

MNEs and capital flight: The case of Russia

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Abstract

This paper studies the participation of Russian multinational enterprises (MNEs) in the flight of capital from the native country. It estimates the mid-annual size of capital flight from Russia in 2015–2020 via channels of its MNEs at 0.8% of GDP. Theoretically and methodologically, this paper concentrates on two groups of motives and prerequisites for this flight—generated by tax-avoidance motives and domestic economic imperfections which lead to tax evasion and the institutional escape of national capital. Macro and micro analysis based on the balance of payments and company cases confirms that Russian MNEs are actively participating in capital flight from the country.

Keywords: MNE, capital flight, Russia, internationalization theory, motives of capital flight, SOE.
JEL classification: F21, F23.

1. Introduction

Multinational enterprises, MNEs (incorporated or unincorporated multinational enterprises comprising parent enterprises and their foreign affiliates), are an important part of the Russian economy. By the author's estimation, the top 20 Russian MNEs (see Table 1) were responsible for about 15% of the country's output in 2020 (Rosstat, 2021; Expert, 2021). The impact of national MNEs on various aspects of the Russian economy including capital flight is also great.

Theoretically, this paper addresses two aspects of international economics—MNE activities and capital flight as theoretical and business phenomena, and attempts to combine these two aspects in empirical research on MNE participation in capital flight out of Russia. The country is selected for two reasons—first, it is one of the leading countries in capital flight, and, second, it is the site of a noticeable number of national MNEs.

Although in recent years the number of research papers on capital flight has been increasing, they are not numerous: according to ResearchGate, there was

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only one paper in 2012, 6 in 2019 and 20 in 2020. In Russia, publications on capital flight from the country have been rare over the past two decades and most of them are papers written by graduate and post-graduate students with the exceptions of a monograph (Katonov, 2002) and a report (Glinkina, 2003). A few more publications were issued abroad (Loungani and Mauro, 2001; Mulino, 2002; Ledyeva et al., 2013; Bulatov, 2017; Spiegelberger, 2021). A narrower topic—Russian MNEs in capital flight—is not broached in academic publications. It adds originality to this paper which applies the general picture of capital flight from Russia as a background to focus on the role of Russian MNEs in this exodus.

2. Theoretical aspects

This paper is based foremost on internalization theory approaches towards MNEs set forth in numerous publications, primarily by authors of the theory (Buckley and Casson, 1976, 1985). Their development of the theory, particularly in the latest publications (e.g., Buckley, 2018; Buckley and Casson, 2020), gave this paper some clues to the prerequisites (determinants) of MNE participation in capital flight from emerging market economies—these are domestic institutions and market imperfections as well as national entrepreneurship specifics. These prerequisites (they are important elements of the domestic investment climate) directly motivate the MNEs to participate in capital flight.

Dunning's typology of MNEs (Dunning, 1958) and MNE "efficiency-seeking" conduct (Dunning and Lundan, 2008) also helped to research tax-avoidance practice of Russian MNEs doing business abroad. This practice is traditionally regarded as capital flight if MNEs use their foreign affiliates with this purpose. Some theoretical approaches to politically motivated outward FDI (e.g., Yu et al., 2020) were used in this paper in the case of Rosneft investment in Venezuela.

Prerequisites and motives of MNE participation in capital flight are separated in this paper into two groups—generated by (i) tax-avoidance and (ii) domestic economy imperfections which lead to tax evasion (Burmester and Scott-Kennel, 2019) and institutional escape of national capital (Brunnermeyer and Huang, 2018). In the case of developing countries, domestic economic imperfections are often transformed into asset safety motives with the purpose of protecting the property rights of private economic agents in more reliable foreign jurisdictions ("flight-to-safety") (Areski et al., 2013). The difference between the motivations of these two groups is interlaced in business practice. However, it helps to study annual reports of MNEs in order to find elements of capital flight.

In an attempt to extract elements of capital flight from the whole set of MNE FDI operations it was necessary to define capital flight *per se*. As often happens in economic theory, the wider the phenomenon, the greater the set of perceptions towards it. This also applies to capital flight. From our point of view, it is reasonable to divide notions of capital flight into two groups—narrow and broad ones. The first group of perceptions (narrow ones) concentrates on illegal capital outflow (e.g., Cuddington, 1986), while for the second group (broad perceptions) this is the outflow of capital (both legal and illegal), which has adverse effects on the national economy, primarily on its economic growth by reducing gross savings and investment (e.g., Lessard and Williamson, 1987). Evidently, the broad perceptions cover the narrow ones.

