



universität
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MASTERARBEIT / MASTER'S THESIS

Titel der Masterarbeit / Title of the Master's Thesis

„Reasons, Consequences and Perspectives of Russian
Foreign Direct Investment in Austria and Germany“

verfasst von / submitted by

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angestrebter akademischer Grad / in partial fulfilment of the requirements for the degree of
Master of Science (MSc)

Wien, 2020 / Vienna 2020

Studienkennzahl lt. Studienblatt /
degree programme code as it appears on
the student record sheet:

A 066 914

Studienrichtung lt. Studienblatt /
degree programme as it appears on
the student record sheet:

Masterstudium
Internationale Betriebswirtschaft

Betreut von / Supervisor:

ao.Univ.-Prof. Mag. Dr. Josef Windsperger

Acknowledgements

To receive a master's degree from the University of Vienna was a real-life change. Before starting to study here, I lived thousands of kilometres away from Austria and spoke another language in my everyday life. To follow my dream of getting a degree from one of the top universities around the world, I had to improve my English and German, go through numerous bureaucratic steps like apostilling documents, translating them, preparing a visa application. It was already the process of learning, adapting, thinking outside of the box, which I would have never gone through without a decision to study abroad. I have also learned to believe, look for solutions even if it seems there aren't any and to collaborate. I hope that the knowledge received during the time in the university will help me to reach further heights in my life. I am infinitely thankful for my parents, friends, colleagues at work, peer-students and professors who have been always cheering me up on my way to the degree and have never let me forget my dream.

Abstract

The Russian Federation is among the largest investors in Austria and Germany. This master's thesis aims to research the most relevant reasons, why so much FDI lands exactly in these two Central European countries and answers the question of what the consequences and perspectives of Russian outward FDI are. The main research method that was applied is in-depth interviews with experts. The other two helping methods that have been used are an analysis of publicly available statistical data together with a brief literature review. The research is based on the framework of the institutional theory. The paper tests the existing FDI theories on their applicability for the case of Russian FDI in Austria and Germany.

Zusammenfassung

Die Russische Föderation ist unter den größten ausländischen Investoren in Österreich und Deutschland. Diese Masterarbeit untersucht die wichtigsten Gründe dafür, warum so viele ausländische Direktinvestitionen genau in diesen beiden mitteleuropäischen Staaten landen und beantwortet die Frage nach den Perspektiven und Konsequenzen für ausländische Direktinvestitionen aus Russland. Die vorrangige Untersuchungsmethode sind tiefgründige Experteninterviews. Die zwei weiteren Hilfsmethoden sind die Analyse von öffentlich zugänglichen statistischen Daten sowie ein kurzes Literaturstudium. Die Untersuchung basiert auf dem Rahmen der Institutionstheorie. Die vorliegende Arbeit überprüft bestehenden Theorien zu ausländischen Direktinvestitionen auf ihre Anwendbarkeit im Verhältnis russischer ausländischer Direktinvestitionen in Österreich und Deutschland.

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List of Abbreviations

CIS Commonwealth of Independent States

CEEC Central and Eastern European Countries

EU European Union

FDI Foreign Direct Investment

FPI Foreign Portfolio Investment

GDP Gross Domestic Product

IMF International Monetary Fund

M&A Mergers and Acquisitions

MNC Multinational Corporations

MNE Multinational Enterprise

NATO North Atlantic Treaty Organisation

OECD Organisation for Economic Co-operation and Development

R&D Research & Development

UN United Nations

UNCTAD United Nations Conference on Trade and Development

Introduction

In recent times, questions related to Foreign Direct Investment (FDI) have gained importance. Nowadays every country is competing for foreign investments. One of the most lucrative types of investment is FDI. FDI is a good way to improve the Gross Domestic Product (GDP) by acquiring new facilities and creating more workplaces.

Many researchers around the world are trying to understand the motivation behind investments. Therefore, many theories of FDI have appeared, which are attempting to answer that question. What is more, after World War II, FDI expanded rapidly because most national governments tried to remove some trade barriers and facilitate the movement of capital, so that the economies could recover faster (Benyei, 2016). That was the time when a new type of firm has grown – multinational enterprise (MNE). It acted as a catalyst for the amount of research in the field of FDI.

Furthermore, the abrupt change in recent years in the economic situation of the Russian Federation offers a unique research setting to test the applicability of existing theories in a new context (Meyer & Peng, 2005). Regardless of history and current events on the political arena, Russia remains an important partner and investor in Central Europe, especially in such countries as Austria and Germany. According to United Nations Conference on Trade and Development (UNCTAD, 2012) data, the Russian Federation make the highest FDI into Austria which is exceeding 1118 million US dollars a year and in terms of FDI into Germany, the Russian Federation is one of the biggest investors (342 million US dollars a year) trailing only some countries like People's Republic of China, South Korea and the USA.

It is believed that Austria and Germany are similar countries in terms of geographical location, language, institutions, political system, laws and economic development (Gorynia, Nowak, Trąpczyński, & Wolniak, 2019). Although the study does not have a goal to analyse the differences between inward FDI in Austria and inward FDI in Germany, it would be interesting to see whether there is a large discrepancy there.

My personal interest in this topic was aroused due to my current experience and future career goals. What is more, the topic includes the need of knowledge of the related fields that have been studied during the Master program at the following courses: Theory of International Firm, Trade Law, Market Entry Decisions and Macroeconomics. The conduct of the proposed research will enable the integration and connection of the knowledge received.

Moreover, there is a lack of cross-country studies on outward FDI, especially between Russia and EU countries. This study aims to fill this gap.

The focus of the work is on the *reasons, consequences and perspectives of Russian FDI in the economies of Austria and Germany*.

The Master Thesis aims to answer the following question:

Why does Russian foreign direct investment have such a great presence in Austria and Germany and what is the impact and the potential of it?

One of the starting research methods is a review of the secondary data. That is done by an application of search engines like Google Scholar. The priority is given to the most recent peer reviewed articles, consulting company case studies and the most recommended recent literature on management and investment. The review of the secondary data has the aim to distinguish FDI theories relevant for this study, emphasize the most important aspects of them and find the propositions, which would be a starting point for the practical part. Further, the methodology of the practical part is described. In the next part there is an analysis and interpretation of existing statistical data on FDI between countries in question. There are 7 interviews conducted with experts in the field of FDI in the practical part of the work, which are presented in the next chapter. Hereinafter, I present and discuss the results of practical part and also mention consequences and perspectives of FDI. Finally, I discuss the limitations of the study, underline master's thesis applicability and present possible areas for further research.

In my master's thesis I would like to analyse the influence and role of new events and the relevance of existing investment theories using the example of the two markets of Austria and Germany. I expect that my research would also make an academic contribution by filling in the existing literature gap on Russian outward FDI in Central Europe. This master thesis could be also used for practical purposes e.g. for Russian companies evaluating the potential of Austrian and German markets. Austrian and German companies in turn can better understand how they can attract more Russian FDI.

1. Definition of FDI, theories of FDI and propositions

1.1 Definition, types and forms of FDI

There are many definitions of FDI. FDI is often confused with other types of foreign investments such as commercial loans, official flows, FDI and foreign portfolio investment (FPI).

Below I present the most relevant definitions of FDI for clear understanding of the subject in question.

The United Nations in the World Investment Report (UNCTAD, 1999, p. 465) gives the following definition of FDI: “an investment involving a long-term relationship and reflecting a lasting interest and control of a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise, affiliate enterprise, or foreign affiliate)”. The most important aspect of this definition is that the United Nations (UN) underline that FDI has a long-term relationship and involves control. The Organisation for economic co-operation and development (OECD) in its Benchmark Definition of Foreign Direct Investment (2008, p. 48) agrees on all aspects of the definition provided by the United Nations Organisation and adds that “the lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence on the management of the enterprise”.

What is more, the International Monetary Fund (IMF) and OECD agree on 10 % ownership and control of assets for FDI. When the threshold is lower than 10 %, it is called FPI (Kerner, 2014). Another common definition of FDI is “a form of cross-border investment in which a resident or corporation based in one country owns a productive asset located in a second country. Such investments are made by multinational corporations. FDI can involve the construction of a new, or the purchase of an existing plant or factory” (Oatley, 2012, p. 376). Oatley finds important the aspect of a cross-border transaction and control of assets in FDI.

One more definition of FDI is “investment in control of productive facilities overseas – usually defined by an investment that amounts to control of 10 % or more of a company’s equity” (Sobel, 2013, p.131). Sobel includes in his definition of FDI a percentage of assets under control.

I would like to sum up the most important aspects that will play a role for studying FDI:

1. long-term relationship;

2. control and ownership;
3. at least two different countries involved.

An exact definition of FDI is especially important to statistics. As the OECD (2008) mentions, there are still divergences in the countries' understandings of FDI which result in different methodologies for calculating FDI.

FDI is often made by MNEs. According to Peng M. and Meyer K. (2011, p. 6) a MNE is “a firm that engages in foreign direct investment and operates in multiple countries”. However, FDI could be also made by individuals, governmental bodies, trusts, societal organisations, etc. (OECD, 2008).

There are also different types of FDI. Alfaro and Charlton (2009) define two types of FDI: horizontal and vertical ones while Moosa (2003) mentions two perspectives on classification of FDI: from the position of an agent, making an investment and from a country receiving an investment. From the position of the investor there are horizontal, vertical and conglomerate FDI. Horizontal FDI is made in case of manufacturing the same kind of goods abroad. Vertical FDI is undertaken in case of raw material exploitation. Conglomerate FDI is when a company makes an investment in a business that is not related to the type of business it conducts in its home country. It means that an investor does not have knowledge of a new field abroad and would rather tend to choose a joint venture as a type of investment (Investopedia, 2019).

Speaking about the view of the hosting country, FDI is classified as import-substituting, export-increasing and government-initiated FDI (Moosa, 2003).

Import-substituting FDI aims to produce goods that have been exported before.

Export-increasing FDI is done because of the search for new materials or parts necessary for the production of a finished good.

Government-initiated FDI is when a government is trying to improve the economic situation of a country and suggests incentives for investors.

The last classification of FDI to be mentioned is into expansionary and defensive types. Expansionary FDI is using a firm-specific advantage in a hosting country, while defensive FDI aims to find cheap labour in a hosting country in order to minimize production costs (Moosa, 2003).

FDI could be done through several forms. The most common of them are mergers and acquisitions (M&A), greenfield investment and joint ventures. Some authors like Davies B.

(2018) do not consider joint ventures as a mode of FDI. As FDI is often seen as an international market entry mode, every company should make analyses of the advantages and disadvantages of the various forms of FDI for their particular case in order to gain a good position in a new foreign market (Cheng Y., 2006).

M&A are rather dependant on barriers like geographical, cultural and institutional ones. M&A are also overreactive to currency shocks. M&A as a form of FDI has two main advantages which are the low cost of acquiring an asset abroad and the ability of an investor to have a fast market access (Moosa, 2003). Some authors believe that companies opting for M&A mostly do not perform better after a transaction but increase their market share and improve their image.

In some cases of acquisitions, the acquired companies have undergone structural changes. Thereby, after just some years such acquisitions looked like greenfield investments. Such a phenomenon was studied by Meyer and Estrin (2001) and is called brownfield. Brownfield is often seen as a hybrid form including features of acquisitions and greenfield. Brownfield is defined as a „deep restructuring of an acquired firm“ by Cheng Y. (2006, p. 205).

Greenfield investment is an “extension of capital and investment for financial restructuring” (OECD, 2008, p. 199). It could be done for instance in case of a need to repay a debt. Greenfield has a direct influence on production processes. Greenfield investment is done when a company establishes facilities, production line or distribution channels (Moosa, 2003). Normally, it is advantageous for a hosting country to have a company doing a greenfield because of the perspective of the creation of new working places.

According to Davies B. (2018) both M&A and greenfield investment are attracted by market size and distance. Some authors hypothesize that developed economies receive more M&A when developing greenfield investment.

A joint venture is more likely to be established when the transaction cost is high (Meyer & Peng, 2005). A joint venture is an agreement between two or more involved bodies that is made for an exact business goal (OECD, 2008). A joint venture is an advanced form of a partnership. As in every partnership, both sides agree on the degree of involvement, the share of profits and losses. In most cases one business partner (investor) provides the technological know-how and financial endowments while a local partner facilitates the project implementation process through local knowledge of a legal system, regulations and bureaucracy (Moosa, 2003).

The above-mentioned forms of FDI differ not only in their principle of application but also in the circumstances influencing their choice and the consequences which these modes entail.

There are many theories of FDI. To give this research a theoretical basis and derive the propositions, let us, firstly, examine which theories of FDI are most relevant and applicable for the topic in question.

There are some features to define a good theory which are explanatory power, predictive power, factual basis, general, unifying power, validity, and simplicity (Marandu & Ditshweu, 2018). McKinley et al. (1999) find three factors that make a good theory and they are continuity, novelty, and scope. However, the criteria for a deeper examination of the theory within the frame of this master thesis will be relevance to the topic and the ability to check the proposition based on that theory.

All existing FDI theories have something in common – they try to explain the reasons for FDI flow into a specific local market or a country.

FDI decisions are normally associated with the domestic success of a company. Only a profitable company would take the risk of going abroad by doing FDI.

Generally, there are two main views for the global success of MNEs which are institutional-based view and a resource-based view (Peng & Meyer, 2011). An institutional-based view focuses on the external environment of a company and looks at formal and informal “rules of the game” (North, 1990, p.3). A resource-based view has a focus on the internal environment of a company and pays attention to firm-specific resources and capabilities (Peng & Meyer, 2011). This master thesis will analyse the reasons for FDI through the lens of an institutional-based view. One of the foundational theories which is related to the study of FDI and which has laid the foundation of many other theories and hypotheses is an institutional theory (Meyer & Peng, 2005).

FDI is often seen as an advanced form of internationalisation (Zdziarski, Światowicz-Szczepańska, Troilo, & Małys, 2016). The contributions into institutional theory have been made from two fields of studies which are economics and sociology. It is argued that institutions have a direct influence on a decisions of FDI allocation. There are two groups of institutions: formal and informal. The difference between them will be discussed in detail in part 1.3 and part 1.4 of the work. Coase (2013) explains in his theorem that institutions appear because of the necessity to lower risks associated with transaction costs. Institutional theory is also relevant for studying and analysing public policy and has an influence on policymaking according to Williamson (1985).

One of the most prominent and relevant classifications of theories on outward FDI from emerging economies was made by Stoian (2013). The focus of her research is on Central and Eastern European Countries (CEECs).

Studies on the Determinants of Outward FDI from Emerging Economies

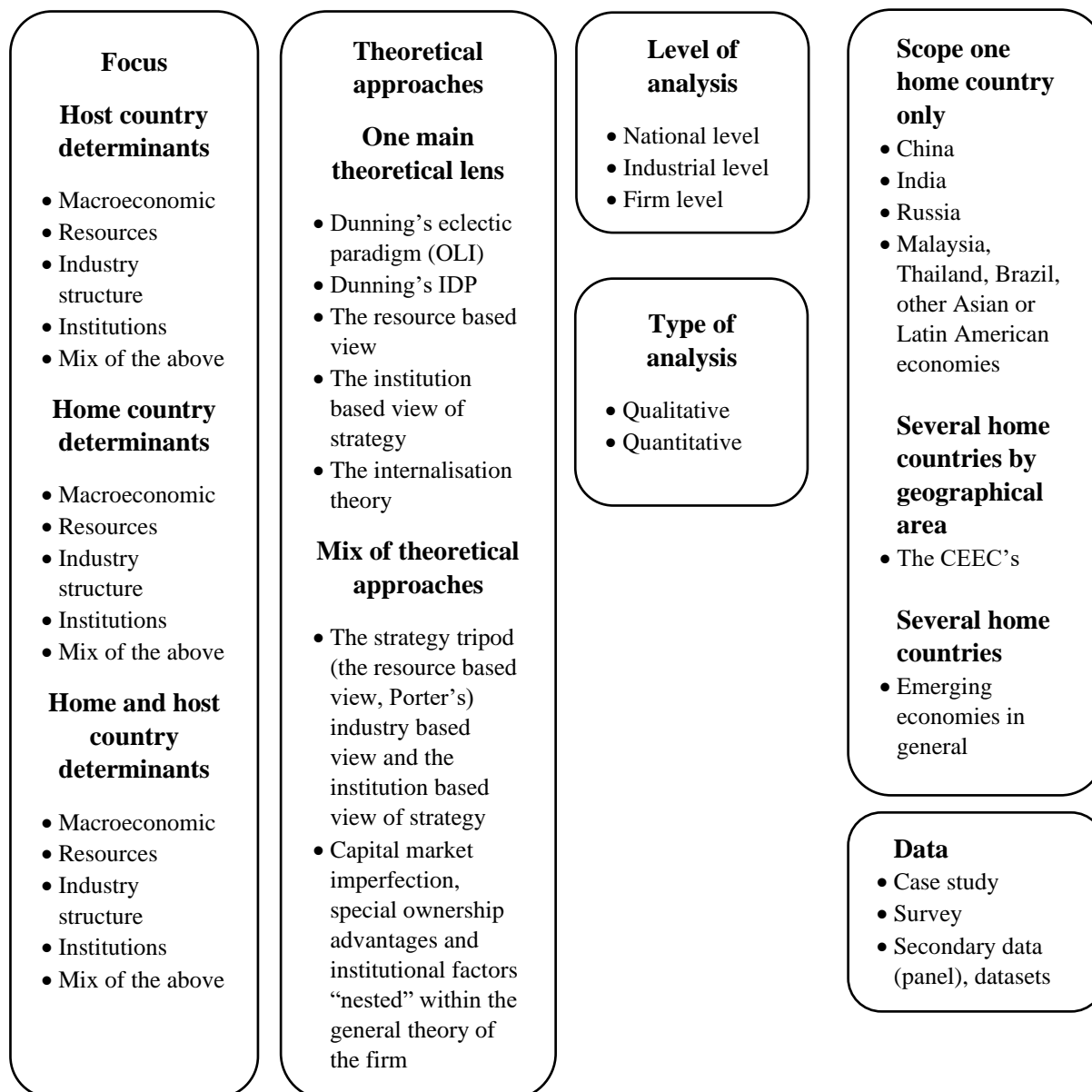


Figure 1. Key literature on the determinants of OFDI from emerging economies, including the CEECs: Synopsis. Source: Stoian, C. (2013). *Extending Dunning's Investment Development Path: The role of home country institutional determinants in explaining outward foreign direct investment*. *International Business Review*, no 22, p. 619

According to the above-mentioned classification presented in Figure 1, the master's thesis will concentrate on the study of institutions of home and host countries, having an institution-based view. The level of the research will be international, which was not suggested in Figure 1. The countries scrutinized in the thesis are Russia, which is the home country for FDI, and the host countries are Austria and Germany. The type of the analysis is qualitative, where deep

interviews with experts have been chosen as the main research method. Additionally, some quantitative secondary data related to the topic will be discussed.

