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Amar I. Anwar [*] and Mazhar Y. Mughal [**]

Abstract

This study examines the motives for Russian outward foreign direct investments (OFDI) around the world. Using firm-level data for Russian firms, home and host country economic, geographical, cultural and institutional drivers of Russian OFDI are analyzed. Findings show that Russian OFDI seems to be motivated by both the push and the pull factors. Results suggest market-seeking to be the main motive behind Russian outward foreign direct investments, followed by resource and technology acquisition, while efficiency-seeking does not appear to be a major objective. Compared with the pre-crisis period, Russian firms have been seeking more foreign investments since 2008. The study helps better understand the economic, geographical, cultural and institutional factors that Russian transnational corporations consider while planning investments abroad.

Key words: Outward Foreign Direct Investment; 2008 financial crisis; Russia.
JEL codes: F23; G01; O53

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Introduction

In today's globalizing economy, the role of foreign direct investments is being increasingly recognized. Although Outward Foreign Direct Investments (OFDI) from the developed countries have been examined in the business literature for decades, there is still room for further analysis of the OFDI from emerging and developing economies. OFDI are said to help investing firms increase their revenues and profits, acquire strategic assets and gain access to raw materials, and improve market reach (UNCTAD, 2007). They have become an indispensible strategic tool for acquiring access to resources abroad such as raw materials, energy, skilled labour, technology and know-how (De Beule and Den Bulcke, 2012). When investing abroad, which country factors do emerging markets transnational corporations (TNCs) consider? What are the motives behind these investment decisions? Whether the home or the host-country specific factors dominate? Did the recent global financial crisis have any impact on the motivation behind the foreign forays by these new players on the international investor scene? We study these questions by examining annual outbound investment activities of Russian corporations during the 1999 – 2012 period.

Insert fig. 1 here

As shown in figure 1, Russian Federation is the largest outward investor among emerging economies with OFDI in 2012 flows equalling 2.6% of the national output, surpassing People's Republic of China (henceforth China), Brazil and India (UNCTAD, 2013). Russian OFDI flows rose from an average of $14.3 billion during the pre-crisis period (1999 – 2007) to a post crisis (2008 – 2012) level of $53.89 billion, a 3.76 fold increase UNCTAD 2013). In comparison, average OFDI flows from other BRIC countries (Brazil, China, India) in the post-crisis period were 0.63, 7.6 and 3.17 times the pre-crisis levels. This is despite the fact that Russia was initially the worst hit of all G-20 countries during the global financial crisis, with GDP falling by a hefty 7.9% year-on- year in 2009 (WDI, 2013). In comparison, China and India’s GDP rose by 9.2% and 8.5 % respectively while Brazil's fell by 0.3% (WDI, 2013).

In this study, we analyze various home and host country economic, geographical, cultural and institutional factors that determine Russian firms' choice of investment destinations. In doing so, we estimate the strength of various investment motives and examine the effect of the 2008

global financial crisis on their investment behaviour. We find that market-seeking stands out as an important motive of Russian firms' foreign investments followed by natural resources and technology acquisition. Both push (e.g. home country economic and institutional environment) and pull (e.g. host country market, natural resources and technology) seem to drive Russian FDI outflows. Moreover, the 2008 global financial crisis has an amplifying effect on Russian outward investments, ceteris paribus.

The remainder of the study is organized as follows. Next section briefly overviews Russian firms' international investment profile. Section 3 briefly gives the study's theoretical background. Section 4 introduces the dataset and presents the empirical methodology. Key findings are presented and discussed in Section 5, followed by the study's main conclusions in Section 6.

2. Outward foreign investments by Russian firms

Russia went through a severe economic crisis in 1998, as the economy shrank by 5.3% and the national currency fell sharply. Economic conditions have greatly improved since, partly as a result of rising prices of oil and gas and Russia's rising mineral production. Incomes have risen and investment has grown. Several energy, banking, industrial and retail conglomerates have emerged, and Russia now boasts seven corporations in the Global 500 list (Table 1). Two of these Russian giants, Gazprom and Lukoil, rank among the World's 50 biggest firms.

Insert table 1 here

Since the mid-2000s, Russian firms have begun increasingly internationalizing. Several Russian corporations (particularly those involved in the extraction of natural resources) are cash rich and have sought to acquire foreign assets. This strategic buying spree often has Russian government's tacit support. Both major Russian state owned enterprises and private corporations have made foreign investments, usually seeking downstream markets (Kalotay, 2010). Russian firms such as Lukoil, Gazprom, Inter RAO, Novolipetsk Steel etc. have used their access to Russia's vast natural resource endowments to build a strong international presence in refining, rolling, transportation and distribution activities (Skolkovo Research, 2009; UNCTAD, 2005). Table 2 shows top outward investing Russian corporations by volume of investments.

Insert table 2 here

Insert figure 2 here

Most of the Russian investment projects abroad have been mergers and acquisitions (M&A) in the financial, consumer products, natural resources and energy sectors (figure 2), with investments in the primary sector accounting for over half of the total amount of OFDI.