Assuming that national economic interests are expressed in national economic policy, we follow the basic theory of economic policy by Tinbergen (1978) arguing that macroeconomic policies should be aimed at maximizing public welfare. Practically, especially in developing countries, this maximization is achieved primarily through the economic growth of the country. In turn, it is provided in many respects by the gross capital accumulation in a developing country, and economic growth theories (at least neoclassical ones) agree with this point, particularly in the case of emerging market economies. With all these reservations, it is possible to conclude, using the above definition of Lessard and Williamson (1987) that the flight of capital is such a capital outflow beyond national borders, which negatively affects investment process in the country, and add also that the main causes of this flight are defects of the country's investment climate (Kindleberger, 1937). This paper is also oriented towards the broad perception of capital flight with some attempt to apply it also to politically motivated cases of outward FDI (theoretically, these assets could increase investment in the country of their origin).

It is important to accentuate that the perception of capital flight as a negative phenomenon is based on a macroeconomic approach. Yet, from a microeconomic perspective, this is an instrument of tax minimization and business diversification helping to avoid an excessive tax burden and any defects within the national investment climate. In practice, putting aside illicit capital outflow (export mispricing, smuggling, violation of national tax legislation etc.), legal capital outflow often helps a company to maximize its profitability and avoid some risks by portfolio diversification. From this point of view, legal capital outflow does not constitute a capital flight since it is a normal, legitimate business activity (Buiters and Szegvari, 2002).

It is noteworthy that this is not a rare case of a contradiction between macro- and microeconomic goals, between some economic agents and society. This contradiction is not acute in developed economies with their abundance of capital, although BEPS Action Plan initiated by OECD (BEPS, 2021) is triggered by tax evasion practice of many western MNEs. In most developing economies (with some exceptions, e.g., monarchies of the Gulf with their enormous oil and gas export revenues) this contradiction is more acute due to the problem of insufficient capital accumulation for catch-up development. Under these circumstances, governments of these countries share the opinion that national capital should primarily provide the maximum GDP growth for catch-up development. Even in China with its huge investment ratio (44% to GDP in 2020) restrictions on capital outflow are in force.

The following hypothesis argues that Russian MNEs are active participants in capital flight from the country. For this hypothesis in mind, principal points of capital flight from emerging market economies are applied to Russia and its top MNEs.

3. Methodology

Methods of capital flight assessment are exposed in various publications and summarized in some of them (see below). Out of these methods this paper uses the so-called residual method (based on the balance of payments data) due to its long history which makes it possible to get some retrospective view.

The more difficult methodological problem was to specify the data reflecting those operations of MNEs which have elements of capital flight. “Efficiency-seeking” stimulates MNEs to use tax-avoidance (tax-evasion) methods. These can include (i) shifting of profits to affiliates in low-tax jurisdictions; (ii) shifting of intra-firm debt obligations and capital linkages; (iii) re-domiciling of headquarters and legal incorporations to international financial centers (Di Nino et al., 2020). Some of these indicators are reflected in annual reports of MNEs (though sparsely) and with this purpose annual reports of some leading Russian MNEs were studied. Statistics regarding the Russian international investment position and balance of payments were also helpful for this research, providing some macroeconomic data related to capital flight in terms of FDI outflow from the country. Global Financial Integrity data on trade mispricing was also helpful because Russian MNEs are major participants in Russian foreign trade. The most difficult methodological problem was to quantify the capital flight of separate MNEs. As an alternative, brief case studies were applied.

The research period covers 2015–2020 and reflects the years of economic growth in Russia—2017–2019 (from +1.8 to +2.8% of Russian GDP) as well as the years of stagnation (+0.2% in 2016) and crisis (–2.0% in 2015 and –3.0% in 2020). Some data from the first decade of the XXI century was used for comparative purposes. At the same time, this paper pays special attention to 2019 as the last pre-crisis year.

