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17 Januari 2011
Abstract

**Title:** Determinants of Chinese and Russian outward foreign direct investments – evidence from 2007-2008.

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**Paper type:** Master Thesis

**The purpose:** The purpose of this paper is to identify the determinants Chinese and Russian outward foreign direct investments during the years 2007 and 2008. We also intended to compare them and discuss the similarities and differences between the countries. We purposed three hypotheses, that Chinese and Russian OFDI are market-, strategic asset- and natural resource-seeking.

**Design/methodology/approach:** We have employed a regression ordinary least squares model to identify the determinants of Chinese and Russian OFDI. We have used each countries official data that provided us with 80 countries receiving Russian OFDI and 149 countries receiving Chinese. The coefficients showed what kind of coherence there is between the hypotheses and the level of investment in different countries.

**Findings:** The findings reveal that China´s OFDI are market-seeking but not strategic asset-seeking. The variables measuring natural resource-seeking did not attain any significance for China and none of the variables measuring market-, natural resource- and strategic asset-seeking attained any significance for Russia. Which gives us the impression that according to our results, the general theory cannot entirely explain Chinese and especially not Russian OFDI which is why we call for a special theory for these two countries.

**Keywords:** Outward foreign direct investment, China, Russia, BRIC,
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1. Introduction

In 2001, the concept “BRIC-countries” was coined by the famous Goldman Sachs chief economist Jim O’Neill. Every letter represents the acronyms for the four countries Brazil, Russia, India and China. O’Neill predicted that these countries, all with high annual growth, would become leading economic powers within forty years (Blomgren, 2009). Various journalists and scientists have done their own predictions and the subject has been thoroughly researched from both political and economical points of view. Much interest and research has been directed to the flow of capital and investments and into these four countries. For decades the BRIC countries have been some of the most popular destinations for foreign direct investments but recently their own investments abroad have caught the world’s attention. Foreign direct investment, outward or inward, is usually defined as an investment, which is made to serve the business interests of the investor in a company, and the investment is in a different nation from the investor's country of origin (economywatch.com, 2010).

Among the BRICs, China and Russia are the two leading countries in outward foreign direct investment. In 2008, Russia was in the lead with an outflow of 56 billion USD, tightly followed by China with 52 billion USD (UNCTAD, 2010). Both countries have also shown an impressing growth rate which can be seen in table one. The two neighboring nations are both economies in transition and share many similarities. These include an enormous geographical surface, cheap labor, large potential markets to attract foreign companies and generous endowments of natural resources. In addition to this, both countries inherited fairly similar economic and political ideologies from their Stalinist/Maoist periods, with an emphasis on state control, focus on industry, heavy bureaucratic and tariff protection against manufactured imports, and subsidized public services. Finally, both Russian and Chinese governments, after facing a time of low productivity levels in industry, embraced the need to start market-based economic reforms (Buck et al. 2000).
As mentioned earlier, both countries have for decades attracted inward foreign direct investments but lately started to invest abroad themselves. There are limited amounts of research done on their respective OFDI, as it is easily overshadowed by studies on the inward FDI going into these countries. China’s foreign direct investments have practically only been discussed after large-scale buyouts of western companies. The situation is similar for Russia; reports on Russian MNEs (multinational companies) problems on the domestic market have received most of the attention regarding Russian OFDI. However, this is likely to change since MNEs from both nations are expected to become major investors in the future (OECD, 2008; Väätänen et al., 2006).

We find this subject very interesting and believe that it will be a much discussed topic in the future. We are curious to find out, with help from previous studies and general FDI theories why China and Russia invest abroad? What are the host-country characteristics that attract China and Russia’s investments? Do China and Russia share the same tactics and motives? We hope that in this thesis be able to present the determinants of Chinese and Russian OFDI and to some extent analyze the similarities and differences. There is also a discussion that the
emergence of new MNEs in developing and transitional economies makes it legitimate to question whether the existing FDI theories remain applicable since they are mostly developed for firms from developed countries (Kalotay and Sulstarova, 2010; Matthews, 2006). We hope after seeing the results of this study able to discuss this issue as well as the determinants of Chinese and Russian OFDI.

According to one of the general theories on FDI there are different types and motives for foreign direct investments, for Chinese and Russian OFDI we have chosen; market-seeking, natural resource-seeking and strategic asset-seeking (Dunning, 1981). Through different statistical data we will test these three motives and we expect to find indications that both countries are all of the above. The few existing studies show that China and Russia are both market-and natural resource-seeking, but not strategic-asset seeking, however we believe that this might have changed since the earlier studies. This study is one of the first attempts to determine Chinese and Russian OFDI both separately and together and we hope, depending on our results, be able to discuss the differences between the both countries’ OFDI.

1.2 Purpose of this study

The purpose of this study is to investigate the determinants of China’s and Russia’s outward foreign direct investments during the years 2007 and 2008 with focus on discussing three possible motives for these; market-seeking, natural resource-seeking and strategic asset-seeking. Depending on the results, the purpose is also to compare the OFDI of the both countries with each other.

2. Background information

Before we go further into presenting previous research done on this topic, we will first give some background information on China and Russia and their economic development with focus on the development of their outward foreign direct investments.
2.1 China

30 years ago, China was not considered to be much more than a poor agricultural country with plan economy, and there were barely any signs of international trade and export. This image has however changed drastically, especially during the past decade, where China’s rapid economic development has made the country the second largest economy in the world (second to the United States) (e24.se, 2010 -08-16). This development has unsurprisingly drawn the attention of many international business scholars. Recently, one specific characteristic of China’s development path has started to drawing attention; the recent surge of its outward foreign direct investment (OFDI) (Morck et al. 2008). Since the 1990s, China has been the largest recipient of inward FDI among developing countries, but the challenge is no longer only attracting FDI from other countries, but rather to invest abroad (OECD, 2008).

There are two strategies in China’s FDI policy: one is to attract FDI inflow and the other one is to invest in markets abroad. Until recently China has been more successful in attracting inward FDI than in their outward investment strategy (Cheung and Qian, 2009). In the 1980s the OFDI was minimal and the investments abroad at that time are perceived to have been motivated in greater extent by political rather than economic factors. Not until 1985, private-owned enterprises were allowed to apply for investment projects abroad, and even though the procedures are less rigid now than in the 80s and 90s, the government is still heavy involved in China’s OFDI activity (Cheung and Qian, 2009).

In the 90s there was an increase in Chinese OFDI, particularly in Hong Kong, however most of these investments were not very successful. Chinese companies lacked investment know-how, knowledge about the laws on the overseas markets and also had problems with corruption. This was followed by a tightening of the approval procedures but nonetheless commercial investments abroad kept increasing and China’s OFDI amounted to 2.4 billion USD at the end of 1997. In the late 90s, the government started to promote overseas investments with their “go global” strategy, a strategy designed to help and sustain the economic reform process. After China’s entry into WTO in 2001, the “go global” campaign intensified as the government wanted to see more Chinese industry enterprises on the international market (Cheung and Qian, 2009).
In 2006, China’s OFDI exceeded 17.6 billion USD which shows an impressive growth rate; from nearly nothing in the early 80s to more than 17 billion USD twenty years later (Morck et al. 2008). The annual growth rate of China’s OFDI registered 116 percent for the period from 2000 to 2006, which is among the fastest in the world. This can be compared to the worldwide average growth rate of 6 percent for the same period (OECD, 2008). In 2006, despite its impressive development, China’s OFDI accounted for only 2.3 percent of the world total (Morck et al. 2008). However, in both the 2004 and 2005 UN surveys China was expected to be among the top five leading FDI exporters in the future (UNCTAD 2004, 2005).