Russian OFDI is mainly concentrated in the OECD countries as well as East European and former Soviet Republics (Table 3). Initially, former Soviet Republics were the Russian firms' major investment destinations (Table 3 Panel A. These investments mostly sought access to natural resources (for example Lukoil's operations in Azerbaijan or the Russian steel maker Mechel's investments in Kazakhstan), or to capture the countries consumer markets (for example Mobile TeleSystems' investments in Ukraine's and most other former Soviet Republics' telecommunication networks, or electricity producer and supplier RAO UES's operations in Armenia, Georgia, Moldova and Ukraine). However, preference for these Commonwealth of Independent States (CIS) countries has gradually waned. Unlike the pre-2008 financial crisis period when ten of these states figured in Russian firms' top 25 investment destinations, only five featured in the post-crisis period (Table 3 Panel B), namely Belarus, Ukraine, Kazakhstan, Estonia and Armenia. East European countries in particular are attracting higher investment flows from Russia. Among other BRIC countries, only China features in top 25 Russian investment destinations. Western Europe and North America still remain major recipients of the Russian TNC. Nonetheless, investments in countries such as Cyprus and Luxembourg and even the Netherlands and the United Kingdom are sometimes used for round tripping or re-investment in the domestic economy to benefit from investment incentives granted to foreign investors (Kuznetsov, 2010, Filippov, 2008). This last use of outbound investments by Russian firms means that some of Russian OFDI flows relate to capital flight, and therefore can only be considered an approximation of Russian OFDI (Filippov, 2011).

Insert Table 3 here:

Most Russian TNCs are large exporters and consequently rely on exports receipts to finance their foreign investments (Imemo, 2009). For this reason, Russian TNCs were badly hit at the onset of the 2008 financial crisis as prices for their exports commodities fell sharply. For

instance, prices of oil, nickel and steel plunged by 54%, 63% and 20% respectively (Kalotay, 2010). Corporate debt of Russian firms rose to close to $110 billion and firms like Rusal, Norilsk Nickel, TMK and Sistema faced financial difficulties due to high debt repayments (Andreff, 2013). Several major corporations received financial support from the state-owned Bank for Development and Foreign Economic Affairs VEB (Filippov, 2011), and Russian government's role in the country's corporate sector increased (Filippov, 2011).

Although Russian OFDI stock fell in 2008, foreign investments (especially those by state-owned Russian corporations) have rebounded and Russian OFDI stock in 2012 is 12% larger as compared to the one before the outbreak of the 2008 financial crisis.

3. Theoretical background

According to Dunning's Eclectic paradigm, firms possess comparative advantage over their competitors based on ownership of unique and complementary assets which they exploit to gain locational advantage (Dunning 1979, 1988). The paradigm combines elements from the theories of transaction cost (internalization) and market power. Firms choose to internationalize by investing abroad for four major reasons (Dunning, 1993): seeking foreign markets, improving efficiency, gaining access to resources, or acquiring assets. Market seeking outward investments help the firm take advantage of the host economy's market size by producing products for the local market. Increasing the firm's market share allows the firm to realize economies of scale and scope, and thus improve its efficiency. Efficiency seeking investments benefit from differences between home and host country costs to lower production and transaction costs and increase production. Resource seeking investments provide the firm access to the host country's abundant tangible and intangible resources. These resources can be natural (e.g. raw materials, minerals) or human (professionals, skilled and unskilled manpower).

These three investment motives can be called asset exploiting motives (Makino et al. 2002). The three motives essentially involve transferring the firm's proprietary assets from the home to the host country and result from the firm's desire to improve short run returns (March 1991). In contrast, asset augmenting or asset seeking investments seek to enhance the firm's long term non-price competitiveness by acquiring strategic assets such as new technology, delivery and distribution infrastructure, brand names, patents and licenses. Such outward investments improve the long term revenue generation potential of emerging economies

TNCs and help them compete with multinationals from the developed countries by allowing them access to technology and technical and managerial knowhow (UNCTAD 2006).

In essence, the drivers of FDI outflows are due to differences in availability of resources between home and host country and can be classified as either push and pull factors (Anwar, 2009; Kumar, 1982; UNCTAD, 2005). These differences can be either country or firm-specific. Push factors pertain to saturated domestic market, high labor costs or resource unavailability, while pull factors consist of host country locational advantages (Anwar and Mughal 2013).

As described in the previous section, Russian TNCs have generally invested in the developed countries of Western Europe and North America as well as in the neighboring CIS countries, and both market seeking and efficiency seeking motives have been present in these investments. However, in recent years, Russian TNCs have increasingly looked for access to natural resources and strategic assets. This raises the question as to which of the four investment motives have been most important for Russian OFDI. As well, whether Russian FDI outflows are motivated mainly by the push or the pull factors? In the following, we investigate these questions empirically.

4. Data and methodology

4.1.Data description

In this study, we analyze various investment motives of Russian TNCs by employing detailed S&P Capital database. S&P Capital provides worldwide data on mergers and acquisitions (M&A) along with equity participation, state ownership and firms' ownership advantages like firm's age, number of employees, R&D expenditures and sales. The database provides total number of M&A deals and the resulting amount of OFDI starting from 1999. Although data on Russian outward investments are available for over 100 countries, we restrict our dataset to Russian TNCs' top 55 investment destinations, disregarding negligible and infrequent investment destinations. Those M&A deals which are in progress or cancelled are excluded from the data.

We include a host of variables pertaining to the economic, institutional and geographical situation of both the home and the host countries to represent the push and pull factors. OFDI

are influenced by push factors such as home country's economic activity and inflation as well as pull factors such as the host country market size, inflation, number of patents issued and natural resource exports. Similarly, exports to a host country can affect the volume of OFDI to that country. Geographical proximity and cultural affinity with host country can also facilitate foreign investments. Russian investments have traditionally targeted countries of the former USSR and the communist bloc, many of which share linguistic, colonial or ethnic ties with the Russian Federation. Common language and shared cultural traditions make communication and knowledge transfer convenient.
We also add a dummy indicator 'fincrisis2008' which takes the value of one for the period from 2008 onwards and zero prior to it.