4. Results

Forbes, as well as Fortune lists of top global companies and Russian lists of leading companies do not specify their foreign assets. Neither annual nor financial reports of Russian MNEs specify their foreign assets. In the UNCTAD table of the top 100 non-financial MNEs from developing and transition economies ranked by foreign assets (UNCTAD, 2021), only three Russian MNEs are included.

This hampers our analysis of Russian MNE foreign assets and necessitates the analysis of fragmentary data and estimates. Such an estimate was made by Kuznetsov (2021) on the basis of MNE reports, focus-group interviews and assessments (Table 1).

The fact that only Lukoil, Gazprom, Rosneft are included by UNCTAD in the aforementioned list of the top 100 non-financial MNEs reflects the comparatively modest volume of Russian MNEs’ foreign assets in general. In 2019 these 3 corporations owned 12% of the total Russian outward FDI assets (\$501 billion according to the Bank of Russia) and other top 17 Russian MNEs from Table 1 owned 9%.

From the industrial point of view, most of the top 20 Russian MNEs are oil, gas, and metals companies by assets and quantity. According to a cluster approach to emerging MNEs—resource oriented, transaction oriented, process oriented (Gammeltoft and Cuervo-Cazurra, 2021), they are predominantly resource-oriented firms based on exploitation and augmentation of firm resources. In the Russian case, resources of these firms originate from resource advantages of their home country which constitute both prerequisites and rationales for their internationalization.

Table 1 also shows a very high share of state-owned enterprises (SOEs) in the top Russian MNEs—one third of them. It is not a rare case for many econo-

Table 1

Top 20 Russian non-financial MNEs by their foreign assets, 2019.

MNE	Ownership	Principal industry	Foreign assets, U.S. dollars billion	Share of foreign assets in total assets, %
Lukoil	Private	Oil and gas	28.8	30
Gazprom	State-owned	Oil and gas	18.9	5
Rosneft	State-owned	Oil and gas	13.6	7
VEON	Private	IT	8.0	50
RUSAL	Private	Non-ferrous metals	6.5	36
Sovcomflot	State-owned	Shipping	6.1	83
Atomenergoexport	State-owned	Energy	5.5	10
Russian Railways	State-owned	Transportation	3.3	4
EVRAZ	Private	Ferrous metals	3.2	24
NLMK	Private	Ferrous metals	2.5	24
EuroChem	Private	Fertilizers	1.8	15
Nord Gold	Private	Non-ferrous metals	1.7	61
RussNeft	Private	Oil and gas	1.7	36
VSMPO-AVISMA	Private	Non-ferrous metals	1.4	25
Zarubezhneft	State-owned	Oil and gas	1.2	35
Megafon	Private	IT	1.0	9
TMK	Private	Ferrous metals	0.8	15
Norilsk Nickel	Private	Non-ferrous metals	0.7	3
MMK	Private	Ferrous metals	0.5	6
Sistema	Private	Conglomerate	0.5	2

Source: Kuznetsov (2021).

mies, particularly developing ones. However, it necessitates paying attention in this paper to the politically oriented FDI of SOEs with elements of capital flight.

4.1. Macroeconomic estimation of capital flight from Russia

There are several methods to estimate the extent of capital flight at a macroeconomic level. Most of these methods use the balance of payments statistics and, first and foremost, a net residual method of the World Bank built on the broad notion of capital flight (World Bank, 1993). By this method the capital flight from a country equals a net between capital inflow to a country (foreign debt increase + FDI inflow) minus the use of this capital (current account deficit + official reserves increase). This formula is applicable to countries with both deficit and surplus of current account as well as with increasing and decreasing foreign debt. For example, by this formula the accumulated volume of capital flight in 2015–2020 from Russia in U.S. dollars billion was the following:

$$(-130.1 \text{ foreign debt increase with minus due to decrease of foreign debt} + 96.9 \text{ FDI inflow}) - (-338.0 \text{ current account deficit with minus due to surplus} + 151.1 \text{ official reserves increase}) = 153.7.$$

At the same period the accumulated volume of capital outflow from Russia was \$312.3 billion. When comparing these two figures one can conclude that capital flight from Russia in the period was 49.3% of the whole capital outflow. When comparing the accumulated volume of capital flight (\$153.7 billion) with accumulated GDP of the country for the same period (\$9042.6 billion),

the ratio is equal to 1.7%. Some modifications of this method (Schneider, 2003; Johannesen and Pirttilä, 2016) make the formula of net residual method more detailed; however, this paper prefers the above method for its fundamental approach.