### 2.2 Russia

Russian firms started to invest abroad during the last decades of the 19th century (Vahtra and Liuhto; 2004) and the initial destinations were China, Persia and Mongolia. During the period 1886-1914, Russian capital exports amounted to 2.3 billion roubles, equivalent to 33 billion USD in 1996 prices (Freeze, 2001). During the time of the USSR, Soviet companies were not completely inactive on the international arena but it was rare to invest outside the Socialist-bloc. At the end of 1983, the Soviet companies had around 30 subsidiaries in developing countries and 116 subsidiaries in the OECD countries (Vahtra and Liuhto; 2004). As a consequence of the fall of the Soviet Union, the number of enterprises with Russian participation within the area of Eastern Europe increased (Vahtra and Liuhto; 2004).

In the 90s the outgoing FDI exceeded the incoming FDI for Russia. It is also worth noting that due to the instability and high level of corruption, it is likely that much of the OFDI went unreported (Kalotay and Sulstarova, 2010). In Russia, at the time, corruption and mafia flourished, and those who were able, sent their money offshore. The presidency of Vladimir Putin however, entitled a new era for Russian economy. Privatized companies were now renationalized and together with higher oil prices, stability was achieved and it was followed by strong economic growth (the economist, 2010-12-09). Unlike China, Russia is not a member of the WTO and that has made the conditions for investment activities in other countries more uncertain, and as a consequence the trade relations between Russia and the rest of the world have to a large extent been hampered (Vahtra, Liuhto, 2004). Russian OFDI has
continued to grow and Russia has become a major country for foreign direct investment, both inward and outward, only twenty years after the fall of the Soviet Union. The outward stock of Russian FDI in the year 2007 reached 370 billion USD; almost twenty times more than in year 2000 and the level of Russia’s OFDI was in 2008 the highest among the BRIC-countries (Kalotay and Sulstarova, 2010).

3. Literature overview

3.1 Literature on Foreign Direct Investment

Globalization or internationalization could be seen to be the dominant tendency of our time. It is an expression for the variety of processes around the world that encourages integration of financial systems, trade liberalization, deregulation and opening of markets. Globalization and internationalization also pressure towards cultural, economic and social homogeneity (Clark and Knowles, 2003). Along with globalization another phenomena has occurred; the rise of multinational enterprises (MNE). MNE is defined as enterprises which owns and controls activities in different countries (Buckley and Carson, 1976). These activities often take the shape of foreign direct investments. There are numerous theories trying to explain why international activities occur and an agreed definition on internationalization does not seem to exist. One of the primary theories is; Dunning’s Eclectic Paradigm.

The idea behind the eclectic paradigm, also known as the OLI model, is that it merges several isolated theories of foreign direct investments in one single approach. The OLI factors are categories of advantages a company and location can have; ownership advantages (O), location advantages (L) and internalization advantages (I). These advantages represent the “why” of MNEs activity, the “where” or production and the “how” of involvement. Ownership advantages can be for example trademarks, production technique and entrepreneurial skills. Location advantages are for example the existence of raw materials, low wages and special taxes. And international advantages are for example existing agreements such as licensing or joint venture across borders (Dunning and Lundan, 2008).
According to Dunning (1980) there are different types of FDI and that these different types of FDI together with the MNEs advantages determines where and how to invest. Locations rich in particular resources will attract MNEs whose activities make use of these resources. Dunning (1993) suggests three primary types of FDI: Foreign-market-seeking FDI, Efficiency (cost reduction)-seeking FDI, and Resource-seeking FDI. Resource-seeking also includes Strategic-asset seeking FDI (Dunning, 1993). Buckley at al. used this part of Dunning’s theory in their article from 2007 when determining China’s OFDI between the years 1984 and 2001, as well as Kalotay and Sulstarova in their article from 2010 modeling Russia’s OFDI from 1993 to 2008. We have also decided to use Dunning’s eclectic paradigm in this thesis when determining China and Russia’s OFDI between the years 2007 and 2008.

The *Foreign-market seeking FDI* will be undertaken by firms for traditional trade supporting reasons; to explore new markets, get in contact with new consumers, access distribution networks, help the export of domestic products, preclude competitors in new markets and to improve the export from the host country to other markets. The *efficiency-seeking FDI* will occur when the investing companies seek lower-cost locations for their operations, especially to locations with lower-cost labor. The *resource-seeking FDI* (from now on called *natural resource-seeking*) take place when the investors want to acquire or secure the raw materials and energy sources that they are in short of in their home countries or to a lower price or to access the natural resources before their competitors do. While efficiency seeking mostly occurs when firms from a high-income country invest in a low-income country, resource seeking may well involve firms from emerging countries investing in high-income countries with significant energy reserves and raw material deposits, countries like Canada and Australia.

As mentioned earlier, resource seeking do not only involve search of natural resources, but also include search for specific assets; strategic asset-seeking. *Strategic asset-seeking FDI* is when a firm invests with the purpose to access assets such as R&D capacity, design facilities and brand names, and these assets can usually only be accessed by mergers or acquisitions or by opening subdivisions in the host country (Dunning, 2001). Table two illustrates the different strategic goals of a MNE for each type of FDI. Given China and Russia’s relatively low labor costs we believe efficiency-seeking FDI is an unlikely motive for these two countries OFDI and is therefore in this thesis not explicitly considered.
Table 2, Types of OFDI and strategic goals of MNEs

<table>
<thead>
<tr>
<th>Types of OFDI</th>
<th>Strategic goals of MNEs</th>
</tr>
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<tbody>
<tr>
<td>Market-seeking FDI</td>
<td>To protect existing markets, counteract competitors, to preclude rivals or potential rivals from entering new markets</td>
</tr>
<tr>
<td>Natural-resource seeking FDI</td>
<td>To gain privilege access to markets <em>vis-à-vis</em> competitors</td>
</tr>
<tr>
<td>Strategic-asset seeking FDI</td>
<td>Strengthen global innovatory or production competitiveness, to gain new product lines or markets</td>
</tr>
</tbody>
</table>

Table from Dunning and Lundan 2008, table 4.1 page 104-105

3.2 Other perspective on Dunning's OLI paradigm

From the OLI perspective, the MNE exists because of its possession of superior advantages, i.e. superior to those available to a domestic competitor. It seems that the general view applies mainly to current MNEs which have already created their international empires and are seeking to obtain maximum advantage from them. However the general theory might not apply to latecomer and newcomer MNE, particular those from emerging economies. This is because it rules out cases where a firm can obtain advantages by expanding abroad in order to access a resource that is otherwise not available. This is, for example what Mathews argues in his article from 2006, that many of the latecomer and newcomer MNE invest abroad to create advantages, not exploit already existing advantages. To make sense of their internationalization, it is appropriate to go beyond the established OLI framework for some of the new cases such as China and Russia (Mathews, 2006).
Another aspect that is not included in the OLI paradigm is the effect the home-country environment can have on a firm’s OFDI. Kalotay and Sulstarova applied in their study from 2010 the eclectic model of Dunning on Russia’s OFDI and came to the conclusion that it showed promising results— with one major exception. The home-country environment and other home-country factors play a key role in determining Russian OFDI. According to Kalotay and Sulstarova, this should be the case for emerging economies and transitional countries in general, in particular countries that have gone through changes in their political system. In these cases domestic business conditions might pose constraints on a firm’s OFDI, or that the state might have the power to intervene in OFDI through various mechanisms (Kalotay and Sulstarova, 2010). As discussed, this situation can be applicable on both Russia and China despite their political liberalizations. Kalotay and Sulstarova therefore propose that the OLI model should contain a home-country factor when discussing emerging economies.

