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Columbia FDI Profiles

Country profiles of inward and outward foreign direct investment
issued by the Vale Columbia Center on Sustainable International Investment
November 30, 2010
Editor-in-Chief: Karl P. Sauvant
Editor: Thomas Jost
Associate Editor: Ken Davies
Managing Editor: Ana-Maria Poveda-Garces

Inward FDI in Russia and its policy context

by
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In the 2000s, Russia became a significant host for inward foreign direct investment (IFDI). But its investment climate problems, especially corruption, do not allow Russia to exploit its locational advantages to the full. Russia attracts mainly European investors in a rather narrow range of industries (although the share of mining is decreasing) and regions (mainly in Moscow, St. Petersburg and oil-rich Sakhalin). However, even during the crisis, a new industrial cluster has developed near Kaluga and some large mergers and acquisitions (M&As) and greenfield projects have been realized outside the Central and North-West federal districts. Russia is trying to diversify the structure and geography of IFDI using incentives (e.g. in special economic zones).

Trends and developments

Country-level developments

Despite the devaluation of the assets of foreign multinational enterprises (MNEs) during the current downturn, Russia's IFDI stock was 12 times larger at the end of 2009 than in 2000.[1] However, the global share of Russia's IFDI is still only 1-2%. Although its relative position as an international business location looks good in comparison with the other three BRIC countries, some other post-communist countries have been more successful in attracting FDI, especially in IFDI per capita terms (annex table 1). Russia has recently been narrowing this gap and has become the leader among post-communist countries in total FDI inflows (annex table 2). According to the Bank of Russia, FDI inflows in Russia were US$ 75.5 billion in 2008 and US$ 38.7 billion in 2009 (while its population was 141 million). At the same time, FDI inflows in 27 other European and Central Asia post-communist states were US$ 164.1 billion in 2008 and US$ 52.5 billion in 2009[2] (while their total population was 261 million).

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[1] Bank of Russia, *International Investment Position of Russia for 2000-2009*, available at: http://www.cbr.ru/eng/statistics.

[2] See UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi.

UNCTAD uses the aggregate figures provided by the Bank of Russia which are compatible with international statistics and can be used for cross-country comparisons.[3] At the same time, the Federal State Statistics Service (Rosstat) published smaller figures (US$ 27.0 billion for 2008 and US$ 15.9 billion for 2009). Rosstat's database is useful for researchers because it provides much more detailed information on sectoral and regional distribution of IFDI flows and stocks. However, Rosstat uses only special statistical forms from companies (form No. 1-invest), while the Bank of Russia tries to estimate information for its balance-of-payments statistics from various sources, including companies' annual and other reports, information from stock exchanges and FDI data compiled by central banks in other countries.[4]

Despite its intellectual capital (e.g. its relatively high level of education, well-qualified workforce and significant achievements in research and development – all of which can attract efficiency-seeking investors), Russia primarily attracts market-seeking foreign investment. This can be explained by the combination of the rapid growth of Russia's economy (e.g. the country's GDP in 2008 was equal to 194% of the level of 1998)[5] and its investment climate problems, which are crucial for efficiency-seeking investors (for details see the policy scene paragraph of this paper). At the same time, FDI inflows in industries with high value-added remain small. Although Russia is rich in resources, the share of IFDI stock in mining has decreased while that in the wood and pulp industry remains stable (annex table 3). The dominance of oil and gas extraction in FDI from India, Vietnam and (to some extent) the Netherlands is unusual. The most rapid growth in IFDI has been taking place in electricity (due to its partial privatization), real estate (caused by extremely high prices), and financial activities (although only subsidiaries are permitted, not affiliates).

A significant part of Russian IFDI comes from Cyprus and Caribbean territories. These investments mainly consist of round-tripping capital investment originating from Russia itself (annex tables 3 and 4). In the FDI statistics of some European countries, trans-shipped FDI from other countries into Russia's economy are combined with capital of national MNEs. For example, FDI from the Netherlands is in second place, but this includes not only indisputably Dutch companies such as Royal Dutch Shell, Heineken and ING Bank, but also holdings from the Netherlands under the control of foreign MNEs, some of them probably Russian.[6] In general, the geographical distribution of IFDI reflects Russia's strong trade relationship with the European Union (EU), which contributes half of Russia's foreign trade turnover and more than three quarters of Russian IFDI.[7] Large countries are among the leaders, but some smaller countries also have significant investment volumes and a diversified structure of FDI in Russia (e.g. Finland, Sweden[8]). In the case of some small European countries, a large IFDI stock figure can be explained by one large deal. For instance, Czech FDI stock in Russia doubled when PPF (Prvni Privatizacni Fond) acquired 50% of the Russian retail network Eldorado in 2009.

Some Commonwealth of Independent States (CIS) countries are also noticeable sources of Russian IFDI because their medium-size investors exploit advantages of proximity, common

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[3] Russia ranked on the 5th place in the world in 2008 and 6th place in 2009 (after the United States, China, France, Hong Kong (China) and the United Kingdom). See UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi.

