

**St. Petersburg University**  
**Graduate School of Management**  
**Master in Management Program**

**INSTITUTIONAL DETERMINANTS BEHIND  
RUSSIAN FDI IN LATIN AMERICA**

Master's Thesis by the 2<sup>nd</sup> year student  
Concentration — International Business  
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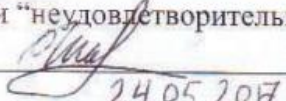
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**St. Petersburg**  
**2017**

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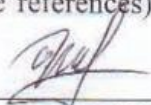
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## АННОТАЦИЯ

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Факультет	Высшая Школа Менеджмента
Специальность	Международный Бизнес
Год	2017
Научный руководитель	Андрей Юрьевич Панибратов
Описание цели, задач и основных результатов	Цель данной работы состоит в исследовании влияния институциональных дистанций между Россией и Латинской Америкой на приток прямых инвестиций из России в Латинскую Америку. Изучение панельных данных о Российских прямых инвестициях в Латинской Америке привело к выявлению значительного положительного эффекта, который оказывает положительная дистанция в экономической свободе на ПИИ.
Ключевые слова	Российские инвестиции, Латинская Америка, институты, детерминанты

## ABSTRACT

Master Student's Name	Olga Goleshchikhina
Master Thesis Title	Institutional determinants behind Russian FDI in Latin America
Faculty	Graduate School of Management
Major Subject	International Business
Year	2017
Academic Advisor's Name	Andrei Panibratov
Description of the goal, tasks and main results	The aim of this paper is to investigate how institutional distance between Russia and Latin America influences the amount of Russian FDI in Latin America. Examining panel data from Latin American countries resulted in main finding, that there is a significant positive relationship between FDI and positive Economic Freedom distance, namely investment, labor and trade freedom.
Key Words	Russian FDI, Latin America, institutions, determinants

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## **Introduction**

Many scholars underline the role of FDI in economic development of emerging countries. Being an “emerging growth driver” (Mlachila and Takebe, 2011), FDI attract more attention of modern researchers. The question “what fosters inward FDI?” concerns many scholars and governments. There are different theoretical approaches to FDI determinants (factors, which drive FDI). The most recent approach, which is being widely discussed nowadays, is institutional approach. This paper contributes to institutional approach by examining the relationship between FDI inflows and institutional determinants.

In the beginning, the definition of institutions should be provided. Douglass North defines institution as “formal conventions (rules), as well as the informal conventions (standards) of society” and “individuals and organizations as the entities which devise and implement these institutions” (North, 1990). Many recent researchers claim, that quality of institutions plays crucial role in the capacity of countries to attract FDI. A lot of evidence to support this statement from different scientific papers will be provided in the first part of this paper.

Institutions in developing countries are very heterogeneous and specific for each country; they obviously differ by form and dynamics of development from institutions in developed countries. This difference may be measured by institutional indexes, which will be explored later in this paper. This difference creates special interest around the topic of institutional determinants of FDI in developing countries.

If the dependency of FDI on quality of institutions has been discussed since early 1980s; the relationship between FDI and institutional distance is relatively new topic, but many scientific evidence of this relationship has been provided during last decades. Many scholars define institutional distances as important determinants of bilateral FDI. Institutional distances determine FDI flows depending on types and motives of investments. Many researches claim that companies from developing countries tend to invest mainly in regions with approximately similar institutional environment (Habib and Zurawicki, 2002) in order to adapt faster; other scholars propose an opposite idea, that more developed institutions can attract FDI (Kuznetsov, 2011). Dunning (2000) proposed the classification of motives for FDI, according to which different institutional determinants attracts companies with different motives. In developing countries with poorer institutional environment, foreign investors more often are seeking for

resources and market opportunities; while in developed countries with more efficient institutions, investors are seeking for efficiency and strategic assets. Different motives for FDI define the location choice of investors. For Russian investors the situation is changing nowadays. Investment opportunities in developed markets are decreasing because of political shifts and financial sanctions on Russia. Investing in developed countries is becoming more complicated, that pushes Russian investors to seek for opportunities in other emerging and dynamic developing countries (Abramova and Garanina, 2017). The motivation of Russian companies to invest in developing regions is becoming more complex, and location decisions depend on wider range of institutional determinants. There is lack of researches on the topic of institutional determinants, which attract Russian FDI in developing countries with more efficient institutions. The majority of existing researches are aimed to investigate institutional determinants of Russian FDI in developed countries or developing countries with approximately similar or less developed institutional environment.

The main goal of this paper is to cover this research gap and to investigate how host region institutional determinants influence Russian FDI in other developing countries with better institutional environment. In this analysis, I will focus on Latin American region and investigate how institutional distance between home country and host region determines FDI in the context of Russian FDI in Latin America.

Latin America was chosen because it is developing region, which performs comparatively high for developing world level of institutional efficiency (in majority of cases higher than in Russia, see Appendix 7: Indexes and FDI flows). Another reason for choosing Latin America is the growing interest of Russian companies to this region. Nowadays, Russian MNEs are involved in more than in 40 investment projects in Latin America in total amount more than 20 billions of dollars (See Appendix 1: Russian MNEs' investment projects in Latin America). Match in strategic interests, closeness of business cultures and long-standing history of economic relations behind may explain this interest.

The quantitative analysis employs panel data about Russian FDI in 15 countries in Latin America and Caribbean over the period of last ten years, from 2007 until 2016. This interval was chosen based on availability of data. The method for this analysis is panel regression.

In the result of this research, I suppose to obtain an answer on the research question "How the institutional distance between Russia and Latin America influences the amount of Russian

FDI in Latin America?”

According to the result of panel data analysis, general conclusion is that higher economic freedom, mainly investment, trade and labor freedom, drives Russian FDI in Latin America, which shows recent shift in motivation and strategy of Russian investors. At the same time, other positive institutional distances do not influence significantly Russian FDI flows in Latin America. Following the result of this analysis, some recommendations for Russian MNEs may be proposed regarding the location choice of FDI - which exact institutional factors should be considered while making decision to invest in Latin America. The result also contributes to institutional approach to FDI determinants by providing an empirical evidence of how institutional determinants affect Russian FDI in Latin America on the background of changing investment motives.

## **Chapter 1: FDI determinants theoretical background and examples**

### *The concept of FDI determinants*

In the beginning of this paper, it is reasonable to define the meaning of institutional determinants of FDI. There is no exact definition for institutional determinants of FDI, but a lot of researchers in their papers put light on the definition of FDI determinants and make it clear what mean determinants of FDI from the point of view of institutional theory. Determinant in general is a factor, that determines, influences something.

In the context of FDI, institutional determinants may be considered as institutional features, or qualities of institutions, which affect FDI inflows to particular country; or institutional distances between countries, which influence the amount of bilateral FDI (Bénassy-Quéré, Coupet and Mayer, 2007).

The theory of FDI determinants evolved significantly over last decades; different theoretical approaches of FDI determinants replaced each other over the long period. The most recent theoretical approach to FDI determinants is institutional approach, which underlines the importance of institutions in the ability of particular countries to attract FDI inflows (Faeth, 2009). The history of institutional approach started from 1980s when first authors begun to develop the topic of institutional determinants of FDI. One of the first studies on institutional determinants of FDI was conducted by Franklin R. Root and Ahmed A. Ahmed. Researchers

analyzed the significance of more than forty political, social and economic variables in distinguishing among several groups of countries from “the most attractive” to “the least attractive” in terms of FDI in manufacturing (Root and Ahmed, 1978). They were one of the first to identify some dependence between FDI and institutional determinants, which started the foundation of institutional approach to FDI determinants.

Many researchers since that time have been widely discussed the relationship between institutional factors and FDI. Recent authors develop this approach in the context of developed countries, developing countries, particular groups of countries. Some scientists research institutional determinants more specifically - in the context of particular institutions. More and more recent researches are focused not only on investigating how particular institutions influence the attractiveness of country for foreign investors, but also on how institutional distances between specific countries affect bilateral FDI.

Last years, more and more scholars focus on the topic of institutional distances as determinants of FDI. The impact of institutional distances on bilateral FDI in specific country context is gaining more and more interest among modern scholars nowadays.

In the beginning, it is reasonable to provide the definition for institutional distance. Charles Coffman (2015) recently proposed the clear definition of institutional distance: “Institutional distance measures how similar the origin country and the destination country are to one another based on the quality of their institutions”. This definition helps the author to build the hypothesis and conduct the research, which proved, that institutional distances do influence the amount of bilateral FDI and hence, they may be considered as determinants of FDI.

Acemoglu and Robinson (2010) proposed the following definition of institutional distance: institutional distances are “differences in the quality of institutions across countries are the main determinant of differences in economic development”. There are no contradictions between scholars regarding definition of institutional distances; they all base these definitions on the differences in quality of institutions. There are also no doubts among different authors that institutional distance influences significantly the amount of FDI and thus may be considered as important determinant of FDI.

It is also useful to distinguish between positive and negative institutional distance, because this terms will be often used in this paper. The simplest definitions for positive and negative institutional distances are:



- positive institutional distance – the situation when “host institutions are better than home institutions” (Aleksynska and Havrylchuk, 2013)
- negative institutional distance – the situation when “host institutions are worse than home institutions” (Aleksynska and Havrylchuk, 2013).

There are many scientific proofs that institutional distances impact both the decision of companies from the home country to invest to the host country, and amounts of FDI undertaken, which makes institutional distances useful for explaining recent FDI patterns and determining possible future trends.

The abundance of modern researches on institutional determinants of FDI leaves no doubt that this topic is relevant and interesting for investigating in more specific context.

### *1.1 Overview of institutional determinants of FDI*

As far as many authors consider foreign direct investments (FDI) a driver of economic growth for developed and developing countries (Wang, 2009), many governments are concerned about their capacity to attract foreign investors. It leads to rising interest to the different factors, which affect willingness of foreign multinationals to invest in particular country. The variety of factors, which attract FDI, is enormous and very specific for different regions, which results in the necessity of additional analysis of the determinants of FDI in different regions or in the context of different bilateral or multilateral investment relationships.

First studies related to determinants of FDI appeared in 1960s. The summary of different theoretical approaches to FDI determinants is provided in the Figure 1. Analyzing the evolution of different theories of FDI determinants, we can conclude, that first studies underlined primarily such determinants of FDI as access to cheap working force, resources, higher returns, lower risks, in other words, everything that makes production cheaper and easier. Such kind of determinants are more likely to attract those businesses, which follow the resource-seeking strategy. Further theories were more concentrated on market opportunities, mostly on competition, which is typical for market-seeking investors. Eclectic paradigm is quite different, because it underlines the importance of valuable resources, like human skills and technology. Then there is a shift again to the trade approach, where scholars investigated such determinants as market size, barriers to entry and transportation costs. Finally, the most recent approach - institutional approach, takes into consideration such determinants as political variables

(economic incentives, taxes, tariffs). Nowadays institutional approach is much more complex; institutional theory of FDI determinants includes not only political variables, but also many others, which will be covered later in this research.

Theory	Determinants	Authors
Heckscher-Ohlin Model / MacDougall-Kemp Model	Higher return on investment, lower labour costs, exchange risk	Heckscher, Ohlin, Hobson, Jasay, MacDougall, Kemp, Aliber
Market imperfections	Ownership benefits (product differentiation), economies of scale, government incentives	Hymer, Kindleberger
Product differentiation	Imperfect competition	Caves
Oligopoly markets	Following rivals, responding to competition in domestic market	Knickerbocker
Product life cycle	Production function characteristics	Vernon
Behaviour theory	Fear of loss of competitive edge, following rivals and increased competition at home	Aharoni
Internalisation	Market failures/inefficiencies Know-how, market failures	Buckley and Casson, Hennart, Teece, Casson
Eclectic paradigm (OLI – Ownership, location, internalisation)	Patents, technology, management skills, favourable tax systems, low production and transport costs, lower risk, quality control	Dunning
New theory of trade	Market size, transport costs, barriers to entry, factor endowments	Dixit, Grossman, Krugman, Horstmann, Brainard, Eaton, Markusen, Deardorff
Institutional approach	Political variables (financial and economic incentives, tariffs, taxes)	Root and Ahmed, Grubert and Mutti, Samuelson, Barros and Cabral, Bénassy-Quéré, etc.

**Figure 1: Evolution of theories of FDI determinants. Source: Faeth, 2009**

The majority of scholars, who investigate FDI determinants, support the similar theoretical framework.

This paper is devoted to institutional approach of defining FDI determinants, because this approach is the most recent, complex and supported by many modern scholars, who currently investigate FDI determinants. This chapter will cover the results of different studies on institutional determinants of FDI.

As it was mentioned earlier, the first studies about FDI determinants, which we may refer to institutional theory, appeared in early 1980s. The first studies on this topic were devoted to examining the linkage between quality taxation system and FDI. Taxation institutions seem to be an important determinant of FDI and decision-making factor. The role of taxation system is

enormous, the capacity of country to provide tax holidays (special tax regime for foreign investors) and investment incentives programs helps high productive countries to distinguish themselves among others and attract more FDI (Bond and Samuelson, 1986). The capacity of country to offer tax holidays and investment incentive programs to foreign investors is also a good signal showing that the taxation system in this country is effective and the productivity level in this country is high enough for decision to start business there (Root and Ahmed, 1978).

This time, in the middle of 1980s, some authors started to conduct first surveys on political determinants of FDI. According to many findings of researches that time, there is a strong relationship between political instability in host countries and inflows of FDI. Political, mainly political instability and government ideology, and economic factors affect simultaneously the amount of FDI in host countries (Schneider and Frey, 1985). The importance of political variables is connected with the role of political risks in discouraging FDI inflows (Jun and Singh, 1996).

Since 1900s, the majority of scientific researches underlined crucial role of institutional development in attracting FDI. Many scientists were focused on investigating political stability as key determinant of FDI. This time scholars started to conduct more complex researches on FDI determinants by incorporating into analysis such variables as infrastructure, investment policies in the host country, effectiveness and independence of host country's judicial and legal system, corruption perception level and political instability. Findings showed the significance of all this factors, thus proved the fact that these factors should be considered as FDI determinants (Asiedu, 2006).

Many surveys were aimed to investigate which determinants influence FDI most - traditional (availability of resources, market size, rivalry) or institutional (efficiency of institutions and institutional distances). Researches, which incorporate into analysis nontraditional, institutional factors (such as regulations on repatriation of profits, expropriation of private investments, corruption level, effectiveness of enforcing contracts procedures, activity of labor unions, and possibility of the exchange controls), prove that that both traditional and nontraditional factors affect FDI inflows to the host country (Biswas, 2002). As far as the effect of both traditional and institutional determinants is captured in empirical researches, the main conclusion is that foreign investors would prefer to locate FDI in regions with overall stability and integrity of economic and political climate.

Many authors claim that fiscal system is the most powerful determinant of FDI inflows; however, we should not underestimate the importance of political and economic stability, institutions regulating property rights, investment-supporting incentives and infrastructure regulations (Cleeve, 2008).

The literature on FDI determinants recognizes the importance of traditional factors in attracting FDI - market size, physical infrastructure, labor costs (Kolstad and Wiig, 2012); but, in addition, modern researches contribute to institutional approach as well by proving the significant positive effect of market openness, effectiveness of fiscal system, reduction of corruption perception level and political stability (Cleeve, 2008). Thus, we can conclude, that all the variables mentioned above are institutional determinants of FDI.

Some authors suggest that development of financial institutions and monetary policies significantly affect FDI inflows and thus should be considered as FDI determinants. They affect inward FDI as well as traditional factors, such as size of host country economy and government, natural resources and other institutional factors, e.g. market openness, corruption level, and effectiveness of fiscal policies. (Mohamed and Sidiropoulos, 2010). Appropriate institutions impact positively the ability of countries to attract FDI. In order to make country attractive for foreign investors, governments should improve their fiscal and monetary policies, quality of financial system, corruption control, and reduce trade barriers.

Some scholars claim that institutional determinants influence not only amount, but also volatility of cross-border FDI flows. The effective institutions in host country, mainly several dimensions of governance: rule of law, voice and accountability, government effectiveness, regulatory quality and corruption control, may not only foster inward FDI, but also secure stable FDI inflows. Hence, if governments desire to maintain regular FDI inflows and decrease volatility of FDI, they should concentrate on improving institutions, especially political and legal institutions, and reduce corruption level (Buchanan, Le and Rishi, 2012).

Many debates appear constantly on the basis of direction, in which institutional determinants influence FDI. There are plenty of large panel researches aimed to investigate the direction of this impact. However, if the analysis includes large number of heterogeneous countries, results may be very controversial, meaning that in some regions the effectiveness of particular institutions will affect FDI in positive way, while in other regions the effectiveness of same institutions will deter FDI. That happens, because many researches do not take into

considerations institutional environment of home countries and institutional distances. Depending on peculiarities of specific countries or regions, different institutional determinant influence FDI in different ways. However, the significance of the particular variables, for example corruption level, government expenditures, market openness and development of capital markets was high in majority of cases. (Erdogan and Unver, 2015).

Some recent authors also specify institutional determinants of FDI from the point of view of business with particular strategies. For example, Dunning (1993) identified 3 types of FDI strategies:

- Resource seeking: investments aimed to acquire particular resources (natural, human or technological)
- Market seeking: investments aimed to capture market share in the growing markets
- Efficiency seeking: investments aimed to benefit from environment, which enables firm to compete on the international level
- Strategic asset seeking motivation: intention to acquire innovations, knowhow and new technologies

Obviously, for resource seeking FDI, main predictor would be availability of resources (traditional determinants); for market seeking companies both traditional and institutional determinants will matter (market size, competition, trade barriers, etc.). As to strategic asset seeking and efficiency seeking FDI, more important will be institutional determinants.

The idea is the same - different motives for FDI lead to location choices based on different determinants, traditional or institutional. The evolution of these motives is followed by the evolution of theoretical approaches of FDI determinants. Some scholars underline recent shift in motivations of multinational companies to strategic asset seeking and efficiency seeking (Dunning, 2009); it results in growing interest to institutional approach to FDI determinants. Institutional factors, like economic freedom and governance, are becoming more important for foreign investors while shifting from resource seeking and market seeking, to efficiency and strategic assets seeking motivation (Dunning, 2002)

Some authors claim that institutional decision-making factors depend mainly on the type of investment. According to Walsh and Yu (2010) there are three types of FDI:

- Primary FDI: investments in raw materials processing
- Secondary FDI: investments in manufacturing goods
- Tertiary FDI: investments in service industries

The result of investigating of how different institutional variables influence amounts of different types of FDI gives us the comprehensive picture about FDI determinants by type of investments. There is empirical evidence, that effective financial and labor markets are tend to attract more secondary FDI, while developed infrastructure and judicial systems attract more tertiary FDI. As for primary FDI, the location of resources plays the key role in attracting FDI, however, labor market flexibility and infrastructure also have a significant effect (Walsh and Yu, 2010). However, all FDI more or less affected by institutional determinants, which was proven by researchers mentioned above and many others.

Recently, among scholars there is a growing interest to institutional distances as FDI determinants. Last years, many authors have been focused on investigating how institutional distances between particular countries influence bilateral FDI. This topic appeared not long time ago, but it has already become popular among modern scientists. However, as far as it is recent topic, it is still under researched and there are many rooms for development of institutional approach in the context of specific countries or regions.

The institutional distance as a determinant of FDI appeared in scientific articles in the middle of 2000s. Studies on FDI determinants suggest that not only quality of institutions, but also institutional proximity influences positively the amount of FDI (Child and Rodrigues, 2005). Institutional variables, which seem to have greatest impact on FDI, are control of corruption level, ease of doing business, effectiveness of taxation system, protection of property rights and development of judicial system. There are many empirical proofs, that not only high indicators of institutional development correlate with big FDI flows, but also the proximity of institutional effectiveness impacts positively bilateral FDI, while large institutional distance between home and host countries tends to decrease FDI from home to host country (Bénassy-Quéré, Coupet and Mayer, 2007).

Having results of plenty of researches devoted to different determinants, many scholars arrived to the conclusion that only by analyzing host country's institutional determinants, the reliable conclusion on its impact on FDI cannot be made: it is necessary to provide comparative analysis and use institutional distances as variables, which predict FDI. Institutional distances do influence the amount of FDI from home to host country, but in different directions for various regions. For example, for investors who locate FDI in developed countries the results are quite controversial: they seem to be attracted by high corruption distance and high political freedom distance, while political stability distance influences negatively the amount of FDI. As to

developing and emerging economies, they most probably attract foreign investors by less regulatory burden and market barriers (Lucke and Eichler, 2015).