In the next parts of Chapter 1, I come to prepositions of the master's thesis based on a literature review of the most-prominent researches of the field.

1.2 Currency role in FDI allocation

It is a common case that MNCs opt for FDI and outsource their production to developing countries (Shi, 2019). However, there are cases where the MNCs come to other developed economies.

This theory was developed by Aliber (1970) and further investigated by Dinkbar & Rahul (2014). The authors argue that weaker currencies in comparison with stronger currencies have a higher capacity to attract FDI and to take advantage of the market capitalization rate (Marandu & Ditshweu, 2018).

The theories' key omission is that it fails to explain FDI between developing countries which have an equal currency value and it also does not explain the motivation for FDI into developing countries (Marandu & Ditshweu, 2018).

What is more, speaking about the currency's influence on FDI inflow, it is important to pay attention to exchange rate stability (Chakrabarti & Scholnick, 2002). The past volatility of the exchange rate negatively affects the investment flow into a country. According to Dixit (1989a, 1989b) even risk-neutral investors tend to postpone their investment actions facing the case of high volatility of exchange rates.

According to Schiavo S. (2007) currency unions are often created to avoid risks of exchange rate change and uncertainty related to their change. When the risk and uncertainty are avoided by participation in a currency union than an increase in FDI flow between the participants of the currency union could be observed.

It is often hypothesized that firms originating from a country with a strong currency tend to invest abroad, while companies from countries with weak currencies do not (Moosa, 2013).

This theory's imperfection is not relevant for the master thesis because the master thesis aims to explain the reasons, consequences and perspectives of FDI from a transition country (Russian Federation) into two developed countries – Austria and Germany (UNCTAD, 2012).

Schiavo S. (2007) also underlines that the depreciation of the domestic currency increases FDI inflow. However, the master's thesis will not concentrate on the currency depreciation of hosting country as it was not observed during the last years.

What is more, the Russian national currency shows high volatility in recent years. It has worsened due to the Crimea crisis in the end of 2014 and subsequent sanctions of the European Union (EU). Regarding German-speaking countries in Europe, they show, on the contrary, stability of currency in recent years. Further in chapter 3, I give and analyse the data on the exchange rates of rouble to euros in the last years and look at the volume of Russian outward FDI in the same period of time.

There is also an opposite opinion about the role of currency exchange rate volatility presented by Rose (2000). He argues that an exchange rate volatility does not play a significant role on the amount of FDI.

All the above-discussed theories have limitations. However, most of the limitations are irrelevant due to the specificity of the paper question. Therefore, I derive a proposition based on those theories.

Pl1a Currency exchange rate has an influence on attracting FDI.

Pl1b The more volatile an exchange rate is, the less FDI is attracted.

1.3 FDI dependence on informal institutions and distance

“Institutions are the rules of the game in a society or, more formally, are humanly devised constraints that shape human interaction” (North, 1990, p. 3). There are different types of institutions. In a narrow meaning under institutions are understood formal regulations e.g. laws and taxes. In a broad meaning under institutions are understood also informal regulations such as customs, norms and culture (Meyer & Peng, 2005). As the first understanding of institutions is more common, I will separate the question of institutions into two: formal institutions and informal institutions.

This sub-chapter is devoted to the informal “rules of the game” (North, 1990, p. 3). To begin with, it is important to mention that there are different types of distance between home and host location countries. When we are talking about FDI, there are geographical, cultural, language, level of education, institutional, legal, political systems and industrial development distances (Ghemawat, 2007). Those distances are barriers for capital transfers because they increase

uncertainty for managers and the probability of mistakes due to the lack of understanding of a country and market-related information (Zdziarski et al., 2016). Any type of mentioned distances also increases transaction costs. It is supposed that countries firstly invest into countries that are similar to them and only after that consider other less similar countries as options. When we are talking about distances, it is always difficult to measure such distances or similarities between the countries and markets.

Kalotay (2006) argues that “geographical location, cultural and personal ties, as well as knowledge of neighbouring countries” spur outward FDI and make their number more intense. The influence of cultural factors on FDI is the best analysed considering the concept of differences and similarities of cultural features. Cultural differences between countries could be measured applying Hofstede’s concept. Hofstede’s analysis is based on six dimensions which are power distance, individualism, masculinity, uncertainty avoidance, long term orientation and indulgence (Hofstede Insights, 2020).

High power distance means that hierarchical order plays a great role in a given society. Everybody has his or her functions and the boundaries of each person are clear. That parameter would be difficult to measure when applying interviewing method of research because some of the interviewees may unintentionally show a power distance. Touching that aspect may lead to loss of trust. However, from the theoretical analysis made by applying Hofstede’s concept, we see that the power distance in Russia is very high while in Austria and Germany this indicator is very low (see Figure 2).

Individualism is the opposite of collectivism. Individualists take care firstly of themselves and their families. This parameter is almost the same in all three countries in question.

Masculinity is the opposite of femininity. Hofstede describes the masculinity dimension as „a preference in society for achievement, heroism, assertiveness, and material rewards for success” (Hofstede Insights, 2020). The masculinity parameter in Russia is very low.

Uncertainty avoidance is a very relevant dimension for the study of FDI. Generally, as it was already mentioned, during FDI investors try to avoid any uncertainty. Uncertainty avoidance is very high in Russia (95 out of 100). What is more, summing the points of Austria, Germany, and Russia, I see that this aspect is the most important for the countries in question. It means that Russians are trying to „control” the future. In business, uncertainty avoidance is reached by very detailed contracts, insurance, many rounds of negotiations, collaboration only with already known or recommended specialists.

Long term orientation is an aspect that all three countries find to be important. It goes without saying it is relevant for FDI as it has a long-term orientation. A long-term orientation is an integral part of FDI from the definition of FDI. This is why the research would not take a long-term orientation as a vector for a further research.

The last but not least of Hofstede's dimensions is indulgence with its opposite – restraint. This term is connected to the allowance in a society to the needs related to enjoying life and pleasure. The indulgence parameter in Austria is higher than in Germany. The indulgence parameter in Russia is twice as low as in Germany and approximately 3 times lower than in Austria.

There is a graph summarizing all the above-mentioned dimensions. It has been done through the assistance of Hofstede official website.

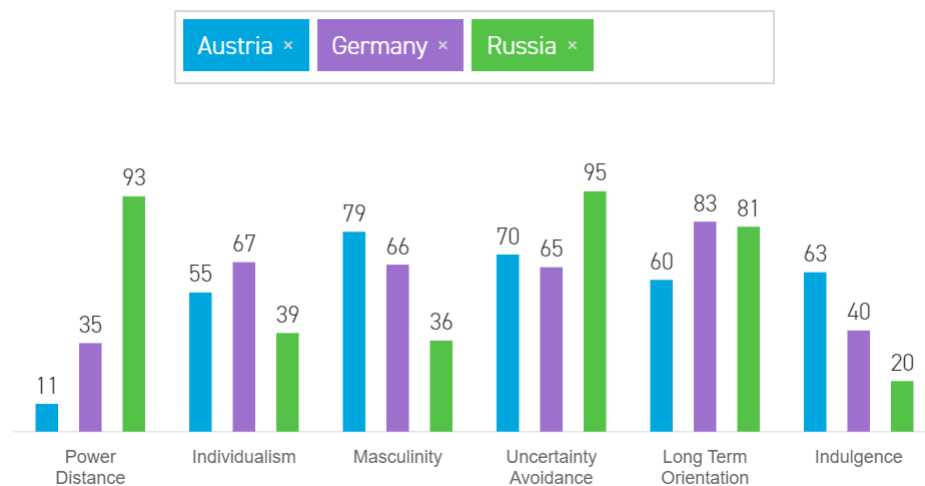


Figure 2. Cultural dimensions comparison: Austria, Germany, Russia.

Retrieved from: <https://www.hofstede-insights.com/product/compare-countries/>, accessed on 03.02.2020

There are also other theorists working on understanding the role of Russian culture for business. Puffer & McCarthy (2002) defines the three most influential aspects of culture in the Russian business world which are a tendency to circumvent law regulations, low trust in any actions without personal relations influence and reliance on a personal network in achieving goals. The reasons for these cultural traditions could be found in history. More regarding the formation of the above-mentioned traditions is written by Puffer & McCarthy (2002).

Peng & Meyer (2011) stress that informal institutions come into play when formal institutions are uncertain or fail. What is more, in an unclear environment informal institutions help the investors to understand the “rules of the game”.

Additionally, informal institutions are elusive, and this is why difficult to measure their influence and foresee their consequences.

The proposition that is derived from the role of culture in FDI placement and that would be interesting to check is the following:

P2 Culture and cultural differences between Austria & Germany play a role in FDI placement.

One important aspect of a culture that was insufficiently researched for a long time is language. Mentioning the language in conjunction with FDI we analyse two aspects: transaction costs and trust (Selmier, 2012). It goes without saying that English is the cheapest language among major trade languages as it is often chosen as a “lingua franca”. To measure transaction costs of language, we, first of all, think of time spent on communication. Frankel (1997) and Ghemawat (2007) argue that the lower the end transaction costs between countries, the higher the level of bilateral trade and FDI. Choi (2002) mentions another interesting point and shows that “the lower opportunity costs of the citizen in the lower-wage nation will push him/her to study the target language of the higher-wage nation”. What is more, there is an argument questioning the importance of the language for a FDI. However, FDI is a long-term capital flow into a hosting country, rather than a short-term transaction (Selmier, 2012).

P3 The official language of a country receiving FDI is a barrier for FDI placement.

When talking about the cultural distance, it is worth mentioning the cultural influence and the “game change” because of the number of immigrants (Zdziarski et al., 2016). At the moment there are around 1,4 million Russians in Germany, which is 6.6 % of the population. Russians are the third biggest group of foreigners in Germany after Turks and Poles (Statistisches Bundesamt, 2018). Speaking about Austria, there are not so many Russians in Austria as a percentage as in Austria. However, according to the statistics the number of Russians in Austria is at a place number 11 after Germans, Turks, Romanian and some other nations (Statistik Austria, 2019). What is more, the number of foreigners in Austria and Germany including Russians is constantly growing.

Furthermore, some of the immigrants could be “hidden” in the number of the local population. What is meant is that after six years of a legal stay in Austria or Germany, achieving a good level of German and paying taxes, a huge number of immigrants decide to change their citizenship. Such “domesticated” immigrants still share their home-country culture, although they are not counted as immigrants in statistical reports.

Taking into account the number of Russian immigrants in Austria and Germany and the opinion of some researchers like Zdziarski et al. (2016), it is worth mentioning the following proposition:

P4 The number of Russian immigrants in Austria and Germany has a positive influence on a decision of Russian outward FDI allocation.

Checking this proposition, it is important to understand not only already in-country immigrants, but also the opportunities to attract expatriates from the targeted country. In other words, although there could be not so many home country immigrants in a host country, it could be easy to attract them by suggesting an appointment abroad.

The research would not pay much attention to the physical geographical distance because the size of the home country (Russia) is very big and the decision to invest in Austria and Germany from companies based in Saint-Petersburg or Moscow versus countries based in Khabarovsk or Vladivostok is different. Where the aspect of physical geographical distance is still mentioned in the work, only firms from the European part of the Russian Federation will be in question.

Other factors such as level of education, institutional, legal, political systems and industrial development distances may be grouped together and named business distance. All the above-mentioned factors have the same function – they establish the “rules of the game” (Zdziarski, et al., 2016), (North, 1990, p. 3).

Informal institutions are posing a difficulty only when they are misunderstood or when the difference between business approaches of partners is too drastic. Contractor, Lahiri, Elango & Kundu (2014) and Dunning (2009) also argue that more research must be done in the field of institutional distances.

The next part of the work will be also devoted to institutions but formal ones.

1.4 Influence of infrastructure and formal institutions on FDI

Institutions help to reduce uncertainty and provide a structure in complex operations. What is more, institutions limit the number of possible choices that could be made by companies and individuals (Zdziarski et al., 2016). It is often argued that the quality of institutions is a crucial point determining the decision of FDI location (Zdziarski et al., 2016) and in international business in general (Gorynia et al., 2019). It is important to understand that both home and host institutions must be considered. Most of the authors analyse home and host institutions within frame of the institutional theory, which I will also do.

Speaking about institutions in the context of FDI, I will pay attention both to home and host FDI institutions. It is argued that institutions of both sides influence the inflow versus receipt of FDI.

Some of the researchers like Stoian (2013) focus only on home institutions. His study underlines the particular importance of the home institutions in post-communist economies for outward FDI because the institutions of these countries are undergoing several changes at the current moment. The author argues that the Commonwealth of Independent States (CIS) are transition economies and nowadays have reached such a degree of economic development that companies are able to go abroad.

According to Berry, Guille'n, & Zhou (2010) under institutional constituent parts are considered: "distribution systems for moving inputs to produce and final goods to customers, financial systems facilitating capital movements, labour market freedom, educational systems providing training for skilled personnel and government institutions promoting transparency and reducing corruption".

Institutions are seen as rather stable structures because as Dunning and Lundan (2008a) posit, high costs occur for an institution change. What is more, all stakeholders undergo institutional changes with great caution (Zdziarski et al., 2016).

On the basis of the mentioned theories and arguments related to the role of institutions in FDI, I pose the following propositions:

P5 Developed host country institutions spur the movement of FDI.

P6 Developed home country institutions spur the movement of FDI.

Furthermore, the possibility of privatization and ownership are seen as one of the most important aspects of inward FDI. The ownership factor plays an especially big role for companies from such investing countries where abrupt government privatization has been conducted historically (Zdziarski et al., 2016). Many Latin American and former Soviet Union countries (currently part of them consisting in the CIS) have "suffered" governmental actions aiming to privatize a property.

While the majority of authors argue that privatization has a positive effect on economic parameters and, thus, on FDI attraction, Estrin (2002, p. 101) mentions that "while privatisation seems to have improved company performance in almost all developed and middle-income countries, the record is less convincing in transition economies and, notably, in the former Soviet Union".

The factor of privatization could be also analysed from another side. When the government allows privatization for foreign investors then it spurs inward foreign direct investment. It can

be well observed on the example of Latin American countries (Trevino, Thomas, & Cullen, 2008).

Although the point of privatization could be interesting to study separately, it would be considered in a section of political stability because most of such government privatization actions have been accompanied due to governmental instability, lack of budget and a revolutionary change of the government and the ruling party. The next section is devoted to the study of FDI theories and political factors.

1.5 Politics as an influencing factor on FDI

When talking about FDI and politics, there are several semantic groups to distinguish. FDI could be analysed in conjunction with the political regime and political stability. According to Kerner (2014) political regimes and FDI are interconnected by political risks. The political regime factor is less interesting in the particular topic of the master thesis because all the countries studied (Austria, Germany and Russia) have the same political regime which is democracy. There is a certain criticism of the democracy in the Russian Federation. However, the country is still closer to being classified as democratic and not e.g. as totalitarian or authoritarian (Bonet, 2019).

Puffer & McCarthy (2002) find Russia after the collapse of the former Soviet Union an interesting place to study. On the one hand, Russia is not a “real” democratic country. On the other hand, in the 2000s it experienced 7 % GDP growth annually. Such economic growth could be only possible due to institutional changes and political stabilization.

The political regime also includes the nature of political reforms and policy. According to Kalotay & Sulstarova (2010) the policy change in the Russian Federation has a strong effect on outward FDI.