Certainly, the volume of capital flight is not stable and depends on many endogenous and exogenous factors. In the Russian case, endogenous factors were more or less stable in 2015–2020—the corporate tax rate of MNEs was the same at 20%, the campaign for offshore assets’ amnesty (3 rounds since 2015) produced limited results, institutions were not becoming more effective (besides tax administration). As to exogenous factors, the situation was more changeable in the period—western economic sanctions (since 2014) have made Russian outward FDI riskier and one of the most important financial sources of MNE capital flight—merchandise exports—was diminishing due to low prices on Russian oil, gas, and metals in general (mid-annual volume of Russian merchandise exports in 2015–2020 was \$362.2 billion against \$458.6 billion in 2009–2014).

As a result, the current “appetite” for, and financial abilities of leading Russian MNEs to undertake capital flight are diminished. For instance, in 2001–2011, the accumulated capital flight (by the World Bank formula) was \$682 billion (Bulatov, 2012), the accumulated GDP was \$11,181 billion and the ratio of the first indicator to the second equaled 6.1% of GDP.

On the basis of these data some estimate of the share of MNEs in capital flight is possible. In 2011–2020 the share of outward FDI in Russian foreign assets (without official reserves) was between 46–48%, according to statistics of the international investment position of the Russian Federation (Bank of Russia, 2020). It is reasonable to presume that Russian MNEs are responsible for the share of capital flight from the country that is close to their share in foreign assets of the country. Given the above estimates of the capital flight volume (\$154 billion in 2015–2020), we can conclude that capital flight from Russia via channels of Russian MNEs amounted to about \$72 billion over the last five years, or about 0.8% of the accumulated GDP for the same period.

Evidently, this capital flight interferes with the investment process (according to the broad notion of capital flight) in Russia. For instance, in 2015–2020, the ratio of investment to Russian GDP was 20.6–22.0% which is regarded as insufficient for the country in the modern stage of its development (with underdeveloped infrastructure, weak civil engineering, insufficient health and educational services, etc.). Re-oriented capital flight could add 1.5 p.p. to the ratio of investment and about half of this addition would be made by Russian MNEs if they were to re-invest in Russia those assets that they had transferred abroad in the process of capital flight.

4.2. Prerequisites and motives for capital flight

Besides being typical for all MNEs “efficiency-seeking” conduct (as a prerequisite for tax-avoidance practice via capital flight), MNEs participate in capital flight due to imperfections of domestic institutions, markets, and entrepreneurship structure. An assessment of Russian domestic institutions, markets and entrepreneurship makes MNEs skeptical about property rights, justice, corruption, and government regulations (Table 2).

Table 2
Institutions and markets in Russia, 2019.

Indicator	Rank (out of 141 countries)
Institutions	74
include property rights	113
judicial independence	91
efficiency of legal framework in settling disputes	93
reliability of police services	93
incidence of corruption	116
burden of government regulation	90
Product market	87
include distortive effect of taxes and subsidies on competition	67

Source: WEF (2019)

Institutional imperfections stimulate outward FDI even from developed economies (Witt and Lewin, 2007) and in emerging economies these imperfections are more profound. This is especially true in the case of assets' safety (property rights, judicial independence etc.) which generate the so-called "flight-to-safety." An implicit relationship between institutional imperfections and "flight-to-safety" is confirmed by the fact that private top MNEs (see Table 1) are usually owned by companies registered abroad (particularly in low-tax jurisdictions of the EU). For example, the study of annual reports of 5 top private MNEs discovered that in (a) 39% of the share stock of Lukoil belong to Citibank (USA) and 17%—to Grindale Investments Ltd. (UK); (b) 48% of VEON belonged to LetterOne (Luxemburg); (c) 57% of RUSAL belonged to En+Group (registered in Jersey up to 2019) and 22% to SUAL Partners Ltd. (Cyprus, then Bahamas); (d) 29% of EVRAZ belonged to Greenleas International Holdings Ltd. (Luxembourg), 19% to Abiglaze Ltd. (UK) and 10% to Crosland Global Ltd. (Cyprus); (e) 79% of NLMK belonged to Fletcher Group Holdings Ltd. (Cyprus).