Although there are some studies showing that Dunning’s model might not be enough to explain China’s and Russia’s OFDI, an alternative model does not seem to exist. Therefore we have chosen to not make any changes in the model to better fit our two countries. But we will keep this in mind when discussing the results.

We will now present literature on previous research done on Chinese and Russia OFDI.

3.3 Previous research of Chinese OFDI

Despite the fact that China’s outward foreign direct investment has just recently started to catch the interest from the rest of the world there are some academic studies done on this new phenomenon. In 2006, the first attempt was made to formally model Chinese outward foreign direct investment. The authors Buckley et al. investigated the determinants of Chinese OFDI during the period 1984 and 2001. They used a sample of 49 countries that are host to Chinese OFDI and they divided the study in two periods (1984-1991 and 1991- 2001). As discussed in the background part, there was a significant policy change in 1992, and this change can be seen in Buckley et al. results. After 1992 there was a large increase of Chinese OFDI to the developed world which implies that the decision to invest was previously tightly restricted by the Chinese government. This is also one of the conclusions in the OECD report “China’s
outward direct investment” from 2008. They stated that along with the gradual relaxation of government control, China’s OFDI projects have been more and more driven by commercial motivations rather than the government’s political agenda. However, similar to Russia, the government is still very much involved. For example most of the major players in China’s OFDI are state-owned enterprises (SOEs) and the government has developed a complex system of OFDI administration including examination and approval processes. To be approved and implemented, the OFDI projects have to pass two tests: an evaluation showing the project to be profitable and commercially viable and the government’s agreement that the project is in the country’s interest (OECD, 2008). The OCED report and Buckley’s et al. article identifies several motives for China’s OFDI, where the three major motivations accord with the Dunning’s three types of FDI; market-seeking, natural resource-seeking and strategic asset-seeking.

3.3.1 Market-seeking

The market-seeking motive for China’s OFDI have become important for those enterprises which aim to expand business overseas by relying on their comparative advantages already established in domestic and foreign markets, or to those pushed by the intense competition in the domestic market, intend to find new markets overseas. In China, a large number of enterprises conducting market-seeking FDI are found in the manufacturing sector. According to OECD, market-seeking projects in the early days were typically undertaken by setting up local branches or distribution-centers to assist trade, wholesale and retail of Chinese goods. In the later period, more enterprises have been investing in production facilities, plants and supply chains, partially replacing the export of their products (OECD, 2008).

According to surveys conducted by OECD, 85 percent of the interviewed enterprises considered market seeking as a very important or important motive (OECD, 2008). This matches the results of Buckley’s et al. study (2007) where Chinese OFDI were associated with host market size which means that between the years 1984 and 2001 the overseas investment projects had been market-seeking. These results are also supported by another study done in the same subject by Cheung and Qian (2009), with data sampled during the time
period 1991 to 2005; their results also show clear presence of market-seeking OFDI of Chinese enterprises.

### 3.3.2 Natural resource-seeking

Ever since China started to invest abroad, natural resource-seeking has been one of the main considerations for China’s OFDI projects. Gaining access to natural resources on which the country depends on can provide the benefits of long-term supply security. This type of FDI is driven by China’s rapidly expanding domestic demand for natural resources to fuel its economic growth. From being East Asia’s largest oil exporter China had in 2006 moved to become the world’s second largest importer of oil. There has also been an explosive demand in for example aluminum, copper, nickel, ore and timber. Chinese enterprises engaged in imports and exports of natural resources or are using natural resources in their production may benefit from internalization by integrating extraction/development of natural resources into their businesses. As previously discussed, many of the major Chinese OFDI players are SOEs, and five of the ten largest state-owned enterprises investing abroad are operating in the natural resource related sector, which is characterized by monopolistic market conditions. This gives another incentive to invest abroad, since large enterprises with monopolistic power in the domestic market may be able to increase their monopolistic position by vertically integrating their upstream business overseas (OECD, 2008).

In Buckley et al. study from 2007 the results showed that China between the years 1992 and 2002 invested in countries with natural resources endowments and was therefore natural resource-seeking. This is also supported in the study by Cheung and Qian (2009) who came to the same conclusion.

### 3.3.3 Strategic asset-seeking

Since the late 1990s, Chinese strategic asset-seeking has been increasingly demonstrated, and received much attention from media. Foreign firms which own technology, globally recognized brand names, established customer networks and sales channels are the targets of acquisition by Chinese firms. The Chinese firms consider the acquisition as a short-cut to gain
these strategic assets without having to spend large expenses on R&D, international marketing campaigns and development of an overseas customer base. As Chinese enterprises strive to improve their global competitiveness, this type of OFDI is expected to increase in the near future (OECD, 2008). Buckley et al (2007) did not see that the outward investments between the years 1984 and 2001 were motivated by asset-seeking motives. However, the authors did believe that this result might be different if studying data after 2001 when China’s “go global” policy became fully implemented and that later data would show this (Buckley et al., 2007). The much noticed acquisitions of well known foreign companies such as Lenovo buying IBM’s PC division in 2005 and car manufacturer Geely’s acquisition of Volvo in 2010, could also indicate that Chinese companies are about to join the ranks of multinational giants based in developed countries. However this could also be an illusion created from all the attention in media. In 2006, Chinese OFDI targeted all continents with a clear focus on South and East Asia, and also to a lesser extent, Africa. In 2006, a clear majority of the planned OFDI projects were in either one of these two regions, and only a third was in developed countries (OECD, 2008).

3.4 Previous research on Russian OFDI

Like previously mentioned, the phenomenon of Russian OFDI has not been as thoroughly studied as Russian inward FDI. There are however a few studies, where most of them concentrate on the expansion of large Russian companies acquiring an already large player on a foreign country’s market and also on tendencies in Russian outward investment. One of the more recent studies on Russia’s outward investment is, “Modelling Russian outward investment” by Kalotay and Sulstarova (2010) which is similar to Buckley’s et al. study on China, where the authors aimed to determine Russia’s OFDI between the years 1993 and 2008. The large companies that carry out the bulk of Russian OFDI are characterized with four main features. Similar to China they have a monopolistic/oligopolistic position in the domestic market and a strong competitive position in their respective sectors. They have built up significant export revenues to finance overseas business operations and they have all recognized the need to build up a foreign presence to maintain or strengthen their position in the global markets (Kalotay and Sulstarova 2010). Similar to China, many of the Russian
companies investing abroad are state-owned gas-giants or have a strong state influence like oil-major, Lukoil.

