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# **FDI Motivation and Entry Strategies of Russian Companies in the Chinese Market**

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**Abstract:**

**Russia maintains a strategic partnership with China, which became its largest trading partner. Bilateral relations have become even stronger as a result of Russia's "Pivot to the East" policy. China continues to provide ample opportunities for foreign investors in its market, gradually liberalizing the investment regime. Since FDI follows trade flows, it is reasonable to assume the expansion of Russian FDI in China. In fact, we observe a reverse trend, as Russian FDI is very small and declining since the global crisis. The article reveals the motivation of Russian companies investing in China and their market entry modes. Particular attention is paid to main obstacles and key success factors of Russian companies in China.**

**Keywords:** *China, foreign direct investment, internationalization, multinational enterprises, Russia*

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## **1. Introduction**

China has recently become the largest trade country for Russia. The introduction of anti-Russian sanctions has led to further strengthening of economic ties between the two states. However, the rapid growth of trade and construction of large-scale projects does not lead to an increase in Russia's direct investment in China. On the contrary, they are declining after the global crisis. Due to small volumes, the developments of Russian FDI in China are not sufficiently addressed in the literature. Despite a small amount of investment, Russian companies from a wide range of industries operate in the Chinese market. The paper reveals motivation of Russian companies investing in China, identifies main obstacles in their activities in the Chinese market and key success factors.

## **2. Internationalization strategies by Russian MNEs**

Numerous studies have examined various aspects of Russian outward foreign investment, the stages of internationalization of the Russian business, typology of the Russian MNEs and their motivation for foreign expansion. K.Kalotay (Kalotay, 2008) suggests applying different investment paradigms to explain the Russia's outward FDI. A.Panibratov (Panibratov, 2010, 2013) stresses the divergence in the internationalization strategies between various industries in terms of entry modes, and the role of the Russian state in internationalization.

There is a great number of country-specific and industry-specific studies related to Russian OFDI. Most studies relate to certain countries or a group of countries in Eastern and Western Europe, or the CIS where the bulk of the Russian FDI is accumulated. Yet research on the Russian FDI in China never conducted. Among industry-specific studies, the largest number of publications is dedicated to the oil and gas, and metallurgy sector or to outbound expansion of the Russian ICT/IT companies and banks (Lisitsyn et al., 2005; Panibratov, 2012a; Latukha, Panibratov 2013).

As per motivation of the Russian OFDI, many researchers have noted "safeguarding of private assets" as a specific motive typical for Russian FDI in the European region. Among the "normal" internationalization drivers, the researchers indicate market- and resource-seeking motives as prevailing for Russian companies, while cost- and technology-seeking are less common as compared to MNEs from other countries (Kuznetsov, 2013b; Panibratov, 2013). Meanwhile, S.Filippov (Filippov, 2011a, 2011b) revealed that the Russian firms in the emerging IT and software sectors internationalize via innovation and using their competitive advantage.

## **3. Data and sample**

The difficulty in conducting this study is the lack of statistical information on regional and sectoral distribution of Russian FDI in China because of their small volumes. The only available source of information that provides data on the Russian FDI in China is the "Foreign Direct Investment Report" published by the Ministry of Commerce of the PRC. The report examines key trends in China's inward FDI during 2002–2012.

A case study method is applied to analyze the motivation and entry strategies of Russian companies in the Chinese market. The authors use data from company websites, interviews with the CEO, as well as selected publications in the media that cover various aspects of the activities of Russian companies in China. The compilation covers 28 Russian companies representing various industries and services.

## **4. Empirical results and conclusions**

The results show that despite a small amount of investment, Russian companies of different sizes from a wide range of industries operate in the Chinese market. The most successful among them are companies from the chemical industry, including petrochemicals, IT sector, e-commerce, software and entertainment. Many of the Russian enterprises entering the Chinese market have strong technological advantages, know how or intellectual product, which is typical for companies originating in developed countries. For most Russian companies, regardless of their industry and business scale, market seeking is the dominant motive for making foreign direct investment in

China. Very rare Russian companies investing in China pursue efficiency- and resource-seeking motives. Analyzing the motivation of Russian foreign direct investment in China, we could not find the technology-seeking motive. A “safeguarding of private assets” motive typical for Russian companies investing in the EU, is not found among Russian investors in China. For some companies and individual entrepreneurs, the entrance to the Chinese market was caused by business failure in Russia or the deterioration of economic conditions since 2014.

The entry mode and strategy of expansion of Russian business in China largely depend on the industry in which the companies operate. The bulk of Russian FDI in China is green investments, while mergers and acquisitions by Russian firms are rare, which contrasts with investment strategies used by Russian MNEs in Europe or elsewhere. The Russian oil and gas firms are getting an access to upstream markets in China in exchange for China's state corporations to take minority participation in those firms' domestic exploration and extraction projects. Metallurgical companies that enter the Chinese market promote a combined strategy by both acquiring the Chinese companies and establishing joint ventures. Russian companies from the chemical, electronic, automotive industries, oil refining and other industries, including services, prefer a joint venture as the main entry mode.

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