Speaking about political stability factors, it poses an interest for this study. Corruption is a factor that influences political stability. Although it is interesting to look at the levels of corruption, it is still difficult to receive reliable data on that topic. Moosa (2003, p. 326) in his book “International financial operations” make a hypothesis that a “lack of political stability discourages inflow of FDI”. The author did not check the hypothesis, but he explained a mechanism of how political instability influences FDI flow. Political instability normally entails a change in legal and financial factors. That is what is normally seen negatively by investors.

The fact of political stability of both host and home countries is especially important for this work in the light of current political changes (Troianovski, 2019). The factors that could question the political stability of the Russian Federation are the change of the constitution of the Russian Federation in the year 2020 and resigning of the government of the Russian Federation in January 2020 (The State Duma, 2020), (Ria Novosti, 2020).

The question of political stability and recent changes make the following propositions interesting:

P7 Political stability of a host country encourages inward FDI.

P8 Political instability of a home country discourages outward FDI.

In July 2014 the European Union including Austria and Germany imposed sanctions on Russia (European Union, 2014). This is a powerful factor undermining both political and economic stability. What is more, on the 12th of December 2019 the sanctions were prolonged until 31st of July 2020 (European Council, 2019). The above-mentioned events make the factor of political stability relevant to research.

Most authors including Trevino et al. (2008) claim that political instability repels inward FDI because it increases costs for foreign direct investment. Nevertheless, the EU sanctions against Russia due to the Ukraine crisis are mostly seen as a negative occasion because they can provoke an unexpected effect on Russian outward FDI. On the one hand, the sanctions create barriers for FDI, on the other hand, most Russian companies may be seeking new opportunities abroad and would be trying to mitigate the risks by investing abroad.

P9a Sanctions imposed on Russia have increased the flow of FDI in Austria and Germany.

P9b Sanctions imposed on Russia have a negative effect on FDI in Austria and Germany.

Paradoxically, different trade barriers such as quotas, regulations for imported goods have a positive effect on foreign direct investment (Calvet, 1981). As many companies do not want to face the above-mentioned obstacles, they avoid them by doing foreign direct investments and opening a subsidiary inside the market.

1.6 Other reasons affecting FDI

As there are many theories and aspects explaining FDI, the study could not highlight all possible reasons for FDI. However, it will briefly mention some of the most significant ones that will not be studied in detail within the frame of the master's thesis.

One of the further reasons why multinational corporations (MNCs) make FDI is internationalisation (Cahen, 2015). MNCs internationalise looking for new markets and higher profits. The argument of the level of returns is also supported by Moosa (2003). What is more, market size may also influence an investment decision. However, there are more studies where it is argued that market size does not play a role in FDI. This argument is defended by the Kearney (2019). State-owned companies may internationalise in order to improve certain industries (Cahen, 2015). Such industries for improvement could be electricity, water, telecommunications, oil and gas. One of the biggest Russian state-owned companies that has internationalised is Gazprom. What is more, some state-owned companies opt for FDI because of the strong political ties with another government. However, some countries are famous for their government companies' internationalisation because of political goals such as proliferation of influence and establishment of relations. An example of such a country nowadays is China (Cuervo-Cazurra et al., 2014) or the Soviet Union after World War II.

A firm-specific advantage is another vector of studying reasons for FDI. Company characteristics such as a well-known brand name, managerial skills, know-how may influence FDI flow but they do not explain the geographical preferences of a company and, thus, do not pose an interest within this research (Moosa, 2003).

Another important aspect to mention was studied by Javorcik (2004) who argues that insufficient protection of intellectual property rights is a strong barrier for FDI in high technology sectors, although it does not pose a problem for FDI in sales and distribution.

These are definitely not all of the reasons that may affect FDI allocation but the reasons most discussed in the literature.

2. Methodology and data

For this study a rich number of research methods have been applied. All of them are qualitative. The application of a great number of research methods for one study is not common in the academic world. Most studies try to choose only one research method to examine the question. So, a logical question is “why have different methods been applied for that particular study?”.

The first method is a literature review. It is highly important to find starting points for research. It is best done through the literature review. The literature review could not be the only method of research in this case because there are only a few studies on the topics related to my master’s thesis. If the thesis was not limited to specific countries, then there is a lot of research available in the field of FDI.

According to Chakrabarti & Scholnick (2002) theories about exchange rate expectations and their influence on FDI are difficult to check empirically, although the study topic of FDI should have statistical support in order to claim its significance. Thus, the most recent information on the volume of FDI from Russia in Austria and Germany is considered. The statistics and their sources are described in detail in chapter 3.

What is more, where little secondary data is available, it is necessary to collect data on my own (Saunders, Lewis & Thornhill, 2007). As another qualitative method of studying, standardised in-depth interviews have been chosen. Some questions for interviews have been sent via e-mails by prior arrangement with experts because many experts wanted to go through the questions before the interview. According to some participants e.g. representatives of Germany Trade & Invest, it is better to have more time on thinking about answers to questions with the questions in a written form in front of you. Additionally, the organisation has the opportunity to decide who has the proper knowledge and more experience in the field of the research.

The questions for an interview are structured in a simple manner to avoid ambiguity and the expression of one’s own opinion through the structure of the question and vocabulary.

As some of the interviewees may at first be sceptical about a request for being interviewed, it is important to create an atmosphere of trust and give a short introduction to the study and also give some information about the educational and working experience of an interviewer.

Furthermore, the time of the interview should be comfortable for an expert. When there is a choice between personal and telephone interviews, a personal interview is always better because personal contact helps to create a rapport between interviewer and interviewee.

Robson (2002) advises to show enthusiasm for the research even during the rather technical questions. Some authors advise to pay attention to your body language e.g. sit a little bit inclined towards the interviewee and choose an open posture, avoiding folded arms (Torrington, 1991). This is a sign that you are listening attentively.

The type of questions that have been used are open questions because they are „designed to encourage the interviewee to provide an extensive and developmental answer and may be used to reveal attitudes or obtain facts” (Robson, 2002, p. 329). I have also purposefully avoided multiple choice questions in order to leave the experts a greater choice to answer and not to incline them towards a particular answer. Moreover, it is often that in types of questionnaires with answers, the respondents may choose an option that is close to their opinion but not exactly their opinion and may perceive such questionnaires as a formality and will be trying to give some answer as soon as possible.

The experts for interviews are chosen due to their specialisation, a number of years of experience and a personal contact to one or more employees in the companies and organisation where the experts are working. The author of the master’s thesis believes that previous personal contact with the experts cannot be seen as a limitation of the research method. The experts who are known beforehand tend to spend more time answering interview questions. The interviews lasted between 50 mins and 2 hours and 30 mins. Two of the experts agreed for the interviews to be recorded and have found a time-efficient and exact way to do interviews. Both of the experts were from the private sector: Immobilien Entwicklung & Vermietung AG and Pallas Capital Investment Banking.

Interviews have been conducted in three languages which are German, English and Russian. The translation into English has been done by the author of the master’s thesis. The reason for interviews in different languages is that most of the respondents feel more confident answering the questions in their mother tongue. What is more, I believe that speaking a mother tongue, experts can go in deeper details and, finally, speaking their mother tongue helps to build an atmosphere of trust more easily. In other cases, some experts constantly work in the language which is different from their native one and may prefer to answer the questions in it. Therefore, I gave all experts the choice of which language to conduct an interview in. The interviews have been conducted in person in the case of Austria and per telephone and skype in the case of Germany. The method of an interview depended on the geographical distance and working schedule of the experts. It is argued that non-personal interviews have less success and provide the research with less information because of the lack of trust to a person whom we do not see, although, in a modern business world the Internet and telephone have reduced the number of

personal meetings. That means that the interviewee should not experience a lack of trust. What is more, such approaches can also help to reduce the time spent on an interview e.g. by not taking time to travel to an interview place. Thus, interviews conducted by telephone and Skype are of high quality too.

Additionally, in the field of investments, it is extremely difficult to receive information because the way of making decisions could be used against a particular company in the private sector. What is more, an information leak could be a reason for financial loss. This is why previous personal contact helps to gain trust and heralds deeper and more realistic answers.

Below is the information regarding methodology and data in a table form:

Type of data used	Primary data	Secondary data	Quantitative	Qualitative	Reason to use	Advantages	Disadvantages
Literature review	No	Yes	No	Yes	Define what kind of data is available, to define propositions, give a theoretical explanation of the question	Easy, fast access	Not addressing the topic directly, not able to fully answer the research question
Interviews	Yes	No	No	Yes	Opportunity to receive a unique information	Receiving knowledge that otherwise maybe not collected, unique information	Subjective, biases, unwillingness to reveal sensitive information
Statistical Information (e.g. UNCTAD)	No	Yes	No	Yes	“Number answer” of the research question	A credible source of information, quality information	Not answering a research question exactly

Table 1. Methodology and types of data used in the master's thesis

Although three types of methods have been applied to the research for this master's thesis, the main focus and priority was given to in-depth interviews.

3. Statistical data

A lot of statistical data on the flow of FDI is collected and presented by OECD, IMF and UNCTAD. Exactly these three sources of statistical data are recommended by many studies in the field of FDI e.g. Kerner (2014). However, OECD, IMF and UNCTAD use mostly information provided by national banks and are published when all national banks have provided data. What is more, FDI could be measured by applying different methodologies. This is why it takes time until the information received from each national bank and it also takes time to standardize the information. Thus, the statistics are not often up to date. For example, the most recent information on FDI published by UNCTAD is from 2012. This is not very helpful for the study because it is relevant to analyse dynamics from 2013 till 2017-2018 because there was an abrupt political change and an exchange rate fluctuation. The OECD does not include Russia in any statistics presumably because Russia is not a member of the OECD. The IMF has a lot of statistics on FDI but does not have information regarding FDI in Austria or Germany. What is relevant, IMF and OECD provide the definition of FDI on which most of the countries base their statistics. Moreover, I would not compare the volume of Russian outward FDI in Austria and Germany because the methodology of calculating FDI between Austria and Germany is slightly different and because the size of the countries also differs a lot.

To receive the most recent and useful information, I have consulted the webpages of national banks and national statistical agencies. For comparing information on a global scale, I have checked the statistics provided by UNCTAD. To see an exchange rate dynamic, the European Central Bank was chosen as a source of information.

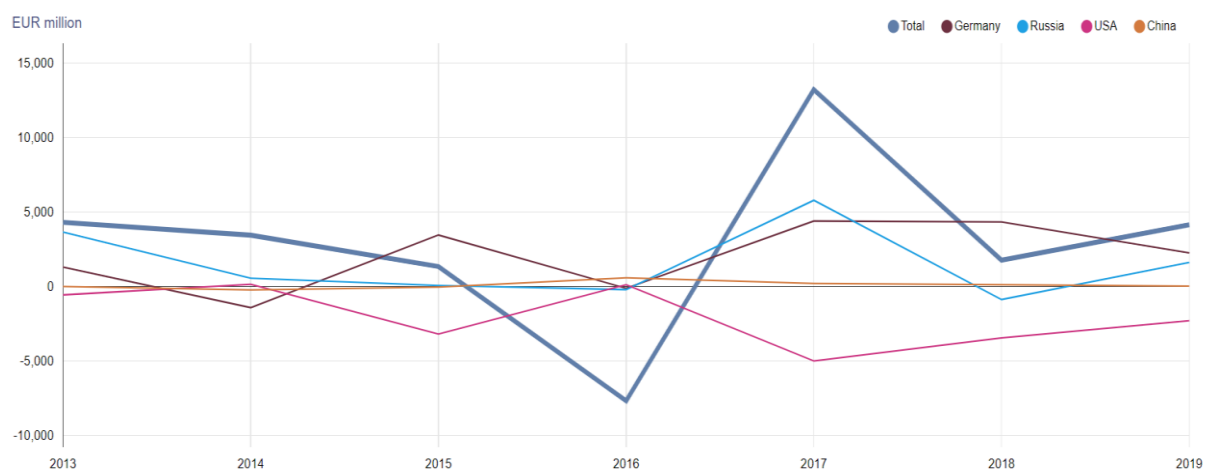
To begin with, let us check how the euro to rouble exchange rate has been changing from the period from the beginning of 2013 till the current moment (1st of April 2020). Below is a chart reflecting the dynamics (see Chart 1, p.27).

On Chart 1 we see an abrupt change in the exchange rate and rouble depreciation. The lowest price for rouble was given at the end of 2014. According to the propositions related to an exchange rate which are *PIa Currency exchange rate has an influence on attracting FDI* and *PIb The more volatile an exchange rate is, the less FDI is attracted*, the volume of FDI in 2014, 2015 and 2016 should be lower. I should check these 3 years because FDI is a long-term investment and that parameter does not react fast to an exchange rate change like financial markets do. On the next pages I have presented the volume of Russian FDI in Austria (Chart 2) and in Germany (Chart 3 and Chart 4).



*Chart 1. Dynamics of rouble to euro exchange rate for the period of 01.01.2013-01.04.2020.
Retrieved from:
http://sdw.ecb.europa.eu/quickview.do?SERIES_KEY=120.EXR.M.RUB.EUR.SP00.A,
accessed on 31.03.2020*

Inward direct investment transactions broken down by region of ultimate beneficial owner



*Chart 2. Inward direct investment in Austria from 2013 till 2019.
Retrieved from: <https://www.oenb.at/isaweb/chart.do>, accessed on 31.03.2020*

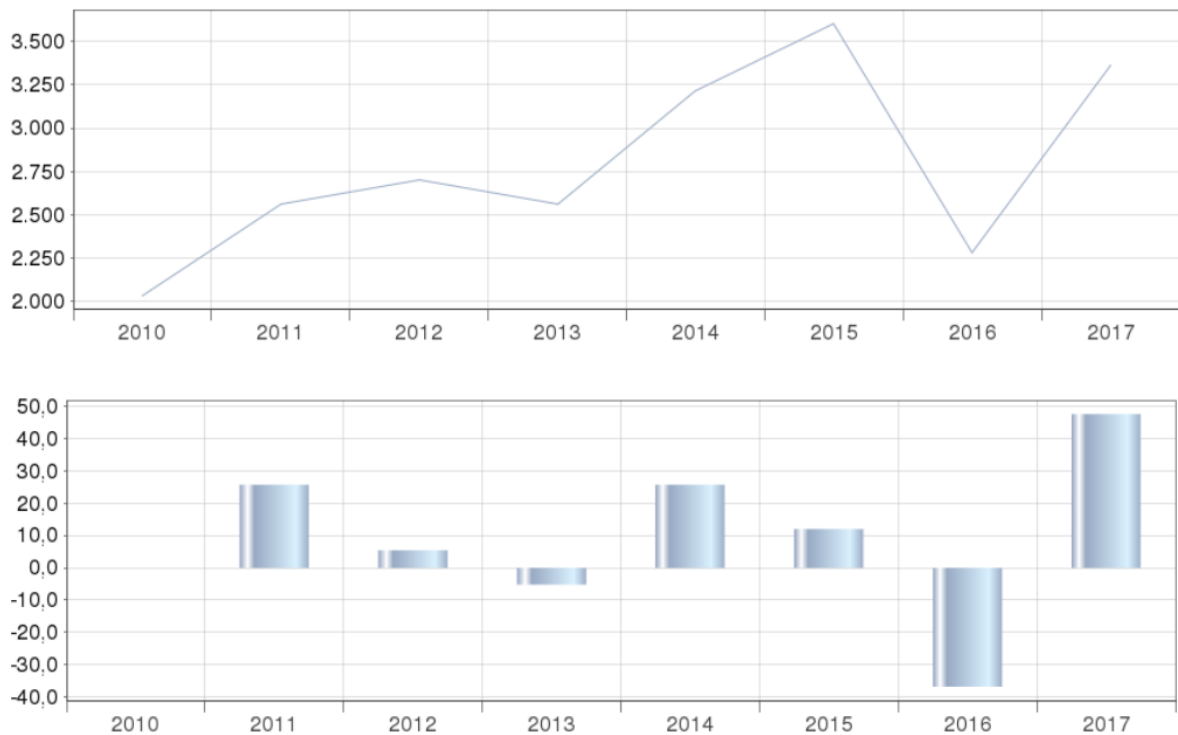


Chart 3. Inward direct investment in Germany from 2010 till 2017.

Chart 4. Relative change in percentage in comparison to the previous year.

Retrieved from:

<https://www.bundesbank.de/resource/blob/795714/0273602ee05746ab9fa26540a60600b3/mL/statso10-2019-data.pdf>, accessed on 01.04.2020

Chart 2 reflects inward direct investment in Austria from 2013 till 2019 from Russia, Germany, the USA and China. These countries are the leaders in terms of FDI in Austria (for more information, please see Annex I). In 2013 the volume of Russian FDI in Austria was 3,663 million euros, which is record high in comparison to two previous years, where Austria received 591 million euros in 2011 and 624 million euros in 2012 (Österreichische Nationalbank, 2020). In 2014 the volume of Russian FDI in Austria was 559 million euros. It has dropped in comparison to 2013 but was not lower in comparison to 2011 and 2012. In 2015 the volume of Russian FDI in Austria was 69 million euros, which is significantly less than in previous years. There is the first negative parameter in 2016 when the volume was -211 million euros. Although 2015 and 2016 show a downturn tendency, there is an overall reduction in the volume of FDI in Austria, which is seen in Chart 2. Lower amounts of FDI were also made in Austria during 2-16 by other countries of the EU. Thus, the shrink in amount of Russian FDI in Austria cannot be connected to exchange rate fluctuations and rouble depreciation and is seen as a general downturn in FDI. Moreover, the next year 2017 shows a record high volume of FDI from Russia, which is 5,797 million euros (Österreichische Nationalbank, 2020). The sanctions also had not been lifted in 2017. Such an increase could be related to some big project or agreement in the oil and gas industry.