Especially for the private-owned companies high levels of corruption and bureaucracy can be explanations of the willingness to go abroad. Companies working in a dusty market seek more transparent markets abroad to benefit from (Vätäinen and Podmetina, 2006). However due to clearer rules and the growing economy, this motive is becoming less significant and the capital flight from Russia has decelerated (Vahtra and Liuhto, 2004). Another aspect why Russian major companies might seek investments abroad is excess capital (Kalotay and Sulstarova, 2010). The study by Kalotay and Sulstarova (2010) states that the recent international expansion of Russian enterprises quite often follows Dunning’s different types of FDI; market-seeking, natural resource-seeking and strategic asset-seeking.

3.4.1 Market seeking

Data on the geographical distribution of acquisitions abroad shows that Russian firms are mainly targeting developed countries, where a majority is in Europe. However, traditionally they often start their expansion in bordering countries and former members of the Soviet Union (Kalotay and Sulstarova, 2010). The reasons behind this are many. As many of them have a great state-influence one cannot ignore that the government might want to strengthen their position in the destination countries (Vahtra and Liuhto, 2004). Only in the past four years there have been notable acquisitions by Russian firms in developing countries, mainly into Asia but also Africa (Kalotay and Sulstarova, 2010). The study by Kalotay and Sulstarova (2010) showed that market seeking was one of the main characteristics in Russian companies’ expansion abroad

3.4.2 Natural resource-seeking

The big oil and gas companies have paved the way for internationalization, especially with the increasing oil prices and the leading Russian companies in this sector have become market dominating (Vahtra and Liuhto, 2004). Today they make up more than 60 percent of Russian outward investment (Kalotay and Sulstarova, 2010). These companies are often very large
and are either completely or partly controlled by the state and want to go beyond the borders to acquire the whole chain of transportation in their business or major contestants (Vätäänen and Podmetina, 2006). One example of the first is Gazprom buying the net of gas pipelines in Ukraine, and the partly stated owned mining giant Norilsk Nikel, which acquired its main competitor, Canadian Lion Ore in 2007. One of the main reasons for expansion has been to take part in the privatization process of the energy sector of other countries (Kalotay and Sulstarova 2010). Many of these types of investments have been directed to countries in Eastern- and Central Europe (Vahtra and Liuhto 2004).

Kalotay and Sulstarova found in their study from 2010 that endowments of natural resources in the host-country were a strong motive for Russian investment in the country.

3.4.3 Strategic asset-seeking

The main destination for Russian OFDI is the EU which suggests that it seeks investments in developed markets (Vätäänen and Podmetina, 2006).

Despite the lack of efficiency and that there is a need for upgrading and improving of the technology among Russian enterprises, the motive for acquiring abroad to get technology has just appeared in recent years. The need for modernization of the often very old Soviet structured industry from the political leaders has been especially emphasized during the presidency of Dmitri Medvedev (Medvedev, 2010).

In the results from the study by Kalotay in 2010, Russian firms did seem to possess important production assets abroad, although very often in socially and culturally similar countries. But compared to the variables related to market- and natural resources- seeking FDI the results showed that Russia lacks asset-seeking investments (Kalotay and Sulstarova 2010). As their study is based on a long time period, development in asset-seeking FDI could be visible when looking at more recent data from a shorter period of time.
4. Hypotheses development

Based on the previously discussed literature on the general FDI theories as well as literature on Chinese and Russian OFDI we will now present the hypotheses development for the determinants on Chinese and Russian OFDI between the years 2007 and 2008.

4.1 Market seeking FDI

According to Dunning’s theory, MNEs driven by the market-seeking motive do this for traditional trade supporting reasons, for example; to explore new markets, get in contact with new consumers, access distribution networks, help the export of domestic products, and to preclude competitors in new markets (Dunning, 2001). Host market characteristics, such as market size, are generally recognized as a significant determinant of FDI flows: as markets increase in size, so do opportunities for MNEs to through OFDI efficiently use the country’s resources and exploit the economy’s scale and scope (UNCTAD, 1998). Except for market size, rapidly growing economies also present more opportunities for generating profits than those that are growing slowly or not at all (Buckley et al., 2007). Market size of host countries is expected to be among the main motivations of Chinese and Russian outward FDI, as these two countries’ MNEs aim for a presence in large and growing markets by establishing production and/or distribution units directly in such countries (Buckley et al., 2007; Kalotay, 2010; OECD, 2008).

The larger a market is and the higher growth potential it has, the more attractive it should be to invest in for Chinese and Russian MNEs seeking foreign markets. We therefore propose the following three hypotheses:

**Hypotheses 1a:** Chinese and Russian OFDI is associated positively with host-market size.

**Hypotheses 1b:** Chinese and Russian OFDI is associated positively with host-market size per capita.

**Hypotheses 1c:** Chinese and Russian OFDI is associated positively with host-market growth.
4.2 Natural resource-seeking FDI

According to UNCTAD World Investment Report (1998), the availability of natural resources has historically been one of the most important FDI determinants. Natural resource-seeking take place when the investors want to acquire or secure the raw materials and energy sources that they are in short of in their home countries or to a lower price or to access the natural resources before their competitors do (Dunning, 2001). The internalisation theory also emphasizes on the importance of equity based control in the exploitation of limited natural resources (Buckley et al., 2007). According to previous research, natural resource-seeking has shown to be a very important motive for both countries (Buckley et al., 2007; Kalotay, 2010). This leads to the assumption that the greater natural recourses endowment a country has, the more attractive it should be to Chinese and Russian companies seeking natural resources. Therefore we propose the second hypothesis:

**Hypothesis 2:** Chinese and Russian OFDI is associated positively with host-country endowments of natural resources.

4.3 Strategic asset-seeking FDI

A more recent determinant of OFDI that has grown more popular and become one of the major motives for OFDI is strategic asset-seeking. This due to the fact that possessing strategic assets is critical for firms’ competitiveness in a globalizing economy (UNCTAD, 1998). Less developed countries tend to invest into more developed countries to acquire knowledge and boast for their internal industries (The Economist, 2008-10-01). Strategic asset-seeking can also be aimed to get accession to immobile strategic assets such as brands and local distribution networks and other capabilities abroad. This to gain global innovatory or production competitiveness or/ and new product lines or markets (Dunning, 1981). These investment flows should be directed to economies with significant level of human and intellectual capital, and particular in industrialized countries (Buckley et al., 2007).

In previously research, neither China nor Russia showed indications that strategic asset-seeking was a significant motive in their OFDI (Buckley et al., 2007; Kalotay, 2010). But considering recent economic development, government policies and foreign acquisitions
made by Russian and Chinese enterprises we believe that this could have changed and that strategic asset-seeking is now an important motive for their OFDI.

Proprietary ownership advantages endowments can be measured by the rate of patenting in the host-country and the larger number of registered patents a country has, the more attractive it should be for Chinese and Russian MNEs that seek strategic assets (Buckley et al., 2007; Cheung and Qian, 2009). Therefore we propose the third and last hypothesis:

**Hypothesis 3**: Chinese and Russian OFDI is associated positively with host-country endowments of proprietary ownership advantages.

