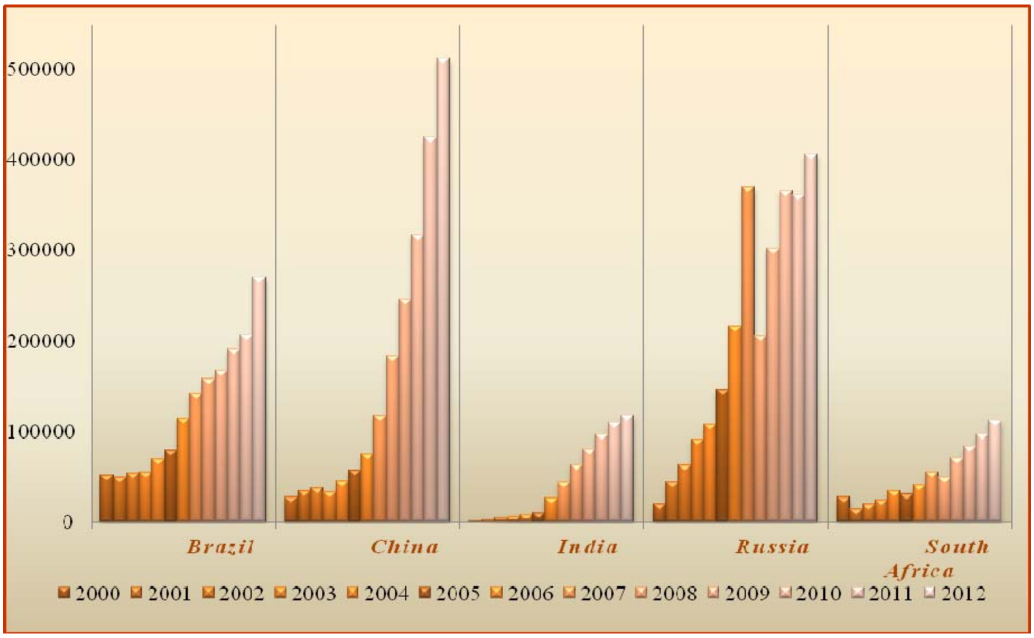
Statistical updates (figure 1, 2) show that the sharp increase in FDI by BRICS in the last decade was driven by Russia and China. The two countries contributed to more than 70% of the BRICS countries' FDI growth between 2005 and 2008. However, in the following years the rise of outward FDI flows from these economies came to a temporary halt when the financial crisis and recession had a strongly negative impact on them. In 2012, in case of Brazil and India the value of FDI outflows continued to fall for the second and third consecutive year, but for China, Russia and South Africa we can detect a certain revival.



Source: based on data from UNCTAD's FDI database

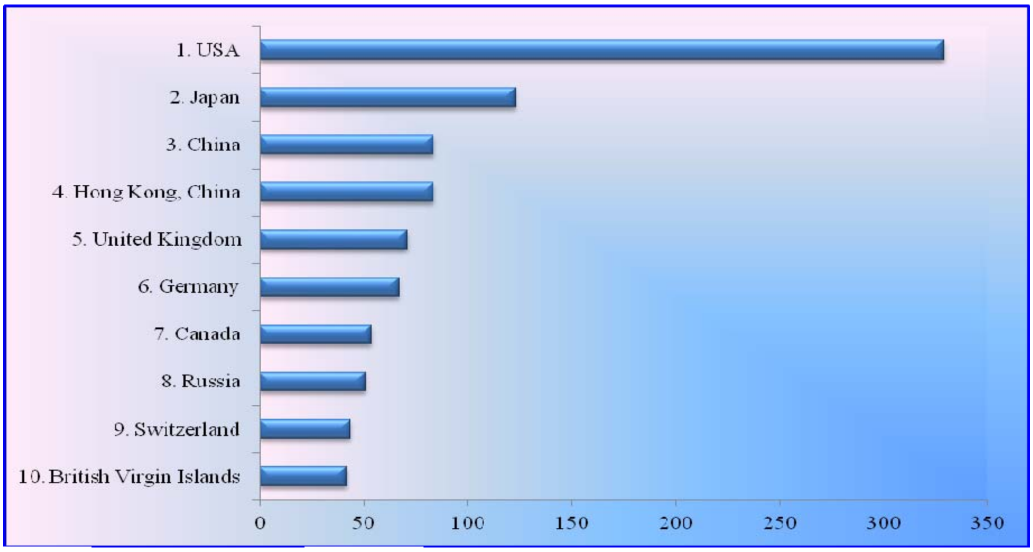
Figure 1. Outward foreign direct investment flows from BRICS countries, 2000-2012 (Millions of USD)