The eagerness with which Russian private MNEs localize their property rights in foreign jurisdictions is reinforced by the specifics of Russian entrepreneurship structure with its dominance of a limited number of owners (oligarchs) in major private companies including MNEs. Being especially vulnerable to the safety aspects of institutional imperfections and eager to be on the safe side, they register their MNE controlling stock in safe jurisdictions. The aforementioned registered abroad companies belonged to Russian oligarchs: (a) Grindale Investments Ltd. — to Vagit Alekperov (owned also 23% of other shares of Lukoil); (b) LetterOne — to Michail Fridman, German Khan and Alexey Kuzmichev (owners of Alfa Bank); (c) En+Group — to Oleg Deripaska, and SUAL Partners Ltd. — to Viktor Vekselberg and Len Blavatnik; (d) three companies-owners of EVRAZ belong accordingly to Roman Abramovich, Alexander Abramov and Alexander Frolov; (e) Fletcher Group — to Evgeny Lisin.

Most of the above-mentioned companies with their control over top private Russian MNEs are located in jurisdictions with low tax rates and/or investment transition functions interlaced with their good property rights' safety. It suggests that "flight-to-safety" motives of beneficial owners of Russian MNEs are interlaced with tax-avoidance motives. This entanglement explains why the focus of Russian FDI is on low-tax jurisdictions with reliable property rights protection.

4.3. Tax evasion and institutional escape

The Bank of Russia publishes the distribution of Russian outward FDI assets by jurisdictions (Bank of Russia, 2021). Comparing this data with the top 20 jurisdictions fixed in The Corporate Tax Havens Index (Tax Justice Network, 2020), one can figure out that 71% of Russian outward FDI assets are located in those 20 jurisdictions with a dominance of Cyprus (40% of the total Russian outward FDI assets), the Netherlands (7.4%), the UK (5.8%), Switzerland (5%), Luxembourg (4.6%) and Ireland (2.6%) as well as the Caribbean (2.7%) and Singapore (2.6%).

Most of these jurisdictions are investment hubs transferring assets of MNE affiliates to other countries including Russia. The distribution of inward FDI assets in Russia by jurisdictions gives the picture close to the above statistics: 75% of these assets are owned by the same 20 jurisdictions, including Cyprus (28.9), the Netherlands (8.1%), the UK (8.9%), Switzerland (2.7%), Luxembourg (5.6%), and Ireland (5.3%) as well as the Caribbean (14.4%) and Singapore (0.8%) (Table 3).

It is reasonable to suppose that the confluence of the same set of tax havens and investment hubs in outward and inward FDI assets of Russia reflects at least two patterns of capital flight originated by Russian MNEs:

- they locate the major share of their FDI assets in low-tax jurisdictions and investment hubs primarily on account of tax avoidance motives;
- then they return (at least partially) their assets back to Russia under the guise of foreign jurisdictions' assets (their property rights are secured in those jurisdictions) in order to strengthen property rights of those assets in Russia on account of asset safety motives. Both groups of motives stimulate a round-tripping of Russian assets in the investment process of Russian MNEs (Ledyeva et al., 2013).

There is indirect macroeconomic evidence that the second group of motives (asset safety) is the dominating factor in the round-tripping. Thus, the balance of payments of Russia enables to figure out the profitability of FDI assets in and out of a country as a ratio of income to assets (Table 4).

Table 3

The distribution of outward FDI assets of Russia and inward FDI assets in Russia by leading foreign jurisdictions, as of end March 2021 (billion U.S. dollars).

Jurisdictions	Outward FDI assets (total \$444.7 billion)	Inward FDI assets (total \$545.1 billion)
Bahamas	7.2	24.4
Bermuda	1.3	49.5
British Virgin Islands	2.7	4.6
Cayman Islands	0.6	0.2
Cyprus	178.0	156.9
Ireland	11.6	28.8
Hong Kong	0.6	1.7
Luxembourg	20.5	30.7
Netherland	33.1	44.2
Singapore	11.0	4.5
Switzerland	22.5	14.9
UK	25.8	48.7

Source: Bank of Russia (2021).

Table 4

Russia: The ratio of FDI income to FDI assets (%).