Speaking about the situation in Germany, it is similar to Austria. The only difference in growth and downturn tendencies is in the year 2013, see Chart 3 and Chart 4. In Austria in 2013 we see a big growth in a volume of FDI from Russia, where in Germany during this year, there is a downturn. However, this difference is not relevant for the study because exchange rate changes have begun in 2014. The next years 2014, 2015, 2016, 2017 have the same tendency of incoming Russian FDI as in Austria. Then, from a statistical point of view, propositions *P1a Currency exchange rate has an influence on attracting FDI* and *P1b The more volatile an exchange rate is, the less FDI is attracted* are rejected. To make a final conclusion, I will compare that result with the results from the in-depth interviews.

There are some more proposals where statistical data is relevant, which are the proposals related to sanctions. I wanted to check whether the *sanctions imposed on Russia have increased or decreased the flow of FDI into Austria and Germany* and whether *sanctions imposed on Russia have a negative effect on FDI in Austria and Germany*. The economic sanctions on Russia were imposed in July 2014, (European Council, 2020). As it was analysed before there is a slight reduction in FDI from Russia in Austria and Germany right after the sanctions. However, there is no tendency of constant fall or growth in FDI. There is even a slight growth in Russian FDI in Austria and Germany if you take the average value of the last years. As the growth is not so high, it is difficult to make a conclusion regarding the influence of sanctions on Russian outward FDI looking just at the statistics. Thus, a conclusion on the influence of sanctions implosion will be done after the analysis of the in-depth interviews.

4. Practical part: in-depth interviews

To begin with, I would like to present the structure of my interviews. The interview questions in English with the subject, the reason to ask and the proposition to check are presented in a table below.

№	Subject	Question	Reason to ask	Proposition to check
1.	General question	Why do so many Russian companies and individuals decide to open a subsidiary/make an investment exactly in Austria and/or Germany, from your point of view?	An opening question, to see the preferences of the interviewee	Check which reasons an interviewee finds the most relevant. Opportunity to check one of the propositions P1-P9
2.	Currency, exchange rate role	What is the influence of the currency exchange rate on outward Russian FDI, in your experience? Did you see any reasonable downturn in FDI due to the rouble's depreciation in 2014-2015?	To check propositions, compare with statistics	P1a, P1b
3.	Personnel	Does a large number of Russian immigrants in Austria and/or Germany help to find qualified staff?	To check a proposition	P4
4.	Language	Does the official language of a country receiving FDI play a role? Do companies or individuals have any difficulties, additional costs, time-spend doing FDI because of the language? What language is mostly chosen for business communication?	To check a proposition	P3
5.	Culture, distance	Do you find that some cultural differences between Austrian and/or German business partners and Russian business partners influence decisions on FDI allocation? If yes, then how? Could you, please, give an example.	To check a proposition	P2
6.	Politics	Does a fact of political stability of Russia play a great role for FDI?	To check propositions	P7, P8

		Does a fact of political stability of Austria and/or Germany play a great role for FDI?		
7.	Institutions (hosting country)	Do you think that the development level of Austrian and/or German institutions (rule of law, tax rates, transparency, authorities, protection of foreign investments) positively influences FDI? If yes, then how.	To check a proposition	P5
8.	Institutions (home country)	Do you think that the development level of Russian institutions influences outward FDI? If yes, then how.	To check a proposition	P6
9.	Sanctions	Did sanctions imposed on Russia become an additional barrier for FDI?	To check a proposition, compare with statistics	P9a, P9b
10.	Tendencies	What are the perspectives of FDI from Russia into Austria and/or Germany? Do you think that FDI will increase/decrease? Why do you think this way?	Closing question, find out tendencies	No proposition to check but to see which of the reasons may play a more important role in the future

Table 2. Interview questions with an indication of a proposition to check

All together I have conducted 7 interviews, 3 with experts on Russian outward FDI into Germany and 4 with experts on Russian outward FDI into Austria. 5 of the interviews have been made with experts from the governmental sector of Austria, Germany and Russia (Austrian Business Agency, Vienna Business Agency, Germany Trade and Invest, Consulate General of Germany in Ekaterinburg, Chamber of Commerce and Industry of the Russian Federation) and 2 interviews have been made with experts from the private sector (Pallas Capital – investment banking and Investment & Entwicklung – law focus of the company). To receive a higher quality of information, I have on purpose chosen companies and organisations that have experience with plenty of investors and companies. I am convinced that they have a better picture of the situation because they work every day with companies from different sectors, regions, size and organisation. Such people have an overview unlike owners of one particular company concentrated only on their company and branch.

Below there is an information on the interview language and method in table form.

Name of the organisation/company	Country of expertise	Sector	Language of interview
Austrian Business Agency	Austria	Governmental organisation of Austria, business consulting	German
Vienna Business Agency	Austria	Governmental organisation of Austria, business consulting	Russian
Germany Trade and Invest	Germany	Governmental organisation of Germany, business consulting	Russian
Consulate General of Germany in Ekaterinburg	Germany	Governmental organisation of Germany	German
Chamber of Commerce and Industry of the Russian Federation	Germany	Governmental organisation of Russia	Russian
Pallas Capital	Austria	Investment Banking	English
Investment & Entwicklung AG	Austria	Investment, legal services	German

Table 3. Interviews: country of expertise, sector, language

The interview questions, which were mailed to the experts in advance are in the Annex II and are presented in English, Russian and German.

In the next sub-chapters are presented the in-depth interviews conducted. Before we come to discussing Austria and Germany, I would like to mention that the numbers in Germany will be always higher than in Austria because of the size of the country and the market. This is why analysing these two countries, is important to look at percentages and not at an absolute number.

4.1 Immobilien Entwicklung & Vermietung AG – Owner – Helmut Seitz

Mr. Helmut Seitz is the owner and a manager of several companies in Austria, which have investment as the main focus. He has a lot of experience with investors from CIS countries.

1. “There are two main reasons for Russian outward FDI into Austria. Firstly, Austria is historically very close to Russia because Austria had a neutral status. For Russians is always

easier to invest here as Austria is not a member of the North Atlantic Treaty Organisation (NATO) country and the second reason is the legal security, which Russian investors really appreciate. It is significantly less corrupted than in Russia.

2. Rouble's depreciation we have felt significantly. I can give you an example from my field. This has affected 80 % of real estate investments where the property became more expensive for Russian investors. They are, of course, to be paid in euros but at the same time people who earn their money in Russia in rouble and are dependent on the national currency exchange rate have lost the half of their capital and we have also generally felt the crisis. I know many people who had a lot of money and at once had nothing. So, we have noticed that the investments have dropped. So, an exchange rate was one point and another point was the harsh political tone. These has also what investors did not like. Also sanctions against Russia and enhanced money laundering line that are not more possible to fulfill.

A very precarious field in that time was the bank sector in Austria. Both big Russians banks like VTB and Sberbank have noticeably reduced their activity in Austria. VTB was 30 years in Austria.

3. Before it was a classical case that a man was earning money in Russia and a wife with children were staying in Vienna. In these cases, traditional families have turned into weekend families. The situation for people living in Russia is becoming more difficult all the time because of the political repressions and corruption. I know many-many cases where children and wives come first to Austria and husbands stay in Russia to keep the food on the table. But, after a couple of years these "week-end families" reunite, fathers join their family, invest and start business in Austria.

As I have noticed such companies have a lot of personal from the former Soviet Union countries, who lives in Austria already for 10-15 yeas. These personal is coming not only from Russia but also from other countries of the Soviet Union e.g. Kazakhstan. This is easy to explain. There is just no language barrier.

When the companies or individuals need attorneys, tax consultants and business consultants in Austria, they mostly choose Austrian ones. They feel with them better than with Russian specialists.

4. We have often situations that there is an owner, who is probably not speaking a very good German. He always needs a confidante, who speaks two languages very well. It is very seldom that Austrians are speaking very good Russian. So, these confidantes are mostly people with a

migration background. In such cases the language plays an important role. It becomes a sign of trust. The right hand of a boss is always the person who lived in the former Soviet Union before.

German language is a big barrier to FDI from Russia. Speaking about my experience, the generation who is in their mid-50s, they almost never speak English. People, who are younger than 50 years they all speak very good English. They have no problems in Austria because almost every Austrian has a good level of English. Not all Austrians are speaking business English and can conduct business meetings in English but almost all Austrians can have a conversation in English. Summing these ideas up, all Russians under 50 in such positions enabling them to be investors have education on the basis of which they speak good English. Difficult it is for the generation 50+. There I know many many people, it is even the generation 60+, there are very few people speaking good English and even less who speaks German. German is like Russian – very difficult language.

Speaking about my own experience how I deal with a language barrier, before and after business conversation I speak Russian with the clients. When it comes to really business questions, we can speak English, this is a common world foreign language. This is about one-half of the cases and the second half of the cases is with an interpreter and this interpreter is competent in this particular field.

5. I see great differences among people from the former Soviet Union. Kazakh people have an Asian approach to business which means that oral word does not play any role and even a written one also does not, even a contract does not play a role and when you have a contract signed, they will be still discussing it. According to my experience with people from Russia, Russians are very similar to Austrians or Germans. It means that they stay to their word, respect the contract. But when it comes to problems, there is a slightly different approach – Russians tend to apply contracts very formally, close to the written words. Whereas Austrians or Germans tend to be more liberal, use leeway or search for analogies. So, there are some cultural differences. It is, of course, generally when you collaborate with people from different backgrounds, important to meet certain formal requirements, to discuss the questions openly as soon as possible and, of course, to document them. Most Russians I know are meeting decisions very fast and what I have noticed they have a perspective for the bigger things and show great generosity. This is what I personally really like. The Russians also come to the results really fast. If I compare this with Asians or Arabic people, the same operation may take 10 times longer than by Russians. As we have already 25 years of experience exactly in this field, we have prevented most of the misunderstandings. I am working as an attorney for many years already and it was often the case that there are differences in law systems and your task as an

attorney to make a good contract that would balance these differences in the law systems, that the differences are clear and that all possible misinterpretations are avoided. There are differences and you can gain trust only when you overcome these differences.

6. At the moment Russia does not have a democratic system. This is close to a dictatorship. An advantage of a dictatorship is that it is actually very stable. But this Russian stability is kind of a “negative stability”. Personally, I do not know about large scale foreign investments in Russia, or more particular from Austria to Russia. It seems to me that partly this is a result of political influence on court rulings. If there may arise some dispute between foreign and local business partners, Russian courts will always decide in favor of local business partners. Foreign partners will always lose. This creates bad conditions for foreign investors. There is an investment bilateral agreement between Russia and Austria. There are also investments in Russia from Austria after that agreement was signed. I do not know that there was any problem with a Russian investment in Austria. When there are some quarrels, they are mostly between a Russian company owner and some Russian who represents the company in Austria. There are also conflicts between Russian shareholders here in Austria but the line Russians against Austrians or Austrians against Russians in the last 25 years I have not seen, probably just 1-2 small cases. Unfortunately, the Russian stability means a lot of corruption. At least this is what I have heard. Corruption is what will bring the country down in a long-term perspective. It is also causing that many people have reached a lot and still have left the country. Always expect that somebody can come and say “Your business is mine now.” and I am not talking about 80s or 90s when it was common that an „avtoritet” (from Russian “criminal mastermind”) could do so. Today, those criminals “buy” a court order and misuse governmental power (e.g. police) to enforce these bought court rulings. If I was affected by those procedures, I could not simply go to another authority to defend my rights or property.

Part of the investment is, of course, because of the motivation to have money in a safer place. Russia is a big market, a country with the greatest reserves of raw materials and with very clever people. There are different opportunities in such market and the profitability must be higher than in Austria, between 30 and 40 % as the risk of a loss due to high loan interest rates, changing exchange rates and a lack of legal security. In Austria, in contrast, nobody awaits that money brings 30 to 40% profit. Many people are coming to us and invest in the real estate market for much lower return on capital, but they are sure to receive profit for many years from their investment. It is like a lever. I sacrifice part of my profit for security and stability, for a positive stability. There is a fear of foreigners and of foreign money here, which I cannot understand, and it makes it nearly impossible for them to open an account here. The attitude

towards foreigners and their money has really changed in the last couple of years. The current situation is nearly unprecedented. Maybe 75 years ago it was as difficult as for Jews to open a bank account in Austria as it is for many foreigners today. People are still treated horribly.

Speaking about Ibiza scandal, all Russians, whom I know, have been amused about the situation. Nobody has believed that the Austrian political system will be less stable because of that. There is at the moment the government composition that I personally did not vote for. It is anyway very interesting. I find continuous change in the politics to be very good. All people or political parties that are ruling a country too long, are more encouraged to maintain and even enlarge their power rather than to cope with current challenges. A long coalition between social party and a conservative party was not the one that was very good for Austria. I find it more as an experiment. Black-blue or turquoise-blue with Strache and Kurz – totally interesting projects, where you see an advancement. These are only people and they can also be corrupted. It is obvious and it happens everywhere. What is interesting, in a private sector you can earn so much more than in the politics and additionally in the politics, nobody will say „thank you“. This is why it is difficult to find good people there. I think it is a general problem. In Russian people go into politics to earn the money. To put your foot really forward. In our understanding this is a negative choice. It is very difficult to find hard-working, open people, who go into politics because every person who has a talent and some capital would think „why should I let every day be insulted and I receive less money“. This is why it will keep happening that we have people in politics who are not able, who is corrupted. It will never be the end of such situations. We still have many who are doing it because of the idealistic reasons and are happy to do this. They even get along with those politicians' salaries. I know many examples and I really respect these people. Ultimately the politicians in our country are not so important because they are changing constantly. In contrast civil servants usually do not: it happens that ministers are changing but heads of departments in this ministry stay with their functions for many years. Public officials' posts are very stable and have a good reputation. In general, public officials earn enough to cover their costs and benefit from non-monetary advantages. Thus, I do not see any systematic corruption among public officials in Austria. Public administration is well integrated into the system and top serious. One can even see this on the police level. In general, no Austrian policeman will accept any bribe.

7. This applies to public management in general, as well. I really appreciate the public administration and authorities in Austria. Politicians come and go but public administration stays. In contrast, politicians have only a short period of time to implement changes or benefit

from their posts. Thus, they are, of course, more likely to do something wrong. This is inherent in the system, but I cannot imagine any better one.

What is important in Austria is that you don't really need politics to do business. What I really need is a public management. Exclusively political decisions are very seldom. From 95 % to 98 % of what I need from Austria as a state is public administration and its decisions. Our public administration is very stable and independent from politics. Judicature in Austria is also independent from politics. A public prosecutor may be an exception as he might be politically motivated. Probably corruption cases have a political motivation, too. All the other spheres are very reliable.

The tax rate in Austria is very high and one of the highest all over the world. On the other hand, we do not have anybody who does not have a medical insurance, every person and not only elite has the same chances of having a higher education in one of the best universities in Austria and free of charge. We support with the taxes the opportunity of receiving state-subsidized flats, so that people receive the flats which they can pay. We do not have homeless people here in Austria. Systems of social security almost never fail. Everybody can benefit from them if he or she is in need. There is no social instability in Austria. There are no strikes in Austria like in Germany or France. Our economy is working 365 days a year. If you check statistics, we have only very few days of strikes in Austria. Sometimes we do it very easily. If it comes to it, we just increase the taxes. At the end of the day nobody is paying the taxes with pleasure but everyone receives something from it. There are things that we can do better. The majority of authorities you need for business are very fast, friendly and competent. What you may need from them? Probably a passport. You receive one in three days and an appointment you can receive online in 1 minute. It all starts when you firstly enter the country through the airport. The boarder control is friendly. All policemen in Austria are friendly. Every mayor or constructing authority is friendly. In the banking industry the people are friendly and react straightforward. There are definitely things that could be done faster e.g. court processes. I would be happy to pay a little bit less tax but the system is self-consistent. As far as there is social stability, I am willing to pay such high rates of taxes. I pay 55 % taxes and 45 % stay for my own use. When I go and buy something then I pay once again approximately 16 % taxes. That means that the amount of tax you pay is enormously high but as I have said: we receive a well working public administration in exchange. Our taxes are spread correctly. Russian investors also see that positively. Let us have an example. Moscow. Life in Moscow is as expensive as in Vienna. A pensioner in Moscow, when she has a high pension receives 200-250 euros a month. With this you cannot live. It is a shame for Russia for such a rich country.