According to UNCTAD's 2013 World Investment Report, the BRICS countries (especially China and Russia) continued to be in 2012 the leading sources of FDI among emerging investor countries, flows from these five economies accounting for 10% of the world total. In the ranks of top investors, China moved up from sixth to the third largest investor in 2012, while Russia moved down one place to the eighth largest investor in 2012 (figure 3).



Source: based on data from UNCTAD's FDI database

Figure 2. Outward foreign direct investment stock from BRICS countries, 2000-2012 (Millions of USD)



Source: based on data from UNCTAD, World Investment Report, 2013

Figure 3. Top 10 investor economies, 2012 (Billions of USD)

FDI flows from developing economies rose slightly in 2012 (reaching 31% in total), while outward FDI flows from transition economies declined in 2012, owing to a fall in FDI outflows by Russian investors. Nevertheless, Russia continued to dominate outward FDI from the region, accounting for 92% of the total. Although TNCs based in natural-resource economies continued their expansion abroad, the largest acquisitions in 2012 were in the financial industry (UNCTAD, 2013a).

In the near future, although Investment Promotion Agencies (IPAs) anticipate developed-country TNCs as the most promising sources of FDI in 2013-2015, developing and transition economies, especially BRICS countries, are becoming important outward investors. Thus, 60% of IPA respondents (UNCTAD, 2013) ranked China as the most promising source of FDI due to fast increase of outward FDI from this country in late years, but India and the Russian Federation are also seen as major sources of FDI, ranked 7^{th} and 10^{th}, respectively.

Though the five BRICS countries are not among the most developed countries of the world yet, their potential of geographical area and population, economic growth rate, military force and political influence give them the status of future great powers of the world (Drigă & Dura, 2013).

3. TRENDS OF OFDI FROM RUSSIA

The importance of transition economies as investors has significantly increased over the last decade. Russia, one of the emerging economies with rapid growth, is rich in natural resources, raw materials, minerals and energy having the ability to use these resources to develop industrially and expand trade. Thus, the Russian Federation is considered by many one of the best to invest in the long term.

The Russian economy undergoes a process of modernization from a natural-resource based country to a modern service and innovation oriented economy. Being developed as a resource-based economy, Russia had always held a vital role within the global energy supply system. In fact, the economic rise of Russia at the beginning of the 21^{st} century was considered to be triggered by the oil prices increasing trend as well as by the reinforcement of the Russian state and its domination over the massive amount of natural resources within the boundaries of this country. In the early 2000s, the Russian companies began to undertake internationalisation strategies (Drigă & Dura, 2013).

Russia has stood out among transition economies as the country with the highest outward/inward FDI ratio and as a net capital exporting country from the beginning of the economic transition. The Russian OFDI flows increased considerably in 2000s after a relatively slow start and a modest average annual growth in the 1990s, (Vahtra, 2009). From 2000 outward FDI flows from Russia increased more or less steadily until 2008 reaching 55.66 billion USD from 3.18 billion USD in 2000. With the outbreak of the financial crisis in the second half of 2008 that affected the Russian economy deeply, outward investments from the country have dropped in 2009 to 43.28 billion USD regaining though a positive trend not long after. Thus, in 2010 FDI flows from Russia got back to 52.62 billion USD, jumping again in 2011 to 66.85 billion USD (table 2). According to UNCTAD's 2013 World Investment Report, outward FDI flows from transition economies declined in 2012 (by 24%), due to a fall in FDI outflows by Russian investors. However, Russia continued to dominate outward FDI from the region (accounting for 92% of the total) as natural-resource based TNCs continued their expansion abroad.