Ratio	2018	2019	2020
Outward FDI assets	8.1	7.0	6.1
Inward FDI assets	12.0	12.1	9.9

Source: Bank of Russia (2021).

Table 5

USA: The ratio of FDI income to FDI assets (%).

Ratio	2018	2019	2020
Outward FDI assets	8.9	7.4	6.1
Inward FDI assets	3.3	2.5	1.7

Sources: BEA (2021); UNCTAD (2021).

The level of profitability of Russian outward FDI assets in comparison with a higher level of profitability of inward FDI assets in Russia (most of them are of Russian origin, as we supposed above) indicates that the profit center of the round-tripping scheme is located in Russia (in spite of its higher tax burden relative to low-tax jurisdictions). This reflects, evidently, that assets safety motives (as a part of institutional escape) are more important for outward investment of Russian MNEs than tax avoidance motives (e.g., for US MNEs the situation is opposite; Table 5).

However, tax minimization motives are also important for Russian MNEs. It is verified by the aforementioned geography of Russian FDI with its focus on tax havens. It correlates to the results of some research papers on the role of such jurisdictions in capital flight (e.g., Ahmed et al., 2020).

Some examples of leading Russian MNEs confirm this conclusion. Thus, up to 2020 RUSAL was registered in Jersey. As a result, the rate of income tax of this aluminium company was 13% in 2019 (effective tax rate was 9%) in comparison with 20% tax rate for companies domiciled in Russia (e.g., Lukoil effective tax rate in 2019 was 19%). It is paradoxical that after changing the domicile for Russia (in the special administrative region of Kaliningrad) in 2020, RUSAL did not pay any income tax in Russia that year due to various rebates for its re-domiciling and investing in a project inside Russia (RUSAL, 2021). Although the case of RUSAL reflects efforts by the Russian government to re-orient HQs of national MNEs back to the country, it also reveals the price (tax benefits) that the government has to pay for it.

Annual reports of Russian MNEs in some cases (when they contain such data) also demonstrate the shifting of intra-firm debt obligations and capital linkages as instruments of tax evasion. For instance, VEON, incorporated in the Bahamas and having located its HQ in Amsterdam (though Russia is its principal source of revenue), reveals in its annual report that by the end of 2020 it has got almost 88% of the total amount of interest-bearing bank loans and bonds from its Dutch subsidiary VEON Holdings B.A. These were expensive borrowings by Dutch standards—the ratio of interest paid compared to the total amount of VEON debt (bank loans and bonds) was 8.4% in 2020 and 7.5–10.1% in 2017–2019 (VEON, 2021) notwithstanding that the long term interest rate in the Netherlands in those years was less than 1% and even negative in 2020 (CEIC, 2022).

As mentioned above, the motives for tax evasion and institutional escape are inter-related in the business practice of Russian MNEs. Besides VEON, another example of such interlacement is demonstrated by EuroChem (eleventh in Table 1). In 2012 and 2013 this incorporated group with subsidiaries, associates and joint ventures in two dozen countries, although primarily in Russia (81% of non-current assets), paid 19% and 35% of its EBITDA correspondingly as income tax (EuroChem, 2015). In 2014, Andrey Melnichenko (who owned 92% of assets of the corporation via Cyprus firm) transferred the corporation assets from Moscow to his EuroChem Group AG in Zug (Switzerland). As a result, besides diminishing assets-to-safety risk, the tax rate became lower. In 2019 and 2020 the group paid as income tax of only 18% and 12% of its EBITDA correspondingly although more than 83% of the group's non-current assets are located in Russia as before (EuroChem, 2021).

Certainly, MNE tax evasion and institutional escape reduce revenues that should go to the Russian budget. In the latest detailed estimate of profit shifting via tax havens (Torslov et al., 2018), its authors conclude that the Russian budget in 2015 has forfeited 5% (\$11 billion) of corporate tax revenue and this figure is close to other leading developing economies—3% for China, 8% for India and Brazil, and 6% for South Africa.