The decision of whether, how much and where to invest can also be driven by institutional factors such as home and host levels of corruption, rule of law, governance, regulatory environment and political instability. Private Russian firms are thought to have transferred capital to offshore locations such as Cyprus during the 1990s to hedge against Russia's unstable political environment and economic volatility (Filippov, 2008). Although political stability has returned, corruption is still rampant in Russia, and the country consistently ranks low on global indices of corruption perception and economic freedom (Index of Economic Freedom, 2012; Transparency International, 2010).

Table 4 defines the variables and their sources as well as their expected signs, while Table 5 gives summary statistics of the selected variables.

Insert table 4 here

Insert table 5 here

These variables help distinguish between the four OFDI motives. Host per capita output relates to market seeking motive, while host country inflation refers to efficiency motive. In the presence of a positive association between OFDI and host GDP per capita, both the market and efficiency seeking motives can be expected. A negative relationship between OFDI and host inflation would however indicate preference for efficiency seeking motives, as higher inflation rate reduces the attractiveness of the host country for a cost-saving firm. Share of ores exports in the host country's exports receipts and number of patents issued annually are taken as proxies for resource and asset-seeking motives respectively. A positive

association of either with Russian OFDI will suggest the presence of the corresponding investment motive.

4.2.Methodology

Model 1 explores asset exploiting motives by including indicators for market seeking, efficiency seeking and resource seeking motives, while model 2 tests for asset seeking motives in addition to asset exploiting motives. Our parsimonious baseline model can be given as:

$$ofdi_{i,t} = f(lgdppccon_{i,t}, infl_{i,t}, lexp_{i,t}, lrexrate_{i,t}, oressex_{i,t}, lhgdppc_{i,t}, hinf_{i,t}, oecd_{i,t}, fincrisis2008_{i,t})$$

Where 'i' represents the host country and 't' the year in which the investment took place.

In the subsequent models, we include various geographical, cultural and institutional variables for home and host countries.

Our final dataset is a panel of 49 countries containing 304 observations for the period 1999 - 2012. The list of countries is shown in Table A-1 in the appendix. We carry out a battery of econometric tests to examine our balanced panel dataset. Results of Breusch-Pagan Lagrange multiplier (LM) test, Wald test for groupwise heteroskedasticity, Wooldridge test for autocorrelation in panel data, and Variance Inflation Factors (VIF) for panel multicolinearity for the baseline specification are shown in Table A-2. The dataset is found to exhibit signs of serial autocorrelation and group wise heteroskedasticity. Use of Ordinary Least Squares (OLS) estimation would therefore be inefficient. Consequently, estimations are carried out using Feasible Generalized Least Squares (FGLS) panel regression. This technique allows estimations of models with autocorrelation within panels and cross-sectional correlation and heteroskedasticity across panels (Stata, 2013).

5. Key findings

Table 6 shows results for various OFDI model specifications. Column 1 gives results for the baseline specification while column 2 additionally tests for the host country technological level. Home and host country GDP per capita are found to be important determinants of Russian OFDI, both showing highly significant association with Russian TNCs' outward investments. This suggests that Russian OFDI flows weaken whenever the home economic activity falters, and increasing per capita income, in the presence of domestic institutional weaknesses, acts as a catalyst for Russian FDI outflows. This corroborates the finding of

Kalotay and Sulstarova (2010) who found Russian domestic GDP to be the most important driver of Russian cross-border M&A. Russia's exports to a country are likewise positively related with the amount of OFDI invested in the country by Russian firms. Russian TNCs prefer investing in countries with which they have prior exports experience. Home and host inflation rates, though significant, seem to play a minor role in driving Russian OFDI. Rising prices at home serve as a minor push factor for Russian outbound investments while host country price increases signal the economy's attractiveness. Abundance of natural resources in the host country as well as its technological prowess also show a significant positive association with Russian OFDI.

Real exchange rate too shows a positive sign, even though the level of significance is variable. Russian OFDI appears to increase in response to depreciation in the Russian Ruble, suggesting that Russian corporations take currency depreciation as a sign of upcoming economic volatility and would shift capital abroad. The binary variables for OECD and 2008 financial crisis are both significant with positive signs. The marginal probability of Russian firms engaging in outward investment in OECD countries is 32% compared with 18.8% for non-OECD countries. Similarly, post-2008-financial-crisis Russian OFDI, all things being equal, are 7% higher than the pre-crisis period.

Insert table 6 here

These findings shed light on the possible motives behind Russian OFDI. A strong positive association of host GDP per capita with Russian OFDI suggests the importance of capturing foreign markets for Russian TNCs. As discussed in Section 2, many overseas investments by Russian firms in OECD, CIS and other countries have sought to acquire higher share in foreign markets through downstream integration and bypassing import quotas. Host output's positive association with OFDI can also arise as a result of efficiency-seeking motives, which are also linked with a negative relationship between OFDI and host inflation rates. Rising host country prices can indicate higher production costs which may deter cost saving investments by foreign firms. A significant positive association with host country inflation rates (instead of an expected negative sign) suggests that efficiency is not a major investment motive of Russian OFDI.

Another investment motive for Russian TNCs may be to acquire access to natural resources abroad, both to facilitate home industrial production and to exploit host countries' mineral

wealth using firms' technical knowhow. This motive can be deduced from the significant positive association between host country share of commodities in their total exports receipts. The desire to improve firms' long run competitiveness is evident in the significant and positive coefficient for the number of patents obtained in the host countries (Table 6 column 2), as Russian TNCs seem to invest more in economies placed at the cutting edge of technology. The results, taken together, suggest that in the case of Russian TNCS, both asset exploiting and asset augmenting motives are at play.

