FDI Figures and a Grain of Salt

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27 March 2014

The Nimps seem to agree that there are problems with the FDI figures, though their focus is on trying to demonstrate that Russian foreign investment has more in common with non-imperialist countries like Brazil, Saudi Arabia or Greece. (We've also received lots of documentation about the comparative competitiveness of industry in these countries, and other factors that are not, in our view, of central importance.) We've heard that 60% (or "two-thirds") of Russian FDI is "round-tripping" (i.e., capital flight out of Russia and back into Russia via tax havens, which thus puffs up both the outbound and inbound FDI figures). Aside from the fact that Russia's official outward FDI figures are almost certainly grossly underestimated, we have pointed out that *all* countries (including all imperialist countries) engage in round-tripping, and the example we cited was of Britain's outward FDI stock being at least 10% round-tripping. (I should probably add that round-tripping would have no effect on a given country's *net* FDI, since it is by definition the same amount included in both inward and outward figures.)

We have also noted that the percentage of Russian FDI that is round-tripping is likely less than 60% and that some proportion is actually trans-shipping (i.e., channeling funds via a tax haven from one country to a different country). It is impossible for us to ascertain the percentages involved without a massive firm-level analysis of all investments in and out of Russia. There is indeed a high correlation between the amount of FDI from Russia to countries like Cyprus, the British Virgin Islands, etc. and the amount from those countries into Russia, and many economists assume it's all round-tripping. Most of it probably is, but we don't know. We *do* know from observation that that simple equation is not correct, since some imperialist countries invest in Russia via Cyprus, etc. and that Russia invests in imperialist and non-imperialist countries via Cyprus, etc. Cyprus is a hub of EU and Russian trans-shipping, as "Cyprus' favourable tax regime makes it one of the most attractive centres for FDI in Europe" (http://www.cyprusprofile.com/en/trade-investment/foreign-direct-investment). In my 4 March reply to Christoph [Lichtenberg], I noted that Cyprus is the largest foreign investor in Ukraine (nominally Russia is #4, behind Germany and the Netherlands, another Russia transit point as the VimpelCom story shows), and that Russia and "Cyprus" together invested more than $22 billion in Ukraine in 2013 alone. While some of that might indeed be British or German investments via Cyprus, it is likely that a large percentage is Russian.

In our 19 June 2013 document, Barbara [Dorn] and I wrote:

> "UNCTAD's *World Investment Report 2012* complains that tax-haven countries like Luxembourg and Cyprus (which are also home to SPEs – 'special purpose entities' that disguise real ownership) obscure the true picture of world FDI flows. In 2011, the British Virgin Islands received over $54 billion in FDI inflow – a figure that was more than that for France and Germany (each with around $40 billion) and nearly identical to that for the UK itself (i.e., around $54 billion)!

> "…According to a leaked government report that was initially seen by the *Guardian* (9 May 2013), there is a network of 'complicated financial structures using companies and trusts stretching from Singapore and the British Virgin Islands to the Cayman Islands and the Cook Islands.' Britain's wealthiest, alongside billionaires from other imperialist countries (including Russia), have hidden, according to a recent report by the International Consortium of Investigative Journalists, trillions of dollars in tax havens – equivalent to a staggering 44% of global GDP. Summarizing the revelations, the WSWS (30 May 2013) noted:
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>> "The clients of these offshore tax havens include the super-rich from nearly every country. The clientele ranges from American billionaires to Russian oligarchs, Hong Kong property developers, corrupt government bureaucrats, and gangsters. According to the leaked documents, about $10 trillion is the property of a mere 100,000 individuals. On average, this tiny sliver of the global population is hoarding $100 million each.
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>> "Enormous banking institutions like Deutsche Bank, UBS, the Swiss private bank Clariden, ING, and ABN Amro have actively worked to set up tax evasion schemes for their clients in offshore hiding places. JP Morgan, linked inconclusively by leaked documents to a number of tax evasion schemes, has 50 subsidiaries in Bermuda, the Bahamas, and similar 'treasure islands.'"

I have no idea how much of this ends up in official FDI statistics to and from imperialist countries. I do know that it is a bit odd to suggest that financial corruption, tax evasion and round-tripping are indicators of a country's non-imperialist status, and it is clear that FDI figures for *all* imperialist countries have to be taken with a large grain of salt. Singling out Russia for derision, as some bourgeois economists in the West have done, does not appear credible, even though it is plausible that round-tripping as a percentage of FDI is higher in Russia than it is in Britain or Germany or the U.S.

Another objection about Russian FDI is that much of Russia's outward investment goes to imperialist countries rather than neocolonies. Aside from the fact that we have demonstrated that there is significant investment in the CIS and elsewhere, it is worth recalling what Barbara and I wrote in our 19 June 2013 document in response to this argument:

> "A large proportion of global FDI, often a majority, goes to developed countries, including FDI *originating* in developed countries. In other words, it is common for some imperialist countries to mainly invest in other imperialist countries. In 2011, of the $90 billion in FDI outflow from France, about two-thirds went to other advanced European economies (http://stats.oecd.org/Index.aspx?DatasetCode=FDI_FLOW_PARTNER#)."

Yet still another objection we have heard is that Russian outward investment is not based on gaining immediate profits, but to maintain influence with old allies, and in hope of future profits, etc. Aside from the fact, which we have demonstrated, that Russian investment in many places is clearly profitable now, *all* imperialists invest for long-term gain as well as short term gain to varying degrees. There is a kind of bizarre double-standard being applied here (since no one ever demands to see that British or American foreign investments are currently returning a profit), and I would add that imperialist countries are probably *more* able to make long-term and geo-strategic investments than are neocolonies. But a bit of common sense is in order: it is scarcely credible that the Russian oligarchs are investing their billions abroad for little or no immediate gain, or that they are able to increase these investments year on year without having made substantial profits.