5. **Methodology**

5.1 **The used model**

This study aims to determine the OFDI of Russia and China during the years 2007 and 2008. Similar to previous studies we analyze the collected data in the following multiple linear model OLS (ordinary least squares):

\[
\text{LFDI} = \alpha + \beta_1 \text{LGD} + \beta_2 \text{LGDPP 07} + \beta_3 \text{LGGDP} + \beta_4 \text{LORE} + \beta_5 \text{LPATENT} + \beta_6 \text{LDISTANS} + \beta_7 \text{LRISK} + \beta_8 \text{LEXPORT} \varepsilon
\]

LFDI is the outward FDI-flow from China and Russia to the host-countries and it is the dependent variable. It is followed by the independent variables: host country’s total BNP (LGDP), BNP per capita (LGDPP), BNP annual growth rate (LGGDP), the ratio of natural resource products in host-country’s export (LORE), and the number of granted patents per year (LPATENT). Moreover there are three control variables: political risk rating (LRISK), distance from China and Russia to host country (LDISTANS) and the value of export from China and Russia to host country (LEXPORT). All the numbers measuring values are in US dollars with current value (2010).
5.2 Data and sample

We have used data from different sources, both from international organizations and from the local governments in the two countries. Since our dependent variable LFDI is the total outward FDI flow from China and Russia to every country they invested in during the years 2007 and 2008, we needed to find data on which countries and how much the flow amounted to. To obtain the number of countries that China and Russia have invested in and how much we used data annually published by China’s Ministry of Commerce and Russia’s state statistical agency. From these sources we found data on FDI outflow to 80 countries from Russia and to 149 countries from China during the years 2007 and 2008. The reason why we chose two years instead of one was to give the study a higher validity as the flows and specific economic data often fluctuates from one year to another. To harmonize the data and be able to compare it we wanted to find conformed data for the same years. For the years 2007 and 2008 we found corresponding data for both countries’ outward flows. Since our research is based on numbers from 2007-08, the financial crisis had only just begun and therefore probably not yet had its effect on China and Russia’s OFDI.

5.3 Used variables

For the independent variables we used different data sources. Three aspects of the market-seeking FDI are captured by the variables describing the host market characteristics in Hypotheses 1 a-c: LGDP, LGDPP and LGGDP. Total GDP of the host-country represent the market size offered to OFDI, GDP per capita is another indicator of the host-country’s market opportunities and the annual percentage increase of GDP indicates the growth potential. We believe that these three measures can represent and capture the motives for market-seeking FDI. For these three variables we used data from the World Bank, UNDATA and CIAs World Fact Book. The endowment variable LORE is included to account for the natural resource-seeking FDI in Hypotheses 2. LORE is the ratio of ore and metal exports to merchandise export of the host-country and is a proxy for the abundance of natural resources. To Hypotheses 3: Strategic asset-seeking FDI, the variable LPATENT indicates the host-country’s human and intellectual capital. LPATENT is the total, resident plus non-resident,
annual patent granting in each host country and this data is taken from WIPO (World Intellectual Property Organization) Statistics Database.

Data for the control variables: Political risk, LRISK, were taken from the International Country Risk Guide (the lower number in the index, the greater risk), for the Export variable, LEXPORT, we used data from Russian State Statistical Agency and Ministry of Commerce of the Peoples Republic of China, and data to the last control variable Geographic distance, LDISTANS, we calculated the distance from each host country to China and Russia using distancefromto.net. In table three we summarize the hypotheses, chosen variables, expected result and the data source.

**Table 3: The determinants of Chinese and Russian OFDI**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Measure</th>
<th>Expected sign</th>
<th>Theoretical origin</th>
<th>Main or control variable</th>
<th>Data source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Host market characteristics:</td>
<td>LGDP: Host country GDP</td>
<td>+</td>
<td>Market seeking</td>
<td>Main</td>
<td>World Bank, UNDATA, CIA World Factbook (2010)</td>
</tr>
<tr>
<td>Absolute market size (H1a)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Host market characteristics:</td>
<td>LGDPP: Host country GDP per capita</td>
<td>+</td>
<td>Market seeking</td>
<td>Main</td>
<td>World Bank, UNDATA, CIA World Factbook (2010)</td>
</tr>
<tr>
<td>Relative market size (H1b)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Host market characteristics:</td>
<td>LGGDP: Annual percentage increase in GDP</td>
<td>+</td>
<td>Market seeking</td>
<td>Main</td>
<td>World Bank, UNDATA, CIA World Factbook (2010)</td>
</tr>
<tr>
<td>Market growth (H1c)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Natural resource endowment (H2)</td>
<td>LORE: The ratio of ore and metal exports to merchandise export of host country</td>
<td>+</td>
<td>Resource Seeking</td>
<td>Main</td>
<td>World Bank (2010)</td>
</tr>
<tr>
<td>Strategic asset-seeking (H3)</td>
<td>LPATENT: Total annual patent registrations</td>
<td>+</td>
<td>Asset seeking</td>
<td>Main</td>
<td>WIPO (2010)</td>
</tr>
<tr>
<td>Geographic distance from China and Russia respectively</td>
<td>LDISTANS</td>
<td>-</td>
<td>Trade Intensity</td>
<td>Control</td>
<td>Calculated using distancefromto.net</td>
</tr>
<tr>
<td>-----------------------------------------------------</td>
<td>----------</td>
<td>---</td>
<td>-----------------</td>
<td>--------</td>
<td>-----------------------------------</td>
</tr>
<tr>
<td><strong>Political Risk</strong></td>
<td>LRISK: Host country political risk rating</td>
<td>+</td>
<td>Transaction costs</td>
<td>Main</td>
<td>International Country Risk Guide</td>
</tr>
<tr>
<td><strong>Exports</strong></td>
<td>LEXPORT</td>
<td>+</td>
<td>Trade experience</td>
<td>Control</td>
<td>Central Bank of Russia, Ministry of Commerce of Peoples Republic of China (2010)</td>
</tr>
</tbody>
</table>

### 5.4 Limitations and data issues

The number of academic studies in this subject is relatively small compared to those investigating inward FDI in the two countries. This leads to a shortage of available data which imposes a constraint on analyzing Chinese and Russian OFDI. Since the selected Chinese data is approved from the Chinese government, there is a slight level of concern regarding the accuracy. Since this data only contains the Chinese OFDI projects that are approved by the government it does not include the investments that do not go through the formal approval process. In general it is also believed that the official data devalue China’s OFDI (Cheng and Qian, 2009). This we also believe is the situation for the Russian statistics. However, since there is an even more severe shortage of alternative data we decided to use the official ones after all. Also the investment projects approved by the government in both countries do reflect China’s and Russia’s attitude towards OFDI and therefore contain information on their determinants.

We are also aware of the limitations in using only a few previous studies when developing hypotheses and that we might not have found data on all host-countries receiving Chinese and Russian OFDI. Also we do not claim to conduct a study fully determining Russian and Chinese OFDI but hope to merely show a possible direction for future studies.
5.5 Interpretation of the results

To decide the significance of the results we looked at the probability-values. The lower the p-value the more likely it is that the result has statistical significant. The level of significance shows how likely it is that result happened by a chance (Andersson et al., 2007). We have picked 1% as the strongest level, 5% as the second strongest level and 10% as the third strongest level of significance, with inspiration from the recent studies by Buckley et al. (2007) as well as Kalotay and Salustrova (2010). If a result of an independent variable does not reach significance it does not tell that it has nothing to do with or cannot explain the dependent variable. Rather it means that it is too vague to be a qualified factor for explanation (Andersson et al., 2007). We have chosen a few variables which we consider to play a key-roll in explaining OFDI but we are at the same time aware that it will not cover the whole picture of respective country´s investment actions.