This heterogeneity of countries leads to different results relevant for different regions. That is why many scholars tend to conduct more complex researches on institutional distances and FDI. For example, some recent authors are concentrated on particular developing regions in order to obtain results that are more robust. Focusing on particular country context allows us to identify complex relationships between FDI and institutional determinants. Some authors claim that institutional determinants influence not only volume of FDI, but also likelihood of FDI (Cezar and Escobar, 2015). Companies from emerging economies adapt slower to institutional distances, than companies from developed economies, thus, for developing home countries institutional distance is more critical. Some researches assume that institutional distance creates additional costs for investors, hence prevent FDI; this is the reason why institutional distance has greater impact on investors from developing countries, they do not have enough capacity to bear additional financial burden. Thus, corruption distance, government effectiveness distance, regulatory quality distance, information index distance, enforcing contracts distance, property regulations distance, protectionist distance and availability of credit distance, affect significantly both volume and likelihood of FDI (Cezar and Escobar, 2015). Large institutional distance between home and host country may create additional barriers to transfer of resources (especially intangible assets) and additional related costs (Kostova, 1999).

Further improvement of researches aimed to investigate institutional determinants of FDI is connected to adding different moderating variables, which help to obtain more detailed and comprehensive results for particular country context. Often scholars combine traditional and nontraditional determinants while analyzing FDI flows. Traditional determinants of FDI may positively moderate linkage between institutional determinants and FDI. For example, host country local demand positively moderates the relationship between institutional distance and FDI, thus if host country local demand is high, the negative impact of institutional distance is decreasing (Bailey, 2015).

As we can see from previous studies, the impact of institutional effectiveness and institutional distances on FDI is significant, but quite controversial, meaning that for different regions, groups of countries and even particular countries, institutional determinants vary significantly. Taking into consideration that this research is devoted to institutional determinants of Russian FDI in Latin America, and both are referred to developing or emerging economies

(See Appendix 4: Emerging and developing economies), it is reasonable to concentrate on those studies, which are devoted specifically to emerging economies, in order to build proper hypothesis for the research. The next paragraph will be focused on FDI determinants in emerging economies.

### *1.2 FDI determinants in emerging economies*

Many recent authors emphasize the importance of FDI for developing and emerging economies. According to many recent surveys, FDI should be considered as one of the major factors of growth of developing and emerging economies, because for many emerging and developing economies FDI is the most stable capital flow (Bénassy-Quéré, Coupet and Mayer, 2007). Contribution, which inward FDI make to growth of developing and emerging economies, is enormous; strong relationship was discovered between inward FDI and growth of productivity, competitiveness, exports, innovation and firm formation in emerging and developing countries (Narula and Driffield, 2012). Some scholars define FDI as “emerging growth driver” (Mlachila and Takebe, 2011) and underline the importance of FDI for development of emerging markets. Several studies were specifically devoted to particular emerging and developing economies and proved the positive effect of FDI on economic development of India (Shabana, 2016), China (Lo, Hong and Li, 2016), African countries (Kiviyiro and Arminen, 2015) and other regions.

As far as FDI is widely considered as a factor of economic development of emerging countries, we can observe growing interest of researchers to the determinants of FDI in emerging economies. It is clear, that FDI inflows to developing and emerging countries depend partly on traditional determinants (resources, market opportunities). However, many scholars argue, that institutional determinants influence significantly the capacity of emerging countries to attract FDI. In this paragraph, there will be overview of institutional factors, which shape FDI inflows in emerging and developing economies. The analysis of different institutional determinants of inward FDI in developing countries will be based on recent literature and empirical evidences provided by authors from developing countries.

It is obvious, that institutional determinants, which attract FDI to developed countries, may differ from determinants, which attract FDI in developing countries. It is not clear, what exactly institutional determinants attract FDI in emerging markets, what is the role of institutional distance in attracting FDI in emerging markets, because emerging economies are very specific, as well as motives of foreign investors. This is the reason why the relationships between



institutional determinants and FDI are highly heterogeneous in different countries. There are many specific studies, concentrated on one or another region or country, or one or another set of institutional determinants; all of them contribute the institutional approach of FDI determinants.

### *Market institutions*

To market institutions we may refer laws and regulations related to trade, such as tariff and nontariff barriers. Heritage Foundation nowadays provides *Trade Freedom Index* (a component of Economic Freedom), which measures trade openness and which is used in many recent researches on FDI determinants. According to existing literature, market regulations and market openness in general contribute significantly to attracting FDI in a long-run perspective in such emerging markets as Latin America, Eastern Europe, CIS, Asia and Africa (Liargovas and Skandalis, 2012). There are also empirical evidence of relationship between particular host country trade barriers and FDI inflows. Thus, lowering trade tariffs may help developing countries to increase significantly the volume of inward FDI (Arbatli, 2011). For such developing economies as India and China, there are several location factors, which influence companies' investment decisions; market openness is considered as significant determinant for Chinese and Indian greenfield FDI (De Beule and Van Den Bulck, 2012). Strong positive effect of market openness on FDI was also observed in MENA countries; country's export-oriented trade policies increase the incentives to locate FDI as well as profitability of FDI (Mohamed and Sidiropoulos, 2010).

From existing literature we may conclude, that open markets (low trade barriers) positively affect FDI in majority of developing regions, thus effective market regulations is one of the obvious determinant of FDI.

### *Labor institutions*

The impact of development of labor institutions on inward FDI is highly debatable question. Different scholars support quite controversial point of views towards this relationship. Some of recent researchers argue, that development of labor institutions results in better working conditions, and hence availability of educated and skillful workforce, which obviously attracts foreign investors. However, there are some researches, which reject this hypothesis and claim, that developed labor institutions create additional obstacles for foreign investors, such as higher labor costs or disputes with labor unions. Empirical evidences from various developing regions

support these controversial opinions.

Labor freedom in host countries tends to have significant effect on FDI decisions made by companies from BRIC countries. However, the effect of labor freedom distance is positive for developing host countries and absent for developed host countries, meaning that poor labor institutions in host country tend to attract more foreign investors only in developing or emerging economies (Duanmu, 2014). Poor labor institutions in developing countries seem to attract FDI because of the cost saving motives of foreign investors (Blanton, 2012). It is not unique motivation for multinational companies starting business abroad – to invest in regions with lower labor conditions. Some countries even purposely deteriorate their labor institutions in order to attract foreign investors.

However, nowadays companies are shifting from this cost-saving and resource seeking strategy to efficiency seeking. Those companies which are searching for host countries with skillful labor force are less likely to invest in countries with poor labor conditions (Busse, Nunnenkamp and Spatareanu, 2011), meaning that they prioritize efficient working processes and corporate image instead of cost saving in short-term perspective.

Controversial positions regarding this FDI determinant indicates the variety of motivations of investors and relationship between motivations and decision-making factors. This variety of motivations and specific country context gives a cause for further research; in order to measure quality of labor institutions *Labor Freedom* index (from the Heritage Foundation) may be used.

### *Taxation system*

There are several studies, which underline positive effect of fiscal health on the capacity of emerging countries to attract FDI. According to Heritage Foundation, fiscal health is the capacity of government to maintain effective budget management avoiding deficit and growing debt burden; this capacity is measured by *Tax Burden* index, provided by Heritage Foundation.

Fiscal policies influence significantly inward FDI in developing economies, according to existing researches. Many scholars proved strong relationship between host country fiscal health and FDI, most probably because fiscal health indicates the stability of economy in the host country (Bose and Jha, 2012). Effective taxation system allows government to attract FDI due to the capacity to provide special tax regimes and tax holidays. Efficient system of corporate taxation in developing economies seems to boost FDI inflows. Effective tax incentives, tax

holidays and reduced complexity of taxation system positively impact the attractiveness of country for foreign investors (Van Parys, 2012).

However, the relationship between developing countries FDI inflows and their government taxation policies may be quite different across developing regions. For some reasons, taxation system may not affect significantly FDI in some countries; or taxation institutions may influence FDI flows, but this influence depends not on the simplicity and effectiveness of tax policies, but only on economic benefits, which may be caused by tax havens (offshore countries). The motivation behind this location choice is connected primarily to gaining economic benefits from more favorable tax conditions in the host country and re-investing fund in the source country. This phenomenon is called “round-tripping” (Kolstad and Wiig, 2012).

The controversial impact of taxation policies on FDI indicates different motives of companies for FDI; thus, the influence of taxation institutions should be interpreted carefully considering many peculiarities of source and destination countries, as well as investors’ motivation.

### *Political institutions*

The effectiveness of political institutions results in political stability, transparency, protection of political rights and civil liberties. Political Freedom Index, calculated by Freedom House, may measure the effectiveness of political institutions. Many authors emphasized the importance of effective political institutions for attracting FDI in emerging markets.

Political instability in the destination country has significant negative effect on FDI inflows (Arbatli, 2011), meaning that investors will avoid investing in regions with poor political institutions. High level of Political Freedom, vice versa, influences FDI in a positive direction. However, while developed political rights and civil liberties in developing countries positively influence FDI, for domestic investments the effect seems to be negative (Kolstad and Villanger, 2004). Obviously, independent judiciary, transparent election process and democracy create a good image of the country and hence attract FDI, creating more competition for domestic investors. Political freedom is an indicator of good governance and institutional quality in the country; that makes Political Freedom one of the factors of decision-making process of multinational companies investing in developing economies (Bissoon, 2011).

Nevertheless, some literature provides an opposite reasoning related to political institutions.

Some companies, vice versa, prefer to invest in more risky from the point of view of political climate regions, because they may benefit from lower level of competition and possibility to exploit fully their competitive advantage; that is why political stability in host country may have neutral or even negative effect on inward FDI (Jimenez, 2014).

As we can see, there are many debates around political stability and political freedom, so that many researchers may support opposite opinions. This heterogeneity of scientific proofs may be explained by different sets of countries chosen by researchers. This is one more proof of specificity of institutional determinants for different regions.

### *Corruption*

Enormous number of studies was devoted to corruption as institutional determinant of FDI; however, this topic is still widely discussed. Corruption is informal institution, which may be defined as “is the abuse of entrusted power for private gain” (Transparency International). Transparency International each year calculates *Corruption Perception Index*, which may be used for measuring the level of corruption. The impact of corruption on attractiveness of country for foreign investors is highly debatable topic. Some scholars argue that corruption creates additional costs for companies and prevents them to invest in highly corrupt countries; others claim that corruption simplifies processes of starting business and obtaining permits.

Interpreting the influence of corruption level on FDI is not that simple. Some scholars point transparency as factor, which attracts FDI inflows (Habib and Zurawicki, 2001). There is strong empirical evidence from ASEAN countries, that control of corruption reduces costs for investors and improves investment environment in the destination country, which attracts FDI (Hoang and Bui, 2015).

However, foreign investors may also benefit from corruption-friendly environment in developing countries, especially it refers to large-scale deals. Some recent researches prove that large-scale deals tend to occur more often in countries with high corruption perception level (Bujko, Fischer, Krieger and Meierrieks, 2016). Most probably, corruption gives foreign investors more opportunities, especially investors, which are used to operate in corrupt environment may benefit from high corruption level in host country (Cuervo-Cazurra, 2006).

Another opposite opinion is that corruption does not significantly affect FDI inflows. Among existing literature, we may find researches, which prove that there is no any strong relationship

between corruption level in host country and inward FDI. Nevertheless, we should consider possible effect of corruption level on other institutions, related to business regulations, laws, judicial system, property rights, etc. These institutions usually have significant impact on FDI; thus, importance of corruption level should not be underestimated even if it does not directly influence FDI (Bayraktar, 2015).

More and more recent scholars debate about corruption distance as institutional determinant of FDI, suggesting that not host country corruption level itself influences FDI, but corruption distance between home and destination country (Habib and Zurawicki, 2002). Corruption distance influences both likelihood and amount of bilateral FDI between developing countries. It is important to distinguish between positive and negative corruption distance for better understanding of this determinant of FDI. Positive corruption distance negatively impacts FDI inflows in emerging countries from other emerging countries, meaning that companies from emerging countries tend to invest in destination countries with approximately similar or lower level of transparency (Qian and Sandoval-Hernandez, 2016).

At the same time, the lower level of corruption in a host country increases investment flows from transparent countries, which proves again the importance of corruption distance for bilateral FDI (Belgibayeva and Plekhanov, 2013). Following existing literature, we may derive overall conclusion, that corruption distance reduces inward FDI.

Variety of research on the topic of corruption as determinant of FDI indicates the relevance of such kind of studies and gives the reason to consider corruption level as an important determinant of FDI. Growing interest to corruption effect on FDI stimulates scholars to investigate corruption from perspectives of different countries; and as it follows from examples above, the impact of corruption is specific for each region. Following the logic of many recent researchers, it is reasonable to investigate how corruption distance influences FDI, because it gives more complex and accurate picture of this determinant.

### *Financial system*

According to definition of International Monetary Fund, financial system “consists of institutional units and markets that interact, typically in a complex manner, for the purpose of mobilizing funds for investment and providing facilities, including payment systems, for the financing of commercial activity”(Monetary Fund). *Financial Freedom Index*, provided by

Heritage Foundation, may measure the quality of financial system.

Many scholars investigated influence of financial system on FDI inflows in developing and emerging countries. Following existing literature, for developing countries financial market is one of the key factors, which attract or, vice versa, deter FDI. There is strong positive relationship between development of financial system, mainly stock market development and efficiency of banking system (Soumare and Tchana, 2015). There are empirical evidence from African countries, that Financial Freedom index correlates with inward FDI, in addition Financial Freedom seems to be the most powerful determinant of FDI comparing to other dimensions of Economic Freedom (Ajide and Eregba, 2014).

There are plenty of other studies devoted to Financial Freedom as determinant of FDI. Almost all of them proved the significance of developed financial system in attracting FDI. The same relationship may be observed in developed countries, meaning that development of financial institutions is an important determinant of FDI in both developed and developing countries. High level of efficiency of banking system and stock market allows foreign investors to operate easily in host country.

### *Legal system*

Legal system includes laws and judicial institutions (system of courts). Effectiveness of legal system, according to Heritage Foundation, is expressed in independency of judicial institutions, quality of judicial process and likelihood of obtaining favorable judicial decisions (Heritage Foundation). *Judicial Effectiveness Index* - the component of Economic Freedom Index, which is calculated by Heritage Foundation, may measure the level of development of legal system. Another index, which characterizes the effectiveness of judicial system, is *Enforcing Contracts Index*, the component of Ease of Doing Business.

Many researches are focused on the topic of relationship between efficient judicial system and FDI. In many developing regions, legal system plays crucial role in attracting FDI. There is strong evidence from Asian countries, that curvilinear relationship between judicial system uncertainty and inward FDI: when uncertainty is growing, FDI inflows are decreasing until a certain point; beyond this point the situation is vice versa - increasing uncertainty results in higher FDI inflows. In addition, government intervention in judicial system positively moderates this dependency (makes the relationship stronger) (O.White III, 2015). It is not clear whether the

same relationship works for other emerging markets, but there are other proofs from developing world, that non-effective legal system negatively affects FDI inflows. For example in African countries reliable judicial system seems to attract more FDI, because it stimulates foreign investors to cooperate with local firms and locate FDI. If host country may provide fair and transparent judiciary, foreign investors will have an opportunity to faster and more efficiently solve commercial disputes, thus, they will not hesitate to invest (Amendolagine and Boly, 2013). Many empirical evidence from developing regions allow to consider effectiveness of legal system as an important determinant of FDI in emerging countries.

### *Property rights*

Quality of property rights regulations may be measured by *International Property Rights Index (IPRI)*, which is composed from several sub-categories: legal and political environment, physical property rights and intellectual property rights.

Existing literature is more focused on relationship between FDI and intellectual property rights rather than property rights protection in general. Many researches prove that there is strong influence of intellectual property rights protection on FDI. Following existing literature, increasing quality of property rights protection in developing countries, where initial level of property rights protection is low, leads to increasing FDI inflows. However, for those countries, where International Property Rights Index is comparatively high and stable, this relationship is vice versa - increasing level of property rights protection deters inward FDI (Odilova and Xiaomin, 2016). That may be explained by growing competition on the markets with high level of property rights protection, so that foreign investors have fewer opportunities to compete with local players. Another explanation is connected to innovation activity, which grows significantly, when host country patent protection regulations become more efficient. Thus, increasing the quality of patent protection in host country stimulates inward FDI; but in a long-term perspective, it increases innovation activity in host country and hence decreases FDI (Mathew and Mukherjee, 2014).

There are many evidences from developing countries about connection between FDI and property rights regulations; the main idea is that efficient property rights protection system can foster inward FDI, at least in short-term perspective. However, the relationship between FDI and protection of property rights is not that obvious, because in long-run perspective high level of property rights may boost innovation activity and prevent foreign companies from locating FDI

in highly competitive environment. Taking into consideration the fact, that in developing countries property rights protection is far from perfect, it is a good field for investigation. Thus, following the majority of researches on this topic, property rights protection in general and intellectual property rights in particular should be considered as important determinants of FDI in developing markets.

### *Investment institutions*

To investment institutions, we can refer formal organizations (e.g. investment funds) and different regulations concerning movement of capital, investment treaties and other agreements. Investment Freedom Index, calculated by Heritage Foundation, may measure the effectiveness of investment institutions. This index evaluates laws and restrictions imposed on investment activities: foreign investment code, land ownership restrictions, sectoral investment codes, expropriation treatments, foreign exchange and capital controls (Heritage Foundation). Many researches claim that quality of investment regulations in host country is an important predictor of FDI inflows.

Regulatory framework related to FDI plays a crucial role in promoting country among foreign investors. Effective and secure investment regulations foster inward FDI in developing economies (Sauvant, 2016). The main concern of foreign investors who invest in developing regions is investment protection and risk of expropriation. In each bilateral investment treaty, there is a section devoted to expropriation and commercial disputes resolution. Thus, BITs increase the amount of bilateral FDI, especially in emerging markets (Lejour and Salfi, 2014), because BITs ensure potential investors in security of their capitals. There are some empirical evidences from developing countries, that risk of expropriation may significantly deter FDI, which is quite explicable (Akhtaruzzaman, Berg and Hajzler, 2017). Obviously, companies will hesitate to invest in those countries, where investment protection regulations are weak and underdeveloped. Another concern is investment restrictions, which reduce opportunities for foreign investors in regards of share of participation in local companies (ownership restrictions). Investment restrictions affect negatively willingness of companies to invest and create a negative image of host country among potential investors. Open for foreign investments economies have a greater capacity to attract FDI by providing more extent investment opportunities (Coppel, 2013).

To sum up, investment policies should be considered as an important determinant of inward



FDI in developing countries, because investment treaties, restrictions and regulations shape investment activity in host countries and play a key role in promotion of country for FDI.

### *Infrastructure regulations*

World Bank provides *Ease of doing Business Index*, which consists from many components: among them, there are *Dealing with Construction Permits* and *Starting Business*. Both indexes measure the quality, time and money costs of procedures related to obtaining licenses, permits and other documents for starting business and construction facilities. Many scholars and official organizations consider infrastructure regulations as a determinant of inward FDI in developing countries. Positive links between FDI and starting business and dealing with construction permits were discovered in many developing regions.

There are many empirical proofs that Ease of Doing Business in general, as well as several its sub-components in particular, influence inward FDI in developing countries. Majority of these researches have showed positive relationship, which makes us believe that infrastructure regulations determine FDI inflows in developing economies. Efficient, transparent and simple business regulations create favorable business and investment climate; doing business indicators seem to be a decision-making factors for foreign investors who have intention to enter developing markets (Bayraktar, 2013; Sigh, 2012).

### *1.3 Institutional determinants of FDI in context of Russian FDI in Latin America*

As it was said earlier, the topic of institutional distances as determinants of FDI is relatively new, and there is lack of researches devoted specifically to institutional distances between Latin America and other regions as determinants of bilateral FDI. However, there are different researches on the topic of institutional determinants of FDI inflows in Latin America. Institutional development of Latin America is unique as institutional development of other developing regions, there are specific obstacles for FDI in Latin America, specific institutional voids and limitations (see Appendix 2 for more detailed observation of Latin American institutions). In this paragraph, several scientific evidences related to institutional determinants of FDI in Latin America will be provided. As far as this research is aimed to identify how institutional distances between Russia and Latin America influence bilateral FDI, there will be provided short comparative analysis of Russian and Latin American institutional indicators in order to build proper hypotheses. It is also necessary to review the literature on the topic of host

country institutional factors, which influence Russian investors' location choices, in order to achieve comprehensive understanding which exactly institutional factors determine both inward FDI in Latin America and Russian OFDI decisions. Based on those factors that are relevant for both Latin American IFDI and Russian OFDI decisions it will be possible to arrive to concrete hypotheses.