Annual reports of Russian MNEs do not provide direct data on trade mispricing transactions. However, indirect data allows us to suppose that these MNEs use abnormal prices in their foreign trade transactions. Global Financial Integrity in its analysis of trade misinvoicing in developing countries on the basis of the gap (mismatch) between trade statistics of exporting and importing countries concludes that in 2015–2017 this mismatch was 18–19% of Russian merchandise trade (Global Financial Integrity, 2020). It is worth noting that Russian MNEs are dominating the country's foreign trade. According to the report on top Russian exporters in 2018 (such ranking reports of top Russian exporting companies started since that year), the share of the first seven MNEs listed in Table 1 (Lukoil, Gazprom, Rosneft, RUSAL, EVRAZ, NLMK, and Rosatom as a parent company of Atomenergoexport) was 47% of Russian merchandise exports (\$208 billion out of \$443 billion; Expert Analytical Center, 2019). One can suppose that they were responsible for a substantial part of export misinvoicing.

4.4. SOEs in capital flight: Two brief cases

The comparison of three oil and gas majors—private Lukoil versus state-owned Gazprom and Rosneft—shows modest financial achievements for the last two (Table 6).

In general, low profitability (typical for many SOEs) reflects their subordination to government purposes which often does not coincide with the microeconomic purposes of a company. Moreover, pursuing foreign policy goals dictated by the government, SOEs sometimes make a politically-oriented investment abroad which is often risky and insufficient for national economy. From this point of view, such investment can be regarded as capital flight.

The illustration is Russian FDI in Venezuela made both by private and state-owned MNEs. With an annually shrinking economy since 2014 (world record), highest inflation rates in the world (CPI was 65 374% in 2018 and 2 365% in

Table 6

Ratio of profit (before income tax) to total FDI assets (%).

MNE	2018	2019	2020
Lukoil	13.5	13.3	1.6
Gazprom	7.8	5.7	-5.9
Rosneft	3.5	2.8	0.5

Sources: Annual reports of the companies.

2020), as well as high levels of corruption, poverty and violence, the formerly very attractive for FDI oil-rich Venezuela has become the place of FDI disinvestment since the end of the first decade of the XXI century. According to UNCTAD World Investment Report, the stock of FDI in this country was \$46.2 billion in 2005, \$38.0 billion in 2010 and \$25.5 in 2020. After the withdrawal of western oil and gas majors from Venezuela (starting with BP withdrawal in 2010), Russian private MNEs also started to withdraw their Venezuelan assets (Surgutneftegaz in 2013 and Lukoil in 2014), but Russian SOEs were the last to withdraw—Rosneft in 2020 and Gazprom in 2021. Even then Venezuelan assets (several billion dollars) of Rosneft, the leading Russian investor in Venezuela, were bought by a fresh-made Russian SOE—Roszarubezhneft.

At the same time, being market-oriented companies, SOE practice tax minimization policy, not only appealing for tax benefits from the government but using other instruments. An interesting case of tax-avoidance by SOE relates to Sovcomflot, a shipping holding company (sixth in Table 1). With a huge fleet of about 12 m deadweight tons (half of the fleet owned by Russian companies), this MNE prefers to use a foreign flag for its ships. Only 9 out of 145 ships of this SOE use the Russian flag (Posekovskaya, 2021). For registration and management of its ships registered abroad (in BVI, Cyprus, Ireland, Liberia, Malta, Singapore, UAE, UK) Sovcomflot owns 130 daughter companies and 9 joint ventures in these jurisdictions. In 2020, the share of these affiliates in the total comprehensive income (after tax) of Sovcomflot was 45%. Paying most taxes abroad in low-tax jurisdictions, Sovcomflot pays in Russia only a minor part of its taxes—38% in 2020 (Sovcomflot, 2020). A strange situation for the SOE from the vantage point of the Russian budget and comfortable for the company where the share of non-government share-holders is 17%.

5. Discussion

5.1. Limitations

The methodological problem of quantifying the size of foreign assets of Russian MNEs was solved in this paper by addressing the data collected by Kuznetsov (2021). On the one hand, his paper does not scrutinize methods he applied to assess foreign assets of top Russian MNEs. On the other hand, in the situation when the Bank of Russia does not monitor outward FDI of separate Russian MNEs and Russian tax authorities do not pay due attention to their foreign assets, the use of the data collected by this esteemed researcher of Russian FDI (he has been collecting and analyzing data on outward Russian FDI for the last 15 years) is reasonable.