We re-estimate our baseline model by including some additional factors that have been examined in the literature. Columns 3 – 6 of Table 6 show results with various geographical and cultural factors. Distance between the largest cities of the home and the host country, taken as an indicator of geographical proximity exhibits a significant positive association with Russian OFDI, suggesting that Russian TNCs make more substantial acquisitions at more distant destinations such as North America and Western Europe as compared to Russia's near abroad where Russian investments, even though numerous, are often less valuable. This observation is also reflected in the statistically insignificant coefficient for the CIS dummy. It is possible that Russian TNCs prefer investing in countries neighbouring Russia, regardless of those countries being former Soviet Republics. Results do not support this argument, as the binary variable for host country's geographical contiguity with Russia is likewise insignificant. Furthermore, the common language dummy used as an indicator of cultural affinity is also insignificant. These results confirm the observation that CIS countries, many of which still maintain Russian as an important official or administrative language, and some of which are located nearby, are no more the main targets of Russian OFDI.

Insert table 7 here

Insert table 8 here

Table 7 shows the role of home country institutional indicators on Russian OFDI. Home institutional factors, such as rule of law, quality of governance and corruption play a significant role in driving Russian OFDI. Poor institutional environment pushes Russian TNCS to invest surplus capital abroad. Political instability at home however does not seem to play a significant role. In the same vein, Russian TNCs do not seem to take host levels of corruption into account while making their investment decisions (Table 8). This may owe to the fact that Russian TNCs have grown during the last couple of decades under a political

system marred by corruption and arbitrariness, and perceived corruption in a country does not hamper their outward investment ambitions. Other host institutional factors likewise show no statistically significant association with Russian OFDI.

In the light of the above findings, Russian OFDI can be compared to foreign investments by TNCs of other emerging countries. Like Brazilian and Chinese firms, and especially like Indian firms, Russian TNCs accord high importance to host country market size (Amal and Tomio, 2012; De Beule and Den Bulcke, 2012). Similarly, natural resources potential of the host countries plays a substantial positive role in attracting Russian OFDI, just as it does for Chinese and Indian OFDI (Buckley et al., 2007; De Beule and Den Bulcke, (2012; Kolstad and Wiig, 2009). In addition, both Russian and Chinese TNCs seem keen to invest in countries that are already a significant market for their products (Ramasamy et al., 2012).
However, some differences are also noticeable in the Russian investment strategy. Unlike Brazilian and Chinese firms, Russian firms appear to increase their outward investments in response to the depreciation of national currency (Amal and Tomio, 2012; Zhang and Daly, 2011). Likewise, in contrast with Indian TNCs which cherish economic freedom aspects of host economies such as government size, ease of foreign trade, and market regulations (Anwar and Mughal, 2012), Russian firms do not appear to give importance to rule of law, governance or level of corruption in the host economy. Moreover, similar to Brazilian OFDI but unlike Chinese and Indian investments, Russian OFDI are positively associated with the geographical distance between the home and the host country (Amal and Tomio, 2012; De Beule and Den Bulcke, 2012).

6. Concluding remarks

In the recent years, growth of OFDI flows from emerging economies has outpaced those from the OECD countries (Amal and Tomio, 2012). In this study, we examined one of the biggest sources of OFDI from emerging countries, namely Russia. Using S&P data on Russian firms' foreign mergers and acquisitions, we analyzed the home and host country economic, geographical, cultural and institutional factors that influence Russian OFDI, and gauged the importance of various investment motives. We found that both push and pull factors are at play in driving Russian outbound investments. Results suggest that home and host per capita output and inflation as well as abundance of natural resources in the host country play a significant role in driving Russian TNCs foreign investment decisions. Exports to a country

also increase Russian OFDI to the host country, while host country institutions have little effect on Russian OFDI. The 2008 global financial crisis appears to have raised Russian TNCs appetite for foreign assets. All things being equal, Russian TNCs are keener to invest in OECD countries than in CIS countries.

Our findings suggest that Russian outward investments seek to acquire and augment strategic assets as well as exploiting their existing asset endowments. Raising share in foreign markets is an important objective of Russian firms. Seeking access to host country's natural resources and technology acquisition also appear to be important motives, while efficiency does not appear to be Russian firms' foremost priority at the moment. Given the fact that multinationals from other emerging economies are also actively seeking foreign markets and access to natural resources, Russian firms could in future face increasing competition in pursuit of their investment objectives.

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Table 1: Top Russian Firms in Global 500

Rank	CompanyName	Revenues ($b)	Assets($mm)	Employees	Equity($mm)
21	**Gazprom**	153.5	395.2	417000	274796.0
46	**Lukoil**	116.3	99.0	150000	73207.0
99	**Rosneft Oil**	79.6	126.3	166110	73024.0
228	**Sberbank**	44.8	494.4	286019	52754.0
308	**Sistema**	35.4	44.7	170000	9195.0
358	**TNK-BP International**	31.7	43.3	50000	22477.0
445	**Surgutneftegas**	26.3	58.8	101765	55338.0

TABLE 2: Top 20 Russian MNCs outward foreign direct investments through M & A during 1999 to 2013