*Overview of recent researches devoted to institutional determinants of FDI in Latin America and institutional determinants of Russian FDI decisions.*

Summarizing existing literature may help to identify institutional determinants, which influence both Russian outward FDI location choices and Latin American inward FDI. Those institutional determinants, which are widely discussed in recent literature (from 2013 to 2017) in both contexts, will be examined further more precisely in order to build hypotheses.

Literature on the topic of institutional determinants of inward FDI in Latin America			
Author	Name of the article	Source, Year	Determinants of FDI
Sánchez-Martín, de Arce, Escribano	Do changes in the rules of the game affect FDI flows in Latin America? A look at the macroeconomic, institutional and regional integration determinants of FDI	European Journal of Political Economy, Volume 34, Pages 279–299, 2014	Trade openness, monetary policies, investment protection
Subasat, Bellos	Governance and Foreign Direct Investment in Latin America: A Panel Gravity Model Approach	Latin American journal of economics, vol.50 no.1, 2013	Economic Freedom, Rule of law, corruption level
Subasat, Bellos	Corruption and Foreign Direct Investment in Latin America: A Panel Gravity Model Approach	Journal of Management and Sustainability; Vol. 3, No. 4, 2013	Corruption level
Vedia-Jerez, Chasco	Long-run determinants of economic growth in South America	Journal of Applied Economics Volume 19, Issue 1, 2016	Trade openness
Godinez	Corruption distance and FDI flows into Latin America	International Business Review, 2015, Vol. 24 No. 1, pp. 33-42	Corruption level
...			
See the full table in Appendix 5: Literature on the topic of institutional determinants of inward FDI in Latin America			

**Table 1: Literature on the topic of institutional determinants of inward FDI in Latin America**

Literature on the topic of institutional determinants of Russian outward FDI decisions			
Author	Article	Source, Year	Determinants of FDI
Stoian, Mohr	Outward foreign direct investment from emerging economies: escaping home country regulative voids	International Business Review, Volume 25, Issue 5, October 2016, Pages 1124–1135	Regulative voids, corruption
Stoian	Extending Dunning's Investment Development Path: The role of home country institutional determinants in explaining outward foreign direct investment	International Business Review, 2013, Vol. 22, pp. 615–637	Economic Freedom, transparency
Dikova, Panibratov, Veselova, Ermolaeva	The joint effect of investment motives and institutional context on Russian international acquisitions	International Journal of Emerging Markets, 2016, Vol. 11 No. 4 pp. 674 – 692	Political stability, corruption
Sharafutdinova, Dawisha	The Escape from Institution-Building in a Globalized World: Lessons from Russia	Perspective on Politics, Fall 2016	Economic Freedom (financial institutions, taxation, judicial system)
Ledyaeva, Karhunen, Kosonen, Whalley	Offshore Foreign Direct Investment, Capital Round-Tripping, and Corruption: Empirical Analysis of Russian Regions	Economic Geography, 2015, Vol. 91, No. 3, pp. 237–391	Corruption
Zubkovskaya, Michailova	The Development of Russian Multinational Enterprises from the 1990s to the Present	Organizations and Markets in Emerging Economies 2014, VOL. 5, No. 2(10)	Investment policies
Golikova, Karhunen, Kosonen	Internationalization of Russian firms as institutional arbitrage: the case of Finland	Internationalization of Firms from Economies in Transition, 2014	Trade policies, corruption, judicial system
Panibratov, Ermolaeva	Outward Investments from China and Russia: Macroeconomic and Institutional Perspective	Working paper, 2015, available online: <a href="http://su0.ru/Y39N">http://su0.ru/Y39N</a>	Corruption, rule of law
Anwar, Mughal	Why do Russian firms invest abroad? A firm level analysis	MPRA Paper, 2014, available online: <a href="https://mpra.ub.uni-muenchen.de/58178/">https://mpra.ub.uni-muenchen.de/58178/</a>	Corruption, economic freedom, political stability
...			
See the full table in Appendix 6: Literature on the topic of institutional determinants of Russian outward FDI decisions			

**Table 2: Literature on the topic of institutional determinants of Russian outward FDI decisions**

Among existing literature, there are many researches on the topic of institutional determinants of FDI in Latin America, because this region has been receiving FDI for a long time. However, the literature on the topic of Russian outward FDI less covers host countries' institutional factors. The majority of existing researches cover mostly traditional factors and home country determinants of outward FDI. This may be explained by the fact that Russian companies are comparatively "young" players in international arena, they started internationalize only in the beginning of 1990s, after the collapse of Soviet Union. Over this period of time, determinants of Russian outward FDI, as well as motives, changed rapidly; the majority of scholars were concentrated on traditional determinants of Russian FDI (market, resources) and home country factors, which seem to influence significantly the direction of Russian FDI activities (Katolay and Sulstarova, 2010).

However, during last years, the topic of host country's institutional determinants of Russian FDI is becoming more popular, there are some empirical researches, which investigate how host country's institutional development affects location choice of Russian companies.

From the literature review, we can derive the most relevant institutional determinants for both Russian FDI location choices and Latin American inward FDI. Among these most relevant factors are corruption perception and different dimensions of Economic Freedom, mostly regulatory efficiency and market openness and government size (trade openness, labor freedom, investment freedom, taxation system, etc.). As far as, according many recent Russian and Latin American researches, these determinants are the most relevant for both Russian outward FDI and Latin American inward FDI, we will proceed with these two institutional variables in order to build the hypotheses of how they influence bilateral FDI.

Other institutional determinants of FDI in Latin America are less covered in the existing literature, which does not allow us to derive any reasonable hypothesis about them. However, it would be reasonable to include all institutional determinants into the research in order to identify possible relationships between them and FDI.

### *Economic Freedom in Latin America*

As it was observed earlier, economic freedom is an impactful determinant of FDI in many developing countries; many scholars provided scientific evidence of positive impact of economic freedom on inward FDI. Economic Freedom index measures the level of development of market,

investment, financial, taxation, judicial and labor institutions; it is composed by several sub-categories. There is empirical evidence from Latin America, which proves the strong influence of quality of investment institutions on inward FDI from other developing economies (Dixon and Haslam, 2016; Sánchez-Martín, de Arce and Escribano, 2014). Following recent studies, investment protection and investment treaties have significant positive impact on bilateral FDI and quality of investment institutions in Latin America. This positive effect is quite explicable, because the quality of investment protection instruments is an important determinant of FDI decisions for the majority of investors. In the context of Russia and Latin America investment protection is a one of the main parts of any bilateral investment treaty. By this moment, Russia has six BITs with Latin American countries: with Argentina, Cuba, Nicaragua, Ecuador, Guatemala, Venezuela (see Appendix 3: MITs and BITs for more detailed information about related investment treaties). Thus, the quality of investment institutions in Latin America will probably influence Russian FDI in Latin America. Investment Freedom Index, a component of Economic Freedom Index, may measure quality of investment institutions. Historically Investment Freedom Indexes in those Latin American countries, where Russian companies more frequently locate FDI, are higher than in Russia (see Appendix 7: Indexes and FDI flows), this positive institutional distance probably attracts Russian FDI to this region.

Trade Freedom, the component of Economic Freedom Index, is also considered by many authors as an important determinant of FDI. Trade Freedom, as Investment Freedom, characterizes market openness and impacts significantly the amount of inward FDI in Latin America. According to recent studies, trade openness in Latin America is an impactful predictor of FDI inflows (Shah and Qayyum, 2015; Sánchez- Martín, de Arce and Escribano, 2014). Trade openness is one of the most powerful factors, which fosters FDI in Latin America in a long-terms perspective (Vedia-Jerez and Chasco, 2016).

One more dimension of Economic Freedom is Financial Freedom, which characterizes the development of financial institutions. In the previous paragraph, there were several examples of researches devoted to this FDI determinant, proving the positive effect of financial market development on FDI. Latin America is not unique in this case, because there are a number of researches supporting this relationship between FDI and financial market development. Financial institutions development, speaking more precisely, banking sector and stock market development, is a significant predictor of FDI in both long- and short-term perspective (Hajilee and Nasser, 2015).

As for other dimensions of economic freedom, there is lack of arguments supporting the relationship between labor freedom and FDI in Latin America. However, this is because labor freedom is quite controversial determinant of FDI, as it was discussed in a previous paragraph. For some companies labor freedom is a factor of attraction, because they are seeking for efficient labor force; for other investors labor freedom is a source of potential problems. There are some empirical evidences from Latin America, which prove that components of Economic Freedom index influence inward FDI; there is positive relationship between trade freedom and FDI, size of government (tax burden) and FDI. However, there are lack of consistent evidence about labor freedom' impact on FDI (Subasat and Bellos, 2011). Nevertheless, labor freedom effect on FDI is widely discussed in the literature, so we should not underestimate the significance of this determinant; but the impact is hard to interpret, because of different motivations of foreign investors.

Economic Freedom in general, including all its dimensions correlates with FDI inflows in Latin America and may be considered as significant predictor of inward FDI in this region (Quazi, 2011). As we can see from the literature, economic freedom seems to be significant determinant of FDI. There are different relationships between FDI and particular components of economic freedom, but the general claim of many recent authors is that high economic freedom tends to attract more inward FDI. There are also arguments, which prove that Economic Freedom influences location choices of Russian investors (Stoian, 2013). Several empirical evidences support the idea that Russian investors tend to choose locations with better financial, taxation, and judicial institutions (Sharafutdinova and Dawisha, 2016). One of the decision-making factors for Russian MNEs is quality of investment policies (Zubkovskaya and Michailova, 2014), trade policies (Golikova, Karhunen and Kosonen, 2014) and other dimensions of Economic Freedom.

As far as economic freedom is considered as an important decision-making factor for foreign investors, economic freedom distance should also impact significantly willingness of companies to invest in particular region. The direction of this influence depends on country context. In the case of Russia and Latin America, the difference in economic freedom is in favor of Latin American countries. Historically Economic Freedom Index in Latin American countries is higher than in Russia, according to Heritage Foundation. On the Figure 2 and Figure 3 there is a current situation regarding economic freedom in Latin America and in Russia. More detailed information about Economic Freedom distance between Russia and Latin America you can find in the Appendix 7: Indexes and FDI flows.

For Russian FDI in Latin America we may assume, that Economic Freedom Distance will have positive effect, Russian investors most probably will be attracted by better economic conditions in host countries and will consider it as a good location to invest. Here we arrive to the following hypothesis:

H1: Economic Freedom distance positively impacts FDI from Russia to Latin America.

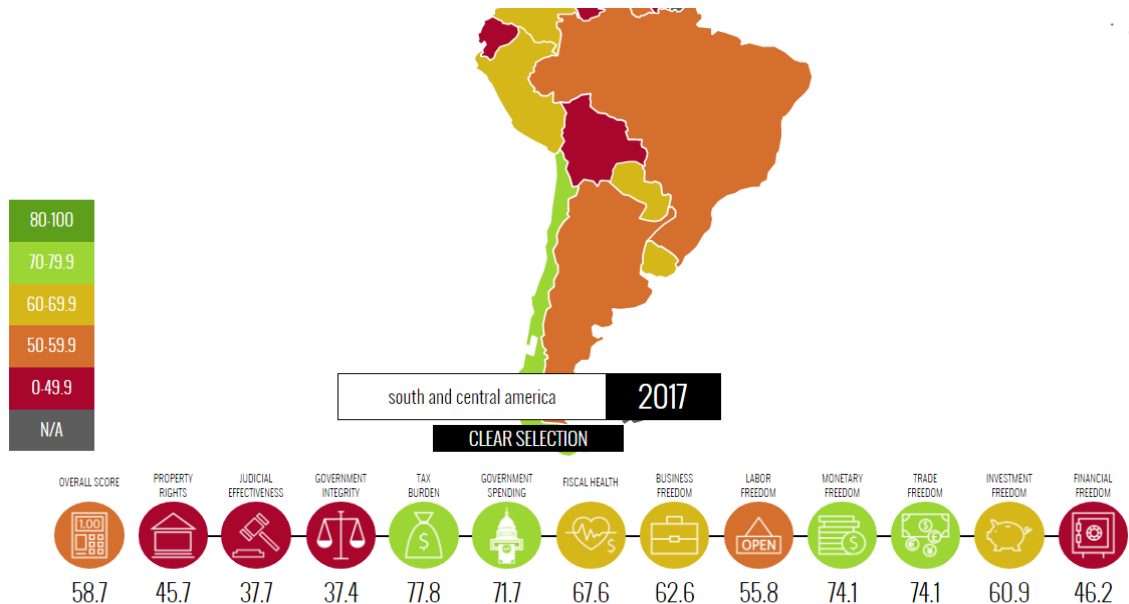


Figure 2: Economic Freedom in Latin America (Source: Heritage Foundation)

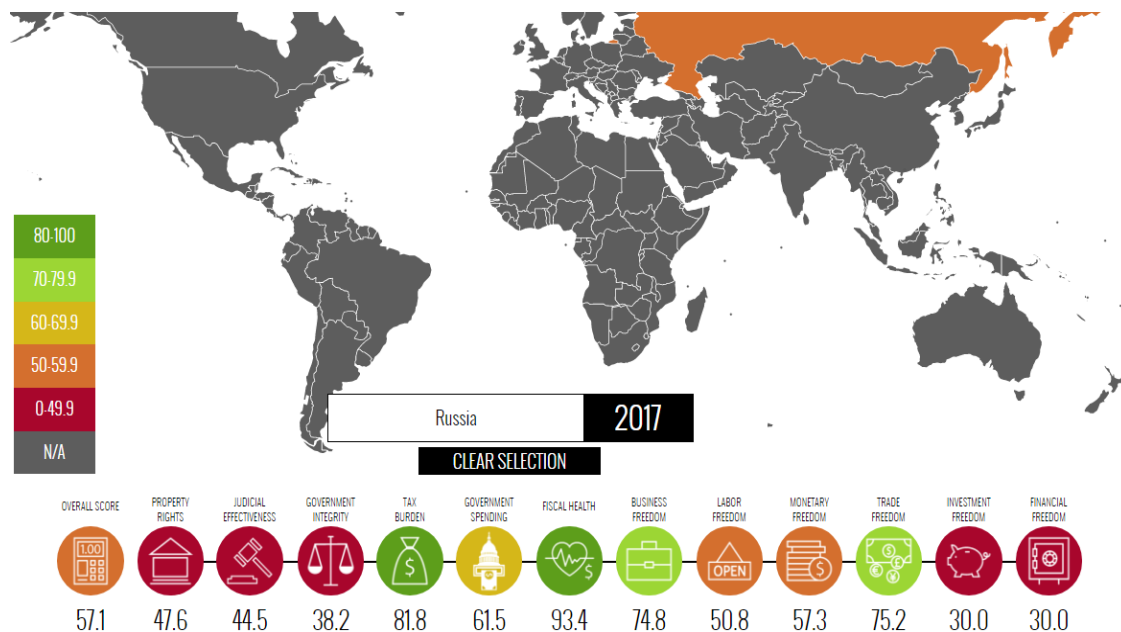


Figure 3: Economic Freedom in Russia (Source: Heritage Foundation)

### *Corruption perception in Latin America*

According to Transparency International, the majority of Latin American countries are highly corrupt, as it can be observed on the Figure 4. Transparency level impacts FDI in many other developing regions, which raises the question how corruption impacts FDI in Latin America. There are several research papers devoted to corruption determinant of FDI in Latin America, which provide controversial results.

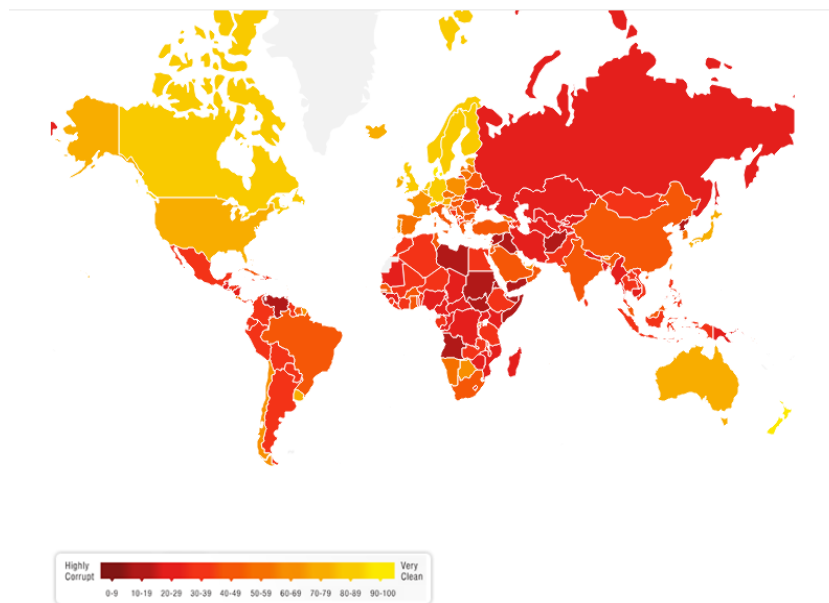
Some scholars claim, that there is no any positive or negative proved effect of corruption on inward FDI (Subasat and Bellos, 2013). The reason why some existing researches fail to provide some evidential relationship is most probably heterogeneity of source countries, which are included into analysis. Subasat and Bellos (2013) included into analysis both developed (European countries, US, UK, Australia) and developing countries (China, Mexico, Turkey), which most probably have very significant difference in corruption levels. This result leads us to the assumption that not corruption level itself, but corruption distance affects FDI.

Speaking about corruption distance it does affect FDI inflows in Latin America. Following existing studies, there is strong negative relationship between corruption distance between Latin America and source countries and FDI to Latin America; increasing corruption distance between home and host countries tends to reduce bilateral FDI (Godinez and Liu, 2015). The same idea appears while examining existent literature on the topic of corruption as determinant of FDI. There were provided a lot of empirical evidence from other developing economies, which prove significant impact of corruption on FDI. As it was discussed in the previous chapter, corruption perception level may have different influence in different country context. Some investors will avoid investing in highly corrupt countries; others will benefit from corrupt environment, because it defines ease of dealing with authorities and provides many business opportunities, especially for those companies, which are used to operate in highly corrupt environment. In majority of cases, the direction of this relationship is defined by corruption level in host and home country. Companies from corrupt home countries are used to invest more in regions with high level of corruption perception, while companies from developed and less corrupt countries hesitate to locate FDI in corrupt countries. Thus, not exactly the corruption level determines FDI, but corruption distance.

In the context of Russia and Latin America, there may be also a significant determinant of bilateral FDI, because these two regions actually have large corruption distance. Although both



regions are referred to developing and have relatively high corruption perception level, Latin America is more transparent, as you can see from Appendix 7: Indexes and FDI flows and on the Figure 4 below (the darker color – the more corrupt environment):



**Figure 4: Corruption Perception Index in the world (Source: Transparency International, 2017)**

Russian outward FDI motives are partly depend on internal institutional environment in Russia; institutional environment, in which Russian companies are used to operate, defines the location choice of FDI outflows and way of doing business in a host country (Mtar, 2010). Large corruption distance between Russia and host country may significantly increase the complexity of FDI, because Russian investors tend to adapt more easily to similar institutional context (Kostova and Zaheer, 1999).

Summarizing the reasoning above, we can arrive to the following hypothesis:

H2: Corruption perception distance negatively impacts FDI from Russia to Latin America.

Hypothesis 1 and Hypothesis 2 are partly derived from the opinion, that distance in development of formal institutions, especially positive distance, may positively impact FDI; at the same time, informal institutional distance (corruption distance, cultural distance) in majority of cases negatively impacts FDI (Md. Mahadi Hasan, Yusnidah Ibrahim, & Md. Mohan Uddin, 2015).