Table 2. Russian OFDI flows (Billions of USD)

Partner country	2007	2008	2009	2010	2011	2012
World	44.80	55.66	43.28	52.62	66.85	51.06

Source: Bank of Russia database, http://www.cbr.ru/eng/statistics

Among Russian TNCs, Mergers and Acquisitions are more popular than Greenfield projects (table 3) Europe being by far the main target zone for Russian overseas M&As. Thus, with 476 M&As acquired by Russian firms in Europe between 2000-2011, the Russian Federation is considered an outstanding country among BRICs and developing economies. On the other hand, in 2013, a total of 142 cross-border Greenfield FDI projects sourcing from the Russian Federation were recorded, compared with 162 FDI projects in 2011 (-12.3%) and 22 FDI projects in 2007 (+6%) (Milan Chamber of Commerce, 2013).

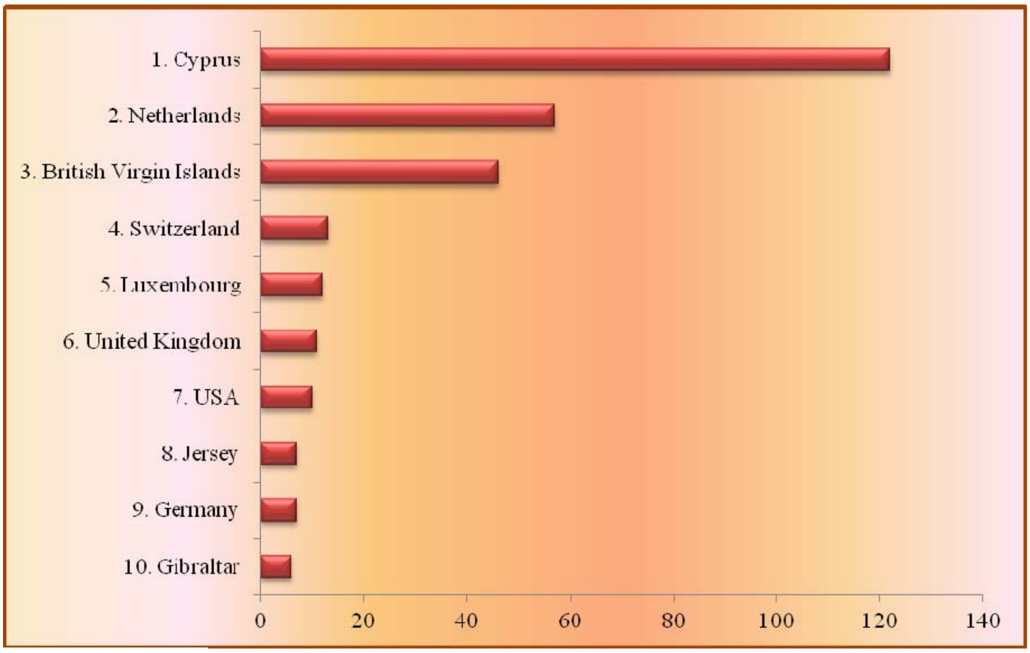
Table 3. Russia's outward FDI flows and stock, 2012

	2012	Var% _ 2011-12	Var% _ 2007-12
FDI outflows (million USD)	51.058	-23,6 %	11,3 %
% on World total	3,7 %		
Value of greenfield outward FDI projects (million USD)	4.899,8	-68,4 %	-68,1 %
% on World total	0,8 %		
Value of outward cross-border M&As (million USD)	7.807	139,5 %	-58 %
% on World total	2,5 %		
FDI outward stock (million USD)	413.159	14,1 %	11,6 %
% on World total	1,8 %		

Source: Milan Chamber of Commerce, OFDI Country Profiles 2012: where the FDI demand is coming from, July 2013

Russian firms have mainly engaged in resource-seeking FDI projects in pursuit of raw materials and access to strategic commodities. Although, Russian MNCs belong to a great variety of industries, the boom of Russian OFDI was mostly supported by oil, gas and metal companies, especially in the European Union and the CIS countries, as well as in the United States. There are several main manufacturing industries of the Russian OFDI expansion: petrochemicals (especially LUKOIL), agrochemicals (Eurochem and Acron), steel (about 10 significant investors), non-ferrous metals (first of all RUSAL and Norilsk Nickel) and machinery. On the one hand, few years ago banking and other services became a field of the mass Russian investment expansion abroad (Kuznetsov, 2010).