Buyers	Primary Industry	Host Country	Number of M&A	Total OFDI through M&A ($ mm)	Total Assets ($ mm)- Latest Annual	Total Revenue ($ mm)- Latest Annual	Number of Employees
Oil company LUKOIL	Energy	Belgium, Bulgaria, Canada, Finland, Gabon, Guinea, Iraq, Italy, Ivory Coast, Netherlands, Poland, Romania, Serbia, Sierra Leone, Turkey< United States	23	7022.33	109439	141452	
JSC VTB Bank	Financials	Armenia, Austria, Azerbaijan, Belarus, France, Georgia, Germany, Luxembourg, Serbia, Ukraine, United Kingdom	21	1660.67	266872.6	10107.6	103808
Gazprom	Energy	Armenia, Austria, Belarus, Cyprus, Finland, Germany, Latvia, Lithuania, Moldova, Serbia, Switzerland	16	5265.3	395145.5	157026.6	417000
United Company RUSAL Plc	Materials	Australia, China, Guinea, Guyana, Italy, Jamaica, Kazakhstan, Montenegro, Nigeria, Switzerland, Tajikistan	16	634.93	20580	9760	69060
Severstal	Materials	Italy, Kazakhstan, Ukraine, United States	15	3683.46	14533.7	13311.6	100000
International Marketing & Sales Group PLC	Consumer Discretionary	Greece, Hungary, India, Romania, Sweden, Turkey, United Kingdom	13	111.52			2049
Gazprom Neft	Energy	Cyprus, Italy, Kazakhstan, Kyrgyzstan, Serbia, United Kingdom	13	2039	47589.8	38580	
Sberbank	Financials	Austria, Belarus, Hungary, Kazakhstan, Switzerland, Turkey, Ukraine, United States	12	4999.09	554237.4	30697.1	306123
Mobile Telesystems	Telecommunication Services	Armenia, Bermuda Cyprus, Netherlands, Ukraine, United States, Uzbekistan	12	1325.29	14777.1	12126.8	62077
Federal Grid Company of Unified Energy System	Utilities	Georgia, Ukraine	11		27955	4807.9	11181
GAZTek	Utilities	Ukraine	10	22.001	1398.1	16.2	

Buyers	Primary Industry	Host Country	Number of M&A	Total OFDI through M&A ($ mm)	Total Assets ($ mm)- Latest Annual	Total Revenue ($ mm)- Latest Annual	Number of Employees
Gazprombank	Financials	Armenia, Austria, Cyprus, Czech, Republic, Ireland, Moldova, Switzerland	9	429.58	110997.2	3501.4	7513
Renova Group of Companies	Financials	Belarus, South Africa, Sweden, Switzerland	8	112.07			
Pharmstandard	Healthcare	Cyprus, Latvia, Luxembourg, Singapore, Ukraine	8	705.23	1746.8	1573.9	
Mining and Metallurgical Company Norilsk Nickel	Materials	Australia, Canada, Cyprus, Finland, Saint Kitts & Nevis, United Kingdom	8	6617.45	18781	11489	84082
Oil Company Rosneft	Energy	Canada, Cyprus, Germany, Mongolia, United Kingdom, Venezuela	8	1785.04	229421.9	138359.2	170900
Altimo	Financials	Cambodia, Cyprus, Kyrgyzstan, Netherlands, United States, Uzbekistan	8	5042			
OAO VAO Intourist	Consumer Discretionary	Czech Republic, Italy, Namibia, Turkey, United Kingdom, United States	8			14	
RusNano	Financials	British Virgin Islands, Cyprus, Finland, Netherlands, United States	7	32.978		59.9	409
CJSC Transmashholding	Industrials	Germany, Kazakhstan, Latvia, Switzerland	7	60		1277.4	251
OAO TMK	Energy	Germany, Italy, Kazakhstan, Oman, Romania, United States	7	1846.68	7418.7	6431.9	516

Source: Authors' calculation based on S&P Capital database (2013)

Table 3 - Top 20 Host Countries before and after Financial Crisis

Before Financial Crisis		During Financial Crisis	
Country	**Russian OFDI ($ mm) from 1999 to 2007**	**Country**	**Russian OFDI ($ mm) from 2008 to 2013**
Canada	6175.5	Netherlands	10540.1
France	2817.3	United States	6372.4
Belarus	2532.2	Turkey	4403.5
Cyprus	2523.0	Italy	3596.6
Kazakhstan	2342.0	United Kingdom	3130.3
United States	2045.6	Belarus	2812.9
Netherlands	1731.2	Germany	2503.7
Ukraine	1286.2	Cyprus	2354.8
United Kingdom	918.1	Hungary	1802.6
Luxembourg	850.3	China	1600.0
Italy	837.3	Canada	1449.1
Australia	536.2	Austria	1232.7
Armenia	442.8	Belgium	1185.9
Turkey	407.7	Serbia	1072.8
Uzbekistan	372.3	France	1040.7
Finland	356.0	Australia	925.5
Serbia	231.0	Luxembourg	600.0
Norway	225.9	Singapore	590.0
Kyrgyzstan	205.8	Ukraine	548.6
Austria	200.1	Kazakhstan	489.0

Source: Authors' calculation based on S&P Capital database (2013)