6. Results and Analysis

Table 4 shows the results of our study with the correlation coefficients, and each hypothesis with expected sign and result is presented separately before each type of OFDI. In table 7 the results with expected signs are shown for the control variables. Of the three hypotheses, two were significant and one was correctly signed, but only in China’s case. Hypothesis 1a, that Chinese OFDI is associated positively with absolute host-market size is supported. Hypothesis 3, that Chinese OFDI is associated positively with host-country’s endowments of ownership advantages was significant but not correctly signed and is therefore not supported. In Russia’s case none of these three hypotheses attained any significance but one of the control variables did; that lower risk in host-country attract more Russian OFDI. The fact that our model and variables were unable to determine Russia’s OFDI is unfortunate since it rules out a comparison of the two countries. Therefore we are unable to fulfill the second purpose of this study.

The adjusted R square shows in Russia’s case, that the chosen independent variables could not at all explain the dependent variable, OFDI Flow. However in China’s case, the R-squared
value is significantly higher with 22 percent. The low F-value for Russia shows that very few coefficients reached significance, but for China the outcome was a little bit better. The correlation matrix for the Chinese OFDI and Russian OFDI can be seen in table 5 and table 6. The reason why the chosen model with variables did not seem to be able to explain the determinants of Russia’s OFDI and some of China’s and further discussion of our results will be discussed later.

Table 4 Results for the determinants of Chinese and Russian OFDI, 2007 - 2008

<table>
<thead>
<tr>
<th>Variable</th>
<th>CHINA</th>
<th>RUSSIA</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>12.68323</td>
<td>-39.94447</td>
</tr>
<tr>
<td>LGDP (H1 a)</td>
<td>0.510179***</td>
<td>-0.003309</td>
</tr>
<tr>
<td>LGDPP (H1 b)</td>
<td>0.027134</td>
<td>-0.004655</td>
</tr>
<tr>
<td>LGDPG (H1 c)</td>
<td>0.206607</td>
<td>0.108928</td>
</tr>
<tr>
<td>LORE (H2)</td>
<td>0.002991</td>
<td>-0.067743</td>
</tr>
<tr>
<td>LPATENT (H3)</td>
<td>-0.186884**</td>
<td>-0.270199</td>
</tr>
<tr>
<td>LDISTANS (control)</td>
<td>-0.943046***</td>
<td>-0.008002</td>
</tr>
<tr>
<td>LRISK (control)</td>
<td>-0.703358</td>
<td>12.59300*</td>
</tr>
<tr>
<td>LEXPORT (control)</td>
<td>0.181434*</td>
<td>0.199381</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>N</th>
<th>127</th>
<th>74</th>
</tr>
</thead>
<tbody>
<tr>
<td>R-squared</td>
<td>0.272784</td>
<td>0.097241</td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.223481</td>
<td>-0.013868</td>
</tr>
<tr>
<td>F-statistic</td>
<td>5.532832</td>
<td>0.875188</td>
</tr>
</tbody>
</table>

***, ** and * indicates that the coefficient is significant at the 1, 5 and 10% levels, respectively
Table 5, Correlation Matrix China

<table>
<thead>
<tr>
<th></th>
<th>LFLOW</th>
<th>LGDP</th>
<th>LGDPP</th>
<th>LGGDP</th>
<th>LORE</th>
<th>LPATENT</th>
<th>LDISTANS</th>
<th>LRISK</th>
<th>LEXPORT</th>
</tr>
</thead>
<tbody>
<tr>
<td>LFLOW</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LGDP</td>
<td>0.301769</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LGDPP</td>
<td>0.001031</td>
<td>0.51661</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LGGDP</td>
<td>0.104437</td>
<td>-0.0882</td>
<td>-0.20345</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LORE</td>
<td>0.076228</td>
<td>0.46655</td>
<td>0.206366</td>
<td>0.046616</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LPATENT</td>
<td>0.005168</td>
<td>0.7221</td>
<td>0.556892</td>
<td>-0.18123</td>
<td>0.4051</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LDISTANS</td>
<td>-0.29202</td>
<td>-0.1416</td>
<td>0.046393</td>
<td>-0.11755</td>
<td>0.0589</td>
<td>-0.0837123</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LRISK</td>
<td>-0.05755</td>
<td>0.38577</td>
<td>0.793503</td>
<td>-0.24746</td>
<td>0.2949</td>
<td>0.49876223</td>
<td>0.0115</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>LEXPORT</td>
<td>0.284655</td>
<td>0.72255</td>
<td>0.335015</td>
<td>-0.03309</td>
<td>0.3431</td>
<td>0.62594188</td>
<td>-0.157</td>
<td>0.27368</td>
<td>1</td>
</tr>
</tbody>
</table>

Table 6, Correlation Matrix Russia

<table>
<thead>
<tr>
<th></th>
<th>LFLOW</th>
<th>LGDP</th>
<th>LGDPP</th>
<th>LGGDP</th>
<th>LORE</th>
<th>LPATENT</th>
<th>LDISTANS</th>
<th>LRISK</th>
<th>LEXPORT</th>
</tr>
</thead>
<tbody>
<tr>
<td>LFLOW</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LGDP</td>
<td>0.076477</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LGDPP</td>
<td>0.101408</td>
<td>0.156444</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LGGDP</td>
<td>0.024589</td>
<td>0.045443</td>
<td>-0.35902</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LORE</td>
<td>0.063678</td>
<td>0.575936</td>
<td>-0.11924</td>
<td>0.268471</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LPATENT</td>
<td>0.071945</td>
<td>0.770053</td>
<td>0.09145</td>
<td>0</td>
<td>0.67127</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LDISTANS</td>
<td>-0.1</td>
<td>-0.37119</td>
<td>0.13848</td>
<td>-0.31061</td>
<td>-0.2384</td>
<td>0</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LRISK</td>
<td>0.161741</td>
<td>0.283261</td>
<td>0.53883</td>
<td>-0.49604</td>
<td>0.26446</td>
<td>0.30173</td>
<td>0.0094</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>LEXPORT</td>
<td>0.153719</td>
<td>0.620288</td>
<td>-0.10189</td>
<td>0.387079</td>
<td>0.56637</td>
<td>0.75759</td>
<td>-0.1565</td>
<td>0.05851</td>
<td>1</td>
</tr>
</tbody>
</table>

6.1 Market-seeking OFDI

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Expected sign for China and Russia</th>
<th>Results CHINA</th>
<th>Results RUSSIA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hypothesis 1a: OFDI associated positively with absolute host market size</td>
<td>+</td>
<td>+</td>
<td>Not significant</td>
</tr>
<tr>
<td>Hypothesis 1b: OFDI is associated positively with host market size per capita</td>
<td>+</td>
<td>Not significant</td>
<td>Not significant</td>
</tr>
<tr>
<td>Hypothesis 1c: OFDI is associated positively with host market growth</td>
<td>+</td>
<td>Not significant</td>
<td>Not significant</td>
</tr>
</tbody>
</table>
To capture whether the countries were market seeking in their OFDI or not we used three variables as measures: total GDP of host-country, GDP per capita in host-country and GDP growth in host-country. For both countries the second and the third variable were not significant in explaining their OFDI and in Russia’s case none of the market-seeking variables were. Previous studies had shown that total GDP of host country was a significant factor and indicated that Russia’s OFDI were market-seeking. However in our study these factors showed to be insignificant and we can therefore, based on our results, not determine a positive nor negative relationship between host-market characteristics and Russian OFDI.