Political freedom, ease of doing business and property rights may also affect FDI inflows in Latin America, as they affect FDI in other developing regions. There are several researches devoted to these determinants of Latin American inward FDI, but they are not enough to make

any conclusions for specific Russian-Latin American context. Nevertheless, some assumptions may be made on the basis of existing literature about institutional factors of investment decision-making of Russian MNEs and comparison of institutional indexes.

Political Freedom Distance and International Property Rights Index Distance are positive in majority of cases (see Appendix 7: Indexes and FDI flows), meaning that Latin America performs better. Positive institutional distance between home and host region is not likely to reduce bilateral FDI, because in majority of studies scholars claim, that more frequently negative institutional distance tends to reduce FDI. Doing business distances vary significantly across countries in Latin America, which does not give any reasons to assume positive or negative relationship between FDI and Ease of Doing Business distance for this specific country context.

As far as these institutional determinants in Latin America are less covered in literature, and it is difficult to predict how distances in political freedom, ease of doing business and protection of property rights will influence Russian FDI in Latin America. However, we should include them into analysis in order to check whether they determine FDI or not, because in other country context they sometimes influence FDI, according to many researches covered in previous paragraph.

It is also reasonable to identify how institutional environment in host country in general impacts Russian outward FDI. As it was said, the relationship between institutional distance and FDI in majority of cases depends on the motivation of companies, which invest abroad (Dunning, 2002). Resource seeking companies tend to choose locations for FDI with approximately similar institutional environment, while market, efficiency and strategic asset seeking FDI go to host countries with higher institutional development. Motivation of Russian companies investing abroad has changed over the last decades. From the beginning of 1990s, when the first outward FDI from Russia were recorded, the main motivation was to transfer capital in order to reduce tax burden or just save capital from political risks, which existed in Russia (Filippov, 2010). Later Russian multinationals started to invest abroad in different industries, related to raw materials, extraction of natural resources. Probably, the location choice for these resource-based FDI that time was influenced by availability of resources and institutional proximity of home and host regions, in order to adapt faster. In the middle of 1990s main purpose of Russian FDI was to gain shares on international markets (Bulatov, 1998). Nowadays the motivation is shifting from resource or market seeking to efficiency or strategic

asset seeking. In the middle of 2000s Russian companies showed growing interest to innovative industries, many acquisitions were made in other developing regions. Among target companies there were R&D centers, companies having know-how and advanced technologies, etc. A lot of investments in consumer goods industries were made that time (Filippov and Settles, 2011). This shift to efficiency and strategic assets seeking motivation assumes the dependency of location choice on institutional environment of the host country. Another argument is that some scholars claim that Russian companies still suffer from poor institutional environment in home country and one of the motivations to invest abroad for them is seeking for better institutional environment. According to some researches, underdeveloped institutions in Russia are the factor, which forces Russian companies to “escape” abroad (Glazunov, 2016). The motivation of Russian companies to invest in more developed institutional environment is connected with their desire to gain the ability to compete on the international scale with companies from developed markets. Following some recent researches, Russian multinationals tend to invest in institutionally developed countries in order to maintain their sustainable position in a long run perspective and achieve competitiveness in international market (Dikova, Panibratov, Veselova and Ermolaeva, 2016). There is also strong negative relationship between effectiveness of Russian institutions and outward FDI, meaning that increasing quality of Russian institutions decreases FDI outflows from Russia (Anwar and Mughal, 2015). The incentives of Russian companies to invest in more developed from the point of view of institutional quality environment result in larger FDI flows to developed countries (see Table 4):

Destination	Russian Federation OFDI (billions USD)
Developed economies	222
Developing and transition economies	31
Unspecified	5
Total	258

**Table 4: Outward FDI from Russia, 2014, compiled by author on the basis of UNCTAD World Investment Report, 2016, pp. 12**

Many scientific arguments and empirical evidence, as well as FDI information from UNCTAD leads us to the idea, that positive institutional distance should positively impact outward FDI from Russia. However, there are still some arguments, which support opposite point of view, starting from early studies on institutional distances (Bénassy-Quéré, Coupet and Mayer, 2007) and ending with more recent studies, which are focused on specific developing

countries. Also there is an opinion, that positive distance in formal institutions development affects FDI positively, while distance in informal institutions development (corruption) has negative effect, which was mentioned above (Hasan, Ibrahim and Uddin, 2015). Nevertheless, we should consider the fact, that corruption influences the effectiveness of formal institutions - political institutions, judicial institutions, laws and regulations, property rights protection, etc.

Summarizing reasoning above, we can conclude that there are some arguments, that institutional distance negatively affects bilateral FDI. Nevertheless, there are many scientific proofs, that motives behind Russian FDI are changing nowadays - from resource and market seeking, to efficiency and strategic assets seeking, meaning that positive institutional distance may foster Russian FDI to Latin America, or, at least, not to deter FDI flows. This drives us to the Hypothesis 3:

H3: Positive institutional distance does not have negative impact on Russian FDI in Latin America.

### *Summary*

In this chapter, main theoretical foundation of institutional determinants of FDI was covered. Starting with the concept of FDI determinants, this chapter reveals the evolution of theoretical approaches to FDI determinants. First part of this chapter covers the institutional approach to FDI determinants, as well as main scholars, who contributed to this approach. Second part provides main conclusions from the previous researches on the topic of institutional determinants in developing regions in order to justify the choice of data for this research (the choice of institutional indexes). Third part of the chapter covers specific for Latin American and Russian context institutional distances in order to build hypotheses for this research. Next chapter will be devoted to summarizing hypotheses and justification of research methods and data collection process.

## **Chapter 2: Research design**

### *2.1 Summarizing of hypothesis*

This chapter will be devoted to the research framework, data collection and description of research model.

As it was stated in the beginning, the aim of this research is to answer the question: “How institutional distance between home country and host region determines FDI in the context of Russian FDI in Latin America?” The number of previous researches were summarized and analyzed in order to obtain the full picture of how institutional determinants influence FDI in other country contexts. Based on recent researches devoted to FDI determinants in Latin America and short comparison of several Russian and Latin American institutional indicators several hypotheses were derived.

H1: Economic Freedom distance positively impacts FDI from Russia to Latin America.

H2: Corruption perception distance negatively impacts FDI from Russia to Latin America.

H3: Positive institutional distance does not have negative impact on Russian FDI in Latin America.

With these hypothesis' we will proceed further in the research. Empirical part of the research will be aimed to test hypotheses and check whether they are true or false and how it can be interpreted. However, additional determinants of FDI may be identified in quantitative analysis; this possibility gives us a reason to include all possible institutional variables in order to have a chance to identify significant institutional factors, which were not covered in hypotheses. Next paragraph is dedicated to methodology of the research.

### *2.2 Methodology*

#### *FDI (dependent variable)*

Clearly, the dependent variable in this research is FDI flows from Russia to Latin America. This variable should be taken for as many years as possible and as many countries as possible, in our case the information about bilateral FDI from Russia to Latin America is available for last 10 years (from 2007 until 2016) and for 15 Latin American countries, which is enough for such kind

of analysis.

*Institutional distances (independent variables)*

For independent variables, as it was stated in the beginning of this research, we will take institutional distances between Russia and Latin American countries. Institutional distances are calculated based on institutional indexes of Russia and Latin American country using the following formula:

$$Distance = |Index_{Russia} - Index_{Country\ n}|$$

where “Country n” is each of 15 Latin American countries.

Distances will be calculated for each of 15 Latin American countries for 10 years.

Following existing literature, there are plenty of institutional determinants of FDI: property rights, corruption, financial and market institutions, regulations, investment institutions, taxation system, labor institutions, judicial system, political institutions, etc.

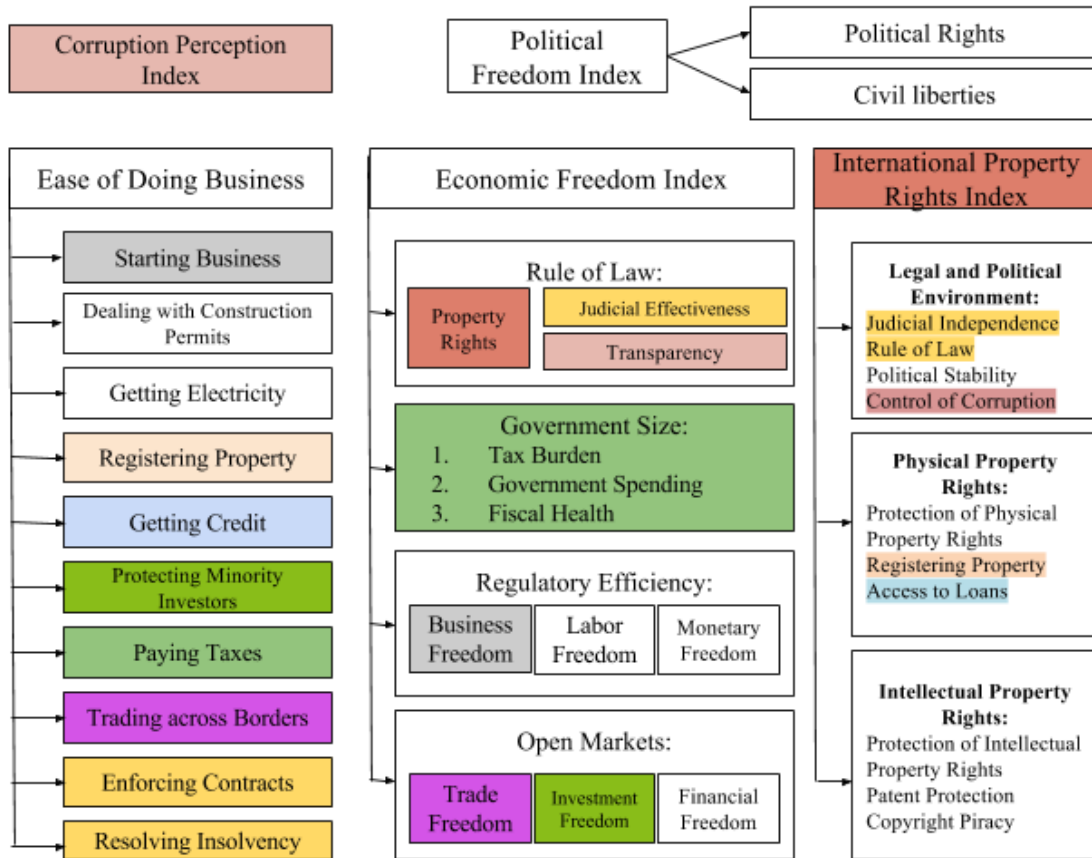
They are measured by several most frequently used indicators:

1. Ease of Doing Business
2. Corruption Perception Index
3. Economic Freedom Index
4. Political Freedom Index
5. International Property Rights Index

For more complete and detailed analysis it is reasonable to include all the variables by distance to the research (not necessarily simultaneously), this will help to check hypotheses and, additionally, identify possible significant predictors of bilateral FDI, which were less covered in existing literature and not predicted on the basis of literature review.

Including so many complex institutional variables in the model forces us to check many assumptions and entire logic of the model. Main obstacle here to be considered, is that all these institutional variables are composed by several sub-categories, more specific indicators, which may correlate significantly and just evaluate the development of the same institutions. In order to avoid overlapping within indexes and reduce high correlation, we should split these indexes by components and check overlapping.

The detailed description of each index is presented in the Figure 5 below:



**Figure 5: Indexes broken by components with highlighted overlapping (compiled by the author, 2017)**

As we can observe from the figure above, some institutional indexes contain overlapping categories, which may cause correlation problem, thus it is reasonable to eliminate some of the components in order to avoid this. Based on the availability of information and general logic, for further analysis we left only following components:

1. Ease of doing Business:
  - a. Starting a business
  - b. Dealing with construction permits
  - c. Enforcing contracts
2. Economic Freedom:
  - a. Tax burden
  - b. Labor freedom
  - c. Monetary freedom

- d. Trade freedom
  - e. Investment freedom
  - f. Financial freedom
3. Political Freedom Index (PF)
  4. International Property Rights Index (IPRI)
  5. Corruption Perception Index (CPI)

The majority of these indexes are measured in 100-point scale, except IPRI and PF.

IPRI is measured in 10-point scale (1- the lowest, 10- the highest), we convert it into 100-point scale using the equation:

$$IPRI_{100} = IPRI_{10} * 10$$

PF is measure in 7-point scale (7- lowest freedom, 1-highest freedom), we convert it into 100-point scale using the following formula:

$$PF_{100} = 100 - PF_7 * (100/7)$$

#### *Quantitative analysis model*

Finally, we have 1 dependent (FDI) and 12 independent variables (index distances) for 11 countries for 10 years, which compose the sample of 110 observations. This is a panel data; hence, the method of analysis should take into consideration the dynamics of data, which appears while taking the data from various years, and possible endogeneity of variables. The best option is panel regression analysis, which allows us to identify predictors of FDI on the basis of information for several years. In majority of studies, panel data is analyzed by panel regression model. In this paper panel regression is held in Stata software.

Within panel regression analysis there are three different approaches:

1. independently pooled model
2. random effect model
3. fixed effect model

While choosing the model for the research, we should consider the heterogeneity across countries, which is stable and which correlates with independent variables (institutional distances), meaning that there are some specific non-random characteristics of countries in data set. We also should take into consideration the fact, that for analysis we take all available data for almost all Latin American countries, where Russian companies locate FDI, meaning that our sample is non-random. These two conditions allow us to believe, that for this analysis fixed



effect model is more suitable.

### 2.3 Data gathering

All the data necessary for this analysis is stored in open sources - websites of international organizations and databases.

#### *FDI information*

The information about bilateral FDI is complicated to find, several international sources provide such kind of information: OECD database, UNCTAD, IMF and others. However, the most complete information about Russian FDI in Latin America is available on the website of The Central Bank of Russia.

FDI flows for the last ten years are available for the following list of 15 countries:

Argentina	Cuba
Bahamas	Mexico
Barbados	Panama
Belize	Peru
Brazil	St. Vincent and Grenadines
Dominica	St. Kitts and Nevis
Dominican Republic	Uruguay
Costa-Rica	

Several countries were deleted from the analysis: St. Vincent and Grenadines, St. Kitts and Nevis, Bahamas and Barbados, because there are some missing values (several indexes are absent). However, these countries are “tax havens”, so Russian FDI in these countries are most probably located for round tripping (Kolstad and Wiig, 2012); thus, elimination of these countries will not weaken the analysis.

Surprisingly, the information about FDI flows in Venezuela (one of the main strategic partners of Russia in Latin America) is closed, which limits the data set. However, some information is available on ZEPHYR and Thomson Reuters databases; from these sources we can extract the information about particular investment projects of Russian companies in Latin America and conclude that almost all of them are connected with oil and gas industry. From this we assume that in the case of Venezuela FDI are mostly depend on traditional determinants, such as natural resources, instead of institutional determinants. Thus, the analysis will not suffer from the absence of data about Russian FDI in Venezuela.

Besides Central Bank's statistics, we can collect data about FDI from mentioned above ZEPHYR and Thomson Reuters, which may help in interpreting results.

### *Indexes information*

The information about institutional indexes, on the basis of which institutional distances are calculated, is also available on several open sources:

1. Ease of doing Business: The World Bank ( <http://www.doingbusiness.org> )
2. Economic Freedom: Heritage Foundation ( <http://www.heritage.org/> )
3. Political Freedom Index: Freedom House ( <https://freedomhouse.org> )
4. International Property Rights Index: Property Rights Alliance ( <https://internationalpropertyrightsindex.org> )
5. Corruption Perception Index: Transparency International ( <https://www.transparency.org/> )

### *Summary*

This chapter provided the justification of choice of data and methodology, which will be used for testing hypotheses. The process of data gathering and limitations of the data were disclosed in this chapter. Finally, we have one dependent variable (FDI) and twelve independent variables (institutional distances) for the analysis; we have enough observations to proceed further with panel regression model. Next chapter is dedicated to hypothesis testing and interpreting results.

## Chapter 3: Data analysis and findings

### 3.1 Hypothesis testing

Before hypothesis testing some of the subcomponents of the indexes were deleted, however, there are still may be high correlation between the remaining variables, which may weaken the model. To avoid this problem, correlation analysis should be performed (see Appendix 9: Correlation table). Some of the variables highly correlate with each other, so we can not include them into one model simultaneously. In order to check the effect of each variable, the analysis should be conducted several times. There are also some missing values in data set, which are connected with the fact that World Bank, Heritage Foundation, Transparency International, Property Rights Alliance and Freedom House do not provide indexes for all countries and for all years. By eliminating observations with missing values we arrive to the data set with 96 observations, which is still enough to conduct panel regression, because as we can see from the tables below, all the models have explanatory power.

Fixed-effect regression (within)	Number of observations: 96 Number of groups: 10 Prob > F: 0.0284					
FDI	Coefficients	St. Error	T	p >  t	95 % Confidence interval	
Starting Business Distance	-.6952542	.553782	-1.26	0.213	-1.797975	-.4074666
Dealing with Construction Permits Distance	.0157572	.2363744	0.07	0.947	-.4549243	.4864387
Enforcing Contracts Distance	-.2281994	.8321604	-0.27	0.785	-1.885242	1.428844
Corruption Perception Distance	-1.175416	1.166721	-1.01	0.317	-3.498655	1.147824
Tax Burden Distance	-1.221476	.9875833	-1.24	0.220	-3.188006	.7450536
<b>Labor Freedom Distance</b>	1.269068	.7194756	1.76	<b>0.082</b>	-.1635907	2.701727
Monetary Freedom Distance	-.8617474	.6259297	-1.38	0.173	-2.108133	.3846378
<b>Trade Freedom Distance</b>	1.324822	.4005963	3.31	<b>0.001</b>	.5271324	2.122511
<b>Investment Freedom Distance</b>	.849712	.4708662	1.80	<b>0.075</b>	-.0879023	1.787326
Const	1.331126	39.67928	0.03	0.973	-77.68042	80.34267

**Table 4: Model 1**

The analysis starts from checking overall model fit. From the Table 4 we can see, that p-value less than 0,05 ( $\text{Prob} > F = 0.0284 < 0,05$ ). That means that the model has explanatory power. From the p-values of independent variables we can distinguish three significant predictors of FDI: Trade Freedom distance (95% level of confidence), Investment Freedom distance (90% level of confidence) and Labor Freedom distance (90% level of confidence). It means that these three distances positively impact FDI from Russia to Latin America.

This model does not include Financial Freedom distance, Political Freedom distance and International Property Rights Index distance, because of correlation problem. In order to check whether they influence FDI or not, we should conduct the analysis several times more including each of these variables into the model one by one. The results are presented in the tables below.

FDI	Coefficients	St. Error	t	p >  t	95 % Confidence interval	
Starting Business Distance	-.763442	.5726096	-1.33	0.186	-1.903653	.3767694
Enforcing Contracts Distance	-.1958631	.8339348	-0.23	0.815	-1.856439	1.464713
Corruption Perception Distance	-1.211213	1.167443	-1.04	0.303	-3.535889	1.113464
Tax Burden Distance	-1.366281	.9711023	-1.41	0.163	-3.299993	.5674306
<b>Labor Freedom Distance</b>	1.241677	.7095441	1.75	<b>0.084</b>	-.1712054	2.65456
Monetary Freedom Distance	-.8020255	.636807	-1.26	0.212	-2.07007	.4660192
<b>Trade Freedom Distance</b>	1.376695	.4109243	3.35	<b>0.001</b>	.5584398	2.194949
<b>Investment Freedom Distance</b>	.7847085	.3944915	1.99	<b>0.050</b>	-.0008246	1.570241
Financial Freedom Distance	.19761	.430789	0.46	0.648	-.6602004	1.05542
Const	2.075384	34.44786	0.06	0.952	-66.51907	70.66984

**Table 5: Model 2**

From the Table 5 we can observe the same results for Investment, Labor and Trade Freedom distances. As to Financial Freedom distance, which was included this time in the model, no relationship was identified between FDI and Financial Freedom distance.