[4] Boris Kheyfets, *Zarubezhnaya Ekspansiya Biznesa i Natsional'niye Interesi Rossii* (Moscow: Institute of Economy, 2007), pp. 4-5; Bank of Russia, "Informatsionnaya baza sostavleniya platyozhnogo balansa Rossiyskoy Federatsii za I kvartal 2010 goda," available at: http://www.cbr.ru. See also comments for annex table 1.

[5] Rosstat, "Sotsial'no-ekonomicheskiye pokazateli Rossiyskoy Federatsii v 1992-2008 gg.," available at http://www.gks.ru.

[6] Yuri Yudanov, "Gollandskiy kapital v rossiyskoy ekonomike," *Contemporary Europe*, vol. 6 (2005), no. 1, pp. 60-70.

[7] Vladislav Zagashvili, "Otnosheniya Rossii s liderami mirovoy ekonomiki," *Mirovaya Ekonomika i Mezhdunarodniye Otnosheniya*, vol. 53 (2009), no. 8, pp. 3-11.

[8] Yelena Burnayeva, "Finlyandiya: tendentsii zarubezhnogo investirovaniya," *Mirovaya Ekonomika i Mezhdunarodniye Otnosheniya*, vol. 51 (2007), no. 7, pp. 30-39; Alexey Volkov, "Shvetsiya: investitsionnaya model' v deystvii," *Contemporary Europe*, vol. 6 (2005), no. 3, pp. 54-62.

language, business contacts from the Soviet era and so on. Asian investors have rapidly expanded their FDI activities in Russia in recent years. In contrast, United States FDI stock in Russia is constantly decreasing, though several U.S. companies are major investors (annex table 5).

The corporate players

Foreign MNEs play a key role in only a few Russian industries (e.g. beer, tobacco). TNK-BP is the only large oil and gas corporation where foreign control has reached 50% (annex table 5). Russian citizens own all the leading metals companies, although some of these firms are registered abroad. Foreign banks are rapidly expanding in Russia (annex table 5a) but they control less than a third of the financial sector. Only three firms received significant FDI among more than 20 large electricity companies (annex table 6).

One of the main reasons for the relatively low foreign share in Russian companies is the history of privatization in Russia, beginning in the 1990s. While many Central European countries invited foreign MNEs to privatize their companies and replenish their national budgets during the difficult period of post-communist transformation, the Russian political elite chose another way of privatization in the 1990s. Many large Soviet enterprises were sold for symbolic prices or even stolen by a small number of Russian citizens. As a result, several Russian billionaires with questionable property rights appeared. The Russian state did not receive any money for attempting to solve the acute social and economic problems of the Soviet heritage.

In general, foreign investment has always accounted for less than 10% of gross fixed capital formation in Russia. Their highest share was 8.2% in 2005, then it decreased to 6% in 2009. The share of companies under joint Russian and foreign control fell from 11.2% in 2005 to 7.2% in 2009. More than 90% of current investments in fixed capital are thus under full Russian control. Companies with foreign participation employed only 4.9% of the Russian workforce in 2008.[9] This is a rather low share for a transition country, especially in comparison with Hungary or the Czech Republic.

Nevertheless, MNEs have a great influence in the development of some Russian industries. Although the share of EU trading companies is still modest, these determine the competitive character of the Russian retail sector.[10] Another example is telecommunications, where foreign minority investors help to modernize the sector through technology transfer. Similarly, impressive prospects for Russian motorists have been opened by foreign producers of motor vehicles, who have introduced relatively cheap but comfortable cars to the Russian market, while former Soviet giants continue to dominate the market for cars of low quality. Economic modernization in Russia depends to some extent on medium-size investors too. For example, Knauf, KBE and other German firms have begun to promote new products in construction[11] while Slovenia's Krka and Hungary's Gedeon Richter have become pioneers of IFDI in the Russian pharmaceuticals industry.[12]

[9] Rosstat, *Russia in Figures 2010* (Moscow: Federal State Statistics Service, 2010), pp. 28, 162, 191, available at: http://www.gks.ru.
[10] Vadim Radaev, "Evolutsiya organizatsionnih form v rossiyskoy roznichnoy torgovle," *Voprosy Ekonomiki*, vol. 78 (2006), no. 10, pp. 41-62.
[11] Alexey Kuznetsov, *Mirohozyastvenniye Svyazi Germanskih Kompaniy* (Moscow: IMEMO, 2004), pp. 111-112, available at: http://www.imemo.ru.
[12] Alexey Kuznetsov and Anna Chetverikova, "Vostochnoyevropeyskiye strani ES: kuda idut ih investitsii," *Contemporary Europe*, vol. 8 (2007), no. 4, pp. 70-84.

Effects of the current global crisis

Russia experienced the worst slump among G-20 and especially BRIC countries during the global economic and financial crisis. For instance, while Russia's GDP fell by 7.9% year-on-year in real terms in 2009, China's GDP rose by 8.7% and India's by 5.7%.[13] Many of the largest Russian private companies demonstrated that they could not survive without state support.[14] Thus, the global crisis revealed that the 2000s were a "lost decade" for Russian economic modernization. As a result, a sense of uncertainty has grown throughout Russia's economy. The economic impact of the crisis – especially the decline of consumer demand, which had previously stimulated IFDI in import substitution industries – caused cancellations or postponements of many previously announced greenfield projects in Russia.