Table 4: description of variables and their sources

Variables	Explanation	Expected Sign	Data Source
ofdi	Amount of Russian OFDI ($ billion) through M&A to the host country		S&P Capital IQ Database (2013)
lgdppccon	Log of GDP per capita constant (2005)	+	World Bank Development Indicators (2013)
lgdpdef	Log of GDP Deflator	-	World Bank Development Indicators (2013)
lrexrate	Log of Russian Rouble official annual average exchange rate (with respect to US$)	-	World Bank Development Indicators (2013)
oresex	ratio of ore and metals exports to total host country merchandise exports	+	World Bank Development Indicators (2013)
lexp	Russia's exports to the host country	+	United Nations Commodity Trade Statistics Database (2013)
lhgdpcon	Russian GDP constant (2005)	-/+	World Bank Development Indicators (2013)
lhgdpgrow	Growth of Russian GDP	-/+	World Bank Development Indicators (2013)
hinf	Home country inflation	+	World Bank Development Indicators (2013)
lpatents	Log of number of patents issued by the host country	+	World Bank Development Indicators (2013)
hcorruption	Control on Corruption (home country)	-	World Bank Governance Indicators (2013)
hpolstability	Index for Political Stability (home country)	-	World Bank Governance Indicators (2013)
hgovernance	Index for Good Governance (home country)	-	World Bank Governance Indicators (2013)
hruleoflaw	Index for Rule of Law (home country)	-	World Bank Governance Indicators (2013)
hregulatory	Index for Regulatory Quality (home country)	-	World Bank Governance Indicators (2013)
cis	CIS =1 if Russian investment is in Commonwealth of Independent States = 0 otherwise	+	United Nations (2013)
fincrisis2008	FC = 1 if year >= 2008 = 0 otherwise	-	
Oecd	OECD = 1 if investment destination is an OECD country = 0 otherwise	-	OECD (2013)
corruption	Index for Control on Corruption (host country)	+	World Bank Governance Indicators (2013)
governance	Index for Good Governance (host country)	+	World Bank Governance Indicators (2013)
ruleoflaw	Index for Rule of Law (host country)	+	World Bank Governance Indicators (2013)
polstability	Index for Political Stability (host country)	+	World Bank Governance Indicators (2013)
regulatory	Index for Regulatory Quality (host country)	+	World Bank Governance Indicators (2013)
Contig	1 if investment destination is geographically contiguous 0 otherwise	+	CEPII Database (2013)
comlang_et~o	1 if a language is spoken by at least 9% of the population in both countries; otherwise 0	+	CEPII Database (2013)
ldistance	simple distance (most populated cities, km)	-	CEPII Database (2013)

All monetary values are in constant (2005) US$ prices.

Table 5: Summary Statistics

Estimation sample xtgls	Number of obs =	304		
Variable	**Mean**	**Std. Dev.**	**Min**	**Max**
ofdi	0.32	0.92	0.10	8.82
lgdppccon	9.54	1.26	5.72	11.38
infl	5.70	9.16	-32.81	74.85
lexp	21.64	2.04	11.01	25.05
lrexrate	4.62	0.08	4.34	4.91
oresex	6.46	9.00	0.00	82.23
lhgdppc	8.57	0.22	8.17	8.83
hinf	19.87	16.56	1.99	72.39
oecd	0.59	0.49	0.00	1.00
fincris~2008	0.54	0.50	0.00	1.00
lpatents	7.88	2.19	2.08	13.13
cis	0.13	0.34	0.00	1.00
contig	0.16	0.37	0.00	1.00
comlang_et~o	0.08	0.28	0.00	1.00
ldistance	8.07	0.60	7.31	9.50
hruleoflaw	-0.91	0.10	-1.13	-0.74
hcorruption	-0.93	0.11	-1.09	-0.71
hgovernance	-0.49	0.15	-0.77	-0.34
hpolstabil~y	-1.05	0.22	-1.46	-0.76
hregulatory	-0.35	0.12	-0.56	-0.11
ruleoflaw	0.50	1.03	-1.54	2.00
corruption	0.53	1.15	-1.83	2.59
governance	0.63	1.07	-2.26	2.43
polstability	0.28	0.88	-2.37	1.67
regulatory	0.58	1.02	-2.53	2.20

Table 6: FGLS estimates of Russian OFDI

VARIABLES	ofdi	ofdi	ofdi	ofdi	ofdi	ofdi
	1	**2**	**3**	**4**	**5**	**6**
lgdppccon	0.0632***	0.0504***	0.0641***	0.0485***	0.0583***	0.0408**
	(0.0162)	(0.0143)	(0.0151)	(0.0164)	(0.0163)	(0.0166)
infl	0.0055***	0.0053***	0.0053***	0.0061***	0.0050***	0.0059***
	(0.0016)	(0.0014)	(0.0015)	(0.0019)	(0.0015)	(0.0021)
lexp	0.0433***	0.0476***	0.0428***	0.0650***	0.0391***	0.0579***
	(0.0099)	(0.0084)	(0.0105)	(0.0100)	(0.0101)	(0.0128)
lrexrate	0.2471	0.6952***	0.2248	0.1922	0.2710	0.3779**
	(0.1745)	(0.1062)	(0.1691)	(0.2040)	(0.1817)	(0.1507)
oresex	0.0062***	0.0061***	0.0062***	0.0090***	0.0056***	0.0071***
	(0.0013)	(0.0008)	(0.0013)	(0.0017)	(0.0013)	(0.0016)
lhgdppc	0.2232***	0.2621***	0.2159***	0.2536***	0.2151***	0.2246***
	(0.0545)	(0.0481)	(0.0555)	(0.0567)	(0.0550)	(0.0573)
hinf	0.0022***	0.0021***	0.0021***	0.0013*	0.0021***	0.0023***
	(0.0007)	(0.0006)	(0.0007)	(0.0008)	(0.0007)	(0.0007)
oecd	0.1413***	0.1306***	0.1434***	0.1065***	0.1535***	0.1381***
	(0.0421)	(0.0366)	(0.0437)	(0.0409)	(0.0421)	(0.0419)
fincrisis2008	0.0717***	0.0717***	0.0724***	0.0778***	0.0740***	0.0588***
	(0.0205)	(0.0132)	(0.0193)	(0.0182)	(0.0209)	(0.0179)
lpatents		0.0330***				
		(0.0087)				
cis			0.0391			
			(0.0600)			
contig				-0.2023***		
				(0.0391)		
comlang_ethno					0.1476	
					(0.1242)	
ldistance						0.1014***
						(0.0297)
Constant	-4.5627***	-7.1789***	-4.3933***	-4.8312***	-4.4746***	-6.1143***
	(1.1513)	(0.9096)	(1.1753)	(1.2836)	(1.1746)	(1.1234)
Observations	304	304	304	304	304	304
Number of id	49	49	49	49	49	49
Standard errors in parentheses						
***** p<0.01, ** p<0.05, * p<0.1**						