Fixed-effect regression (within)	Number of observations: 96 Number of groups: 10 Prob > F: 0.0155					
FDI	Coefficients	St. Error	t	p >  t	95 % Confidence interval	
Starting Business Distance	-.6627674	.5519238	-1.20	0.233	-1.761563	.4360284
Corruption Perception Distance	-1.185384	1.125459	-1.05	0.295	-3.426001	1.055233
Tax Burden Distance	-1.36509	.918415	-1.49	0.141	-3.193514	.4633338
<b>Labor Freedom Distance</b>	1.262582	.7036902	1.79	<b>0.077</b>	-.1383575	2.663522
Monetary Freedom Distance	-.9874896	.6602307	-1.50	0.139	-2.301908	.3269287
<b>Trade Freedom Distance</b>	1.314548	.3956956	3.32	<b>0.001</b>	.5267786	2.102317
<b>Investment Freedom Distance</b>	.8278401	.3783668	2.19	<b>0.032</b>	.0745698	1.58111
Political Freedom Distance	.36768	.8268849	0.44	0.658	-1.278521	2.013881
Const	-19.62095	56.64694	-0.35	0.730	-132.3963	93.15445

**Table 6: Model 3**

By including Political Freedom distance into the model, we did not manage to find any positive or negative impact of Political Freedom distance on bilateral FDI.

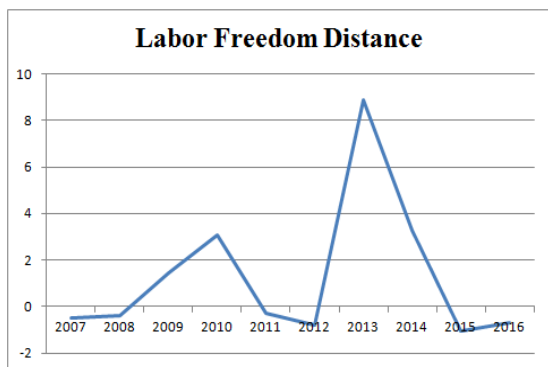
Fixed-effect regression (within)	Number of observations: 96 Number of groups: 10 Prob > F: 0.0219					
FDI	Coefficients	St. Error	T	p >  t	95 % Confidence interval	
Dealing with Construction Permits Distance	-.5246302	.3640058	-1.44	0.154	-1.251189	.2019285
Tax Burden Distance	-1.825404	1.324236	-1.38	0.173	-4.468591	.8177823
<b>Labor Freedom Distance</b>	1.484071	.8998072	1.65	<b>0.084</b>	-.3119516	3.280094
Monetary Freedom Distance	-1.087863	.9131856	-1.19	0.238	-2.91059	.7348627
<b>Trade Freedom Distance</b>	1.638939	.5454912	3.00	<b>0.004</b>	.5501344	2.727744
<b>Investment Freedom Distance</b>	1.005684	.7003973	1.44	<b>0.056</b>	-.3923146	2.403683
International Property Rights Index Distance	.6107844	1.671827	0.37	0.716	-2.726197	3.947766
Const	-30.81645	44.30329	-0.70	0.489	-119.2462	57.61329

**Table 7: Model 4**

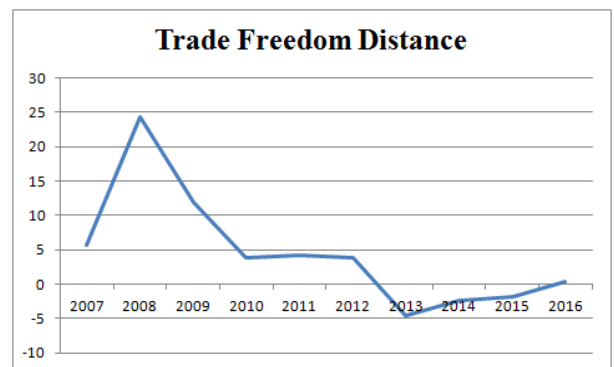
Including International Property Rights (IPRI) distance did not help to identify any relationship between IPRI Distance and FDI inflows to Latin America.

*Summarizing results*

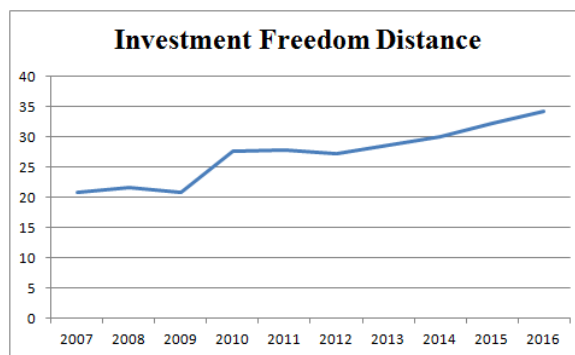
From the results of panel regression, we can conclude that only Economic Freedom distance, namely Labor Freedom, Trade Freedom and Investment Freedom distances, has significant positive effect on FDI, meaning that the Hypothesis 1 is partly proved, three dimensions of Economic Freedom distance impact positively the amount of bilateral FDI. Taking into consideration the fact, that all these three distances are in majority of cases positive (except shift during last years in Trade and Labor Freedom (see Figures 6,7,8)) and none of them negatively impacts FDI, we can state that Hypothesis 3 is proved as well, positive institutional distance does not negatively affect Russian FDI in Latin America. The same thing we can state for other positive institutional distances: general Economic Freedom distance, Political Freedom distance and Corruption Perception distance.



**Figure 6: LF distance (calculated by author)**



**Figure 7: TF distance (calculated by author)**



**Figure 8: IF distance (calculated by author)**

The positive impact of these distances shows recent shift of Russian companies from resource and market seeking to efficiency and strategic assets seeking motivation to invest abroad. As it was discussed in the first chapter, resource seeking companies are tend to choose host

countries in favor of those which have approximately similar institutional development; efficiency, market and strategic assets seeking companies, vice versa, locate FDI in more favorable institutional environment. The absence of any negative effect of institutional distances tells us about the change of general strategy of Russian investors - from resource and market seeking to market and efficiency or strategic assets seeking strategy.

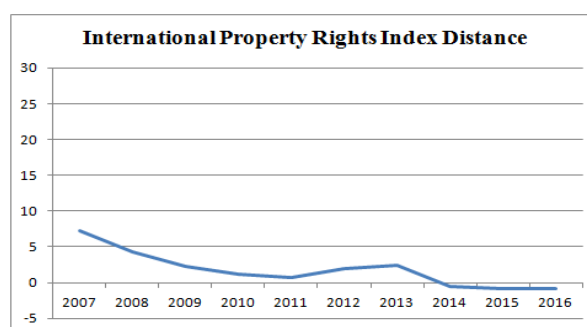
The most significant predictor of FDI here is Trade Freedom distance, which was positive until 2013, meaning that Latin American countries are capable to provide more favorable trade conditions. The fact, that this is one of the main factors, which stimulates Russian FDI in Latin America, indicates the growing share of Russian secondary or tertiary FDI (instead of primary) in Latin America. Last decade Russian MNEs have been involved in several huge investment projects in production industries and services, for example Sodruzhestvo Ltd (fertiliser production and wholesaler), Tyazmash OJSC (construction and electricity services) and Power Machines OJSC (construction machinery), Utair OJSC (transport services) and many others. The positive impact of Labor Freedom distance also proves the shift to efficiency seeking strategy of Russian companies in Latin America. The fact that increasing labor rights in the host region attracts Russian FDI indicates willingness of Russian investors to operate in the countries, where educated and skillful workforce is available. This relationship also indicates growing capabilities of Russian companies to provide more competitive and safe labor conditions. Positive Investment Freedom distance also has positive impact on Russian FDI in Latin America, meaning that one of the main decision-making factors for Russian investors is investment protection regulations. To sum up, positive effect of positive economic freedom distance on Russian FDI in Latin America indicates the intention of Russian companies to operate in more developed institutional environment, which results in rising effectiveness and competitiveness in international arena.

This analysis did not identify any significant influence of Corruption Perception distance and Political Freedom distance on FDI. It may be connected to improvement of institutional environment in Russia for the last 16 years and decreasing the motivation of Russian companies to transfer capitals in order to avoid political risks in Russia.

The Ease of Doing Business distance does not seem to have any significant effect according to this analysis. It is quite explicable, because Ease of Doing Business distance varies across countries from large positive to large negative (See Appendix 7: Indexes and FDI flows), and the relationship between this distance and bilateral FDI is hard to identify. However, from Ease of

Doing Business Index in this analysis were used only 3 components: Starting Business, Dealing with construction permits and Enforcing contracts. Enforcing Contracts distance highly correlates with Corruption Perception Distance (see Appendix 9: Correlation table), which is obvious, because corruption is informal institution, which influences the effectiveness of judicial system. Thus, the absence of proven relationship between FDI and Enforcing Contracts distance may be partly explained by the absence of significant effect of Corruption Perception distance and Political Freedom distance. As to Starting Business and Dealing with Construction Permits, these two indicators are more important for companies, which are involved in large construction projects in Latin America. It is hard to predict the share of such kind of projects in total FDI flows from Russia to Latin America, but, most probably, this share is not big enough; that is the possible explanation of why the analysis failed to identify any relationship between FDI and Starting Business and Dealing with Construction Permits. Another explanation may be connected to the influence, which corruption has on these two indicators. Starting Business and Dealing with Construction Permits evaluate money and time costs of different procedures related to obtaining permits, licenses and other documents. Obviously, the quality of these regulations depends on corruption level. Hence, if corruption distance does not have significant impact on FDI, these two distances most probably will not impact FDI significantly as well.

For property right regulations distance this analysis also did not identify any influence on FDI. As it was covered in Chapter 2, IPRI contains corruption control and judicial independence components, which possibly reduced the significance of this factor for FDI inflows. Possible reasons of why these components do not influence FDI in this analysis were discussed above. Following the similar logic, we can explain the absence of relationship between property rights distance and FDI. Most probably, Russian companies gained good adaptation skills and are capable to operate easily in institutional environment, which differs from home country. Another possible reason may be connected with the fact, that a property rights distance is not very significant (see Figure 9), thus does not influence FDI.



**Figure 9: IPRI Distance (compiled by the author)**



### *3.2 Theoretical and practical contribution*

#### *Theoretical contribution:*

This research contributes to the institutional approach of FDI determinants by providing empirical evidence from the new country context - Russian FDI in Latin America. This particular country context has specific value, which consists in determining what institutional factors attract Russian FDI in other dynamic developing economies with comparatively higher level of institutional development. The majority of existing researches are aimed to investigate how institutional proximity with other developing countries or institutional benefits of developed countries influence Russian outward FDI; this study is devoted to identifying the most relevant institutional variables, which stimulate Russian FDI in other developing countries on the background of shift to efficiency seeking motivation of Russian MNEs.

#### *Managerial implications:*

Managerial implication of this research consists of applying some results during the processes of decision-making regarding host country. Taking into consideration previous experience of Russian companies investing in Latin America, some investors may consider factors, which influenced most FDI for the last ten years - trade freedom distance, investment freedom distance and labor freedom distance. While deciding in which country to locate FDI, companies may pay special attention to those countries, which perform better than Russia in terms of investment, trade and labor freedom.

### *3.3 Conclusions and discussion*

This study investigates the effect of institutional distances on Russian FDI in Latin America. The survey was conducted for 15 Latin American states, in which Russian companies perform more intense investment activity. The data about FDI was taken from Russian Central Bank. Independent variables were calculated based on institutional distances between Russia and Latin America relatively Economic Freedom, Political Freedom, Corruption Perception, International Property Rights and Ease of doing Business. According to results, positive institutional distance between Russia and Latin America does not have negative impact on Russian FDI in Latin America; some positive distances (e.g. different dimensions of Economic Freedom) even foster Russian investment activity in Latin America. This result is not that obvious, there are various factors, which may explain this outcome.

### *Shifts in international politics*

First possible explanation may be connected to recent shifts in international politics, e.g. financial sanctions on Russia, contribute significantly to decreasing FDI outflows from Russia (Gurvich and Prilepskiy, 2016). This also influences investment opportunities of Russian companies in developed markets. Financial sanctions on Russia lead to deterioration of economic relations with developed countries and forces Russian investors to seek for investment opportunities in developing regions (Abramova and Garanina, 2017). Previously, efficiency seeking companies located FDI in developed countries in order to benefit from more favorable institutional environment; now Russian MNEs are forced to seek for more favorable environment in other developing regions, because of the limited availability of developed countries for Russian FDI. That motivation explains why positive institutional distances between Russia and Latin America do not increase Russian FDI, and even stimulate them.

Positive Economic Freedom distance, mainly, Investment Freedom, Labor Freedom and Trade Freedom, influence significantly the volume of Russian FDI in Latin America, meaning that Russian investors are seeking for more favorable institutional environment than in home country; and these three institutional factors are the main predictors of Russian FDI in Latin America.

### *Shifts in motivation of Russian MNEs*

The result of this survey may be also explained by the shift from resource seeking and market seeking motivations of Russian MNEs to efficiency seeking and strategic asset seeking motives (Dunning, 2009), because efficiency seeking companies tend to locate FDI in more favorable institutional environment. This change in motivation of Russian companies may be connected to their desire to gain capabilities to compete in long-term perspective with companies from developed countries (Dikova, Panibratov, Veselova and Ermolaeva, 2016). Evidently, investing in more institutionally developed locations serves as a driver for development for Russian MNEs. Operating in more developed countries helps to achieve more demanding consumers, cooperate with other multinationals from developed economies; expanding in developed locations creates a recognizable image of the company and forces it to satisfy the requirements related to labor conditions, transparency, bureaucracy, etc.

Recent author also very often develops the idea, that Russian companies starting to acquire advanced technologies abroad, in order to gain competitiveness (Filippov and Settles, 2011), this may be referred to strategic asset motivation behind FDI.

### *Increasing effectiveness of Russian institutions*

The absence of positive impact of institutional distances, such as corruption, property rights and political distance (these distances are positive), on Russian FDI may be connected to increasing effectiveness of Russian institutions comparing to post-soviet period. The absence of positive effect of indicates decreasing necessity of capital escape investments; capital escape investment motives were widespread among Russian investors in the 1990, when political risks in Russia were extremely high (Filippov, 2010). During 1990s Russian companies avoided to invest money in domestic projects because of highly unstable political environment. Political Freedom Distance was one of the decision-making factors for Russian investors; companies tend to locate FDI in more developed countries from the point of view of political freedom. Political and economic volatility forced Russian companies to export capitals abroad in order to hedge against difficult political and economic situation in home country (Filippov, 2010). This capital-exporting behavior was also forced by existence of so-called “oligarchy”, which controlled the majority of resources (Kalotay, 2005). Capital escape FDI is not unique phenomenon, this kind of motivation is usual for many countries with underdeveloped institutions. Cuervo-Cazurra and Ramamurti (2015) called this phenomenon “institutional escape”.

In spite of the fact that Russian political freedom and corruption levels are still far from perfect, they have evolved sharply for the last decades. Last years, Russian companies are not so motivated to export capital in order to avoid political risks. Nowadays, political factors are less influential and investment decisions of Russian companies depend less on Political Freedom distance and Corruption Perception distance. Russian companies concern more about market opportunities and efficiency seeking.

### *Growing adaptation capabilities of Russian MNEs*

One more reason may be connected with growing adaptation skills of Russian investors; companies with good adaptation capabilities usually do not hesitate to invest in more developed regions with higher level of institutional efficiency. Obviously, higher level of transparency and Political Freedom do not have a significant effect on Russian FDI, because Russian companies’ adaptation skills have improved, they do not hesitate to operate in more transparent environment.

### *Limitations of research*

Further study can be expanded by adding more countries and extending the time span. Now the time span is 10 years, which is enough for panel regression; however, extending research for several years more will identify more trends in changing motivation of Russian OFDI, and adding more countries will provide more robust results.

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## **Appendix 1: Russian MNEs' investment projects in Latin America**

Latin American countries are taking a more important place in the system of foreign economic relations of the Russian Federation. In these recent geopolitical environment cooperation with the region in trade and economic and investment projects is becoming a question of high importance.

According to information given by Russian Minister of Economic Development, nowadays Russian Federation is involved in 41 investment projects in total amount of 20 billion dollars, which are implementing in Latin American region<sup>1</sup>.

Several large Russian companies are actively working in the framework of joint projects in the region, such "Russian Technologies", "Rosneft", "Gazprom", "INTER RAO UES", "Power Machines", "United Aircraft Corporation", "KAMAZ" "Helicopters of Russia" and others. The majority of these investment projects are realized in the area of electric power, oil and gas development, metallurgy, aerospace, automotive, agriculture.

Some areas of cooperation are of a particular interest, such as: projects in the field of renewable energy sources, the packaging industry, biotechnology, development and production of pharmaceuticals, agriculture and food industry, forest production, industry, telecommunications and information technology, tourism, real estate and infrastructure investments.

One of the largest areas of investment cooperation is oil and gas industry. Several important investment agreements were signed last years. For example, in 2010 the group of Russian oil giants - Gazprom, Lukoil, Rosneft, TNK-BP, Surgutneftegas and others signed an agreement with Venezuelan state-owned company "Petroleos de Venezuela" (PDVSA). The subject of this agreement was to establish a joint venture developing the Junin-6 deposit, located in the Orinoco oil belt (its resources are estimated at 53 billion barrels). The development of this rich deposit will require 40 years and a total investment of \$ 20 billion dollars. About 40% of total amount of investment comes from Russian oil concerns.

Several years later, in 2015 Russian company Rosneft Brasil (subsidiary of Rosneft) became owner of 100% shares of investment project "Solimoins"<sup>2</sup> (a gas deposit based on Amazon river). And it is not the only project of Rosneft in Venezuela. Rosneft also have 40% share in other joint venture with PDVSA called "Petro Monagas". This venture is engaged in

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<sup>1</sup> Source: <http://economy.gov.ru/minec/about/structure/depasiaafrica/2015050642> date- 09.10.2016

<sup>2</sup> Source: [https://www.rosneft.ru/docs/report/2015/eng/reports/a\\_report\\_2015\\_eng.pdf](https://www.rosneft.ru/docs/report/2015/eng/reports/a_report_2015_eng.pdf) Annual report 2016, Rosneft

development of the oil deposits near Carabobo region. Previously Rosneft's share in this project was about 17%, this year it has grown till 40%.<sup>3</sup> Additionally, Rosneft is involved in the project "Plan Patria", which is aimed to double oil extraction in Venezuela by 2019.

Russian companies are also take part in energy projects. In Cuba Russian company LLC "Inter RAO - Export" and Cuban power company «Unión Eléctrica» signed a memorandum of understanding, which imply to conclude the contract for the construction of four power units in Cuba with capacity of 200 MW per unit.

LLC "Inter RAO - Export" and the Ministry of the Coordination of Ecuador's strategic sectors also signed an agreement of intention to implement the «Chontal» and «Cardenillo» hydropower projects. Another energetic project in Ecuador is thermo power plant called "Termogas Mochala". Credit agreement on financing of this project was signed by the State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)", JSC "Gazprombank", JSC "RosEximbank" and the Ministry for the Coordination of Ecuador's strategic sectors.

In Argentina Russian companies plan to expand nuclear power plant "Atucha", mainly to add third energy block to the existent plant. In addition, the construction of hydropower plants "Chiudio-1" and "Chiudio-2" with the total capacity of 1 000 MW is planning. Creating a large hydroelectric power station "Argentina - Patagonia" in the south of Argentina is also scheduled with Russian participation. The total cost of planned and possible joint projects in Argentina and Brazil, according to preliminary estimates, more than \$ 5 billion dollars. In Mexico, the Russian company JSC "Power Machines" participated in the construction of a number of Mexican hydroelectric plants.

Sometimes official visits of Russian representatives of authority accompanied by businesspersons in a particular country can lead to the signing a series of agreements in different industries. This practice is widespread between Russia and Latin American countries. As far as the majority of investment projects are strategically important for the host country, such kind of decisions are usually made by not only companies, authorities are also involved.