As a result, major IFDI flows in 2009 were mainly connected with the realization of investment plans arranged in 2007 and 2008 (annex table 6 and 7) or earlier. The best examples are Volkswagen's industrial project in Kaluga, which began in 2006, and Korean Lotte & Resorts's office and hotel project in Moscow which started in 2002. New IFDI projects have begun recently, nevertheless, and their number increased in 2010. Balance of payments statistics show that FDI inflows grew in 2009, although it was still well below its 2008 peak.[15]

The policy scene

According to official statements, Russia tries to liberalize its FDI climate and supports economic modernization with the help of foreign investment.[16] In practice, however, many old problems of the Russian investment climate have still not been solved. One of the main problems, the high level of corruption, has become even worse. Russia ranked in 154th place among 180 countries in the Corruption Perception Index in 2010, down from 149th place in 2009.[17] There is also a problem of investment image, as evidenced by the fact that MNEs with Russian affiliates are more optimistic than potential foreign investors.[18]

Some ambiguous investment cases can be seen from opposite points of view. For instance, foreign partners of Yukos knew about the high level of corruption and the political power of the oligarchs in Russia. Therefore, foreign investors were very surprised that the richest man in Russia could be punished for his crimes. However, these investors lost their money in Yukos and blamed the Russian investment climate. Another example is connected with ecological damage allegedly caused by foreign oil MNEs in Sakhalin. It may well be that many oil companies underestimate ecological risks, but in the case of the Sakhalin-2 project, their "punishment" was very specific because foreign investors were forced to sell half of their shares to Gazprom.

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[13] Japanese GDP decreased by 5.2% in 2009 and that of Mexico by 6.5%. See International Monetary Fund, *World Economic Outlook. April 2010. Rebalancing Growth,* available at: http://www.imf.org.

[14] Sergei Peregudov, "Krizis korporativnoy modeli rossiyskogo biznesa," *Mirovaya Ekonomika i Mezhdunarodniye Otnosheniya*, vol. 54 (2010), no. 5, pp. 32-43.

[15] See materials of the Bank of Russia, available at: http://www.cbr.ru.

[16] Russian Presidential Executive Office, "Stenographicheskiy otchyot o soveshchanii po problemam investitsionnogo klimata v Rossii," February 2, 2010, available at: http://www.kremlin.ru; Informational Department of the Ministry of Foreign Affairs of the Russian Federation, "Ob inostrannih investitsiyah v formirovanii investitsionnogo klimata v RF," February 26, 2010, available at: http://www.investmentclimate.ru.

[17] Transparency International, *The Corruption Perception Index 2010*, available at: http://www.transparency.org.

[18] Alexey Kuznetsov, "The climate is better than the image. Why so?" *Moscow Investments*, vol. 3 (2008), no. 3, pp. 62-69.

The modern Russian IFDI federal law was passed in 1999.[19] In general, it can be characterized as a typical liberal FDI law. For example, it announces equal rights for Russian and foreign investors (article 4), although some exceptions are possible that are more favorable to IFDI or else constitute barriers to foreign investment. The Russian investment climate is also determined by other federal laws and various decisions of the Russian Federal Government. For example, changes to customs rules have been adopted in an attempt to stimulate IFDI in motor vehicle production.[20] IFDI in the banking and insurance sectors is regulated by special laws that introduce rules that apply to both Russian and foreign financial institutions in non-discriminatory fashion. However, barriers for foreign investors can be introduced by special laws or governmental decisions. For example, the federal law on banks and banking activities (articles 17 and 18) demands additional reports and documents from foreign investors, and allows special barriers in certain circumstances (e.g. against banks from countries that introduce such barriers against Russian banks).[21]

The 2005 federal law allowed several types of special economic zone (SEZ).[22] Locations of SEZs were determined by competition, though not according to transparent criteria. Industrial zones were founded in Elabuga (Tatarstan) and Lipetsk, while innovative zones appeared in Dubna, Zelenograd, Strelna and Tomsk.[23] These SEZs have already attracted more than 100 foreign investors. Amendments in 2006 to the same law established tourist zones (seven places appeared in 2007 while Russky Island received the status in 2010) and transport zones (Ulyanovsk airport and the seaport of Sovietskaya Gavan' in 2009). The enclave of the Kaliningrad Region remains the largest SEZ by a separate law. Recently a high-tech area was also established in Skolkovo, near Moscow (although many Russian experts are very skeptical about its prospects). Some Russian regions have introduced their own additional IFDI incentives.

Russia has recently diversified the geography of its double taxation treaties (DTTs) and bilateral investment treaties (BITs) that in the past were mostly with European countries. Russia has DTTs in effect with 76 countries. Recent DTTs were ratified with Algeria, Mexico and Thailand (in 2008) and with Botswana, Brazil, Venezuela, and Singapore (in 2009). Russia has BITs with approximately 60 countries. In 2009, BITs were ratified with China (the second such treaty), Indonesia, Jordan, Qatar, and Venezuela. In the summer of 2010, BITs were ratified with Belarus, Kazakhstan, Kyrgyztan, Tajikistan, and Turkmenistan (as a result, Azerbaijan became the only CIS country without such a BIT).[24]

In 2008, some limitations on IFDI were introduced in "strategic" branches (including nuclear power, weapons and aircraft production, and mass media) by a special federal law.[25] Such barriers are typical for many countries, even among OECD members. However, there are problems in the Russian case with the range of "strategic" branches. For example, large

[19] Federal Law on foreign investments in the Russian Federation, no. 160-FZ, 9.07.1999 (in edition of 2008). The Russian text is available at: http://www.consultant.ru. The previous law was introduced in 1991, i.e. at the tail end of the Soviet period.