In Russia, all people who do not have the opportunity to work, earn money or receive salaries to finance their lives and families cannot benefit from sufficient social security. People really like it when they come to Vienna that they do not see some grandmother who needs to beg for money on the street or that there are no districts in Vienna where you would not want to go to. This is what everybody appreciates. A person who worked for 40 years in Austria has a very good pension. 200 euros for us is just a primary care. Another example is from a certain number of employees on, a company has to have an organ representing their employees' interests, which has a voice in investors meetings. One-third of employees are sitting in decision-making body. This is something that is contributing to stability. We have all the same goal. The economic success of a company depends really much on the company's employees. This is why within Austrian companies the employees' representatives are granted access to powerful posts. They are usually a member of the supervisory board.

8. The level of institutions development in all former Soviet Union countries is very low. Some countries like Ukraine could be named as failed state. Kazakhstan also does not have very advanced institutions. The less democratic the country is, the less "real" is its legal system. If we look at criminal law in Russia, an acquittal rate is under 1 %. That means from 100 cases, there will be 99 condemnations. This is absurd. This has nothing to do with a case law. The judge is a prosecutor at the same time. Even during Stalin time, the conviction rate was 90 %. It means that it is even worse than during Stalin times. I think today not functioning, corrupt court procedure also highly dependent on politics is the reason why so many people are leaving Russia. There are also parallels to Austria and Germany during wartime. When a lot of capital has been lost and many intelligent people have left the country. The flow of capital from Russia is not a big problem from my point of view as Russia has many resources. The real problem is that the country is losing smart people. Such people are needed to manage a country. One more point to this topic, Austria does not have any raw materials. We have just a little bit of oil, economic performance with many kinds of services. There are different kinds of services like legal services or production of goods from steel. There is no Russian product. There are just Russian raw materials. If we look at a definition of a third world country – a country that generates most of its profits from raw materials export. So, Russia sells oil, gas, diamonds, gold, but there is no Russian product in an Austrian supermarket or a supermarket worldwide. The only exception is a Russian supermarket in Austria. There is no Russian car, Russian computer, even no Russian satellite systems. The last one could be perfectly done by Russians who have been the first in a universe. This is just a pity. This tendency is to see in culture. Which Russian

music is today played; what kind of modern Russian literature is read today in the world? One day there will be no more oil, gas. There is still a lot of land, but it would be not durable.

9. Sanctions have an extremely negative influence on Russian FDI in Austria. This is why we have much fewer Russian investors.

10. I think an amount of Russian investments in Austria will stay the same. I find that in Russia it is so difficult that not so many people (less than 5 years ago) have an opportunity to invest abroad. You firstly should have enough capital to invest. I expect that the curve of Russian FDI to Austria will stay almost the same. This is just my feeling. I cannot really support it with some numbers.

A very important aspect is that the sanctions against Russian will be lifted. These sanctions damage the Russian economy and they are damaging Europe even more and the Americans are enjoying that situation. I personally do not understand the reasoning supporting sanctions. Unfortunately, I expect that the sanctions will not be lifted soon. It is interesting that to prolong the sanctions a consensus is needed. In other words that all countries vote in support and it is functioning every time. Interestingly it has functioned all previous times. The values that Austria has are not the same as other countries of the EU possess. For example, our neighbour country – Hungary has once again introduced censorship. This is absurd. The last time it was so 200 years ago.

Last but not least, it would be nice if there are some political thinkers of a Russian-European Union as geographically and culturally there are many arguments for such a collaboration. It is a lot said that China is densely populated but Europe density of population is much higher.

That would be possible only in case Russia has the same humanistic values as which the EU has developed. This development has lasted some time. The process has started 20 years after World War II and after that Europe became much better. When it would be possible to export these humanistic values to Russia and together with Russian economic performance and resources, then together to go forward. That would be desirable. However, every attempt towards that union is not in the interest of one country – the USA. The reason is that the Russian-European union would have the same strategical benefits as the USA and also access to the two biggest world oceans. That means that we could defend our countries, a lot of resources, raw materials, people, also clever people and that would be a big country. However, I do not see any politician who has such ideas and is ready to promote them. I understand that such a goal would be difficult to reach but that would be a good goal. The people from Russia are looking the same as in Austria. Princes from Austria married Russian princesses and vice versa.

Probably, in the veins of every Austrian flows a bit Russian blood and in the veins of Russians flows a bit of Austrian blood, too. It would be fantastic if we reduced together our negative aspects and multiplied and combined positive assets from both societies to create a better future.

If you look at the statistics of Austrian National Bank, the sum of Russian FDI in Austria is very high. I do not know what exactly is making this number. I know that the statistics could be tricky. For example, coal is traded through Austria. Austria is trading Russian coal. I do not know how this is counted in statistics. However, there are two classes of people who immigrated from Russia to Austria: people coming from Chechnya, who do not bring any economic performance but exactly the opposite: They just use a lot of social benefits and demand a lot of public resources in other spheres. The other group consists of Russians, who do not flee from anything, but are consciously looking for stability and calm, which they find in Austria. Such people show enormous economic results. It does not mean what these people are buying, a flat or consumer goods, they pay much above the average price, they choose the goods in a high segment. Such goods are more sustainable. By doing that they support a sustainable economy. Russian clients that I know, are not buying the cheapest goods in a supermarket under 1 euro but he or she will take the best in a line of products. They also do not take the cheapest tax advisor but the one who speaks several languages and also has a knowledge of other countries' tax systems. This is the same with attorneys, construction companies, car dealers. They are always looking for quality. They are always ready to pay and to pay more. They are definitely the group which is showing the highest economic performance. This is part of their culture. When they go to opera, they do not buy a place to stay. They also go often to concerts and not just once a year. These people are very interested in culture, they buy pieces of art, visit concerts, go to eat out where they are also very generous”.

4.2 GTAI Germany Trade and Invest – Senior Manager Investor Consulting – Liubov Markova

Liubov Markova is taking a position of senior manager investor consulting for 6 years and specializing in greenfield and brownfield investments from Russia into Germany.

1. „First of all, Germany is a big European market with great potential. Secondly, historical reasons play a role. Thirdly, numerous foreign companies take advantage of Germany's first-class infrastructure, outstanding scientific landscape, highly qualified personnel, and a central location in the heart of Europe. At the moment Germany has politics aiming on FDI attraction. The government suggests a range of business subsidies. In particular, in most of federal states

(with the exception of Berlin), the subsidy component of investments can be up to 40 percent, depending on the region and the size of the enterprise. Although Russian FDI is not having the highest volume (EU, US and Asian countries invest more than CIS), they are still an important investor for Germany. About 44 % of Russian investors prefer to invest in financial sector, services and energy sector. If we compare to other countries, the US is investing more in IT-sector.

2. Definitely a change in a currency exchange rate played a role in a volume of Russian outward FDI. Some types of businesses have suffered from it but some oriented on trade of goods even won from the rouble's depreciation. I have an example from furniture manufacturing industry where the rouble's depreciation made Russian goods competitive and such companies have opened many showrooms in Germany during 2014-2015.

3. I do not find that the number of Russian immigrants in Germany somehow played a role on a decision of FDI placement. The products Russian companies suggest in Germany are oriented not on Russians but on European consumers. This is why Russian language knowledge is not crucial. Such factor as a solvency of the German population is far more important than the number of Russian immigrants as potential employees.

4. I did not notice that a German language knowledge play a big role. English is a language that is spoken by many businessmen nowadays. Lack of German is definitely making some difficulties but most businessmen are intended to learn German or just find an interpreter. I have noticed that mostly English is chosen as a language for meetings and discussions. Probably German is causing just little difficulties for Russian investors till they do not master their German.

5. The cultural differences between German and Russian cultures are not what prevents from business between two countries. Most of the business partners already had some experience with companies from abroad. This is why I have not noticed any problems regarding that. Before investing in Germany most of the companies have already been ready for any difficulties. I think that the process of business opening in Germany is a way more structured than in Russia. This procedure may last a bit longer than expected but, on every step, it is clear how long it will take and what to do next.

6. A political stability of Russia plays a great role in decisions of companies to internationalise. On the one hand, the inner political situation is not changing. That means that the people making decisions are the same. On the other hand, Russian politics is motivating to find some other markets and to be present in other countries and in case of political change.

Speaking about the political stability of Germany – it is one of the most important advantages of this country.

7. German institutions are very clear and transparent. The most important thing is that it is clear for a foreign investor what is done where and how. This is the main achievement of German institutions. Speaking about tax rates – this is probably the only point that is not attractive for Russian investors in Germany.

8. I find that Russian institutions play a positive role in the volume of Russian FDI. There is a lot of support from Russian institutions to companies willing to internationalise. The government finds it important to have Russian global companies and to have more powerful developed Russian companies with a brand. Normally, the government is supporting the following scheme: firstly, export and then FDI and opening a representative office. Many organisations in Russia are helping to invest abroad such as „Skolkovo” and “Russian export center”.

9. I did not see a big influence of sanctions imposed on Russian outward FDI. I think that the situation in 2014 played a bigger role than the sanctions itself.

10. I do not foresee any changes for the next 2-3 years. IT sector may be developing even faster and as a result, more Russian IT companies go to Germany. There is already a range of Russian companies in a German market e.g. Kaspersky. Speaking about traditional MNCs especially in a governmental sector it is very likely to stay stable”.

4.3 Vienna Business Agency – International Business Consultant – Nikolai Rodimov

The interview was held with Nikolai Rodimov, who is responsible for international business in Vienna Business Agency.

1. “Austria, especially Vienna, is a place that attracts investments from all over the world. What is more, Austria attracts different types of investments including FDI. Even FDI you can differentiate. There are some businesses that open big productions with many facilities and there are some smaller businesses with a small office and two employees. There is a high competition for FDI in Europe and cities like Berlin, Munich, Warsaw and Bratislava are attractive. A logical question what are their advantages? The advantages of Bratislava are tax optimisation and easiness of receiving a residence permit. Berlin and Munich are good opportunities for entering a German-speaking market. It goes without saying that German

market is 10 times bigger than the Austrian one. Vienna, firstly, has a strategic significance. That means that opening a company firstly in Vienna and after that in some other European countries is sometimes a part of a European market penetration strategy. It has a „proper” jurisprudence, good image (which I would name a soft factor), high quality of life. Speaking about the last factor, for many investors it is important that the country, in which they invest and where they spend plenty of time, becomes their second place of life. Therefore, a range of international schools for their children and, other factors are making Vienna one of the best places to live, become a decisive factor to make FDI exactly in Austrian market.

An additional reason why so many Russian FDI land in Austria is a group of historical reasons. After World War II, the diplomatic corps of the Soviet Union was based in Vienna. De facto Austria was a European headquarter of the Soviet Union from 1945 till 1955. That was the reason why the Russian community in Vienna is so big nowadays. Nowadays there is a big Russian embassy in the heart of Vienna, a trade mission of Russia in Austria, many Russian companies and banks e.g. VTB has opened its office in Vienna in 1974. Even the establishment of OMV, which is nowadays a big Austria oil and gas company, was many years ago supported by the Soviet Union. 1968 was a historic year because OMV has signed the first gas import agreement in Europe. I remember that OMV was sometimes named „Sowjetische Mineralfabrik“. This agreement was signed between OMV and the Soviet Union. This agreement is still in practice. These companies and diplomatic representations caused a big Russian community in Austria. Furthermore, some CIS representatives are also participating in Russian events which makes the community even bigger and let it play a bigger role. The number of Russian immigrants in Austria is in the top-10 countries leaving a leading place only for Germans, Romanians, Turks and former Yugoslav countries. The combination of contacts and language shows in case of Austria the prevailing role over the economic parameters of Austria such as GDP. That fits into the framework of the networking theory. Finally, many companies open trade and sales departments and representations of their companies in Austria. Such companies having a role of a business multipliers and business conductors. It could be small departments, but they make a great income and play an important role for Russian companies entering a European market.

Last but not least reason why there is such a great number of outward Russian FDI in Austria is an important role of raw materials trading sector. As Russia is oriented on oil and gas export to its nearest neighbors, high numbers of Russian FDI are to expect.

2. An exchange rate is definitely playing a role. Due to the deprecation of rouble in the recent times, an exchange rate of euro to rouble was profitable for investments into Russian economy

and extremely unprofitable for Russian investors in Austria. I have seen a downturn in many fields of Russian-Austrian businesses. For example, the tourism sector has suffered a lot and there were noticeably fewer Russian tourists in Austria. It is clear that when everything is becoming more expensive, less tourists will be coming to Austria. I remember the days when 1 euro cost 40 roubles and 1 dollar 30 roubles. Just 2-3 months after 1 euro cost already 100 roubles. Such fluctuations are very high. Many businesses and individuals had automatically new priorities – not to go abroad but survive in a domestic market. Moreover, the budget is done for 1 year. When such exchange rate changes are happening within a few days, the business does not have time to adapt and change a strategy (e.g. diversify, find new business partners, etc.). It unavoidably bears losses. I believe that even if statistical parameters of Russian FDI into Austria in 2014-2015 are not so bad, it may be just a reason for finalising some big projects like Nord-Stream“.

3. Mr. Rodimov found the question of the number of Russian immigrants in Austria a very interesting one to discuss. He points out that the personnel is one of the most important questions for every multinational company going abroad. The other problem is that Russia has only around 220 big MNCs that are global players and that are going abroad.

Mr. Rodimov said: “The personnel is question number one for every MNCs because it is one of the keys to success. In case of Russian MNCs in Austria we see a paradox. On the other hand, such companies as Sberbank, Lukoil, Sibur, Gazprom and VTB Bank mostly invite specialists from Russian headquarters”.

As a support of this expert opinion I have checked career opportunities and a number of vacancies for the named companies. For example, on one of the most popular webpages for vacancies in Austria www.karriere.at, there are only 6 vacancies from Gazprom Austria GmbH since 30.05.2011 (Karriere.at, 2020) while the number of employees today is around 79 people. There are no career notices on the official webpage neither.

Mr. Rodimov added „on the other hand, Russian companies willing to have a representation in Austria or enter European market through Austria are looking for people knowing a European market and business well. It would mean that local personal and especially well-educated and experience Europeans are a better choice than Russian immigrants. What is more, not many Russian immigrants are having the necessary education and experience. Some of them have the only advantage over Europeans, which is a language knowledge. Furthermore, a necessity of Russian knowledge is not so high for all Russian companies in Austria. Sure, it makes some business processes faster but e.g. in IT sector or in a gastronomy sector a foreign language

knowledge almost does not make a difference. The only companies that I can think of where the Russian language is crucial are Aeroflot and Sibur but these are governmental companies and it is to await that Russian is important. I can name some Austrian companies that need Russian employees because of their knowledge e.g. LKW Walter Group. It is a logistical company where for communication many different languages are needed, and Russian is not an exception.

4. What I see in my work every day while communicating with Russian investors in Austria – they all have language difficulties and German is an additional barrier for their business in Austria. Without knowledge of German it is difficult to register a company or obtain a license. Definitely English language in Austria is very helpful. You can find some quality information on how to open a company in English, many notaries speak English, but for business in Austria German is essential. On the other hand, I find that understanding of business processes abroad is more relevant than a knowledge of a foreign language.

5. Definitely there is a cultural influence on business and on FDI, but it is already less than before. Some years ago a business relationship has started with a business trip to Russia or Ukraine and only after a long heart-to-heart conversation with vodka, Russian or Ukrainian investors have started to trust and thought of investments.

Austrian business world is a way to slow. It is a problem for an understanding of a Russian businessman. Exactly this cultural peculiarity may influence a decision negatively. However, I have noticed that in a business world cultural differences are becoming less noticeable than before. That has a positive influence on the volume of FDI. I can say that it is mostly difficult to organise a meeting with an Austrian the same week. You should message at least 1 week in advance. Speaking about Russians it is complicated to gain their trust fast. I can compare a Russian businessman with an iceberg – it “melts” (in a sense of becoming more open) with the time but slowly. This trust issue in Russians is mostly in older generation who has gone through many national changes in the past years.

6. Politics and political stability always play a role but there is no algorithm like „when the situation is not stable than FDI does not take a place or vice versa”. Russia always had to have a plan B or some alternative business partners to reduce the instability factor influence. What is more, every instability is finite as the economy is going through cycles. Then a political instability and its influence is also finite. For example, there have been World War I, World War II, the collapse of the Soviet Union. There will be always some occasions that make a situation unstable and uncertain, but I find that it is more important to look at long term

diplomatic relations between countries. The president of the Russian Federation has visited Austria twice in the year 2018. The second time in 2018 Putin came because of a wedding of an Austrian foreign affairs minister. This visit was widely covered in the press. Furthermore, there is a platform for Russian-Austrian dialogue called SochiDialogue where the first leaders of both states actively take part in. This has a meaning for FDI as well because many Russian investors know that they will be welcomed in Austria. Speaking about Austrian politics we also see that the country many times called for lifting sanctions from Russia. A vice-chancellor of Austria together with the most represented in the parliament Austrian party show loyalty to Russian entrepreneurs. Austria sees Russia as an important partner in several fields. It has many plants and production lines in Russia. As the territory of Russia is big and Russia has raw materials many companies have decided for relocation of production to Russia. Additionally, even when the EU imposes sanctions on Russia, there is no freeze of bilateral relations. That is a stability that investors are looking for. Finally, some Russian companies find it important that Austria is not a member of NATO. Especially crucial is that for governmental companies.