For example, in Cuba 2014 was successful in terms of investment agreements with Russia. Several agreements in total amount of 3,5 billion dollars were signed, these agreements were devoted to development of shelf hydrocarbon resources, energy development, metallurgy and

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<sup>3</sup> Source: <http://politrussia.com/world/sleva-napravo-novaya-245/>

transport network. In the same year some projects in agricultural development, energy and machinery manufacturing were started in Nicaragua. Total amount of investment required is 2 billion dollars.<sup>4</sup>

Some investment projects for improvement of infrastructure were launched last years. In Brazil Memorandum of Understanding was signed between JSC "Scientific and Production Corporation" Precision Instrumentation Systems "and the Federal University of Santa Maria. The main purpose of this project is to install and use in the Federal Republic of Brazil measuring stations of the GLONASS system. In Ecuador the JSC "Russian Railways" and the Ministry for the Coordination of strategic sectors of the Republic of Ecuador signed a Protocol of Intent in the implementation of rail projects. In Brazil in 2014 Russian company "UralKali" launched an investment project of expansion of port Antonin. The purpose of these investments is to construct a new berth in Ponta do Felix terminal, 2 warehouses with storage capacity of 120 thousand tons and to improve logistics processes. The declared amount of investment 160 million dollars, the whole project will require 6 years of realization.<sup>5</sup>

There was described only several important investment projects between Russia and Latin American countries, besides them, there are some projects, that are not started yet, but are being planned. For example, in Brazil JSC "Russian Railways" and JSC "Uralvagonzavod" are planning possible acquisition of the Brazilian Oil and TIM telecommunications companies.<sup>6</sup> There is a possibility of participation of Russian companies in the creation of a major transport hub on the basis of the modernization of sea port of Mariel and construction in the area of modern international airport with cargo terminal. "Inter RAO - Export" has won the international tender, and now it is going to take part in the construction of hydro power plant «Chihuido I» in Neuquen province, Argentina. It is a major power station with a capacity of 637 MW and a cost of \$ 2.2 billion, which the Russian company will build in partnership with a consortium of Argentine construction firms headed by «Helpport S.A.». By the way, Argentina has a great potential for mutual investment projects with Russia. There are a number of projects that are planned to be launched next years<sup>7</sup>:

- construction of nuclear power plants (investment project with "Rosatom")
- coal-fired thermal power plant with a capacity of 1,000 MW (investment project with "Power Machines" and "Inter RAO Holding")

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<sup>4</sup> Source: <https://rg.ru/2014/07/15/latinskaya-amerika.html>

<sup>5</sup> Source: <http://www.ved.gov.ru/exportcountries/br/>

<sup>6</sup> Source: <http://www.ved.gov.ru/exportcountries/br/>

<sup>7</sup> Source: [http://www.ved.gov.ru/exportcountries/ar/ar\\_ru\\_relations/ar\\_rus\\_projects/](http://www.ved.gov.ru/exportcountries/ar/ar_ru_relations/ar_rus_projects/)

- reconstruction of "San Martin" railway line ( investment project with "RZD")
- construction of hydropower facilities (investment project with JSC "RusHydro")
- thermal power plant construction, running on biofuel, in the province of Formosa (investment project with JSC "Institute" Orgenergostroy ")
- construction of mini hydro power plants in the province of Tucuman (investment project with JSC "Tushino Machine Building Plant")
- organization of assembling production of Russian harvesters (investment project with “Rostselmash”)
- organization of assembling production of cars "KAMAZ" (investment project with JSC "Kamaz")
- organization building light aircrafts “Accord-201” (investment project with "Avia Ltd")
- organization of assembling production of vehicles "Niva" (investment project with "AvtoVAZ")
- exploration and extraction of hydrocarbons on the territory of Argentina, including the shelf (investment project with "Lukoil").

Some investment projects require large capital injections, that is why some Russian companies can obtain government support for participation in tenders. For example, support from Russian government made possible the participation of Russian companies in such projects as "Chiuido - 1" in Argentina, the development of oil and gas fields in Venezuela. The renewal of credit cooperation with Cuba will allow our companies to participate in the construction of a thermal power plant and modernization of metallurgical plant Jose Marti in Cuba.

## Appendix 2: Institutions in Latin America

Institutional development of Latin American countries is becoming more and more noticeable, many periodicals and news site provide the information of Latin American achievements in developing institutions. According to “Latin America economic outlook” published on OECD, Latin America nowadays is an area of opportunities for new businesses.

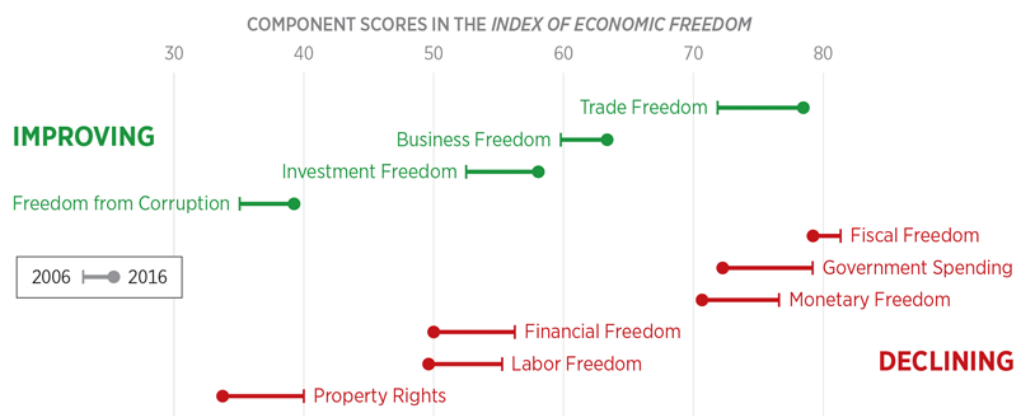
Nevertheless, there are still some institutional problems in Latin American countries, which can push away investors. This paragraph is devoted to the description of different institutions in Latin America, their development and indicators, which are used to evaluate the level of institutional development.

### *Investment Institutions*

According to the data provided by this agency, the Investment Freedom in Latin America is getting higher during last ten years, which indicated positive shifts in investment climate in this region. In the Figure 10 the positive change is shown:

CHART 2

### Economic Freedom in Latin America: Average Component Scores



**NOTE:** For the purpose of this chart, Latin America is comprised of Brazil, Argentina, Bolivia, Ecuador, Venezuela, Colombia, Costa Rica, Chile, Peru, Panama, and Mexico. **SOURCES:** Terry Miller and Anthony B. Kim, *2016 Index of Economic Freedom* (Washington, DC: The Heritage Foundation and Dow Jones & Company, Inc., 2016), <http://www.heritage.org/index>, and International Monetary Fund, *World Economic Outlook Databases*, <http://www.imf.org/external/ns/cs.aspx?id=28> (accessed March 8, 2016).

BG 3116 heritage.org

**Figure 10: Economic Freedom in Latin America, Source: Heritage Foundation, 2017**

One of the main weaknesses in the design of policy instruments is inability to allocate resources and make planning in the long-term perspective<sup>8</sup>. One more problem is weak capability to evaluate and monitor programs, which are currently being implemented. Also in Latin

<sup>8</sup> Source: OECD/ECLAC (2011), *Latin American Economic Outlook 2012: Transforming the State for Development*, OECD Publishing



America, institutes are more concentrated on inputs rather than outputs, which make allocation of resources inefficient (more R&D programs, more human resources are wasted without considerable outputs). All these weaknesses lead to inability of local governments to support innovative projects. But some of the states have founded the way to partly solve this problem through creating special institutions like Ministry of Science, Technology and Productive Innovation (Argentina), National Innovation Council for Competitiveness (Chile). From the other hand, all these new institutes make institutional environment in Latin America even more complicated and demand more horizontal and vertical coordination. In addition to that, it is not enough to create institutes for supporting innovation activities and attracting investments, it is also essential to make interaction channels between educational institutes (e.g. universities) and businesses.

### *Banking System*

The effectiveness of banking system in Latin America has declined over the last ten years. Liberalization of banking system in Latin America started in 1990s, this process included privatization, deregulation and openness to foreign competitors and resulted in growing cross-border capital market activity. However, there is still lack of financial integration among Latin American region, the regional integration is less advanced than in other emerging economies<sup>9</sup>. The integrity of banking system influences the inflows of foreign direct and portfolio investments, so for Latin America improvement in financial sector is one of the rooms for development.

### *Market*

As we can see in the Figure 10, Trade Freedom is growing over the last years, while Monetary Freedom is declining. Latin America is currently increasing its share in international trade. However, in spite of the fact that exporting activity is growing, with growing amount of trade agreements, last years, non-tariff barriers imposed by governments are rising, which indicates the increasing of protectionism. Another problem of Latin American market is lack of integrity, meaning that the majority of Latin American exporters are weakly involved in international trade networks. Only 5% of domestic exporters generate about 80% of export<sup>10</sup>, the rest exporters are much less active.

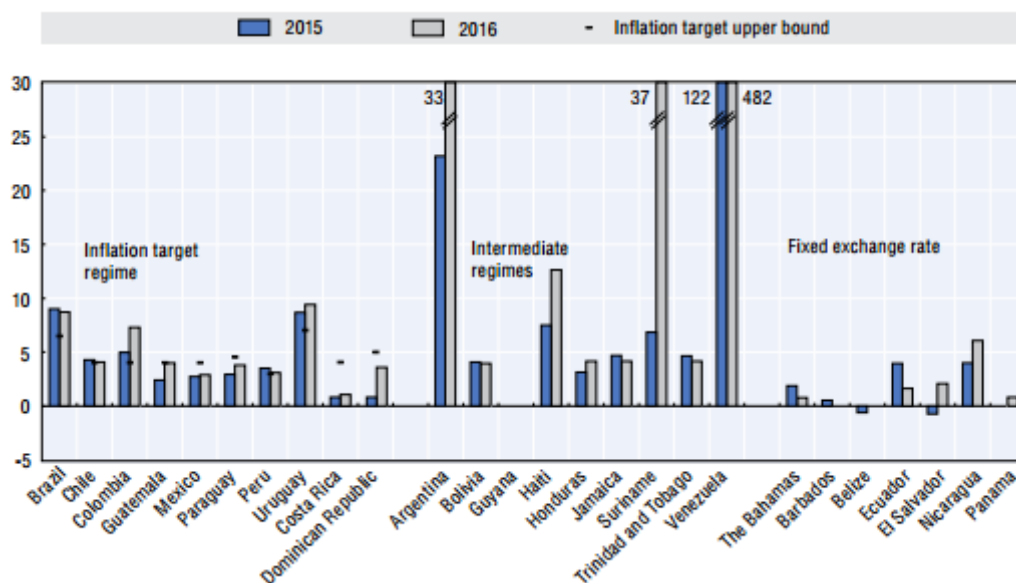
As to monetary policy, it is complicated due to national currency depreciations. In addition

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<sup>9</sup> International Monetary Fund 2016 report “Financial Integration in Latin America”, <https://www.imf.org/external/np/pp/eng/2016/030416.pdf>

<sup>10</sup> Cluster Report – Trade Integration in Latin America and the Caribbean, IMF Country Report No.17/66, March 2017

to that, on the territory of Latin America different monetary regimes are implied, which makes inflation rates vary significantly across the regions. In the Figure 11 there is a graph, which indicates, how different countries deal with inflation and how the results vary over the last two years:



**Figure 11: Inflation rates in selected Latin America and the Caribbean economies under different inflation regimes, Source: OECD report “Latin American Economic Outlook 2017”, Chapter 2**

#### *Taxation system*

In the Figure 10, there is a slight decline in Tax Freedom in Latin America, which indicates the decreasing capacity of governments to maintain fiscal policies. Nevertheless, this trend may be explained by lower economic growth, which results in fiscal imbalances; the level of taxation in Latin America is still quite low, as they are in other developing economies.

#### *Labor institutions*

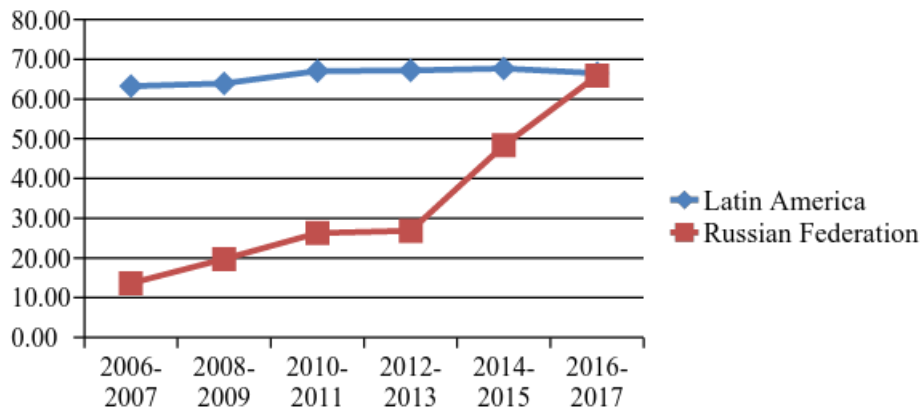
As it is indicated in the Figure 10, labor institutions in Latin America are deteriorating over the last decade, which may be a good signal for investors. Main challenges Latin American labor market is facing last decade are connected to increasing unemployment rates, lowering real wages because of the inflation, discrimination and violation of human rights, maintaining safety standards and promoting formal jobs<sup>11</sup>.

#### *Infrastructure and business regulations*

Latin America performs quite well, showing the high level of efficiency and transparency of Dealing with Construction Permits and Starting a Business. In the Figure 12 there is comparative

<sup>11</sup> Cluster Report – Trade Integration in Latin America and the Caribbean, IMF Country Report No. 17/66, March 2017

graph reflecting difference in dealing with construction permits between Russia and Latin America:



**Figure 12: Dealing with Construction Permits (average scores calculated by the author on the basis of data from World Bank)**

*Judicial system*

According to World Bank, Enforcing Contracts in Latin America varies around 50 at 100-points scale, which indicates low development of judicial institutions (for comparison, in Russian Federation this index is higher than 70). According to results of the research conducted by American consulting company Gallup, the resident’s confidence in local judicial system in Latin America is one of the lowest in the world, results are shown in the Figure 13:

*Regional Confidence in Judicial Systems and Courts*

	Yes	No	Don't know/Refused
Asia	65%	25%	10%
Europe	49%	45%	6%
Sub-Saharan Africa	48%	45%	7%
Middle East and North Africa	47%	38%	15%
Northern America	47%	52%	0%
Latin America and the Caribbean	35%	59%	6%
Former Soviet Union	28%	55%	17%

All results are based on 2013 survey data.  
 Survey results for Asia do not include China. Middle East and North Africa results do not include Jordan, Syria, Egypt, Libya, Algeria, or Gulf Cooperation Council countries.

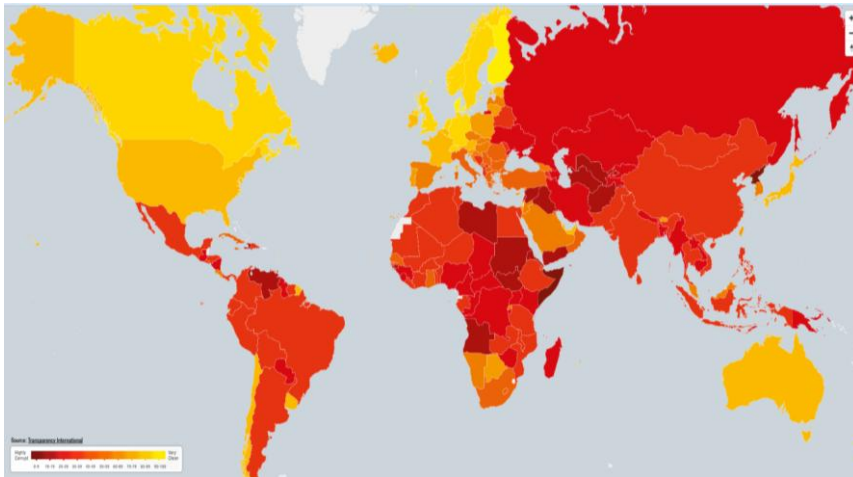
GALLUP

**Figure 13: Regional confidence in judicial systems around the world, Source: Gallup, available online: <http://www.gallup.com/poll/178757/confidence-judicial-systems-varies-worldwide.aspx>**

*Corruption*

In the Figure 14 there is a map, where you can see the evaluation of countries using CPI (the darker color - the higher level of corruption). Latin America is one of the highly corrupted areas

in the world, but still less corrupt than Russia.



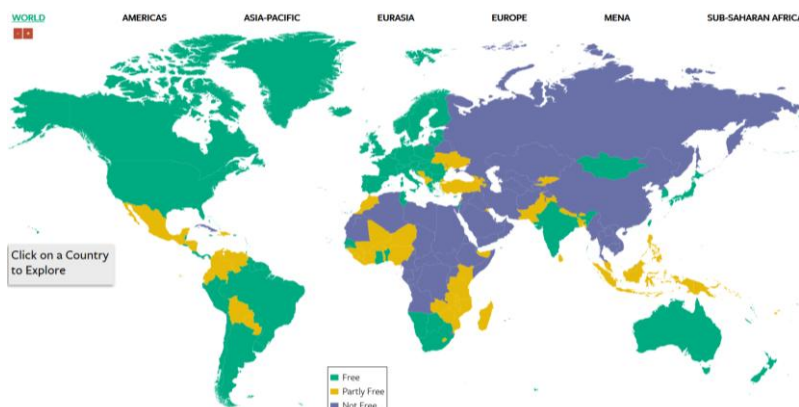
**Figure 14: Corruption Perception Index in the world, Source: Transparency International, 2017**

### *Property rights*

Only small list of Latin American countries performs high level of property protection regulations, meaning that there is a lack of transparency and security of property rights. But, the situation in Latin America is comparable to situation in Russia and other emerging economies with low IPRI.

### *Political institutions*

In the Figure 15 there is a map, which indicates degrees of political freedom in the world. From examining this map, we can conclude that Latin American countries have a high level of political freedom, which definitely characterizes their institutional quality as high.



**Figure 15: Political freedom and civil liberties index, Source: Freedom House, 2017**

Surprisingly, Latin America can be considered as a region, which showed extremely successful development of institutes in terms of independence on politics. Strengthening of free institutions is continuing last decades and nowadays, Latin American countries have comparatively high indexes of political freedom.

### **Appendix 3: MITs and BITs**

Speaking about MITs, Russia is currently involved in majority of existent MITs. Below will be listed some of them, which include Russia and Latin American countries.

First treaties regulating international investment activity were instruments issued by WTO: GATS, TRIPS, TRIMS. Hence, they are multilateral agreements, which involve Russia, Latin American countries and other existent economies. GATS deals with set of rules governing international trade and services. The structure of GATS is based on three elements - general requirements and obligations for all members, special rules for particular sectors and specific obligations of particular countries in order to provide access to their markets. TRIPS protects intellectual property rights of investors. TRIMS forbid such trade-related investment measures, which are inconsistent with basic provisions of GATS 1994.

Multilateral Investment Guarantee Agency (MIGA), the member of World Bank group deals with promotion of FDI in developing countries. Almost all existing economies are covered by this agreement, including Russia and Latin American countries.

New York Convention deals with recognition and enforcement of arbitral awards.

There are also other multilateral investment agreements, which are applicable to Russia. For example: UN Code of Conduct on Transnational Corporations, UN Guiding Principles on Business and Human Rights, ILO Tripartite Declaration on Multinational Enterprises, Doha Declaration, ILO Tripartite Declaration on Multinational Enterprises, Singapore Ministerial Declaration, World Bank Investment Guidelines, ILO Tripartite Declaration on Multinational Enterprises, New International Economic Order UN Resolution, Charter of Economic Rights and Duties of States, Permanent Sovereignty UN Resolution<sup>12</sup>.

However, MITs contain only general rules for all members, in order to avoid as many risks as possible, there is a sense to introduce BITs while investing in Latin American countries.

BITs were created in order to provide protection, safe, fair and equitable treatment, non-discrimination, etc. BITs also guarantee free transfer of funds and payments; establish currency (freely convertible currency) and types of payments. Usually BITs also provide some conditions related to periods of payments and prevent delays. Latin American investment agreements also cover issues related to expropriation; usually expropriation may be done only for public purposes in accordance with law and with compensation.

The majority of Latin American BITs are signed between countries of this region, but there

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<sup>12</sup> Source: <http://investmentpolicyhub.unctad.org/IIA/CountryIris/175#iiaInnerMenu>

are several agreements with Russian Federation, according to information from UNCTAD<sup>13</sup>. By this moment, Russian Federation has bilateral agreements with Argentina, Cuba, Ecuador, Guatemala, Nicaragua and Venezuela. BITs with Ecuador and Guatemala are signed but not currently in force. The first BIT was signed with Cuba in 1993 Agreement on encouragement and mutual protection of investments states that both side are welcome to make investments and may count on favorable conditions and protection of investments. The document obliges each side to provide fair and equitable treatment to investments made by other side, in accordance with local laws. According to this treaty, each side is able to list sectors and spheres of activity in which excluded or restricted the activities of foreign investors. Each side guarantee to another side free transfer of payments related to investments. According to this document, all disputes should be solved via negotiation or, if it is impossible, via arbitration of the country in whose territory the investments were made. Last option for solving international disputes is the arbitral tribunal "ad hoc" in accordance with the Arbitration Rules United Nations Commission on International Trade Law.