[20] Decision of the Russian Federal Government on changes to the custom tariff of the Russian Federation in the field of parts and accessories of vehicles for car assembly plants, no. 166, 29.03.2005. The Russian text is available at: http://www.consultant.ru.

[21] Federal Law on banks and banking activities, no. 395-1, 2.12.1990 (in edition of 2010). The Russian text is available at: http://www.consultant.ru.

[22] Federal Law on special economic zones, no. 116-FZ, 22.07.2005 (in edition of 2006). The Russian text is available at: http://www.consultant.ru.

[23] Dubna is a scientific town in the Moscow Region. Zelenograd is a district of Moscow. Strelna is a district of St. Petersburg. Tomsk is a famous Siberian university town.

[24] UNCTAD, *World Investment Report 2010: Investing in a Low-Carbon Economy* (New York and Geneva: United Nations, 2010), pp. 177-181; database of Russian laws, available at: http://www.consultant.ru.

[25] Federal Law on foreign investment procedures in companies with strategic importance to the state defence and security, no. 57-FZ, 29.04.2008. Russian text is available at: http://www.consultant.ru.

foreign investors in the Russian oil and gas industry are worried about so-called mineral resources specified as having "federal importance". This law does not determine the criteria by which oil and gas fields are deemed to be of federal importance (however, in 2009, this gap was eliminated by an amendment to the federal law on subsoil).[26] Moreover, the law can negatively influence IFDI in some sectors outside "strategic" branches (e.g. in the banking sector because of limitations on cryptography). There is also a special federal law on production sharing agreements.[27] Yet only a few such agreements were signed in the 1990s, as their experience was considered to have been unsuccessful by many Russian experts and politicians.

To complicate matters further, the main problems of the Russian investment climate are not these deficiencies in laws and governmental decisions but rather implementation inadequacies arising from excessive bureaucracy, artificial barriers of customs and migration offices, unequal access to infrastructure, and weak property rights. Officials admit that these problems explain the bad rankings of Russia in various international surveys.[28] For example, Russia ranked in 63rd place among 139 countries in the Global Competitiveness Index 2010-2011.[29] In the 2010 Index of Economic Freedom, Russia ranked 143rd among 179 countries.[30] Despite some methodological problems inherent in these rankings, the general problem is clear.

Nevertheless, Russian officials have taken some steps toward good governance. One such example is the prime minister's recent idea of introducing an informal post of investment ombudsperson in addition to annual sessions of the Foreign Investment Advisory Council, with its regular direct contacts between investors and leading officials. One caveat is that these can only help some of the largest foreign investors. The lack of political competition does not allow the country to overcome the low level of its officials' competence, which leads to the promulgation of imperfect laws and regulations. Moreover, the censorship of influential media and the lack of independent courts suppress activities of civil society in the struggle against corruption. Despite their declarations, both Russian and foreign large investors usually solve their problems with the bureaucracy in informal ways. As a result, the burden of corruption imposed on other investors has become more severe.

New developments in the regions

There are 83 regions in Russia, but 72% of the IFDI stock is concentrated in five regions (annex table 8). The predominance of Moscow is explained by its status as a political, financial, transport, industrial and consumer center. The city and its surroundings in the Moscow region often become the starting point of spatial FDI diffusion for foreign multinationals.[31] St. Petersburg plays a similar role for Finnish and Swedish investors; the city is also an important market for companies from other countries. Sakhalin Island attracts large FDI in the oil and gas industry. Lipetsk is among the top locations mainly due to round-

[26] Federal Law on subsoil, no. 2395-1, 21.02.1992 (in edition of 2009). Russian text is available at: http://www.consultant.ru.
[27] Federal Law on production sharing agreement, no. 225-FZ, 30.12.1995. The Russian text is available at: http://www.consultant.ru.
[28] See, for example: Ministry of Economic Development of the Russian Federation, *Investitsionniy Klimat Rossiykoy Federatsii* (Moscow: Ministry of Economic Development of the Russian Federation, February 2010), available at: http://www.economy.gov.ru.
[29] GCI Global Competitiveness Index 2010-2011, available at: http://gcr.weforum.org/gcr2010.
[30] 2010 Index of Economic Freedom, available at: http://www.heritage.org/index/ranking.aspx.
[31] Olga Kuznetsova, ed., *Investitsionniye Strategii Krupnogo Biznesa i Ekonomika Regionov* (Moscow: URSS, 2007), pp. 311-349.

tripping FDI in the metals industry via Cyprus (2004), although there are also some Italian and other European projects there.[32]

Some new FDI locations have become important. For example, a modern industrial cluster appeared in the Kaluga region in 2006-2010 with Volkswagen's and several other greenfield projects (annex table 7). The Arkhangelsk region has attracted much FDI in the oil and gas industry from Total while the Republic of Komi is the center of Timan Oil & Gas's activities. Some foreign companies have tried to invest in all large cities, including the main centers in the Urals, Siberia and the South (trading and beer companies are good examples).