In China’ case, our results for the first hypothesis did not differ from Buckley’s et al. results in 2007; host-market GDP per capita and host-market GDP growth did not attain any significant but total GDP of host-market did. This means that in our study, host-market characteristics measured by absolute size of economy are positively associated with Chinese OFDI. Our results indicate that during the years 2007 and 2008, market-seeking was a motive for Chinese OFDI and therefore is hypothesis 1a supported. According to Dunning (2001) this means that Chinese MNEs could be motivated by exploring new markets or protecting the existing ones. Also that they might be seeking new customer bases and distributions networks and aim to help the export of Chinese products. As earlier studies show that Chinese OFDI are directed to developing countries but according to our results they are more attracted to large markets and high levels of BNP. This result could indicate that they are not investing in new markets to counteract competitors or potential competitors to enter these markets.

6.2 Natural resource-seeking OFDI

<table>
<thead>
<tr>
<th>Hypothesis 2: OFDI is associated positively with host country endowment of natural resources</th>
<th>Expected sign for China and Russia</th>
<th>Results CHINA</th>
<th>Results RUSSIA</th>
</tr>
</thead>
<tbody>
<tr>
<td>+</td>
<td>Not significant</td>
<td>Not significant</td>
<td></td>
</tr>
</tbody>
</table>

To determine whether the two countries were natural resource-seeking in their OFDI or not we used the ratio of ore and metal exports to merchandise export of host country as measuring
variable. Previous research on China and Russia’s OFDI show that the both countries have been natural resource-seeking but in our study we find no support for hypothesis 2. The natural resource-seeking variable in the OLS model was insignificant as well.

### 6.3 Strategic asset-seeking OFDI

<table>
<thead>
<tr>
<th>Hypothesis 3: OFDI is associated positively with host country endowments of ownership advantages</th>
<th>Expected sign for China and Russia</th>
<th>Results CHINA</th>
<th>Results RUSSIA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>+</td>
<td>-</td>
<td>Not significant</td>
</tr>
</tbody>
</table>

To find out if Chinese and Russian OFDI were strategic asset-seeking we used the total annual patent registrations of the host-country as measuring variable. Even though earlier research had shown the strategic asset-seeking motive not to be important for China we expected that collecting more recent data for a shorter period of time would show the opposite. However the result showed that in China’s case there is no positive association between host-country endowments of ownership advantages and Chinese OFDI flow. Our results show a negative relationship which indicates that Chinese MNEs were not motivated to acquire strategic assets during 2007 and 2008. Since the results shows that there is a negative relationship, it indicates that countries that attract Chinese OFDI are countries with insignificant levels of human and intellectual capital. According to Dunning (2001) this could mean that a majority of Chinese MNEs are not trying to strengthen their competitiveness by accessing R&D capacity and well known brand names.
Table 7, results of the control variables

<table>
<thead>
<tr>
<th>Control variable: Geographic distance from China and Russia respectively</th>
<th>Expected sign for China and Russia</th>
<th>Results CHINA</th>
<th>Results RUSSIA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-</td>
<td>-</td>
<td>Not significant</td>
</tr>
</tbody>
</table>

| Control variable: Political Risk | + | Not significant | + |
| Control variable: Exports | + | + | Not significant |

7. Discussion and conclusion

This is one of the first attempts to model Chinese and Russian OFDI both separately and together. We used a theoretical framework inspired by Dunning’s eclectic OLI paradigm and developed hypotheses according to this and previous research on the subject. We have divided the hypotheses into main variables and control variables, where the selected main variables were market-seeking FDI natural, resource-seeking and asset-seeking FDI. The study is concentrated on the years 2007 and 2008.

As the results show, Russian OFDI could unfortunately not be explained by any of the chosen variables for the three main hypotheses of market-, natural resource- and strategic asset-seeking. As previously mentioned it does not, however, mean that they are not motivated by these three types of FDI. It turned out that in particular Russia’s case, the model with the independent variables could not explain the dependent one; the OFDI flow into each host-country. This is unfortunate since it rules out a deeper comparison of the two countries. We come to the conclusion that there seem to be other factors that could tell us why Russia and to some part China invest in a certain country. The omitted variable bias is always an issue to take into consideration in a regression model. We will present some of the factors that we believe should be taken into consideration when determining Russian and Chinese OFDI.
7.2 Market-seeking?

In hypothesis one, market-seeking OFDI, we measured it by total GDP, GDP per capita and GDP growth of host-country. For China case we found that there is a positive relationship between market size and investment outflow which could indicate that China is attracted to larger markets and therefore are market-seeking. Despite our results, we still believe Russian outward investments can be market-seeking but maybe not to markets with the same characteristics as China. To compete in a mature and large market is hard and instead of seeking market abundant of capital they might go to smaller markets where the competition is lighter. This could also be the case for China since a large part of their OFDI goes into developing countries, it cannot be seen in our study since the results show that they are attracted to markets with high BNP but previous studies show that Chinese MNE invest in developing countries, mostly Asian and African.

7.2 Neither natural resources-seeking nor strategic asset-seeking?

As previously mentioned, the largest MNEs from both countries investing abroad are involved in the natural resource sector and therefore our result might be slightly surprising. This might be because the most important natural resource for these two countries is oil, as Russia is the world’s largest exporter of oil and China is the world’s second largest importer of oil. The variable used for this hypothesis included ore and metal and not oil, so we believe there is a chance this variable could be significant if oil would be included.

Our presumption that both countries would be strategic asset-seeking, based on the previous discussion on the need for technological modernization and well-known brands turned out not to be true. It might be explained by the fact that it is still early and that Russian and Chinese enterprises are not mature enough to go global in areas where they have not been compatible so far. Since the results show a negative association between Chinese OFDI and proprietary advantages it could further strengthen the fact that developing countries rather than developed countries attract the Chinese investors. The attention in media also reflects the idea that
especially Chinese companies acquire more firms in developed countries than they actually seem to do. Evidently there are large acquisitions made by Russian and Chinese enterprises and maybe the results would be different in a couple of years. However we think that it is probably going to take several years to be able to say that these countries are strategic asset-seeking.

7.1 Tax havens and offshore financial centers

One factor likely to explain a great part of the OFDI flow is the large amount of Russian and Chinese capital fleeing the country for popular tax-havens or offshore financial centers. These destinations are often small islands with very low levels of total GDP and growth-rate. These small countries also lack natural resources and do not have many patent registrations, but that still attracts Chinese and Russian OFDI. As a matter of fact the fourth and fifth most popular destinations for Chinese OFDI during the years 2007 and 2008 were two countries matching this description; British Virgin Islands and The Cayman Islands. Gibraltar (5th) and Cayman islands (6th) were also very popular for Russian OFDI during the sampled years. This could be a result from the fact that the Chinese and Russian government’s long term capital control has hampered the domestic capital markets. These offshore locations can effectively be used as locations for example holding companies and regional headquarters for which efficient financial services and unconstraint capital flow are very important. By investing in these locations, large Chinese and Russian MNEs may also avoid domestic risks and gain flexibility in corporate financing and organization structure.