BIT with Argentina was signed later, in 1998; it implies quite similar condition of bilateral cooperation between countries. In BIT with Argentina, there is also a paragraph, devoted to entry permits for non-citizens. In accordance to the document, investors and personnel, who are citizens of one country, may enter and remain in territory of another country for carrying out activities associated with investments. All other treaties are quite similar and cover all point mentioned above.

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<sup>13</sup> Source: <http://investmentpolicyhub.unctad.org/IIA>

## Appendix 4: List of developing and emerging countries

Developing and emerging economies, Source: International Monetary Fund <a href="http://www.imf.org/external/pubs/ft/weo/2016/02/weodata/groups.htm#oem">http://www.imf.org/external/pubs/ft/weo/2016/02/weodata/groups.htm#oem</a>			
Afghanistan	Croatia	Libya	Serbia
Albania	Djibouti	FYR Macedonia	Seychelles
Algeria	Dominica	Madagascar	Sierra Leone
Angola	Dominican Republic	Malawi	Solomon Islands
Antigua and Barbuda	Ecuador	Malaysia	South Africa
Argentina	Egypt	Maldives	South Sudan
Armenia	El Salvador	Mali	Sri Lanka
Azerbaijan	Equatorial Guinea	Marshall Islands	St. Kitts and Nevis
The Bahamas	Eritrea	Mauritania	St. Lucia
Bahrain	Ethiopia	Mauritius	St. Vincent and the Grenadines
Bangladesh	Fiji	Mexico	Sudan <sup>1</sup>
Barbados	Gabon	Micronesia	Suriname
Belarus	The Gambia	Moldova	Swaziland
Belize	Georgia	Mongolia	Syria <sup>2</sup>
Benin	Ghana	Montenegro	Tajikistan
Bhutan	Grenada	Morocco	Tanzania
Bolivia	Guatemala	Mozambique	Thailand
Bosnia and Herzegovina	Guinea	Myanmar	Timor-Leste
Botswana	Guinea-Bissau	Namibia	Togo
Brazil	Guyana	Nepal	Tonga
Brunei Darussalam	Haiti	Nicaragua	Trinidad and Tobago
Bulgaria	Honduras	Niger	Tunisia
Burkina Faso	Hungary	Nigeria	Turkey
Burundi	India	Oman	Turkmenistan
Cambodia	Indonesia	Pakistan	Tuvalu
Cameroon	Iran	Panama	Uganda
Cabo Verde	Iraq	Papua New Guinea	Ukraine
Central African Republic	Jamaica	Palau	United Arab Emirates
Chad	Jordan	Paraguay	Uruguay
Chile	Kazakhstan	Peru	Uzbekistan
China	Kenya	Philippines	Vanuatu
Colombia	Kiribati	Poland	Venezuela
Comoros	Kosovo	Qatar	Vietnam
Democratic Republic of the Congo	Kuwait	Romania	Yemen
Republic of Congo	Kyrgyz Republic	Russia	Zambia
Costa Rica	Lao P.D.R.	Rwanda	Zimbabwe
Côte d'Ivoire	Lebanon	Samoa	
	Lesotho	São Tomé and Príncipe	
	Liberia	Saudi Arabia	
		Senegal	

Table 8: Developing and emerging economies

## Appendix 5: Literature on the topic of institutional determinants of FDI in Latin America

Nº	Author	Name of the article	Source, Year	Determinants of FDI
1	Sánchez-Martín, de Arce, Escribano	Do changes in the rules of the game affect FDI flows in Latin America? A look at the macroeconomic, institutional and regional integration determinants of FDI	European Journal of Political Economy, Volume 34, Pages 279–299, 2014	Trade openness, monetary policies, investment protection
2	Subasat, Bellos	Governance and Foreign Direct Investment in Latin America: A Panel Gravity Model Approach	Latin american journal of economics, vol.50 no.1, 2013	Economic Freedom, Rule of law, corruption level
3	Subasat, Bellos	Corruption and Foreign Direct Investment in Latin America: A Panel Gravity Model Approach	Journal of Management and Sustainability; Vol. 3, No. 4, 2013	Corruption level
4	Vedia-Jerez, Chasco	Long-run determinants of economic growth in South America	Journal of Applied Economics Volume 19, Issue 1, 2016	Trade openness
5	Godinez	Corruption distance and FDI flows into Latin America	International Business Review, 2015	Corruption level
6	Garranza, Daude, Melguizo	Public infrastructure investment and fiscal sustainability in Latin America: incompatible goals?	Journal of Economic Studies, Vol. 41 Issue: 1, pp.29-50, 2014	Fiscal incentives
7	Junkunc, Mingo	Navigating political hazard risks and legal system quality: Venture capital investments in Latin America	Journal of Management, 2015	Political risks, legal system
8	Hajilee, Al Nasser	The Relationship between Financial Market Development and Foreign Direct Investment in Latin American Countries	The Journal of Developing Areas, Volume 49, Number 2, Spring 2015 pp. 227-245	Financial institutions
9	Narula	The Importance of Domestic Capabilities for FDI-assisted Development: Lessons from Asia and Latin America	John H Dunning Center for International Business discussion paper, 2015	Investment treaties
10	Hawkes, Yerrabati	Institutions and investment in South and East Asia & Pacific region: Evidence from meta-analysis	Economics Discussion Papers, 2015 Vol. 62, available online: <a href="http://hdl.handle.net/10">http://hdl.handle.net/10</a>	Corruption, Legal system



			419/118655	
11	Blanco, Ruiz, Sawyer, Wooster	Crime, Institutions and Sector-Specific FDI in Latin America	Working paper, 2016, available online: <a href="https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2607682">https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2607682</a>	Legal system
12	Castellacci, Natera	Innovation, absorptive capacity and growth heterogeneity: Development paths in Latin America 1970–2010	Structural Change and Economic Dynamics, 2016, V.37, pp. 27–42	Trade and investment openness
13	Lin	Firm heterogeneity and location choice of Chinese firms in Latin America and the Caribbean: Corporate ownership, strategic motives and host country institutions	China Economic Review Volume 34, July 2015, Pages 274–292	Investment protection
14	Soria, Garcia	Latin America, Caribbean and China: sub-regional strategic scenarios	Banco de Desarrollo de America Latina, Edit. – 1st ed. – San José, C.R. : FLACSO, 2014.	Trade policies
15	Chen, Perez Ludena	Chinese foreign direct investment in Latin America and the Caribbean	Serie Desarrollo Productivo No. 195, 28 p.;	Investment treaties
16	Nwaogu, Ryan	Spatial Interdependence in US Outward FDI into Africa, Latin America and the Caribbean	The World Economy, Volume 37, Issue 9 September 2014 Pages 1267–1289	Infrastructure regulations
17	Kechagia, <u>Metaxas</u>	Fdi In Latin America And Central Asia: A Comparative Analysis Between Peru And Uzbekistan	Applied Econometrics and International Development Vol. 16-2 (2016)	Financial freedom, regulatory efficiency
18	Suarez	Relationship between free trade and income inequality in South America	Revista Civilizar de Empresa y Economía, 2015, Vol. 6 No. 11	Trade policies
19	Hossain	Foreign direct investment (FDI) and corruption: Is it a major hindrance for encouraging inward FDI?	African Journal of Business Management, Vol. 10(10), pp. 256-269, 2016	Corruption
20	Anderson, De Smet, Ghossein, Pouget	Regulating Foreign Direct Investment in Latin America	Report prepared by The World Bank Group with CAF - Development Bank of Latin America, 2013, available online: <a href="http://iab.worldbank.org/~media/FPDKM/IA B/Documents/Regulating-FDI-in-Latin-America.pdf">http://iab.worldbank.org/~media/FPDKM/IA B/Documents/Regulating-FDI-in-Latin-America.pdf</a>	Commercial disputes resolution system, corruption, labor regulations

21	Munoz Pahuamba, Jianmu, Oury Bah	Latin America Development under Chinese Investment Hegemony	International Journal of Management Science and Business Administration Volume 1, Issue 5, 2015, Pages 38-50	Corruption, infrastructure
22	Abidi	Argentina, Chile, Colombia, Peru, Paraguay and Uruguay Business Handbook 2015	GoG-AMA Centre for International Trade, Handbook - 38/2015	Political risks, governance
23	Fiuza, Mercado, Winston	Foreign investment in Latin America – opportunities and challenges	Discussion, 2016, available online: <a href="https://www.financierworldwide.com/foreign-investment-in-latin-america-opportunities-and-challenges/#.WRhDc2nyjIU">https://www.financierworldwide.com/foreign-investment-in-latin-america-opportunities-and-challenges/#.WRhDc2nyjIU</a>	Property rights regulations, legal system
24	Martinez	Foreign Direct Investment in Latin America under a More Protectionist landscape	MUFG Latin American topics, 2017, available online: <a href="http://www.bk.mufg.jp/report/ecolatin2017/Latin_America20170222.pdf">http://www.bk.mufg.jp/report/ecolatin2017/Latin_America20170222.pdf</a>	Trade and investment restrictions
25	Williams	FDI in Latin America and Caribbean: an empirical analysis	Latin american journal of economics, Vol. 52 No. 1, 2015	Infrastructure regulations

**Table 9: Literature on the topic of institutional determinants of FDI in Latin America**

## Appendix 6: Literature on the topic of institutional determinants of Russian FDI decisions

№	Author	Article	Source, Year	Determinants of FDI
1	Duanmu	A race to lower standards? Labor standards and location choice of outward FDI from the BRIC countries	International Business Review, Volume 23, Issue 3, June 2014, Pages 620–634	Labor institutions
2	Stoian, Mohr	Outward foreign direct investment from emerging economies: escaping home country regulative voids	International Business Review, Volume 25, Issue 5, October 2016, Pages 1124–1135	Regulative voids, corruption
3	Heum, Pires	Foreign direct investments of the BRIC countries in Norway	Emerging Market Multinationals in Europe, 2016	Taxation, wages
4	Stoian	Extending Dunning's Investment Development Path: The role of home country institutional determinants in explaining outward foreign direct investment	International Business Review 22, Pages 615–637, 2013	Economic Freedom, transparency
5	Dikova, Panibratov, Veselova, Ermolaeva	The joint effect of investment motives and institutional context on Russian international acquisitions	International Journal of Emerging Markets, Vol. 11 Iss 4 pp. 674 - 692, 2016	Political stability, corruption
6	Sharafutdinova, Dawisha	The Escape from Institution-Building in a Globalized World: Lessons from Russia	Perspective on Politics, Fall 2016	Economic Freedom (financial institutions, taxation, judicial system)
7	Ledyaeva, Karhunen, Kosonen, Whalley	Offshore Foreign Direct Investment, Capital Round-Tripping, and Corruption: Empirical Analysis of Russian Regions	Economic Geography, Volume 91, Issue 3 Pages 237–391, 2015	Corruption
8	Zubkovskaya, Michailova	The Development of Russian Multinational Enterprises from the 1990s to the Present	Organizations and Markets in Emerging Economies 2014, VOL. 5, No. 2(10)	Investment policies
9	Golikova, Karhunen, Kosonen	Internationalization of Russian firms as institutional arbitrage: the case of Finland	Internationalization of Firms from Economies in Transition, 2014	Trade policies, corruption, judicial system
10	Panibratov, Ermolaeva	Outward Investments from China and Russia: Macroeconomic and Institutional Perspective	Working paper, 2015, available online: <a href="http://su0.ru/Y39N">http://su0.ru/Y39N</a>	Corruption, rule of law

11	Osmanov	Do the country risk and the tax haven status of the target country play a role in Russian outward cross-border acquisitions?	Working paper, 2013, available online: <a href="http://urn.fi/URN:NBN:fi:aalto-201401311304">http://urn.fi/URN:NBN:fi:aalto-201401311304</a>	Legal system, taxation system
12	Anwar, Mughal	Why do Russian firms invest abroad? A firm level analysis	MPRA Paper, 2014, available online: <a href="https://mpra.ub.uni-muenchen.de/58178/">https://mpra.ub.uni-muenchen.de/58178/</a>	Corruption, economic freedom, political stability

**Table 10: Literature on the topic of institutional determinants of Russian FDI decisions**

## Appendix 7: Indexes and FDI flows

In the tables below you can see institutional distances between Russia and following countries (negative distance indicates “worse” institutions in host country; positive distance indicates “better” institutions in host country). Conventional notations you can find in the Appendix 8.

Argentina	FDI (mln USD)	SB	DCP	EnfC	CPI	TaxB	LF	MF	TF	IF	FF	PF	IPRI
2007	0	-9,1	27,2	-10,7	6,0	-8,8	-18,6	8,6	-1,2	20,0	0,0	50,0	6,0
2008	218	-10,6	23,3	-10,6	8,0	-8,7	-18,8	0,6	25,4	20,0	0,0	50,0	4,0
2009	3	-9,9	21,2	-10,7	7,0	-8,6	-14,4	-4,9	9,2	20,0	0,0	50,0	2,0
2010	1	-10,0	15,1	-10,6	8,0	-12,8	-9,5	-1,4	1,1	20,0	-10,0	50,0	1,0
2011	5	-9,6	15,6	-10,1	5,0	-14,0	-15,0	0,1	1,3	20,0	-10,0	50,0	1,0
2012	5	-12,1	3,6	-13,0	7,0	-17,0	-14,6	-5,6	-0,6	15,0	-10,0	50,0	2,0
2013	1	-15,4	-6,6	-13,8	6,0	-22,6	-5,2	-6,3	-9,8	15,0	0,0	50,0	1,0
2014	0	-18,2	-21,7	-11,4	7,0	-22,1	-10,9	-9,4	-5,7	5,0	0,0	50,0	-4,0
2015	0	-17,7	-14,5	-11,5	3,0	-19,3	-15,6	-4,3	-6,2	5,0	0,0	57,1	-5,0
2016	0	-19,3	-14,8	-10,6	3,0	-16,1	-13,7	-18,9	-5,0	5,0	0,0	57,1	-5,0

**Table 12: Argentina**

Belize	FDI (mln USD)	SB	DCP	EnfC	CPI	TaxB	LF	MF	TF	IF	FF	PF	IPRI
2007	-10,0	-9,3	54,4	-38,6		-9,8	21,7	10,4	4,6	20,0	10,0	57,1	
2008	50,0	-9,1	50,5	-38,6		-9,9	20,8	12,9	20,4	20,0	10,0	57,1	
2009	235,0	-9,2	48,4	-38,6		-10,1	20,6	12,9	8,8	20,0	10,0	57,1	
2010	2841,6	-9,0	49,6	-38,6		-14,0	22,1	13,0	3,1	25,0	10,0	57,1	
2011	-2032,3	-9,1	48,1	-38,0		-0,4	23,6	15,7	3,3	25,0	10,0	57,1	
2012	-1030,3	-12,0	34,5	-38,3		0,3	18,7	11,3	9,9	25,0	10,0	57,1	
2013	99,7	-14,3	26,3	-38,3		-4,7	18,8	10,6	-0,2	15,0	20,0	57,1	
2014	551,8	-17,7	10,8	-38,9		-3,5	11,4	8,2	-6,8	15,0	20,0	57,1	
2015	2,2	-17,8	2,4	-26,1		-3,7	2,9	15,4	-4,6	25,0	20,0	64,3	
2016	653,8	-19,5	2,3	-25,3		-0,1	2,7	16,3	-2,4	30,0	20,0	64,3	

**Table 13: Belize**

Brazil	FDI (mln USD)	SB	DCP	EnfC	CPI	TaxB	LF	MF	TF	IF	FF	PF	IPRI
2007	0,0	-28,6	28,5	-23,9	12,0	-10,9	2,6	9,8	7,2	20,0	0,0	50,0	13,0
2008	0,0	-30,4	20,9	-23,9	14,0	-10,6	2,2	11,3	26,6	20,0	0,0	50,0	10,0
2009	2,0	-30,3	19,0	-23,9	15,0	-13,1	2,7	11,7	10,8	20,0	10,0	50,0	6,0
2010	1,0	-27,1	20,8	-23,9	16,0	-13,9	-2,1	13,2	0,8	20,0	10,0	50,0	8,0
2011	1,0	-25,7	19,9	-23,3	14,0	-13,7	-5,1	12,8	1,6	25,0	10,0	50,0	7,0
2012	3,0	-28,3	6,7	-23,6	15,0	-13,4	-4,4	9,5	1,5	25,0	20,0	50,0	9,0
2013	1,0	-30,6	-1,3	-22,5	15,0	-16,6	4,6	7,7	-7,7	25,0	30,0	50,0	11,0
2014	1,0	-34,0	-17,1	-24,6	16,0	-16,8	-6,0	0,5	-5,3	30,0	30,0	50,0	7,0
2015	32,0	-32,8	-18,7	-11,8	9,0	-17,7	-6,8	5,5	-5,4	25,0	30,0	57,1	6,0
2016	0,0	-33,0	-18,7	-11,0	9,0	-12,5	-5,1	1,3	-3,0	30,0	20,0	57,1	5,0

**Table 14: Brazil**

Domi-nica	FDI (mln USD)	SB	DCP	EnfC	CPI	TaxB	LF	MF	TF	IF	FF	PF	IPRI
2007	14,0	5,2	58,8	-31,9	33,0							64,3	8,0
2008	6,0	5,3	54,6	-31,9	39,0							64,3	6,0
2009	-57,0	5,6	52,4	-30,9	37,0	-11,5	10,0	14,3	13,4	30,0	-10,0	64,3	4,0
2010	11,0	6,1	52,8	-30,9	31,0	-14,6	5,6	17,4	5,9	40,0	-10,0	64,3	1,0
2011	5,0	6,1	51,8	-30,3	28,0	-13,2	-0,1	23,2	6,1	40,0	-10,0	64,3	0,0
2012	2,0	3,5	38,5	-30,6	30,0	-13,7	-1,6	18,7	6,1	35,0	-10,0	64,3	0,0
2013	5,0	2,0	30,4	-30,6	30,0	-14,9	16,2	18,6	-3,1	45,0	0,0	64,3	1,0
2014	2,0	-1,7	14,6	-31,1	31,0	-12,7	14,9	16,4	-1,9	45,0	0,0	64,3	1,0
2015	2,0	-1,8	12,9	-31,1	29,0	-12,5	9,8	25,6	-2,2	50,0	0,0	71,4	-1,0
2016	0,0	-3,5	12,8	-16,3	29,0	-8,2	11,1	27,2	0,2	50,0	0,0	71,4	-1,0

**Table 15: Dominica**

Dominic-an Republic	FDI (mln USD)	SB	DCP	EnfC	CPI	TaxB	LF	MF	TF	IF	FF	PF	IPRI
2007	0,0	-16,3	45,3	-14,2	7,0	0,2	-7,3	0,4	11,2	20,0	0,0	50,0	
2008	0,0	-3,8	41,4	-14,2	9,0	1,2	-6,8	4,9	28,8	20,0	0,0	50,0	
2009	0,0	1,4	40,1	-14,2	8,0	6,3	-4,9	8,6	12,2	20,0	0,0	50,0	
2010	1,0	1,1	41,4	-14,2	9,0	3,0	0,0	8,2	11,6	30,0	0,0	50,0	
2011	5,0	-2,6	40,6	-13,6	2,0	2,6	-5,8	14,0	11,6	30,0	0,0	50,0	
2012	6,0	-3,2	28,3	-13,9	4,0	3,3	-4,8	8,8	11,9	30,0	0,0	50,0	

2013	6,0	-5,0	20,5	-15,1	4,0	-3,2	3,0	6,2	0,4	40,0	10,0	50,0	
2014	7,0	-8,2	4,8	-15,6	5,0	-1,9	-0,6	6,3	3,2	50,0	10,0	42,9	
2015	2,0	-8,2	5,0	-15,6	4,0	-2,0	-1,4	12,1	2,8	50,0	10,0	50,0	
2016	1,0	-9,7	5,2	-24,4	4,0	2,3	-1,1	10,2	4,8	50,0	10,0	42,9	