Outlook

The post-crisis recovery of IFDI activities has already begun in Russia, although the growth of IFDI flows appears to be weak in 2010. Many investors will continue their expansion, especially in retail trade, banks and some manufacturing industries. Some large foreign MNEs are likely to invest in Russia for the first time (at least, some of their top managers regularly announce their post-crisis plans in Russia). However, problems in the Russian investment climate will probably not allow the country to attract many medium-size foreign companies, who prefer to invest in other emerging markets. As a result, the Russian President's ambitious aim of modernizing the economy with IFDI will be difficult to achieve.

Additional readings

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Shastitko, Andrei, and Evgeniia Iakovleva, "Russian investment image," *Russian Politics and Law*, vol. 46 (2008), no. 1, pp. 79-92.

Useful websites

For statistical material about Russia, see Federal State Statistics Service (Rosstat), available at: http://www.gks.ru.

For texts of Russian laws, see ConsultantPlus, available at: http://www.consultant.ru.

[32] Alexey Kuznetsov, ed., *ES i Rossiya: Ot Pryamih Kapitalovlozheniy k Investitsionnomu Sotrudnichestvu* (Moscow: Nauka, 2006).

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The Vale Columbia Center on Sustainable International Investment (VCC), led by Dr. Karl P. Sauvant, is a joint center of Columbia Law School and The Earth Institute at Columbia University. It seeks to be a leader on issues related to foreign direct investment (FDI) in the global economy. VCC focuses on the analysis and teaching of the implications of FDI for public policy and international investment law.

Statistical annex

Annex table 1. Russia: inward FDI stock, 2000-2009

(US$ billion)

Economy		**2000**	**2005**	**2007**	**2008**	**2009**	***2009 IFDI stock per capita, US$***
Russia [a]	*Data of Bank of Russia*	32	180	491	216	383	*2,700*
	Data of Rosstat	16	50	103	122	109	*770*
Memorandum: Comparator economies							
Brazil		122	181	310	288	401	*2,090*
China (without Hong Kong)		193	272	327	378	473	*360*
Hungary		23	62	199	252	249	*24,850*
India		16	43	106	123	164	*140*
Kazakhstan		10	26	45	60	72	*4,660*
Poland		34	91	178	163	183	*4,800*
Ukraine		4	17	38	47	52	*1,130*

Sources: Bank of Russia, *International Investment Position of Russia for 2000-2009*, available at: http://www.cbr.ru/eng/statistics; Rosstat database, available at: http://www.gks.ru. For comparator economies: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi; *UNCTAD Handbook of Statistics*, 2009, table 8.4.1.

[a] There are two official sources for FDI statistics in Russia. The Bank of Russia estimates FDI figures by using balance of payments data. As a result, it includes all forms of FDI. Its statistics are the source for UNCTAD's FDI database (though UNCTAD usually receives preliminary data). However, the Bank of Russia's data lack detailed information on the regional and sectoral structure of FDI. The Federal State Statistics Service (Rosstat) collects data from companies and publishes detailed information (since 2005). Its data are solid for inward FDI and less useful for outward FDI because the levels of transparency of Western and Russian multinationals are different.

Annex table 2. Russia: inward FDI flows, 2000-2009

(US$ billion)

Economy		**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Russia	*Data of Bank of Russia*	2.7	2.7	3.5	8.0	15.4	12.9	29.7	55.1	75.5	38.7
	Data of Rosstat	4.4	4.0	4.0	6.8	9.4	13.1	13.7	27.8	27.0	15.9
Memorandum: Comparator economies											
Brazil		32.8	22.5	16.6	10.1	18.1	15.1	18.8	34.6	45.1	25.9
China (without Hong Kong)		40.7	46.9	52.7	53.5	60.6	72.4	72.7	83.5	108.3	95.0
India		3.6	5.5	5.6	4.3	5.8	7.6	20.3	25.0	40.4	34.6
Hungary		2.8	3.9	3.0	2.1	4.5	7.7	19.8	71.5	62.0	-5.6
Kazakhstan		1.3	2.8	2.6	2.1	4.1	2.0	6.4	11.1	15.8	12.6
Poland		9.4	5.7	4.1	4.6	12.9	10.3	19.6	23.6	14.7	11.4
Ukraine		0.6	0.8	0.7	1.4	1.7	7.8	5.6	9.9	10.9	4.8

Sources: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi; Bank of Russia, *Balance of Payments of the Russian Federation*, available at: http://www.cbr.ru/eng/statistics; Rosstat database, available at: http://www.gks.ru.