Table 7: Home country institutional Determinants of Russian OFDI

VARIABLES	(1) ofdi	(2) ofdi	(3) ofdi	(4) ofdi	(5) ofdi	(6) ofdi
lgdppccon	0.0632***	0.0365**	0.0677***	0.0624***	0.0598***	0.0619***
	(0.0162)	(0.0185)	(0.0164)	(0.0192)	(0.0159)	(0.0181)
infl	0.0055***	0.0046*	0.0053***	0.0038*	0.0053***	0.0048***
	(0.0016)	(0.0028)	(0.0017)	(0.0020)	(0.0017)	(0.0018)
lexp	0.0433***	0.0365***	0.0433***	0.0492***	0.0423***	0.0399***
	(0.0099)	(0.0109)	(0.0098)	(0.0092)	(0.0098)	(0.0103)
lrexrate	0.2471	0.5214**	0.2609	0.2698	0.2737	0.3864*
	(0.1745)	(0.2336)	(0.1753)	(0.1947)	(0.1736)	(0.1995)
oresex	0.0062***	0.0059***	0.0064***	0.0075***	0.0063***	0.0066***
	(0.0013)	(0.0017)	(0.0013)	(0.0017)	(0.0012)	(0.0018)
lhgdppc	0.2232***	0.4502***	0.1900***	0.3276***	0.1985***	0.2132***
	(0.0545)	(0.1054)	(0.0587)	(0.0619)	(0.0604)	(0.0501)
hinf	0.0022***	0.0024***	0.0021***	0.0017***	0.0020***	0.0024***
	(0.0007)	(0.0008)	(0.0007)	(0.0006)	(0.0007)	(0.0007)
oecd	0.1413***	0.1568***	0.1270***	0.1333**	0.1529***	0.1246**
	(0.0421)	(0.0422)	(0.0437)	(0.0528)	(0.0402)	(0.0523)
fincrisis2008	0.0717***	0.0251	0.0749***	0.0840***	0.0754***	0.0622***
	(0.0205)	(0.0172)	(0.0206)	(0.0157)	(0.0195)	(0.0189)
hruleoflaw		-0.7396***				
		(0.1883)				
hcorruption			-0.0967*			
			(0.0528)			
hgovernance				-0.1531*		
				(0.0914)		
hpolstability					0.0244	
					(0.0260)	
hregulatory						-0.2292***
						(0.0553)
Constant	-4.5627***	-8.0680***	-4.4633***	-5.7328***	-4.3946***	-5.1040***
	(1.1513)	(1.5391)	(1.1548)	(1.1905)	(1.1734)	(1.1894)
Observations	304	304	304	304	304	304
Number of id	49	49	49	49	49	49

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 8: Host country institutional Determinants of Russian OFDI

VARIABLES	(1) ofdi	(2) ofdi	(3) ofdi	(4) ofdi	(5) ofdi	(6) ofdi
lgdppccon	0.0632***	0.0642***	0.0721***	0.0591***	0.0666***	0.0580***
	(0.0162)	(0.0213)	(0.0243)	(0.0160)	(0.0191)	(0.0194)
infl	0.0055***	0.0052***	0.0062***	0.0053***	0.0055***	0.0047***
	(0.0016)	(0.0013)	(0.0018)	(0.0014)	(0.0017)	(0.0012)
lexp	0.0433***	0.0408***	0.0426***	0.0412***	0.0421***	0.0439***
	(0.0099)	(0.0110)	(0.0129)	(0.0116)	(0.0103)	(0.0110)
lrexrate	0.2471	0.2435	0.2388	0.2702	0.2240	0.2291
	(0.1745)	(0.1845)	(0.1720)	(0.1815)	(0.1945)	(0.1852)
oresex	0.0062***	0.0054***	0.0071***	0.0055***	0.0058***	0.0059***
	(0.0013)	(0.0014)	(0.0016)	(0.0015)	(0.0016)	(0.0013)
lhgdppc	0.2232***	0.2268***	0.1964***	0.2226***	0.2190***	0.2081***
	(0.0545)	(0.0561)	(0.0622)	(0.0564)	(0.0537)	(0.0565)
hinf	0.0022***	0.0020***	0.0022***	0.0021***	0.0021***	0.0020***
	(0.0007)	(0.0007)	(0.0006)	(0.0007)	(0.0007)	(0.0007)
oecd	0.1413***	0.1567***	0.0963**	0.1470***	0.1463***	0.1364***
	(0.0421)	(0.0430)	(0.0489)	(0.0455)	(0.0440)	(0.0447)
fincrisis2008	0.0717***	0.0719***	0.0767***	0.0680***	0.0766***	0.0691***
	(0.0205)	(0.0205)	(0.0234)	(0.0211)	(0.0230)	(0.0207)
ruleoflaw		-0.0132				
		(0.0344)				
corruption			0.0075			
			(0.0346)			
governance				0.0012		
				(0.0248)		
polstability					-0.0203	
					(0.0264)	
regulatory						0.0102
						(0.0357)
Constant	-4.5627***	-4.5216***	-4.3640***	-4.5773***	-4.4204***	-4.3038***
	(1.1513)	(1.1795)	(1.1427)	(1.1822)	(1.2331)	(1.2154)
Observations	304	304	304	304	304	304
Number of id	49	49	49	49	49	49