This paper did not study national wealth accumulated abroad and researched in some publications (e.g., Novokmet et al., 2018). We consider that in the situation of the round-tripping of Russian capital (Ledyeva et al., 2013), a substantial part of this wealth already figures in Russian MNE reports as a part of their corporate assets. For example, the aforementioned cases of Russian oligarchs—owners of top Russian MNEs verify that they have invested their foreign assets (at least part of them) in these MNEs. Certainly, there is no data on what part of their wealth abroad they used for this purpose and what part of their assets in tax havens they invested outside Russian MNEs. Nevertheless, we can assume that they prefer to use the latter part of their foreign assets for realty and portfolio investment. But such research is beyond the scope of this paper which focuses on Russian MNEs.

These limitations make the assessment of capital flight from Russia close to its estimate. Given these estimates, this paper concludes that in 2015–2020 the ratio of capital flight to GDP was less than in previous periods. As a rationale for this shift, this paper focuses on export revenues as an important source of assets for capital flight and assumes that declining revenues in 2015–2020 was one of the reasons for the reduced ratio. However, reasons for the shift such as Western sanctions and the offshore capital amnesty in Russia are not studied in this paper thoroughly due to a shortage of detailed information. It makes the explanation of the above shift one-sided to some extent.

As mentioned above, there is an interlacement between tax evasion and institutional escape motives of capital flight. An attempt to separate these two groups of motives was not fully successful in this paper. We reckon that it reflects the standard situation with capital outflow when the owner of assets is investing them abroad for many motives simultaneously. Such a situation (although with another set of motives) is also typical for capital flight.

5.2. *Future research*

The idea of this paper—namely that the scope of capital flight via the channels of Russian MNEs correlates to the volume of merchandise exports—could provide the basis for further research. The latest information on the first nine months of 2021 again confirms the correlation—in comparison with the same period of 2020 the exports increased from \$239 billion to \$343 billion and the outflow—from \$12 billion to \$56 billion. At the same time, the implicit indicator of capital flight—negative net errors and omissions in the balance of payments—was also increasing (Bank of Russia, 2021). Summing up, it is worth exploring further the hypothesis that capital flight (including via MNEs) correlates to exports revenues of Russia.

This paper only touches on such phenomenon as round-tripping of Russian capital between tax-havens and Russia. Although this phenomenon was studied by Ledyeva et al. (2013), it would be reasonable to research it on the basis of more recent Russian data and against the background of other countries, particularly such developing economies as China and India.

Certainly, it would be illuminating to research how the participation of Russia in BEPS Action Plan (BEPS, 2021) would impact on Russian MNEs and their participation in capital flight from the country in the future.

6. Conclusion

The hypothesis that Russian MNEs are active participants in capital flight from the country was verified in this paper and confirmed by figures and facts. On the basis of the residual method, this paper estimates the size of capital flight from Russia at \$154 billion in 2015–2020 and the share of Russian MNEs in this flight is estimated at about \$70–74 billion, or about 0.8% of the accumulated GDP in the same period.

The study of some top Russian MNEs confirms that, besides MNEs “efficiency-seeking” conduct (as a prerequisite for tax-avoidance practice), which is generally typical of the behavior of such enterprises, MNEs participate in capital flight due to imperfections of domestic institutions, markets, and entrepreneurship structure. However, the interlacement between tax evasion and institutional escape motives of capital flight did not make it possible to separate the former group of motives from the latter.

The prerequisites for capital flight, such as imperfections in domestic institutions, markets, and entrepreneurship, in combination with tax-evasion motives, motivate private Russian MNEs (they are controlled by a limited number of oligarchs) to register their controlling stakes in foreign jurisdictions, preferably with low tax rates and/or investment transition functions. These prerequisites and motives constitute a round-tripping of Russian assets in the investment process of Russian MNEs.

Tax evasion and the institutional escape of Russian MNEs as elements of capital flight in the process of this round-tripping are researched in this paper against a background of balance of payments data and a cursory investigation into cases of some leading Russian MNEs, including SOEs. The low level of profitability of outward Russian FDI assets (concentrated in low tax jurisdictions) in comparison with high level of profitability of inward FDI assets in Russia, reflects this evasion and escape. The cases of RUSAL, VEON, EuroChem, and Sovcomflot confirm this conclusion.

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