Annex table 3. Russia: distribution of inward FDI stock, by economic sector and industry, 2005-2009

(US$ million)

Sector/industry	2005 [a]		2009	
	Total	Without three main round-tripping FDI economies [b]	Total	Without three main round-tripping FDI economies [b]
All sectors/industries	**49,751**	**33,986**	**109,022**	**68,504**
Primary	**13,392**	**12,229**	**26,123**	**21,153**
Agriculture, forestry, and fishing	520	354	1,343	948
Mining and quarrying	12,872	11,875	24,780	20,207
Extraction of crude petroleum and gas	12,200	11,460	22,567	19,212
Secondary	**20,217**	**12,068**	**42,811**	**25,926**
Manufacturing	19,405	11,389	37,095	22,043
Manufacture of food products and beverages	3,164	2,824	4,782	3,688
Manufacture of wood and of products of wood and cork, except furniture	959	682	1,905	1,476
Manufacture of paper and paper products	499	401	1,234	1,011
Manufacture of refined petroleum products	3,589	2,939	4,365	4,331
Manufacture of chemicals, chemical and pharmaceutical products	607	587	1,847	1,574
Manufacture of rubber and plastics products	436	391	1,041	836
Manufacture of other non-metallic mineral products	1,222	1,066	3,340	2,422
Manufacture of basic metals and metal products, except machinery and equipment	6,601	313	12,886	1,464
Manufacture of machinery and equipment	378	369	1,493	1,367
Manufacture of electrical equipment and electronic products	255	228	948	849
Manufacture of transport equipment	753	735	1,992	1,899
Electricity, gas, steam and water supply	255	218	3,038	2,466
Construction	557	461	2,678	1,417
Services	**16,142**	**9,689**	**40,088**	**21,425**
Wholesale and retail trade and repairing	3,274	2,871	11,311	7,498
Wholesale trade, except of motor vehicles and motorcycles	2,591	2,222	7,794	4,550
Retail trade and repairing, except of motor vehicles and motorcycles	536	521	2,802	2,305
Transportation and communication	3,625	2,908	4,270	2,636
Transport via pipelines	2,290	1,938	1,515	1,179
Telecommunication	864	698	808	284
Financial activities	3,448	796	5,674	2,924
Real estate activities	1,406	856	8,066	4,047

Source: Rosstat database, available at: http://www.gks.ru.

[a] Rosstat began to publish data on sectoral distribution of inward FDI stock only in 2005.

[b] Almost all IFDI from Cyprus, the British Virgin Islands and Bahamas are round-tripping investments of Russian companies. The share of these destinations was 32% of the total inward FDI stock in 2005 and 37% in 2009. There are also some smaller round-tripping FDI destinations (e.g. Gibraltar, US Virgin Islands).

Annex table 4. Russia: geographical distribution of inward FDI stock, 2005-2009

(US$ million)

Region/economy	2005	2007	2009	Rank in 2009
World	**49,751**	**103,060**	**109,022**	**n.a**
Developed economies	**46,038**	**95,134**	**94,859**	**n.a.**
Europe	**41,334**	**90,828**	**90,542**	**n.a.**
European Union	39,428	88,526	87,809	n.a.
Austria	497	1,592	2,855	7
Belgium	377	633	815	19
Cyprus	13,915	35,425	33,547	1
Czech Republic	21	84	198	32
Denmark	164	468	598	20
Estonia	38	126	95	42
Finland	627	1,208	1,909	11
France	905	1,554	2,182	9
Germany	2,714	4,494	7,834	3
Hungary	82	136	139	36
Ireland	265	428	415	24
Italy	333	818	1,054	15
Latvia	29	103	49	50
Lithuania	56	161	158	34
Luxembourg	451	735	1,184	13
Netherlands	16,125	35,254	29,065	2
Poland	155	331	497	23
Slovenia	57	64	57	49
Spain	106	818	403	25
Sweden	401	545	1,033	16
United Kingdom	2,044	3,438	3,625	5
Gibraltar	220	251	150	35
Liechtenstein	117	273	348	27
Norway	417	112	126	38
Switzerland	1,128	1,620	2,072	10
North America	**4,417**	**3,864**	**3,332**	**n.a.**
Canada	56	229	368	26
United States	4,361	3,635	2,964	6
Other developed economies	**287**	**442**	**985**	**n.a.**
Israel	83	73	83	43
Japan	175	322	875	18
Developing economies	**3,526**	**7,315**	**13,420**	**n.a.**
Africa	**214**	**551**	**620**	**n.a.**
Seychelles	167	490	515	22
Asia and Oceania	**752**	**2,145**	**4,989**	**n.a.**
China	149	415	938	17
Hong Kong (China)	8	156	114	40
India	15	593	1,327	12
Iran	1	223	177	33
Republic of Korea	140	373	1,129	14
Malaysia	56	79	63	47
Turkey	253	401	593	21
Vietnam	29	29	228	30

Annex table 4. Continued

Region/economy	2005	2007	2009	Place in 2009
Latin America and Caribbean	**2,560**	**4,619**	**7,811**	**n.a.**
Bahamas	649	858	2,244	8
Belize	136	179	238	29
British Virgin Islands	1,200	2,882	4,727	4
Dominican Republic	2	15	118	39
Panama	179	223	213	31
Saint Kitts and Nevis	120	135	107	41
United States Virgin Islands	52	58	70	46
Transition economies	**187**	**611**	**743**	**n.a.**
Serbia	14	45	70	45
CIS	**168**	**554**	**636**	**n.a.**
Azerbaijan	57	181	136	37
Belarus	8	30	60	48
Kazakhstan	37	227	322	28
Ukraine	39	86	78	44

Source: Rosstat database, available at: http://www.gks.ru.