7. The level of development of Austrian institutions is important for FDI from Russia. Some new businesses find the Austrian system of business opening complicated and that is the reason why such organisations as Vienna Business Agency have been created. Russian businessmen receive here first business contacts e.g. contacts of attorneys and tax advisors. We also provide consultancy services in business opening.

8. The level of development of Russian institutions does not influence Russian business in Austria at all. There are core values such as property rights, rule of law, democratic values. These values are important for a business in every country. I find that Russian institutions are influencing only Austrian companies coming to Russia. For outward FDI only host country institutions are playing a role. What is more, speaking about institutions, I would like to mention that Austrian side is also highly oriented on a support of Russian entrepreneurship in Austria and commodity exchanges. For example, there is an Advantage Austria organisation which is situated in 3 Russian cities: Moscow, Sankt-Petersburg and Ekaterinburg. They provide free services and promoting joint Russian-Austrian business or Austrian business in Russia.

9. The sanctions have definitely a negative impact on FDI from Russia to Europe and to Austria in particular. We do not talk about complete stop of economic activity between Russia and Austria. Such important projects like Nord-Stream 2 will be finished in any case. However, many companies have less financial support due to the access restrictions to financial markets.

Some smaller companies suffer dramatically from less finance opportunities and a lack of access to new markets.

10. I see future of Russian FDI in Austria positively. 10 years ago that question would be difficult to answer. Today Russian economy is stable. Oligarchs fade into the background. Russia is a correct country to do business together at that very moment. There are more and more „self-made“ businessmen. IT sector is growing and invading Europe. Companies' scale is growing. There are more innovative Russian companies going to Austria now. Besides „import“ of IT sector, a sector of life science is growing. Life science is where Russia has still a competitive advantage and a “know-how”. There are a lot of Russian scientists in this sector and many companies and organisations in Russia are doing Research & Development (R&D).

Many Russian companies, whose entrance on an Austrian market, I support now, are planning to work from Austria in the whole European market. It is important to have a representation in EU but as there are free movements of goods and services and mostly euro currency, there are not so many reasons to open a representation in every single country of EU. Furthermore, new established companies in Russia are mostly planned to be global and internationalise from the beginning. This strategy difference is crucial for a prognosis of FDI. Modern Russian companies are not scared of German language, cultural differences, a complicated internal organisation of business abroad, they have a deep understanding of the world business processes, they are ready for challenges and are adapting fast to changing circumstances. Such new generation companies have advanced technologies, highly qualified staff and a sustainable business model. If you plan to export potatoes from Russia to Austria, it would be more difficult today than if you want to come with an IT-business. I could also name one example of a company that is planning to open an office in Vienna, which is Wildberries. Wildberries is the biggest online shop in Russia, which is growing very fast. They are already present in Belarus, Kazakhstan, Kyrgyzstan and Armenia. The company has entered a European market through Poland in January 2020 and is considering Austria as the next destination. Speaking about Russian IT sector most innovative companies that will be soon known worldwide, they are Yandex, Mail.ru, and Telegram”.

4.4 Austrian Business Agency – Business consultant – Peter Ch. Löschl

Peter Ch. Löschl has over 50 years of experience in the international business sector. He has lived in several countries abroad, working for Austrian companies and has also visited Russia many times for business meetings.

1. Regarding the main reasons why so many Russian companies and individuals decide to do FDI exactly to Austria Peter Ch. Löschl, who is an international adviser in Austrian Business Agency, named two of them: historical reasons and Austrian economic politics.

“When we analyse the statistical data from the last 3 years, we see that 10 % of all Russian FDI are landing in Austria. According to the official numbers 23,000 Russians are living in Austria and that is only an official statistic. The actual number is expected to be even higher. Russian companies that have been one of the first to come to Austria like VTB Bank, Sberbank, Lukoil had shown a successful example for the others.

There are more than 300,000 students in Austria. Speaking about the number of foreigners in Austria, of course, the highest number is coming from Germany. Over 20 % of the population of Austria have a migration background. The representation of Russian immigrants in Austria is also significant.

It is important that Austria has a long-term goal to improve a quality of life. For example, when we compare how Vienna looked like 40 years ago with today's Vienna than we see a big difference. 40 years ago, to go through the night city at around 9 p.m. was dangerous. The city was very dark. Nowadays the situation has improved.

After World War II according to the Peace agreement of 1945 Austria and Germany have been divided into four parts that have been controlled by France, England, the USA and the Soviet Union. In 1955 Austria have proclaimed an eternal peace. Because of that, it is not participating in any military blocks like NATO. This is the first and main reason for Austrian attractiveness for Russian FDI.

The second reason is a strategic economic politics of Austria. Austria has 55 universities in a country, whose population is around 8 million people. This is obviously too much for its own population. Therefore, the country has a plan to attract young international students to the country.

Additionally, first positive experiences like Gas Hub of Gazprom at the border with Slovakia and close to the Check Republic has shown the way to many other companies and individuals from Russia. Such companies and organisations like VTB Bank, Sibur and Lukoil have followed a successful example.

Moreover, Vienna has a very high quality of life. I would not say that it is the number one because the positioning always depends on the criteria.

Three elements are important for being an attractive place for investment: education, culture and predictability. Under predictability I mean safety, stable system and confidence that the conditions of business will stay the same even in 5 years.

2. When the countries are using the same currency like some countries of the EU than the currency exchange, of course, does not play any role. The question about currency purely depends on statistics and finance. The situation of rouble's depreciation in 2014-2015 had worsened the situation of Austrian FDI in Russia and not vice versa. For example, Raiffeisen, which is the biggest FDI of Austria in Russia, had financial losses. Lukoil representation in Austria even approached a depreciation of rouble and made a return over 10 million euros in a year 2014.

Furthermore, statistic data can be very misleading. For example, the Netherlands is a very attractive place for investment and MNCs. However, many companies based there are not really economically active at a place where they are registered. They just approach good economic conditions that the country suggests. When we look at Russian FDI into Austria, it is another story. There are even some production locations which testify that there are „real” operations. A good example is a Metadynea (in Russia known as Metafrax) which is a Russian chemical production based in Krems (Lower Austria) and has ca. 200 employees. Certainly, there are many Russian Holdings with a large number of people like Lukoil with over 50-60 employees, Sibur with around 150 employees.

3. Personnel plays an important role. Every MNC doing an FDI needs qualified people to work there. However, if we look at statistics of the Austrian National Bank, only XXX employees are working in the Russian FDI sector while Russia is the second biggest investor in Austria after Germany. It is probably not so important for Russian companies in Austria to have a great choice of Russian immigrants, qualified for working in their representations. However, the fact of having qualified potential employees at hand is making many things easier.

4. The official language of the country is becoming less and less important. When you speak English in Austria than you will feel good doing business here. Now you can even submit an annual balance sheet in English. This is done for a facilitation of work, first of all, of big holdings, where part of the documentation is done only in English and some employees do not speak German. However, when it comes to Austrian authorities than German is highly important. As some of the employees of Austrian authorities are older, they do not necessarily speak English or sometimes even if they do, the level may be not high enough for a conversation discussing complicated aspects. Foreigners, expatriates, international students normally learn

German till a good level after 3-4 years of stay in Austria. Elderly people may have some difficulties learning the language. Most of them come with their children for the purpose of translation. As I have observed in case of FDI English is often chosen as a language of business communication. Actually, nowadays the choice of language does not play a very big role in FDI decisions. Any language you choose for business communication, the communication must be not confusing.

It is also good that most of the foreigners I have worked with are showing a great desire to learn the local language. Most reporting laws and requirements are still to be completed in German.

Austria tries to make a language a smaller barrier e.g. our organisation ABA suggests free services in different languages including Russian. Many companies and organisations are using two languages – German and English.

However, I have to admit that, unfortunately, some authorities in Austria are working only in German and may not understand you when you do not speak German.

5. Culture is not so easy aspect as we may first think. In the previous generation, let us say 30 years ago, the cultural difference was bigger than now. I had a story in 1990 in Russia where was like in an anecdote - one bottle of Vodka and two glasses in order to establish business relations. This difference was really to feel. Nowadays the situation has changed completely. Young people today are well prepared for international business thanks to international internships and exchange programmes. They are practical, rational, logical. With such attitude cultural differences are not really a barrier for FDI anymore.

All roads lead to Rome. Nowadays many approaches are leading to successful cooperation. The communication is more open than before. You can talk about everything. The people are more flexible.

The elder generation had more red tape. I cannot define that only Russia or Austria had that. Every country had a red tape. Speaking about culture of Russians, I would say it definitely does not play a negative role in FDI. Although the country is really big, you do not feel cultural differences. It goes without saying that people in Moscow are a bit different than in the rest of Russia, but it happens to many capital cities around the world. I have been in many Russian cities e.g. Moscow, Sankt-Petersburg, Kazan, Ekaterinburg, Novosibirsk, Vladivostok. And from Sankt-Petersburg to Vladivostok, in such a huge territory I did not feel the difference in culture or attitude. When we compare business with China it is more difficult. Russians and Austrians share pretty similar cultures I would say. If we look at the geographic location and

see where Vladivostok and China are. Vladivostok is further to Austria than to China but in terms of culture, it is much closer.

6. Yes, political stability plays a role in FDI flow, but this role is not so significant. I do not see Russian FDI in Austria as an action of “money saving”. When Russian money is invested in the British Virgin Islands or Cyprus or other offshore zones, it is clearly considered a “money saving action” then. According to the statistics provided by the WIFO (Austrian Institute of Economic Research) I have seen that Austria has the 4th position in Russian FDI after Cyprus, British Virgin Islands and the Netherlands. Many MNCs transfer returns through the Netherlands in order to avoid taxation in other jurisdictions. Therefore, Austria is the first country in the list that receives Russian outward FDI for a business purpose.

Regarding the political stability of Austria, I would like to highlight that an Austrian constitution is a guarantee of Austrian stability. Even during the last government crisis in May 2019, the constitution has an exact procedure what to do. What is more, the state has followed exactly this procedure. Such inner political changes did not influence FDI at all. Certainly, the political parties’ representation in the parliament is changing depending on the political preferences of the voters but a high priority of education and research in a budget allocation stays the same. Every year the second position in Austria budget is research. About 3.9 % of GDP is spent on research and innovation. In the 1995-1997 most foreigners were coming to Austria because they could suggest a cheap low qualified labour. Today immigrants coming to work are highly qualified specialists.

What is more, Russian MNCs in Austria are very active in research. For example, Lukoil tightly collaborates with Leoben University. There is a joint master programme of National Research University Higher School of Economics (Russia) and University of Applied Science FH Technikum Wien (Austria).

Austria is a bridge to new markets for such Russian companies as Gazprom, Lukoil, Sibur. The above-mentioned companies have big trade departments in Vienna.

Furthermore, Austria even has a Council for Research and Technology Development that functions as an advisory body for the government.

Additionally, international companies would be always welcome by any government in Austria. About 50 % of all research done in Austria is conducted by MNCs. There was even an Austrian Research Promotion Agency (abbreviation in German: FFG) created.

Unfortunately, Austria has started the promotion and creation of good start-up conditions only 5 years ago. After that such companies as Wexelerate have appeared and Austrian Wirtschaftsservice (AWS) has been created. Such places as Germany and Israel are having more start-ups now only because they have started before. Nowadays start-ups in Austria can also receive a sponsorship. There are different programmes to receive one. What is more, such tendency as „A+B“, which stands for Academia + Business, is growing. In other words, the companies are looking for partnerships with universities and are ready to collaborate. One of further steps in this direction was a regulation for MNCs to receive around 14 % of their spending on R&D from the Austrian government back.

7. I think that two most important aspects for business development in every country are the protection of intellectual rights and the rule of law. By investing a lot of time and money in something, you want to be sure that you are protected, and your product idea will not be stolen. For international investors it is especially important to have equal rights and know that they are protected by law.

8. The level of development of Russian institutions does not influence the flow of Russian FDI in Austria. It is only relevant for Austrian companies willing to invest in Russia. It could be sometimes though that for private Russian capital (families) this could be a factor as they could be trying to “save their capital“ by investing abroad. However, I do not think that any investment of Russia to Austria is a fly of capital. When people want just to save money, they invest in offshore zones. There are fewer regulations than in Austria.

When I have seen Austrian companies going to Russia, they had feedback that Russian authorities are working according to the international standards and rules. In some questions the regulations for international investors in Austria are similar to those Russia has.

9. I find sanctions played a negative role. The business between Russia and Austria did not stop but the volume of FDI from Russia has dropped. Russian investors have started to watch cautiously on the EU as a place for an investment mostly because many decide to wait for the next decisions of the EU and postpone their investments for some time. I really hope that the situation will improve soon, and we can receive once again more investments from Russia.

10. I think that Austria will still stay an attractive place for private investors from Russia. The quality of life that Austria has reached would not disappear in a while. Austria will be as before seen as a springboard for further investments in Europe. The quality of goods and services Austria suggest is high and it will keep attracting investors. Russia has a lot of capital and will

keep being one of the biggest and most important investors worldwide. All in all, I expect that the numbers of FDI will stay on average the same or we see a slight growth.“

4.5 Pallas Capital Investment Banking – Board of management – Dr. Florian Koschat

Dr. Florian Koschat is an Austrian private banker, Vice President of the Anglo-Irish Bank, was responsible for Russia and the regional intergovernmental organisations in CIS. He is now the CEO of Pallas Capital.

1. „It is a legal situation, legal stability, generally stability of the markets, it is the fact that Russian investors trust more Central European countries because of their legal system, because of how states are organized, etc. I think that is the most important thing and, of course, they would like to diversify because Russia is high risk and Central Europe let us say medium risk and you have also the possibility to diversify currencies, euro and Russian rouble. These are the most important factors causing Russian FDI to come to Austria.

2. Definitely, currency exchange rates play an important role. There are special business models which earn or lose money depending on the difference of the currencies and as I have said before I think it is an important point for investors coming from a non-stable currency-based country like Russia or China. They have the wish to invest in a stable country currency.

It is also important to diversify – you have the money of the companies themselves. The liquidity of Russian companies is not that big but although there are some companies which are still very under evaluated like also state-owned companies and on the other side you have second model where the Russian companies also have European business lines. We have seen in the past that they have two lines of business: they have the official line in Russia like for operations and they have the second line, for example, for the trading opportunities in Europe. So, they have a lot of money in Europe already. For my understanding they invest a lot from this already opened European sources.

3. It is a general effect. If you look at Vienna, we have all big Russian companies here: Sberbank, VTB Bank, Lukoil, Gazprom. Everyone is here. Of course, a lot of Russians are working there, even Russians who are living in Vienna or in Austria. I think, of course, this is a factor. I think even the Austrian economy should be very happy to get young people from Russia because as I know the Russian culture, these are very smart and open-minded people. We also employ people from Russia, and we are very happy because a lot of young people from a lot of nations a very well educated and motivated. Let us say motivated in terms of making a

good career, building the life here in Europe. I think it is very good. You should be proud of having some of such people in your company.

4. A language barrier is definitely a problem. It is also a big problem because the main Russian business leaders of Russia, which I know, they do not really speak a good English. This could also be explained historically because in the schools English was not a focus. If you meet a 50-60 years businessman, running a big operation, where you see a lot of potential for the Austrian market you find out that this guy is not speaking English well. Austrians are not usually speaking Russian, except me, so you have to work with translators. But it is a very personal thing “to invest”. You need to talk face-to-face, looking into each other eyes and make a deal. Money is always a very personal thing. And it is, of course, always difficult when you cannot look into each other eyes because there are two translators, which are not even translating correctly. This is a big problem. But it is getting better now. A new generation is speaking English very well. Old guys are trying to communicate in English.

In my experience it was always a big advantage that I am from Austria and have learned Russian, which means that I am one of them, I was able to drink vodka with them, to go to banya (a Russian type of sauna) with them. I could build a personal relationship, which is very important if you do a big deal. Here I would say Russians are different because they love to have this personal relationship. Austrians are a little bit colder like the Germans. You make a deal; you may be having a short dinner and that is it. And Russians like to party the whole weekend in order to know you a bit better. Which is a good factor, but Austrians are not used to it and if you want to spend with someone the whole weekends you need to understand each other. You cannot go to banya with a translator. Of course, you can but it is not that much fun. This is the difference. Now the business is done in English. Which is sometimes very-very difficult for both sides because even Austrians are not always good in English to discuss complex terms in economy wise.

5. I think it is not really the culture, it is how people are used to do business. For example, a lot of businessmen from Russia they tell me “Oh, my God. You have here in real estate 3 % yield and in Moscow we used to have 10 % yield”. But if you look where Russian markets come from, it is logical because it is not a developed market and, of course, yields are higher but also risks are higher and also the political risks are higher and the currency risks. So, it is not really the culture itself. It is what people are used to how it worked the last 30-40 years. They have to get used to our system. Our system is 100 % developed. So, yields are down. But, on the other hand, you will get stability. This is always a question where investors have always to make a decision. More high risk or more stability.

Another is this compliance issue because a lot of Russians are not able to declare 100 % where their money is coming from. This is definitely an issue. This is also an issue that is linked to the past of the country. A lot of businessmen were afraid. They had three different sources of spread of their income, not showing the income because they do not trust into the government. It is like historically ground. Now they face the problem that they cannot 100 % show where is the money is coming from. That is why a lot of European banks are blocking them because you cannot tell me where are your 100 million are exactly coming from and where did you pay taxes. We will not allow to even open a bank account. We will block you and you will not even get financing from us. So, this is I would say historically driven. But a lot of smart businessmen know that business is somewhat where you always need to adapt. You need to be flexible all the time because you always get new regulations in Austria and in Russia, everywhere. As a good businessman you just need to adapt yourself.