**Table 16: Dominican Republic**

Costa-Rica	FDI (mln USD)	SB	DCP	EnfC	CPI	TaxB	LF	MF	TF	IF	FF	PF	IPRI
2007	0,0	-21,3	40,3	-25,6	27,0	3,5	-1,4	4,3	19,8	40,0	0,0	64,3	20,0
2008	0,0	-22,3	36,4	-25,6	30,0	3,7	-0,5	3,5	37,6	40,0	0,0	64,3	19,0
2009	0,0	-18,3	34,1	-25,6	-22,0	3,9	1,2	4,2	21,0	40,0	10,0	64,3	15,0
2010	0,0	-17,9	34,6	-24,9	32,0	0,1	-0,6	5,2	14,1	45,0	10,0	64,3	14,0
2011	1,0	-17,9	33,7	-24,3	24,0	-0,4	-0,8	7,6	17,0	45,0	10,0	64,3	13,0
2012	1,0	-20,7	20,4	-24,6	26,0	0,3	-0,8	7,1	16,9	45,0	10,0	64,3	13,0
2013	1,0	-19,8	19,8	-24,6	26,0	-4,0	7,8	8,7	7,7	45,0	20,0	64,3	14,0
2014	3,0	-9,7	10,7	-25,1	27,0	-5,6	-2,5	6,9	9,2	45,0	20,0	64,3	12,0
2015	0,0	-9,9	9,1	-25,1	26,0	-6,1	-4,3	11,9	8,8	45,0	20,0	71,4	12,0
2016	4,0	-11,6	9,1	-23,0	26,0	-2,8	-3,8	14,7	9,2	45,0	20,0	71,4	12,0

**Table 17: Costa-Rica**

Cuba	FDI (mln USD)	SB	DCP	EnfC	CPI	TaxB	LF	MF	TF	IF	FF	PF	IPRI
2007	0,0				19,0	-27,8	-41,5	3,0	-2,4	-20,0	-30,0	-21,4	
2008	0,0				22,0	-24,4	-41,7	0,2	16,6	-20,0	-30,0	-21,4	
2009	1,0				22,0	-33,0	-40,0	1,5	3,6	-30,0	-30,0	-14,3	
2010	0,0				16,0	-36,4	-39,6	4,1	-6,7	-25,0	-30,0	-14,3	
2011	-3,0				18,0	-33,7	-42,9	8,5	-6,0	-25,0	-30,0	-14,3	
2012	0,0				20,0	-21,0	-43,5	5,0	-5,5	-25,0	-30,0	-14,3	
2013	116,0				20,0	-24,2	-32,6	0,7	-14,7	-25,0	-20,0	-14,3	
2014	21,0				19,0	-25,6	-35,8	-3,6	-14,6	-25,0	-20,0	-14,3	
2015	9,0				18,0	-24,3	-38,9	0,9	-11,2	-25,0	-20,0	-7,1	
2016	1,0				18,0	-30,1	-37,6	2,3	-7,8	-15,0	-20,0	-7,1	

**Table 18: Cuba**

Mexico	FDI (mln USD)	SB	DCP	EnfC	CPI	TaxB	LF	MF	TF	IF	FF	PF	IPRI
2007	0,0	1,8	42,3	-13,8	12,0	2,7	0,2	14,2	15,0	20,0	20,0	42,9	13,0
2008	0,0	1,9	40,5	-13,8	15,0	4,2	0,2	13,3	34,8	20,0	20,0	42,9	10,0
2009	0,0	0,1	39,2	-13,8	11,0	4,5	-0,2	12,0	19,4	20,0	20,0	42,9	7,0
2010	0,0	2,4	42,2	-13,8	10,0	1,2	2,3	13,7	13,6	40,0	20,0	35,7	4,0
2011	-1,0	3,8	38,0	-13,2	6,0	-1,4	-2,0	12,6	13,0	40,0	20,0	35,7	4,0
2012	0,0	1,3	31,0	-13,5	6,0	-1,8	-2,2	10,2	4,7	35,0	20,0	35,7	5,0
2013	1,0	-0,7	24,4	-13,0	6,0	-5,8	7,1	11,0	3,2	45,0	30,0	35,7	7,0
2014	2,0	-4,2	2,4	-13,1	8,0	-4,7	2,5	8,0	11,0	45,0	30,0	35,7	4,0
2015	6,0	-4,4	-2,1	-13,1	6,0	-8,3	1,0	13,7	10,6	45,0	30,0	42,9	2,0
2016	17,0	-6,1	-2,2	-11,4	6,0	-7,3	0,6	14,5	6,8	45,0	30,0	42,9	2,0

**Table 19: Mexico**

Panama	FDI (mln USD)	SB	DCP	EnfC	CPI	TaxB	LF	MF	TF	IF	FF	PF	IPRI
2007	1,0	4,7	48,4	-21,7	9,0	3,5	-17,8	23,0	13,6	40,0	20,0	57,1	15,0
2008	2,0	4,6	44,4	-21,7	13,0	3,8	-17,1	15,8	32,0	40,0	30,0	57,1	13,0
2009	1,0	6,1	42,3	-21,7	12,0	3,7	-15,9	12,4	15,4	40,0	30,0	57,1	12,0
2010	24,0	6,4	47,0	-21,7	15,0	0,3	-18,3	10,6	7,4	40,0	30,0	57,1	11,0
2011	5,0	7,1	46,1	-16,6	10,0	-0,1	-21,8	14,0	7,6	40,0	30,0	57,1	10,0
2012	6,0	4,6	32,8	-16,9	10,0	2,1	-22,0	11,5	6,6	40,0	30,0	57,1	10,0
2013	4,0	2,6	25,8	-16,9	10,0	-0,7	-12,5	9,2	-2,6	40,0	40,0	57,1	11,0
2014	11,0	1,0	10,7	-17,4	10,0	-1,3	-16,4	5,7	-0,4	50,0	40,0	50,0	8,0
2015	-9,0	0,9	9,0	-17,4	10,0	-1,6	-17,4	12,5	3,4	50,0	40,0	57,1	8,0
2016	0,0	-0,9	9,0	-27,3	10,0	2,2	-14,7	15,7	5,4	50,0	40,0	57,1	8,0

**Table 20: Panama**

Peru	FDI (mln USD)	SB	DCP	EnfC	CPI	TaxB	LF	MF	TF	IF	FF	PF	IPRI
2007	4,0	-17,4	44,9	-19,7	12,0	0,7	-14,9	22,9	10,0	20,0	20,0	42,9	5,0
2008	0,0	-17,3	40,7	-19,7	15,0	1,0	-14,2	21,5	29,2	30,0	20,0	42,9	1,0
2009	0,0	-15,1	38,5	-19,7	15,0	0,8	-11,3	21,0	18,6	30,0	20,0	42,9	1,0
2010	0,0	-5,9	39,2	-18,6	14,0	-2,8	6,5	19,0	16,6	45,0	20,0	42,9	0,0
2011	3,0	0,8	39,8	-18,0	14,0	-3,3	4,8	20,0	17,8	45,0	20,0	42,9	3,0

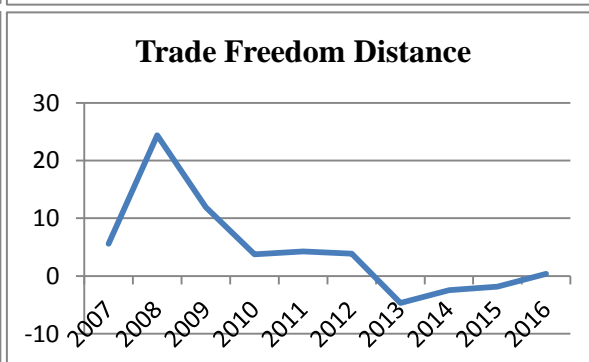
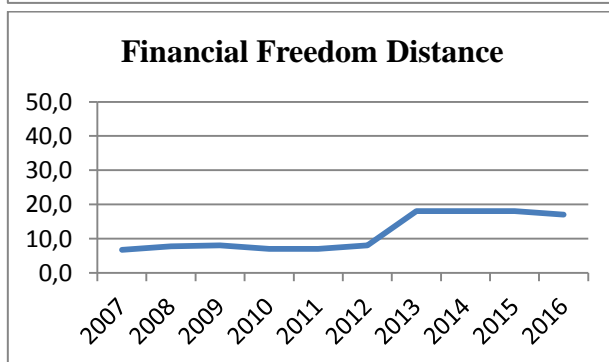
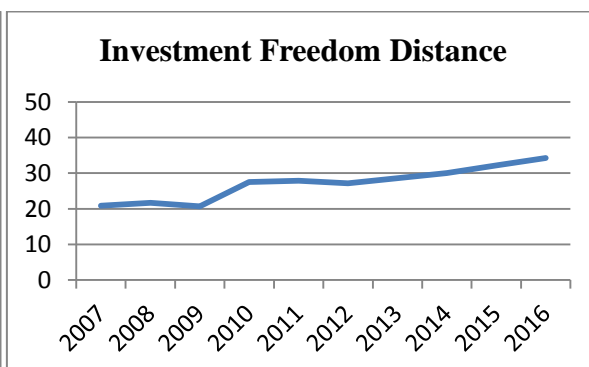
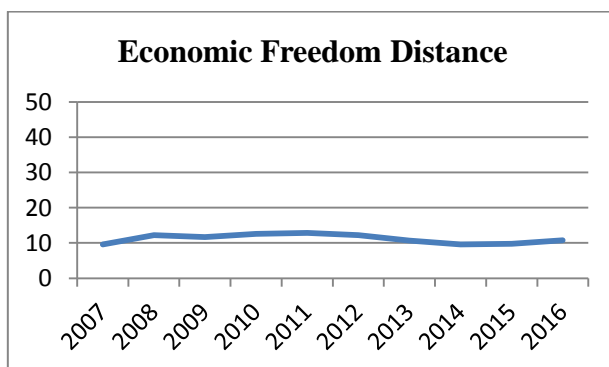


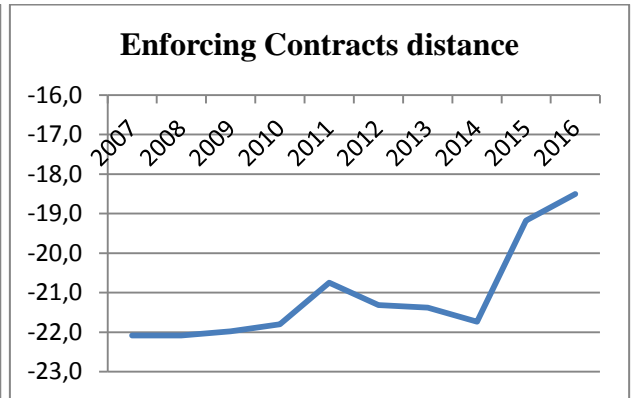
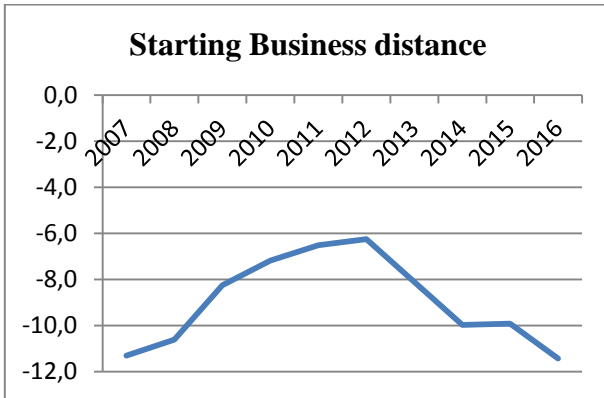
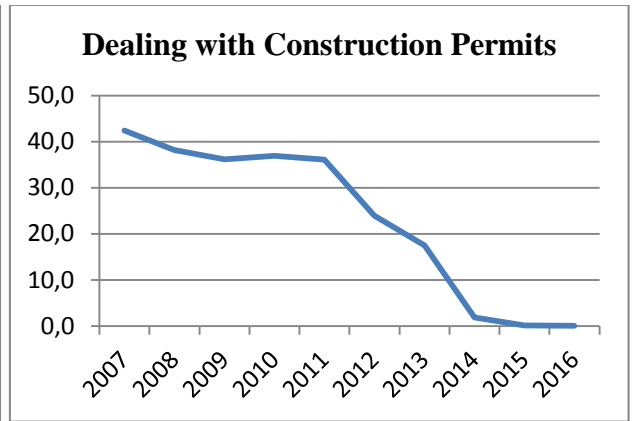
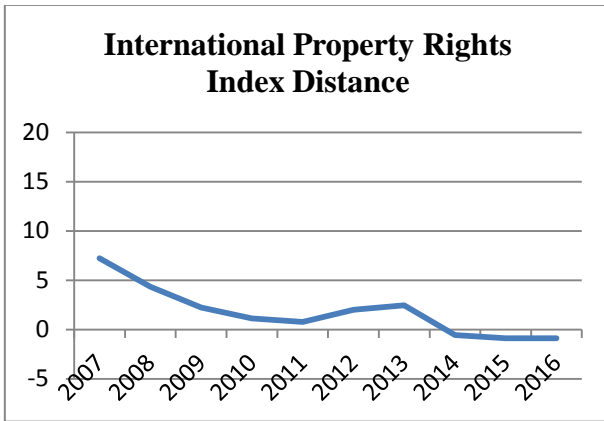
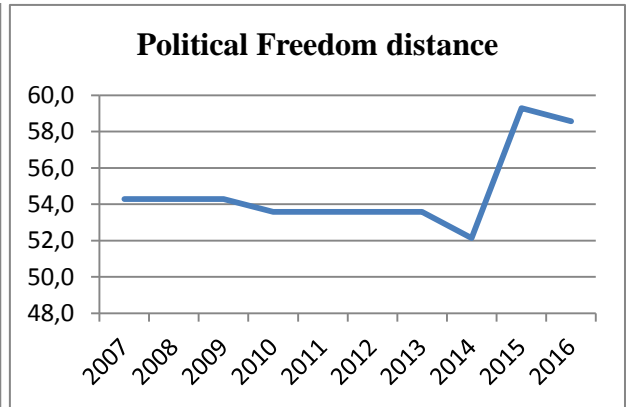
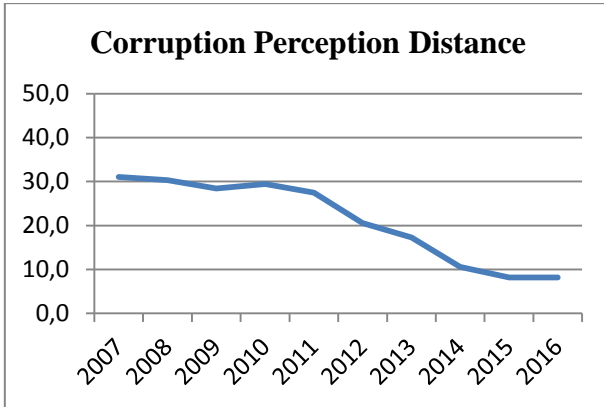
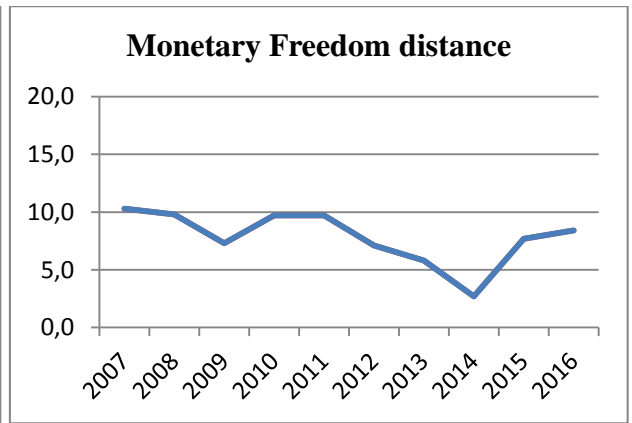
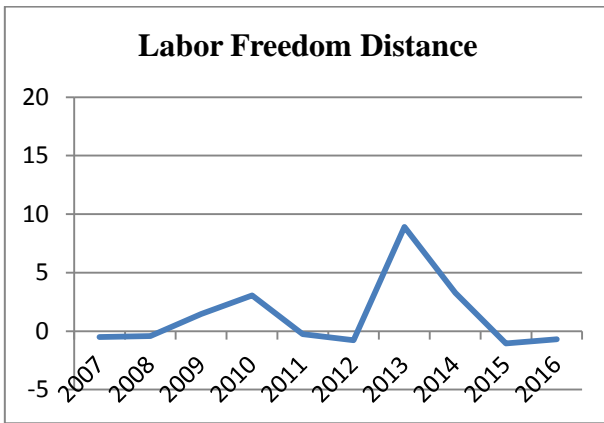
2012	0,0	-0,1	28,4	-18,3	10,0	-2,8	5,0	19,2	16,8	45,0	20,0	42,9	5,0
2013	1,0	-2,3	24,6	-18,3	10,0	-7,0	14,5	17,6	7,6	45,0	30,0	42,9	5,0
2014	0,0	-5,8	8,6	-18,8	11,0	-6,5	5,6	13,9	12,4	45,0	30,0	42,9	2,0
2015	1,0	-6,0	7,0	-18,8	7,0	-7,5	4,5	20,0	12,0	45,0	30,0	50,0	1,0
2016	0,0	-7,8	7,0	-14,7	7,0	-3,7	5,3	20,8	14,6	45,0	30,0	50,0	2,0

**Table 21: Peru**

Uruguay	FDI (mln USD)	SB	DCP	EnfC	CPI	TaxB	LF	MF	TF	IF	FF	PF	IPRI
2007	0,0	-22,7	34,1	-20,9	44,0	6,7	12,4	10,3	19,0	40,0	-10,0	64,3	17,0
2008	0,0	-24,5	29,9	-20,9	48,0	6,7	12,7	9,8	38,8	30,0	-10,0	64,3	16,0
2009	0,0	-13,0	28,2	-20,9	45,0	3,3	13,7	7,3	22,6	40,0	-10,0	64,3	14,0
2010	0,0	-17,8	29,1	-20,9	48,0	-0,6	16,6	9,7	14,4	50,0	-10,0	64,3	14,0
2011	2,0	-18,1	28,2	-20,3	46,0	1,6	12,0	9,7	14,8	55,0	-10,0	64,3	15,0
2012	1,0	4,5	15,1	-20,6	44,0	-1,3	10,5	7,1	14,7	50,0	-10,0	64,3	17,0
2013	2,0	2,3	7,1	-20,7	45,0	-2,7	18,1	5,8	5,5	50,0	0,0	64,3	17,0
2014	2,0	-1,2	-8,7	-21,2	46,0	-8,2	12,3	2,7	7,9	55,0	0,0	64,3	13,0
2015	0,0	-1,3	-10,2	-21,2	45,0	-9,0	5,4	7,7	6,8	55,0	0,0	71,4	14,0
2016	0,0	-2,9	-10,8	-21,0	45,0	-5,0	4,9	8,4	8,2	55,0	0,0	71,4	15,0

**Table 22: Uruguay**





## Appendix 8: Conventional notations

SB: Starting a business

DCP: Dealing with construction permits

EnfC: Enforcing contracts

CPI: Corruption perception index

TaxB: Tax burden

LF: Labor freedom

MF: Monetary freedom

TF: Trade freedom

IF: Investor freedom

FF: Financial freedom

PF: Political Freedom

IPRI: International Property Rights Index

## Appendix 9: Correlation table

	SB	DCP	EnfC	CPI	TaxB	LF	MF	TF	IF	FF	PF	IPRI
SB	1.0000											
DCP	-0.2812	1.0000										
EnfC	0.0266	0.2157	1.0000									
CPI	-0.0659	0.2477	0.5536	1.0000								
TaxB	0.1480	-0.0880	0.0649	0.0205	1.0000							
LF	-0.2823	0.2260	0.2918	0.1441	0.6133	1.0000						
MF	-0.2679	0.1283	0.1553	0.0323	-0.2975	-0.2604	1.0000					
TF	0.0180	0.2604	-0.0094	0.1410	-0.1760	-0.0443	-0.0349	1.0000				
IF	-0.1647	-0.1686	0.0808	0.3256	-0.4838	-0.3455	0.2558	-0.1195	1.0000			
FF	-0.1417	-0.1949	0.0697	-0.3216	0.1082	0.3061	0.0288	0.0760	0.0194	1.0000		
PF	-0.0678	0.0546	0.4588	0.4759	-0.4231	-0.3702	0.3170	0.0601	0.1284	-0.2173	1.0000	
IPRI	-0.0228	0.0639	0.5658	0.5215	0.0075	0.4074	-0.1910	0.1097	0.0184	0.1711	0.4919	1.0000

**Table 23: Correlations between distances**