

Russian Investment in the Former Soviet Union

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What are the objectives of Russian investors in the former Soviet Union? Firms are strategic actors that expect to exert influence wherever they operate, and a subset of firms seeks rents rather than safe havens when investing internationally. Furthermore, the investment objectives of firms are differentiated by their nation of origin. We analyze a firm-level dataset from the Eurasian Development Bank between 2000 and 2012. We find a bimodal distribution of Russian foreign investment, concentrated in countries with considerably lower levels of political constraints (Henisz 2002) than Russia itself, but with a secondary spike among the most highly constrained countries. These patterns hold both inside and outside the energy sector, but are strongest in the energy sector, where the ability to extract rents is most obvious. We interpret these patterns as evidence that the bulk of Russian investment is intended to extract rents. Finally, we find that Russian state-owned firms invest more heavily in countries that exhibit affinity for Russia by ratifying numerous CIS treaties and stationing Russian troops, but private firms do not exhibit these trends. This suggests that state-owned firms promote Russian foreign policy, but private firms are not reassured by pro-Russian atmospherics. All results are robust to host-country fixed effects. Examples of how Russian investments respond to political shifts in various post-Soviet countries illustrate the mechanisms.