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 1-A: List of Countries

Armenia, Australia, Austria, Belarus, Belgium, British Virgin Islands, Bulgaria, Canada, Channel Islands, China, Croatia, Cyprus, Czech Republic, Denmark, Egypt, Estonia, Finland, France, Georgia, Germany, Greece, Guinea, Hong Kong, Hungary, India, Israel, Italy, Jamaica, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Luxembourg, Moldova, Montenegro, Netherlands, Nigeria, Norway, Oman, Peru, Poland, Portugal, Romania, Serbia, Seychelles, Singapore, Slovenia, South Korea, South Africa, Spain, Sweden, Switzerland, Turkey, Ukraine, United Kingdom, United State of America, Uzbekistan

OECD Countries:

Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Israel, Italy, Luxembourg, Netherlands, Norway, Poland, Portugal, Slovenia, South Korea, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States of America

Non-OECD Countries:

Armenia, Belarus, British Virgin Islands, Bulgaria, Channel Islands, China, Croatia, Cyprus, Egypt, Georgia, Guinea, Hong Kong, India, Jamaica, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Montenegro, Nigeria, Oman, Peru, Romania, Serbia, Seychelles, Singapore, South Africa, Ukraine, Uzbekistan

Table A-2

Wooldridge test for autocorrelation in panel data

H0: no first-order autocorrelation

F(1, 28) = 3.663

Prob > F = 0.0459

Modified Wald test for groupwise heteroskedasticity

in fixed effect regression model

H0: sigma(i)^2 = sigma^2 for all i

chi2 (54) = 9.2e+05

Prob>chi2 = 0.0000

List of Figures

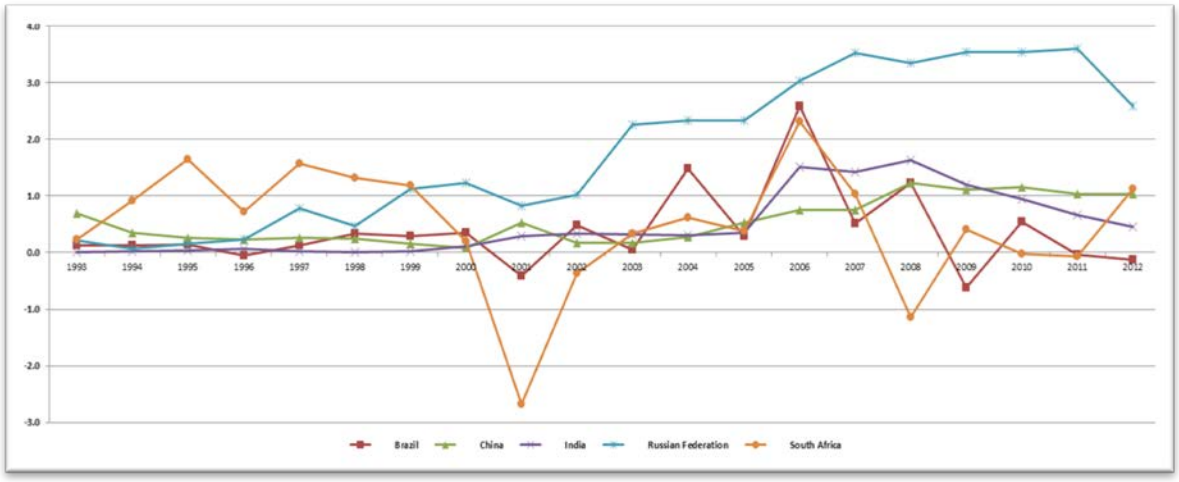

Figure 1: BRICS OFDI flows % of GDP, 1993-2012

Source: UNCTAD, 2013

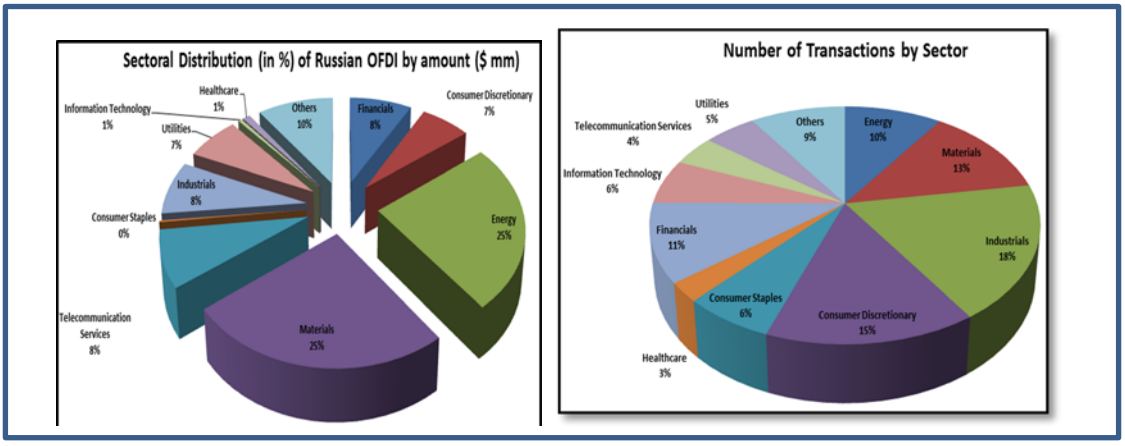

Figure 2: Sectoral Distribution of Russian OFDI

Source: S & P Capital (2013)