Annex table 5. Russia: principal foreign non-financial affiliates (with at least 50% foreign held shares), ranked by turnover [a], 2008

(US$ million)

Rank	Name	Industry	Country	Turnover
1	BP (*TNK-BP Holding*)	Petroleum [b]	United Kingdom	30,723
2	Ford Motor	Motor vehicles	United States	5,953
3	Auchan	Trade	France	5,151
4	Metro Cash and Carry	Trade	Germany	4,470
5	PPF (*Eldorado*)	Trade	Czech Republic	4,200
6	Carlsberg (*Baltika*)	Beverages	Denmark	3,720
7	JTI	Tobacco	Japan	2,892
8	Philip Morris	Tobacco	United States	2,847
9	Procter & Gamble	Chemicals	United States	2,664
10	Nestlé	Food	Switzerland	1,909
11	Enel (*OGK-5*)	Electricity	Italy	1,722
12	Anheuser-Busch InBev (*SUN InBev*)	Beverages	Belgium	1,594
13	Coca-Cola HBC	Beverages	Greece	1,531
14	E.On (*OGK-4*)	Electricity	Germany	1,529
15	Ilim	Wood and paper	Switzerland	1,526
16	Mars	Food	United States	1,505
17	PepsiCo	Beverages	United States	1,488
18	Renault (*Avtoframos*)	Motor vehicles	France	1,406
19	IKEA	Trade	Sweden	1,247
20	Volkswagen	Motor vehicles	Germany	1,092

Source: Expert-400, *Expert,* 2009, no. 38 (5 October), http://www.raexpert.ru/ratings/expert400/2009.

[a] In many cases the data on assets of Russian affiliates of foreign multinationals are not available.

[b] Shell (Netherlands) and Total (France) are the main foreign investors in the Russian oil industry but they own only minor stakes in Russian petroleum projects.

Annex table 5a. Russia: principal banks under foreign control, ranked by net assets, 2009

(US$ million)

Place in Russia	Bank	Source economy	Net assets
8	UniCredit	Italy	16,660
9	Raiffeisen	Austria	15,540
11	Rosbank (Société Générale)	France	14,690
19	Citibank	United States	6,270
21	Nordea Bank	Sweden	5,080
24	Bank Société Générale Vostok	France	4,760
40	OTP Bank	Hungary	2,950
43	ING Bank (Eurasia)	Netherlands	2,680
44	Deutsche Bank	Germany	2,590
46	Rusfinans Bank (Société Générale)	France	2,490

Source: Krupneyshiye banki Rossii. Reyting po aktivam-netto na 1 yanvarya 2010 goda, http://www.allbanks.ru.

Annex table 6. Russia: main M&A deals, by inward investing firm, 2007-2009

Year	Acquiring company	Target company	Target industry	Source economy	Shares acquired (%)	Estimated/ announced transaction value (US$ million)
2007	E.On	OGK-4	Electricity	Germany	70.4 [a]	5,836
2007	Eni	Gazpromneft	Oil and gas	Italy	20.0	5,835
2009	E.On	Severnefte-gazprom	Oil and gas	Germany	25.0	3,959
2008	Fortum	TGK-10	Electricity	Finland	92.9 [a]	3,892
2007	ENEL	OGK-5	Electricity	Netherlands [b]	32.2 [a]	1,951
2007	Société Générale	Rosbank	Banks	France	30.0	1,700
2008	ENEL	OGK-5	Electricity	Netherlands [b]	22.7	1,448
2009	Wandle Holdings	Polyus Zoloto	Gold ores	Cyprus [c]	29.6	1,249
2008	Renault	Avtovaz	Motor vehicles	France	25.0	1,166
2008	AXA	RESO-Garantiya	Insurance	France	36.7	1,165
2007	KBC Groep	Absolut Bank	Banks	Belgium	92.5	1,030
2007	Sibir Energy	MOGC	Oil and gas	United Kingdom [c]	69.0	875
2007	Wintershall	Severnefte-gazprom	Oil and gas	Germany	25.0	857
2007	Allianz	ROSNO	Insurance	Germany	49.2	750
2008	Barclays	Expobank	Banks	United Kingdom	100.0	745
2008	Arcelor Mittal	Berezovskaya Mine	Coal mining	Luxembourg	97.9	720
2007	Internation-al Paper	Ilim Pulp	Pulp and paper	United States	50.0	620
2007	Urals Energy	Taas-Yuriakh Neftegazo-dobycha	Oil and gas	Cyprus [c]	35.3	590
2008	Bank of Cyprus	Uniastrum Bank	Banks	Cyprus	80.0	576
2007	Enka Insaat ve Sanayi	Ramenka	Retail trade	Turkey [d]	50.0	544

Source: Thomson ONE Banker, Thomson Reuters.

[a] The acquisition was made in two separate deals.
[b] ENEL is the largest Italian energy company but it makes its FDI in Russia via the Netherlands.
[c] This is a case of round-tripping Russian investments.
[d] The change of foreign investors took place without new inward FDI.

