

Problems with Russian FDI in the CIS

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The non-imps have cast doubt on Russia's economic penetration of the CIS countries, citing FDI statistics that show negligible investment thus making the point that Russia today can't even be compared with pre-revolutionary imperialist Russia and its exploitation of Mongolia, China, Persia.

In Josh [Decker]'s document "Observations on the Leninist Theory of Imperialism", he explained the problems of relying on Russia's official FDI figures for the CIS states and he referenced a study which essentially is about trying to get a sense of the dominance of Russian firms in the CIS states given the poor FDI figures

http://www.utu.fi/fi/yksikot/tse/yksikot/PEI/raportit-ja-tietopaketti/Documents/Vahtra_92005.pdf

I also descriptively talked about general problems of relying too much on FDI (particularly in the case of the CIS), and in response was asked for details.

I will summarise some interesting points from the PDF Josh mentioned, as no one yet has commented on it. Although it is necessarily descriptive (because official FDI figures are of little use here), I think that it shows that the CIS countries are in fact semi-colonies of Russia.

The main point from this document – written in 2005 by Peeta Vahtra at a Finnish university – is that contrary to official FDI figures, Russia has considerable investments in the CIS countries. And therefore, you can't rely at all on the official figures – you need to do a company-level analysis.

He notes several particularities:

- there are substantial investments in the CIS via third countries and offshore investment units. The UK, Cyprus, and the Netherlands are popular target countries
- FDI figures don't show former Soviet enterprises that have been inherited by Russian companies.
- There is widespread misreporting of and undervaluation of revenues from abroad.
- There exist illegitimate capital exporting schemes

The increasing penetration of Russian capital in the near-abroad is also evidenced by the number of M&A (Mergers and Acquisitions). Vahtra shows a large number of M&As in the Ukraine, Armenia, Belarus, Uzbekistan, Bulgaria, Georgia and Kazakhstan – much more so than its M&As in "developed countries"

He shows that if you purely examine the Outbound Russian FDI in the CIS, you might see Russia as a negligible investor in the region (CIS accounting for between 1 & 5 percent of total OFDI). He shows that the official figure for OFDI in 2004 is only \$713 million, yet there

are actual acquisitions in the CIS by Russian telecommunication and energy majors with many of the *individual* transactions valued at more than the official *total* OFDI. The discrepancy is explained by the fact that the investments are transacted via offshore investment units.

An example is Russia's official FDI in Kazakhstan in 2004 – a mere \$84 million. However, the National Bank of Kazakhstan reports the figure to be \$200 million. Moreover, in 2004 VimpelCom purchased the leading Kazakh telecoms operator for \$400 million – showing that both sets of figures are of relatively little use.

He notes that once a joint venture or company is established, further investments in this company are not regarded as FDI, but categorized as “other investments”. Although they don't appear in the FDI stats, Vahtra claims that “the estimated \$ 2 billion-investments by the Russian energy companies in Kazakhstan during 2004-2005 significantly adds to the leverage of investing companies in the target country” ie, the \$2 billion (which isn't counted in FDI, and which is quite a bit more than the official figure of \$84 million) is in fact a profit-seeking investment.

While the two main Russian state-owned companies Gazprom and RAO UES have gained a strong presence in the CIS region partly for “strategic” purposes (ie to allow them to make inroads into countries further afield like Turkey, and to gain political leverage over its neighbours), the CIS countries are also targeted by market oriented investments (ie private companies)

The near-abroad countries increasingly turned to Europe and the USA for inward investment during the 1990's but this century that trend has been reversed. RAO UES controls 20% of Georgia's power generation and supplies 35% of the domestic market. It manages several power facilities in Armenia, the main power plant in Moldova and via a power facility it owns in Belarus it supplies electricity to Poland. (just some examples)

“The Russian oil companies are active both in upstream (oil exploration and production) and downstream (refining and marketing) in the CIS region” eg “In Ukraine, Lukoil, TNK-BP, and Tatneft together control over 80 per cent of the country's petroleum market. In addition to extensive petroleum retail chains, Lukoil and TNK-BP operate updated oil refineries in the country.”

The Russian company Lukoil has a large presence in Kazakhstan, which is rich in oil. Lukoil purchased Canadian-based Nelson Resources (operating in Kazakhstan) for \$2 billion.

“Currently, the CIS mobile telecom markets are almost exclusively dominated by the Russian companies. In the top of the list is Ukraine, where the Russian operators hold a combined market share of nearly 75 per cent.” The author provides a case study of VimpelCom's presence in Kazakhstan and Ukraine. However, VimpelCom is not without its problems: “The main competitor of VimpelCom in Ukraine is its domestic rival, the number-one Russian mobile operator MTS, controlling the largest mobile company in Ukraine, Ukraine Mobile Communications.”

While this document is from 2005 it shows that even back then the Russian bourgeoisie had a high degree of economic penetration of the CIS states (contradicting official FDI figures). I find it hard to sustain a belief that it was effectively negligible and bearing no comparison with pre-revolutionary Russia's economic presence in China, Persia, Mongolia.