From 2007, the Bank of Russia began to publish detailed statistics on the geographical distribution of Russian outward FDI flows in order to underline the priorities of Russian investors during the global crisis. Cyprus, together with the Netherlands and the British Virgin Islands, has become one of the most important host countries, being in the same time the largest investor in and recipient of FDI from Russia. Some small countries of the Commonwealth of Independent States (CIS) and Central and South-East Europe are also among main recipients of Russian outward FDI (Drigă & Dura, 2013).



Source: UNCTAD, World Investment Report, 2013

Figure 4. Top 10 recipients of FDI stock from the Russian Federation, 2011 (Billions of USD)

According to statistics released by the Federal State Statistics Service of Russia the key recipient of Russian capital are advanced markets of Europe and the USA. In recent years, large Russian companies have shown an impressive performance in their expansion abroad, in an effort to diversify their distribution markets and gain access to the latest technologies (Filipov, 2012).

But in the last couple of years there were certain interesting changes in geographical priorities of Russian multinationals underlining the maturity of some Russian companies (the emerge of non-European countries among the most important destinations, as Gibraltar or India). Furthermore, available evidence (UNCTAD, 2013b) suggests that the expansion of MNCs from the Russian Federation in BRICS countries is fairly recent but rapid, being motivated by a desire to expand their control over the value chains of their own natural-resources and to strengthen their market positions in key developing countries (table 4).

Table 4. Outward FDI stock from BRICS countries to other BRICS countries, 2011 (Millions of dollars)

Home country	Host country					
	BRICS	Brazil	China	India	Russia	South Africa
BRICS	28599.5	1222.4	13570.8	1795.6	7671.5	4339.1
Brazil	514.1	-	447.5	15.8	0.1	50.7
China	9552.5	1071.8	-	657.4	3763.6	4059.7
India	1987.1	73.9	228.7	-	1490.4	194.1
Russia	1139.9	-	123.1	982.3	-	34.5
South Africa	15405.8	76.8	12771.5	140.1	2417.4	-

Source: UNCTAD, The Rise of BRICS FDI and Africa, Global Investment Trends Monitor, 25 March 2013

Recently, Russian TNCs have found their way to Africa too. The expansion of Russian transnational corporations in the world's second-largest continent has been fast, reaching 1 billion USD in 2011. The main aim of Russian TNCs is to enhance raw-material supplies and to access local markets. Thus, Rusal, the world's largest aluminium producer, has operations in South Africa, Nigeria, Angola and Guinea. Russian banks are also moving into Africa. For example, Vneshtorgbank (now VTB Bank) opened the first foreign majority-owned bank in Angola, and then moved into Namibia and Côte d'Ivoire (UNCTAD, 2013b).

4. CONCLUSIONS

The global environment for outward FDI is changing rapidly. Technological and logistical progress and competition among firms from all over of the world influence and support global direct investment flows from both developed and emerging markets. Under these circumstances, MNCs from emerging economies have not only become investors in many other developing countries, but they also increasingly invest in developed countries.

The BRICS – Brazil, Russian Federation, India, China and South Africa – are not just strong performers in attracting FDI, but also increasingly important outward investors, according to the United Nations Conference on Trade and Development. Over the past decade BRICS countries have also become important investors, their outward FDI has risen from 7 billion USD in 2000 to 126 billion USD in 2012, representing 9% of the world flows.

Looking at the development of OFDI flows from the BRICS countries since 2000, it is noticeable that Russian MNCs increased their OFDI greatly. Russian multinationals are by far the key players of the Eastern European region in the natural resources field. Therefore, from among the BRICS, the paper gives insights into the Russian economy and outward FDI from Russia, pointing out the outward expansion of Russian MNCs in recent years.

The rise of Russian multinationals has become a part of the present-day economic reality as Russian OFDI flows increased considerably during the 2000s. According to UNCTAD, Russia had risen to 15th rank in the world in terms of OFDI stock by the end of 2006. On the whole, the key recipients of Russian capital are advanced Western markets, Cyprus, the Netherlands, the British Virgin Islands, Switzerland, Luxembourg, United Kingdom and the United States being the largest recipients of FDI from the Russian Federation.

As relative and absolute economic importance of emerging economies is expected to continue to rise for the foreseeable future, Russian OFDI activities will continue to increase in next years.

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