7.4 Other aspects

Another factor that we believe has a large impact but were not given place in our study is the cultural closeness to host-country. As discussed earlier, studies on both China and Russia’s OFDI show that countries that share a similar cultural to respectively country attract a large part of their investments. In China’s case, it could be other Asian countries and in Russia’s case former Soviet countries. We also believe that one of the reasons why we could not determine Russian OFDI with the used variables is that Russian, and to some part Chinese
OFDI, the investments seem to be very scattered, since the differences between the host-countries are quite substantial. It gives the impression that the strategy behind is not necessarily of the “usual” economic kind. This leads us to believe that despite the lesser involvement of both countries governments, there might still be a political factor having an impact on the OFDI. Since for example all the Chinese investment projects abroad must be approved by the government and show that is it in the country’s interest, it is hard to imagine that the government’s agenda do not have an effect on Chinese OFDI.

Other aspects that could have influenced our results are for example that we only managed to find data for 80 countries receiving Russian OFDI. Also that we used a rather simple and basic statistical regression model could have affected the outcome.

8. Future studies

Since the Chinese and Russian OFDI is expected to continue to grow the interest in this topic should do so as well. We suggest that in the future less focus should be put on the host-country’s characteristics and more on the home-country. Just like Matthews and Kalotay and Sulstarova implied, the general theory is not enough to explain China’s and especially not Russians investment activities abroad. Naturally, just like Dunning stated in 2001, no single theory of international trade can satisfactorily explain all forms of cross-border transactions in goods and services. We think that the home-factor that Kalotay and Sulstarova described in their study is of utter relevance to Russia but also to China. The unsecure situation on the domestic market has been and still is a major factor for capital leaving Russia, which is expected to be one of the countries with the highest capital outflow. We would also suggest that other factors, for example the ones we previously discussed as oil, cultural proximity and political agenda, should be taken into consideration in future studies as variables affecting Chinese and Russian OFDI. To summarize, we think that it would be necessary to call for a special theory to explain the OFDI of these two countries, since the general one is not enough. Assumed that Chinese and Russian OFDI can be determined with help from a special theory a comparison between the both countries can also be conducted. This would be very interesting.
to do considering the differences and similarities in the economical and social development of China and Russia.
9. References


Vahtra, P., Liuhto, K., (2004); “Expansion or Exodus? – Foreign operations of Russia´s largest corporations”. Electronic Publications of Pan-European Institute vol. 8


10. Appendix

Host countries receiving Russian OFDI, 2007-2008

ANGUILLA, ARGENTINA, ARMENIA, AUSTRALIA, AUSTRIA, AZERBAIJAN, BAHAMAS, BARBADOS, BELARUS, BELGIUM, BELIZE, BERMUDA, BOSNIA AND HERZEGOVINA, BULGARIA, CANADA, CAYMAN ISLANDS, CHINA, CROATIA, CYPRUS, CZECH REPUBLIC, DENMARK, DOMINICA, EGYPT, ESTONIA, FINLAND, FRANCE, GERMANY, GIBRALTAR, GREECE, GUERNSEY, HUNGARY, INDIA, IRAQ, IRELAND, ISLE OF MAN, ISRAEL, ITALY, JAPAN, JERSEY, KOREA, KOREA, REPUBLIC OF, LATVIA, LIBERIA, LIBYA, LIECHTENSTEIN, LITHUANIA, LUXEMBOURG, MALTA, MONACO, MONGOLIA, MONTENEGRO, NETHERLANDS, NORWAY, POLAND, PORTUGAL, ROMANIA, SERBIA, SINGAPORE, SLOVAK REPUBLIC, SLOVENIA, SOUTH AFRICA, SPAIN, ST. KITTS AND NEVIS, SWEDEN, SWITZERLAND, THAILAND, TURKEY, UNITED ARAB EMIRATES, UNITED KINGDOM, UNITED STATES, VENEZUELA, VIETNAM, BRITISH VIRGIN ISLANDS.

Host countries receiving Chinese OFDI, 2007-2008

AFGHANISTAN, ALGERIA, ANGOLA, ARGENTINA, AUSTRALIA, AUSTRIA, AZERBAIJAN, BAHAMAS, BAHRAIN, BANGLADESH, BARBADOS, BELGIUM, BELIZE, BENIN, BERMUDA, BOLIVIA, BOSNIA AND HERZEGOVINA, BOTSWANA, BR, VIRGIN IS, BRAZIL, BRUNEI, CAMBODIA, CAMEROON, CANADA, CAPE VERDE, CAYMAN IS, CHAD, CHILE, COLOMBIA, CONGO, CONGO DR, COTE D'IVOIR, CROATIA, CUBA, CYPRUS, CZECH REP, DENMARK, DJIBOUTI, DOMINICANREP, ECUADOR, EGYPT, EQ, GUINEA, ERITREA, ETHIOPIA, FIJI, FINLAND, FRANCE, GABON, GEORGIA, GERMANY, GHANA, GREECE, GRENADA, GUINEA, GUYANA, HONDURAS, HONG KONG, HUNGARY, INDIA, INDONESIA, IRAN, IRAQ, IRELAND, ISREAL, ITALY, JAMAICA, JAPAN, JORDAN, KAZAKHSTAN, KENYA, KIRGHIZIA, KOREA, KOREAREP, KUWAIT, LAOS, LATVIA, LESOTHO, LIBERIA, LIBYA, LIECHTENSTEIN, LUXEMBOURG, MACAU, MADAGASCAR, MALAWI, MALAYSIA, MALI, MALTA, MARSHALL IS, MAURITANIA, MAURITIUS, MEXICO, MICRONESIA, MONGOLIA, MOROCCO, MOZAMBIQUE, MYANMAR, NAMIBIA, NEPAL, NETHERLANDS, NEW ZEALAND, NIGER, NIGERIA, NORWAY, OMAN, PAKISTAN, PALAU, PANAMA, PAPUA NEW GUINEA, PARAGUAY, PERU, PHILIPPINES, POLAND, QATAR, ROMANIA, RUSSIA, RWANDA, S. VINCENT AND GRENADINE, SAUDI ARABIA, SENEGAL, SEYCHELLES, SIERRA LEONE, SINGAPORE, SOUTH AFRICA, SPAIN, SRI LANKA, SUDAN, SURINAME, SWEDEN, SWITZERLAND, SYRIAN ARAB, TADZHIKISTAN, TANZANIA, THAILAND, TOGO, TUNISIA, TURKEY, TURKMENISTAN, UGANDA, UKRAINE, UNITED ARAB EMIRATES, UNITED KINGDOM, UNITED STATES, URUGUAY, UZBEKSTAN, VENEZUELA, WESTERN SAMOA, VIETNAM, YEMEN REP, ZAMBIA, ZIMBABWE.