6. It is difficult for me to comment on a single political system because every country has its political system and you need to respect it. I am not Russian, so I need to respect their system. This is also a very important thing for me. As well as I expect from a Russian guy, respecting our political system even though I am not sometimes satisfied with our political system. But it is what it is. Of course, every political system affects business, especially in countries where the politics still have a lot of influence in the business sector. What we saw in the last years, I think you will agree with this, Russian politics are taking again more influence into the business. So, of course, the business will react – either in a good or a positive way. But yes, politics, definitely affects the business a lot.

The word „instability” has to be discussed carefully because if you look at other countries, Russia has a presidency so many years, almost 20 years, which I would say in a way stable. You have a stable leadership. Okay, one can say it is not a good leadership or it is a bad leadership or whatever, but you have a stable leadership. If you look at our country (Austria), what has happened the last even two years, no one can say it is stable. It goes up and down every day. So, Russia is stable at least for businesses. For a business it is important that you have someone and you know what his opinion is. From this side, I would say it is rather stable, from my point of view. Because you know with whom to deal with. If you look at other countries, where the politicians are changing every two years, you do not even know who are the new guys coming, they implement new ideas, a new system. They put also their family members into the government. You do not know what they want and where they want to go. The second thing how Russia looks like in an international business sphere. You know, a lot of people are not happy with an American government but as a fact, they have this president and

what to do. You need to deal with this. So, this is a little bit more the question of how other countries react on the Russian politics and for Austria, I think it is still a very good situation because Russia and Austria have always a good relationship even after World War II. It was always a good friendship with a lot of respect and, of course, you must respect the culture, the politics and where the country comes from. But I think the basis for a friendship and investments between Austria and Russia is still very good.

7. In the last years this over-regulation is generally very difficult, even for us, even for Austrian businessmen to open a company, a bank account is also not that easy anymore. But this is general over-regulation: compliance, KYC and so on. It is getting for everyone tougher and tougher. On the other hand, the company will say it is getting difficult, but it is difficult in the beginning. But it is getting easier because I have legalised everything and I work in a clear and a transparent environment which is good for getting bank loans, which is good for getting investment opportunities. So, it is always a plus and minus where you have to look at pros and cons.

8. This particular case you have mentioned this Ibiza scandal is very interesting because also a Russian language played a role there. I think it was not good for the relationship and for the general image. But in fact, business guys who are running big operations, they understand that it is not a big issue. But still, for Austria it is important to have a stable leadership. Business wants to trust in the government invest here, in this location, that in the next 10 years I can do my business here, I will pay my taxes, but I can be sure that my taxes won't be higher every day. I want to invest, I want to employ, I want also to have my fights as an investor. I don't want to see that I fight every day and investing every day but only the rights of employees are protected and the rights of the government but also my rights. This is very important for the government to protect the right of the investor. It is very good we have people who still believe in a country and invest. Investing is very important for that small and medium size businesses which are dominating in Austria. They pay the highest percentage of taxes. So, the Austrian government should be very proud of this sector. It is also the worst protected sector.

8. I think that the level of development of Russian institutions does not play a role because you have a lot of brands let us say using both markets e.g. like big brands and also small business guys are getting a lot of ideas from Austria and then implement them in Russia again. For example, you know this big furniture company Hof. A very good friend of mine, who has organised it, looked a lot and analysed a lot how the work in Austria and he took a lot of ideas to Russia then. He also buys some things from Austria. He has his own companies here in Austria. I think this is a good synergy.

9. Personally for me after the sanctions the business has gone down dramatically and as for now, we have almost 0 deals. It has nearly stopped. It is a drama I would say because of the general economic situation and I would also say it is a psychological situation because the Russian is a very proud person of himself and if a Russian person understands that he is not welcome anymore just psychologically he will not invest anymore and from my point, this is a very dangerous scenario because we have the sanctions and you have a personal factor which let definitely in my point of view to nearly zero investment.

Of course, there are some sectors that are less touched by the sanctions but these are state-owned and they anyway find a way but it is more difficult, it takes longer to find the way how to invest, it costs more money. So, the costs of an investment are higher because you need more advisors, difficult structures, etc. and sometimes people will make the decision „I will not do it because it is so much pain for me at the moment“. It is too expensive, it is too dangerous, and it takes too much of my time. These are also opportunity costs and costs of this psychological factor that I have mentioned already.

10. I would wish that they would grow but at the moment I see no growth from my perspective because of all these difficulties we discussed already (sanctions, compliance and so on). But I think the Russians are very quick in developing and adapting themselves to new systems. When you, for example, think of digital banking system. Even 10 years ago the Russian guy would get an SMS on his mobile phone that he has paid with the credit card. This system was implemented later here in Europe, for example. In some digital systems Russian, even social media. It is much more developed in Russia than in Europe. In Russia a lot of business is going through Instagram. In Austria nearly no one is using it. So, the Russians are developing very-very fast. I trust in them that they are going to develop and adapt to these new regulations, sanctions, compliance and whatever to run a business in a different way. They will adapt very-very fast. One time they will be better in that even than we are because this is the nature that I have seen. I wish that they would do it as soon as possible because that would be good for our business as well. Because of the mentioned factors I focus now on a Central European market as I cannot put too much resources and money where I see that there are difficulties.

I am a fan of the European market itself. I think when you are talking about European market you have to include Russia and CIS. It is logical. The same culture, we talk, we understand each other, we have similar traditions. When I talk about traditions you have pelmeni, we have Käsenudeln, you have holodets, we have Aspik. We have lots of things in common and this is why it has to be one market, in my view. I think everyone should fight for this because it is very important. And also business guys sometimes here in discussions is a sport because sport is

important. It connects people and friendships and countries. I would say business is even more important because also business connects people, friendship, brings countries together. Everyone should fight for this on his level. To bring these cultures together. I would love to see the market „Europe“ and also Russia and Europe growing together again. ”

4.6 Consulate General of Germany in Ekaterinburg – Economic attaché – Sebastian Reinhold

Sebastian Reinhold is a German diplomat who lived in Russia for 5 years and was responsible for economics.

1. “There are many reasons why so many investors and not only Russians want to invest in Germany:

1.1 I think that Russia-Germany is a good combination: Russia has a lot of raw materials and Germany has a lot of experience in processing it.

1.2 Germany is a knowledge economy and has a know-how in many fields. Many investors want to profit from the knowledge transfer.

1.3 German companies have a good reputation worldwide. This is why so many companies from abroad want to work with Germany.

1.4 Investment in Germany is also an investment in the EU. EU is a single market, many countries have the same currency, the EU is a huge market of over 500 million people.

1.5 Germany has an effective public management system. This system is also transparent.

1.6 Infrastructure of Germany is on a high level. There are also some things to improve in German infrastructure, e.g. the quality of internet and internet coverage, but this is on what Germany is working now.

The above-mentioned reasons are more relevant for companies and for individual investors from Russia, I find the stability of currency and willingness to diversify more important. I have seen that some individual investors are also trying absolutely new businesses in Germany such as tourism. By doing that they diversify not only currency and country risks but also sphere risks.

2. It is difficult to say whether a currency exchange rate by itself is crucial for the placement of Russian FDI. It highly depends on the company in question and their business model. When you have expenditures in rouble and income in euro than an exchange rate was favourable during the last years. I think that governmental companies trading oil and gas did not suffer

from the rouble's depreciation. I know about German companies during the period from 2014. When rouble depreciated many German companies have considered Russia as a good place of production because it was cheap to establish a plant in Russia, relatively close to Germany, the quality of work is high and the wage rate is low, Russia is a good place for further export to the Eurasian Economic Union and Central Asia. I have seen a record in a number of FDI from Germany to Russian in the period from 2016 till 2018. The volume of FDI from Germany to Russia in years 2014-2015 is not that high, firstly, it takes time to relocate your production line and, secondly, the country was not politically stable during these years.

3. A large number of Russian immigrants is not really a factor for a placement of Russian FDI in Germany. It could play some role, but it would be reason number 10-12. It is important to understand that when Russia is considering doing business in CIS countries then Russian immigrants are a factor to invest and, speaking about Germany, it is anyway a foreign country with a completely different language and law system.

4. It is difficult to find a German speaking Russian. This is why most of communication is done in German or English. I have seen that when it is the level of investors, they speak English between each other and avoid the help of interpreters. When it is middle-management level and there is a discussion of details and implementation ways than a help of interpreters mostly needed. It is not difficult to find Russia-German and German-Russian interpreters as many Russians learned German even at school and after that in the university. I also see that after a business relation has been established, Russians are trying to learn German.

When we talk about the role of language role for communication with German authorities like tax office or land registry than German is essential. The first information is sometimes explained in English, but details are always in German. We have some laws translated into English but those are just some of the most important ones. Answering the question, I would say that German language plays a role in a placement of Russian FDI but it not that some Russian investors would decide against investing in Germany because of the language. When you invest abroad, you look at other parameters first and only after that on a language in case when the language is not too complicated like Arabic or Chinese. However, a foreign language will always mean additional time, money, effort.

5. I find that cultural differences between Russians and German exist and influence the decision of FDI placement in a positive way. It is important to see the difference between culture and mentality. Germans are seen by Russians as people whom they can trust, as people on whom they can rely on and as people, who are well organised. Whether it is just stereotyped, or it is

still true, I do not know, but such an image of Germans is still there. Russians are seen by Germans as people whom you can trust, as people who are hospitable and as people who can improvise well. Russia and Germany have a long common history and relations last already many centuries. There have been ups and downs in the relations but there was always a dialogue, which is extremely important.

6. Russia is a rather stable country in comparison to others, but it has room for improvement in this field. In comparison to the times 20 years ago, the political situation is not preventing from making FDI to Germany. When Russian politicians are in favour of a decision, everything in Russia works fast, effectively and on a high level. FDI is on the list of interests of the government as the government wants to be present on a global arena. Political stability is always beneficial. However, I do not see a direct influence of a Russian political situation on FDI in Germany. There is an indirect influence. When a political situation in a country is stable, then for inland companies it is easier to accumulate capital for further investments abroad. If it had been more stable in a private business sector in Russia, I assume that less businessmen had invested in Germany. I think that political manoeuvres of the Russian government are making businessmen to consider other opportunities abroad.

Germany is a politically stable country. The Russians do not notice the party changes in German politics. I do not think that they even know some German parties. They know that the situation is stable and that is enough. For Russian money Germany is a safe haven.

7. Sure, the institutions in Germany are a part of stability. You can rely on work of institutions in Germany. Speaking about the tax system in Germany, it is rather complicated. I find it even more complicated than in Austria. What is more, the tax rate is not the most attractive thing for a foreign investor. This is a small minus in Germany. I find that the efficient work of your authorities is what can attract FDI. All the authorities in Germany are working according to the law. Nevertheless, Russians sometimes not understand the principles of the work of our authorities and the way they must apply law. It is only because it is complicated and very different from the Russian one. In Germany court decisions do not depend on politics as they often do in Russia. I have personally visited some court procedures in Russia and have seen that difference to Germany. Although the German system is complicated, after some time Russian investors start to understand how it works and then can only profit from it.

8. I do not think that the level of development of Russian institutions has an influence on FDI in Germany. Russian companies are already accustomed to work with Russian institutions. It is not possible to run a big company in any country when you do not know how your institutions

work. Normally the companies who expand to Germany are big ones and have many years of experience in Russia.

9. The sanctions imposed on Russia due to the Crimea situation are not what is turned to be a barrier for FDI in an economic sense as it was intended to be done. It is not an economic measure. It is a sociological and psychological one. Instead of economic effect, we see a great loss of trust. Both German and Russian businessmen have to look for alternative partners. Once new partners are found, it might become a lasting collaboration. Even after the abolishment of sanctions, not so many investors will so easily switch to Germany once again. The trust is like a big ship moving on a high speed – you cannot break it fast and you cannot accelerate it quickly neither. Trust would be very difficult to restore. I see that sanctions are another level of punishing political misbehavior, but definitely not the smartest reaction of EU on the Crimea.

10. I think that the level of Russian FDI in Germany will most probably stay the same. Germany is a member of the EU. Russia does not have a good image among most Eastern European countries and is focusing on a collaboration with Western Europe. This is, unfortunately, not the right strategy for Russia. Eastern European countries are taking part in all the EU discussions and also have votes that at the moment are not in favour of Russia. I see a need for improvement of relations between Russia and Eastern Europe. I think that the politics will be a factor changing the situation with FDI. A lot will depend on the way how the collaboration of the EU and the USA will develop and, on the way, how the collaboration of Russia and China will go on. The better these two lines of collaboration develop, the less is the probability of growth of Russian outward FDI into Germany. What is good for Germany, private investors from Russia would most probably keep investing in Germany regardless the political situation. Germany has a higher life standard; it is closer to big Russian cities like Moscow. I find it challenging for Russians to understand the structure of the EU. Germany is still seen by Russians as an individual partner, collaboration with which they enjoy. I think that the relations and intensity of business collaboration between Germany and Russia could be better. I am happy that such important projects as Nord Stream-1 have been finished. They increase the trust between societies. With every successfully finished project that is well-known, the willingness to collaborate is growing. I believe that it all starts with the politics. If political relations are good then economic relations are developing as well, then we will see a cultural exchange is increasing and after that comes society showing support.“

4.7 Chamber of Commerce and Industry of the Russian Federation in Germany – Head of the Representation – Dr. Sergey M. Nikitin

Dr. Sergey M. Nikitin is a trade representative of Russian Federation in Germany for over 20 years.

1. “The main reasons why so many investments from Russia are landing in Germany are good conditions for business, good platform, qualified personal, contacts, legal protection, necessary components of production such as infrastructure, network.

2. I think when an exchange rate has started to change dramatically for Russians, many Russian businessmen wanted to invest somewhere abroad but they did not know in what and how. During 2014-2015 many have said that they want to invest between 2 and 10 million euros in something in Germany. This is a tendency of many Russian businessmen to “save the rest”. On the one hand, we see that when an exchange rate is not favourable for Russians some businessmen with a clear understanding of their business and in what they want to invest may abstain from an investment abroad. On the other hand, during those times there are more businessmen, who are willing to “save” their capital by investing abroad. This is why I think on average we cannot observe any influence of an exchange rate on the FDI from Russia to Germany as a decrease in investment activity of one group of businessmen is happening synchronously with an increase of investment activity of the other group.

Additionally, I cannot say that it is a classical capital flight as it used to be some years ago. Now businessmen look at the worsening of the situation rationally. They want to reduce risks during an exchange rate fluctuation by diversification. Having a global network, the businessmen are less vulnerable to crisis. Isolation nowadays is a higher risk than diversification of markets. Today it is also easier to invest abroad, and it is not seen like something extraordinary. When a business is not connected to the global network and is so called “isolated”, it is difficult to speak about its’ resistance against crises.

3. The number of Russian immigrants in Germany is not playing any role in a placement of FDI. It could be an advantage for a Russian company in Germany that there are many Russian speaking professionals in a country already, but at a stage of choosing a country to invest in, it is not relevant. I have also noticed that some Russian owners of business in Russia even try to speak only German in Germany. Sometimes they still do not understand German, but this is a sign of orientation on integration and unwillingness to surround themselves only with Russian speaking personal. Choosing German speaking colleagues, Russian businessmen also show distance in a way. Moreover, many Russian managers even find it better to hire Germans in Germany for the qualifications they possess.

4. When you decide to invest abroad, you understand that you will have to deal with a foreign language. Whether it will be German or some other one, is not so important. Great Britain is definitely more attractive because of English, but I do not see that investors decide against FDI placement because of the language barrier. Most of the bureaucratic steps in Germany are done in German but when it comes to business communication, English is more than enough. I have noticed that some Germans are even happy to work in English. By doing that they show their internationality. Germany is the second country in the world in a number of exports. I have seen that for the first contacts and business meetings English is mostly used. It is not a native language for both sides and nobody is feeling disadvantaged. German is rarely chosen for meetings, but Russian investors try to learn German.

5. I do not see cultural differences in a business between Russians and Germans. I see only some peculiarities. Germans are more objective in discussions. Russians are applying more fantasies. They find it extremely important that a business partner respects them.

The legal regulations of business in Germany has the same principles as in Russia because German law system was sometimes used as an example by creating a Russian one. Russians having production in Germany think that they have the same prices for Russian products produced in Germany as German ones. Normally, a new foreign product is seen sceptically and a penetration marketing strategy of suggesting a lower price is a good motivation to try a new product. However, Russian businessmen are thinking „we are not worse than Germans“ and leave the same price as German manufactures. The productivity during manufacturing is not as high as in German plants at least for the first time. This price example shows that Russian businessmen sometimes are making decisions not because of the rationality but because of their “proudness” which a cultural peculiarity. The better decision would be to adapt maximally to the market and learn from the best experiences in a new country.