Annex table 7. Russia: main successful greenfield projects [a], by inward investing firm, 2007-2009

Year	Investing company	Target region of Russia	Sector	Home economy	Shares owned (%)	Estimated investment value (US$ million)
2007	PSA Peugeot Citroën	Kaluga region	Motor vehicles	France	70	620
	Mitsubishi			Japan	30	
2007	Timan Oil & Gas	Republic of Komi	Oil and gas	United Kingdom	100	600
2008	Ferrero	Vladimir region	Food products	Italy	100	270
2008	SABMiller	Ulyanovsk region	Beverages	South Africa	100	220
2007	Samsung Electronics	Kaluga region	Electronics	Korea, Rep. of	100	200
2007	BBH (Baltika)	Novosibirsk region	Beverages	Denmark	100	180
2007	Coca-Cola HBC	Rostov region	Beverages	Greece	100	160
2007	IKEA	Omsk region	Retail trade, real estate	Sweden	100	150
2007	Volvo Trucks	Kaluga region	Motor vehicles	Sweden	100	140
2007	Mayer-Melnhof Holz	Leningrad region	Wood products, biofuels	Austria	100	130

Source: Author's estimates based on Rosstat's and companies' information.

[a] "Successful project" means that its production has already started (earlier than in August 2010). The largest announced but still not realized greenfield project of the period is Shtockman Development (Total – 25%, StatoilHydro – 24%, Gazprom – 51%). Its investments can exceed US$ 15 billion.

Annex table 8. Russia: inward FDI stock and flows in various regions, 2009

(US$ million)

Region	Total stock	Flows								
		Total	Cyprus, BVI, Bahamas [a]	Germany	Nether-lands	France	Finland	UK	Belgium	Korea, Rep. of
Russia, total	**109,022**	**15,906**	**5,055**	**2,313**	**1,441**	**758**	**676**	**542**	**494**	**490**
Central Federal District	**56,641**	**9,248**	**2,864**	**1,776**	**1,269**	**310**	**135**	**139**	**417**	**396**
Moscow	30,490	5,657	2,080	1,109	1,052	148	20	102	2	28
Lipetsk region	10,970	58	2	1	28	n.a.	n.a.	n.a.	n.a.	n.a.
Moscow region	9,827	2,138	656	377	67	141	43	28	413[b]	1
Kaluga region	1,418	530	5	19	104	n.a.	19	n.a.	n.a.	356
Vladimir region	953	221	0	126	1	6	n.a.	n.a.	n.a.	n.a.
Tula region	625	228	8	103	16	n.a.	n.a.	4	n.a.	n.a.
North-West Federal District	**14,197**	**2,530**	**155**	**209**	**105**	**420**	**530**	**180**	**73**	**70**
St. Petersburg	9,287	1,199	46	170	11	23	393	10	73	70
Leningrad region	2,107	335	2	18	22	n.a.	90	n.a.	n.a.	n.a.
Rep. of Komi	866	213	35	n.a.	n.a.	n.a.	n.a.	143	n.a.	n.a.
Novgorod region	826	160	2	16	n.a.	n.a.	37	26	n.a.	n.a.
Arkhangelsk reg.	248	455	43	1	n.a.	395	n.a.	n.a.	n.a.	n.a.
South Federal District	**4,122**	**460**	**224**	**119**	**4**	**5**	**0**	**4**	**n.a.**	**n.a.**
Krasnodar krai	2,621	235	63	105	3	5	n.a.	2	n.a.	n.a.
Rostov region	758	132	81	11	0	n.a.	0	1	n.a.	n.a.
Volga Federal District	**3,966**	**936**	**389**	**165**	**28**	**16**	**0**	**1**	**n.a.**	**9**
Nizhny Novgorod region	911	222	8	143	20	0	0	n.a.	n.a.	n.a.
Samara region	638	48	12	1	4	0	n.a.	0	n.a.	n.a.
Ural Federal District	**5,553**	**233**	**122**	**2**	**23**	**5**	**15**	**15**	**n.a.**	**n.a.**
Tumen region	2,326	94	67	0	0	n.a.	n.a.	14	n.a.	n.a.
Chelyabinsk reg.	1,886	22	19	n.a.	0	n.a.	n.a.	n.a.	n.a.	n.a.
Sverdlovsk reg.	1,275	88	35	1	2	-	15	1	n.a.	n.a.
Siberian Federal District	**4,171**	**999**	**451**	**42**	**3**	**0**	**0**	**37**	**0**	**0**
Tomsk region	1,301	192	89	1	n.a.	n.a.	n.a.	0	n.a.	n.a.
Irkutsk region	580	246	1	37	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Far East Federal District	**20,370**	**1,500**	**851**	**0**	**9**	**n.a.**	**n.a.**	**167**	**n.a.**	**20**
Sakhalin region	18,306	1,187	749	n.a.	n.a.	n.a.	n.a.	17	n.a.	12
Primorsky krai	733	32	3	0	n.a.	n.a.	n.a.	n.a.	n.a.	3

Source: Rosstat database, http://www.gks.ru.

[a] In 2009 FDI inflows from Cyprus were US$ 3,704 million, inflows from the British Virgin Islands (BVI) were US$ 703 million and inflows from the Bahamas were US$ 649 million. These FDI are mostly round-tripping.

[b] This figure shows all FDI of InBev in Russia (its headquarters is in Klin of the Moscow region).