6. Russia is a politically very stable country. However, the question is probably not only about stability. When your company is very prosperous and known, you plan to internationalise. In Russia may be dangerous to show that your company is doing well. It is better to hide it otherwise you may have too many authority checkups and even fines. This is why internationalisation of a Russian company is seen an important logical step in order to save the business and reduce the risks of growing in Russia. When an entrepreneur is successful abroad, his business in Russia is also profiting from it. An international company has another status in Russia and is better legally protected. Additionally, when you have been successful abroad, it is a signal to Russian stakeholders that you are a serious player.

Interesting is that when Russian investors come to Germany, they keep hiding their activity as they are afraid of competitors and that other German partner-companies would have a negative attitude towards Russians managed plant in Germany.

7. The level of development of German institutions is definitely very high. To say that it only helps international investors would be wrong. What I notice is overregulation tendency that makes new investors extremely difficult to come to Germany. German regulations are very logical and consecutive. However, sometimes their structure and the way they function are complicated. It means that institutions in Germany is what can both time attract investors and repel them. Positive aspects of investing in Germany area are a great number of subsidies, free of charge consultancy help of the governmental structures. Negative aspects of investing in Germany are scepticism to the foreign capital and as a result difficulty in opening an account. Banks normally do not believe that capital from abroad was legally accumulated. Some companies from abroad do not manage to open a bank account in Germany and that basically means the end of business relations in Germany. I have noticed that despite difficulties with banks, some investors still manage to explain the origin of money by providing a few documents and after that the attitude of German authorities is changing. My biggest advice for Russian investors is overcome first difficulties and after that enjoy the rule of law and high level of organisation of Germany. German institutions give an exact frame how to act and when you match this frame, you do not have any problems. If you know how to be in a frame and manage it, then German intuitions is a positive thing.

For Germans I would advise to reduce the number of requirements. First meetings of Russian and German businessmen should also be more informal. For some projects it is good not to feel of requirements frame pressure. We should promote direct partners communication and not through a government. I also see that Germans have a “systematic” way of thinking that may push away investors.

8. The level of development and Russian institutions are influencing Russian outward FDI. Russian institutions give a support for potential companies willing to invest in Germany. I would characterise Russian institutions in a sphere of company internationalisation as not so effective. Unfortunately, they suggest only some help. They are useful for receiving first information and contacts. Russian institutions suggest free consulting services that are too theoretic and far from reality. That makes their help not so useful. The companies need to make the bridge between Russian and Germany on their own. It is easier to build that bridge when you know theoretically how to do it but that is not always enough. I give you an example. Russian institutions are suggesting free advertisements (they basically pay for your marketing

campaign) for Russian companies willing to go abroad. However, when you start to read the rules of such advertisements, you notice that they are not possible to implement e.g. you need to have at least 1000 characters on your billboard that are retelling of your company. Lots of small characters are making potential customers even more sceptical and you receive a reverse effect – loss of trust of your potential customers. An advertisement of Aeroflot with a young stewardess with just a few words has a better effect than an advertisement sponsored by the government. Only 10 % of companies, who may need such support, will try to receive it. In Germany the percentage of application of governmental help is already around 20 %.

Moreover, Russian institutions are characterised by bureaucracy. Bureaucracy is common for all countries. It is seen when you apply for a support and then when you finally receive it, you need to provide a lot of reporting. Many businesses just decide to save their time and pay from their own budget. As I have said not everything is so negative. I appreciate a great opportunity and help provided by the Russian government for Russian companies thinking of participation in exhibitions. Definitely some companies not using exhibitions to the full capacity. They do not find necessary contacts there and are not prepared for exhibitions well. Then it is a waste of money for the government. I have looked through statistics and have observed that thanks to the help of the governmental structures, 30 % more of the companies decide to take part in an exhibition. About a half of such trips end up with FDI to Germany. I think that it is a good indicator of effectiveness. I also personally know companies which successfully used this way to become present in Germany. I could only hope that Russian government will facilitate reporting system because reporting is what kills all creative endeavours.

9. Sanctions are almost not working against Russian companies willing to do FDI in Germany. Russians are not noticing sanctions. However, with Germans the situation is different. Germans are very attentive to sanctions. They fear that active collaboration with Russian companies after sanctioning will result in a negative image even though they do not violate sanction rules. The number of goods under sanctions is not so high. What is more, it is stupid to await that sanctions will have fast results.

10. I expect some growth in a number of Russian FDI to Germany. There are two main reasons for that. The first reason has a macroeconomic nature. About 800,000 of German enterprises may be on sale soon. Their owners are 70-80 years old and their children are not willing to continue the business of their parents. What is more, the inheritance tax in Germany is very high. In some cases which I know it is over 400,000 euros. The way to overcome this tax is to sell a company. The second reason has an empirical nature. There is a lot of capital in Russia. China is a dangerous partner. We see already how German automotive industry is suffering

now. The USA may put in an unfordable position as it is now with sanctions. This is why the line of collaboration Germany-Russia seems to become even more intensive.

The consequences of Corona virus will also change the situation. More economies will be oriented on a collaboration with neighbouring countries and local manufacturing near the markets. The collaboration will be oriented on small enterprises and not more on expansion of big Russian companies like Lukoil and Severstal anymore.

Speaking about consequences of Russian FDI in Germany, there are rumours that Russia is having a good image in Germany. There are not so many facts for now why Russia has such a respect in Germany, but some facts are Russia is good in woodworking, Russia is good in computers and IT systems, Russia is good in the universe e.g. launch vehicles are produced only in Russia. Some of the Germans are talking of Russian expansion in Germany in an economical sense but that opinion exists without a support of real-life examples”.

5. Results

Thanks to the experts' collaboration and dedication to the interviews, it was possible to check all of the propositions of the master's thesis. I will go through the findings on each of the propositions.

The factor of currency will keep playing an important role in the allocation of Russian FDI in the EU especially in Eurozone countries having euro such as Austria and Germany. The Russian national currency has already experienced a few relatively recent currency shocks e.g. in May 2013 rouble to euro exchange rate was 40.22 rouble for 1 euro, in January 2016 – 91.76 rouble for 1 euro, in February 2020 – 69.54 and in March 2020 – 85.15 respectively (European Central Bank, 2020), where highest month parameter was taken. Such valuations have a high influence on some FDI depending on the branch of business.

The first propositions were dedicated to the currency exchange rate influence on attracting FDI. The depreciation of euro due to the German economic slowdown especially in the automotive industry that is observed from 2019 may make Germany more attractive to inward FDI (Ivanov & Tsegoev, 2020). This assumption is supported by Blonigen (1997) and argues that there is a positive correlation between host country currency depreciation and inward FDI. However, against the rouble, the euro will most likely strengthen. The reason for that is the rouble's current (first quarter of 2020) depreciation due to the oil prices drop. A lot would depend also on the political side of the question. The slowdown of the German economy in 2019 was partly caused by US duties on imported European steel and aluminium goods introduced in 2018 and the slowdown in Chinese economic growth. Austria will be less dependent on that parameter of relations with China and the US because the economy is less „industrial”.

According to the expert from Immobilien Entwicklung & Vermietung, an exchange rate has a high influence on attracting FDI. Real estate has especially suffered business during 2014-2015. Another experts from Germany Trade and Invest and Pallas Capital have the same opinion and find that an exchange rate has an influence on FDI, but they suppose that for some Russian businesses in Austria and Germany, oriented on trade of goods with production in Russia, the situation with an exchange rate was even favourable. The expert from Vienna Business agency also agrees that an exchange rate is plays a role. He explains that statistics could be misleading because of the effect of the finalisation of big projects. The expert from Austrian Business agency agrees with the opinion of Vienna Business agency. The Consulate General of Germany in Russia believes that the influence of the exchange rate is dependent on the business model and industry. Dr. Nikitin also thinks that even during difficult times in Russia, there are always

some businessman willing to „to save the rest“ and others deciding not to invest when an exchange rate is unfavourable. This is why on average FDI flow stays the same. Thus, *P1a Currency exchange rate has an influence on attracting FDI* is confirmed and *P1b The more volatile an exchange rate is, the less FDI is attracted* is rejected.

The second proposition is about culture and cultural differences between Austria and Germany. All the experts have agreed that culture and cultural differences do not play a role in the decision of FDI allocation in the case of Russian investors and Austrian and German markets. Mr. Seitz has found that Russians are very fast in taking decisions at all stages of collaboration. Mr. Rodimov and Mr. Löschl have found that 10-20 years ago, the cultural difference was more pronounced, and as a result, the approach to business different between Austrians and Russians. However, nowadays businesspeople are very educated, respectful and open-minded. This is why, cultural differences in international business are losing their influence. Dr. Koschat thinks that many businessmen can divide culture and business approach. Thus, culture does not play a role in FDI allocation decisions. Dr. Nikitin is convinced that there are no cultural differences between businessmen from Germany and Russia. Mr. Reinhold believes that culture could be sometimes helpful, but culture and cultural differences do not influence FDI allocation decisions in the case of Russia and Germany. Therefore, *P2 Culture and cultural differences between Austria & Germany play a role in FDI placement* is rejected.

The third proposition is devoted to the official language of a country receiving FDI, in this case German. Six interviewees have agreed that German is an additional barrier for FDI from Russia in Germany and Austria and makes the process longer, more expensive and more complicated. The only interviewee who has disagreed was an expert from Trade and Invest in Germany. She believes that many Russian investors are preparing well for investment in Germany and are learning German.

The answers regarding whether German is a barrier for business or not, have not been influenced by the nationality of the respondents. For example, Mr. Rodimov (Russian) and Dr. Koschat (Austrian) see the lack of language knowledge as a real barrier for Russian FDI to Austria while Mrs. Markova (Russian) does not see German as a barrier at all and Mr. Löschl (Austria) believes that the situation with the language is improving.

Mr. Seitz emphasizes that a determinant in whether a language is a barrier for Russian outward FDI into Austria and Germany is the age of a businessman. Most business leaders from Russia who nowadays have the opportunity to be an investor are older than 50 years. For them it is difficult to speak any foreign language. To avoid communication problems, a professional

interpreter is needed. Mr. Rodimov, Mr. Löschl, Mr. Reinhold and Dr. Nikitin underline that German is especially important when you need to communicate with Austrian or German authorities e.g. while opening a company. Dr. Koschat has mentioned another aspect why knowledge of a language is important and why it could be a real problem. He is confident that language influences trust and that using the assistance of interpreters could ruin it. What is more, all of the participants agreed that English is often used for communication between German speaking and Russian speaking business partners. However, English could not be seen as a complete substitution of knowledge of German because there are still some misunderstandings as the language level of both business partners is not always sufficiently high and because the documentation, laws, reports must still be in German. Thus, *P3 Official language of a country receiving FDI is a barrier for FDI placement* is confirmed.

The fourth proposition is devoted to the number of Russian immigrants in Austria and Germany as a reason of Russian FDI placement. All of the experts besides the expert from Pallas Capital came to the conclusion that Russian companies in Austria and Germany are looking for European specialists because they believe that such specialists have better knowledge of a market. The expert from Immobilien Entwicklung & Vermietung has highlighted that Russian businessmen prefer Austrian attorneys, tax advisors and business consultants. The expert from Austrian Business Agency underlined that there are some Russian state companies like Subir where Russian language is essential but such Russian companies in Austria are more an exception than a rule. Moreover, the representative of the Consulate General of Germany in Ekaterinburg has highlighted that the number of Russian immigrants in Austria and Germany could play some role, but that would be reason number 10-12. Mr. Löschl from Austrian Business agency also agrees that the number of Russian immigrants is not an important factor because the statistics of a National Bank of Austria shows that the personal is not so important for Russian MNCs in Austria. I have checked the statistics of the Austrian National Bank. In 2017 Russian MNCs have employed only 785 people, while other countries MNCs', for example, those of the US, employed 17,055 specialists, those of Japan – 6,427 people, although Japan is not in the top 5 countries in the volume of inward FDI in Austria, while Russia is (Österreichische Nationalbank, 2020). Therefore, *P4 The number of Russian immigrants in Austria and Germany has a positive influence on a decision of Russian outward FDI allocation* is rejected.

The next proposition is investigating the influence of host country institutions' development level on FDI. All the experts have agreed that the level of development of Austrian and German institutions influences the amount of FDI in a positive manner. Mr. Seitz, Mr. Löschl and Mr.

Reinhold have praised the work of Austrian and German institutions. They have underlined that the institutions are working effectively, quickly and are transparent. The public management in both Austria and Germany is working in respect to laws. Mrs. Markova has also agreed that the German institutions are helpful when Russian investors are planning to invest in Germany. Dr. Nikitin, Dr. Koschat and Mr. Rodimov have noted that governments, chasing a goal to regulate everything, are now creating another barrier for Russian FDI, which is over-regulation. It is especially difficult to open a bank account because of compliance and KYC. The experts find that for some investors it is almost impossible to fulfil all of the requirements. In that respect Dr. Koschat and Dr. Nikitin advise that the business should learn how to adapt because, after the formal procedures are successfully completed, Russian businessmen could benefit from the business environments in Austria and Germany. Thus, *P5 Developed host country institutions spur the movement of FDI* is confirmed.

The proposition number six has explored the influence of home country institutions' development level on outward FDI. Five experts out of seven have the opinion that the home country institutions do not have an influence on outward FDI. In support of this statement Dr. Koschat, Mr. Rodimov, Mr. Löschl and Mr. Reinhold have commented that the level of development of Russian institutions is relevant only for companies situated in Russia. Mr. Reinhold also added that Russian companies in Russia have experience with the institutions in Russia. In other words, even if the level of their development is not so high, they are already adjusted to their work. Mr. Seitz has regretted that the level of all former Soviet Union home institutions is very low and that an especially problematic field in Russian institutions is legal proceedings. Dr. Nikitin has the opinion that generally home country institutions could spur outward FDI e.g. through support in exhibitions participation. However, in Russia this mechanism is not working properly. Mrs. Markova had another opinion. She sees the level of development of Russian institutions (at least in Moscow) as high. She also mentions some Russian state organisations that are especially effective in supporting Russian companies willing to go abroad. As the vast majority of experts have answered that the level of development of Russian institutions is important only for companies in Russia, *P6 Developed home country institutions spur the movement of FDI* is rejected.

The propositions seven and eight have been dedicated to political stability factor in both home and host countries. Regarding the host country politics, all of the experts have mentioned that the political system is very stable. This stability is what most of the Russian investors are seeking while investing in Austria and Germany. According to Mr. Seitz the percentage of profit in Russia is 30-40 % and in Austria, even generally in Central Europe, only 4-6 %. Nevertheless,

Russian businessmen remain interested in investing in Central Europe. Moreover, Mr. Reinhold, Dr. Koschat, Mr. Löschl and Mr. Seitz have mentioned that for most Russian investors, the current government composition in Austria or Germany does not matter because the system is stable, the government course is not changing even if some politicians are changing and court decisions are independent from politics. Furthermore, Mr. Löschl have mentioned that the Austrian constitution is a guarantee of political stability in Austria. Interestingly, both Mr. Seitz and Mr. Reinhold used the same phrase which is „Austria/Germany is a safe haven for Russian money“ (in original language of interviews – German – „Österreich/Deutschland ist eine sicherer Hafen für russisches Geld“). With this phrase they have described the stability in Austria and Germany as a motivation of many Russian investments. Therefore, *P7 Political stability of a host country encourages inward FDI* is confirmed.

Speaking about Russian political stability, all of the experts have agreed that the Russian political system is stable, but, from their point of view, in case of Russia stability is not only an advantage for the country. Dr. Koschat and Mr. Seitz believe that Russian stability is good for the business and for FDI. When you do business, it is important that you have contacts and it is comfortable for the business when the people on key positions are not changing. However, Mr. Seitz has underlined that Russia needs to be more democratic and less corrupt, so that the economy of the country can better develop. Mr. Seitz and Mr. Reinhold have noticed that, unfortunately, the Russian court system is very dependent on politics and it means that court judgments have always a political character. Mrs. Markova has noticed that excessive Russian stability even provoke business to go abroad because in case of a political change the conditions for a particular business in the country could rapidly worsen. Mr. Rodimov has mentioned that Russian inner politics is almost not influencing FDI. According to his opinion every economy goes through cycles and a political situation is only a part of a cycle. What is more important are long term diplomatic relations between countries. Mr. Löschl has underlined that according to his opinion FDI from Russia in Austria is not an action of “money saving” because for that purpose normally offshore countries or “tax havens” are chosen. Thus, *P8 Political instability of a home country discourages outward FDI* is rejected. The political instability of a home country is only relevant for inward FDI.

The last propositions have been devoted to sanctions imposed on Russia and their influence on FDI flow from Russia in Austria and Europe. In the literature there is an opinion that the sanctions imposed on Russia have a symbolic role. Their meaning according to Malek M.

(2018), an Austrian political scientist, is not big and both the Austrian Chamber of Economics and the Freedom Party of Austria are against them.

The majority of experts are complaining that the sanctions have deteriorated businesses. For example, Mr. Seitz is underlining the importance of lifting the sanctions. Mr. Rodimov is convinced that sanctions have a negative impact of FDI flow from Russia. However, there is no complete freeze of bilateral relations between Austria and Russia. He thinks that sometimes other microeconomic effects have negatively influenced Russian investments in Austria. Mr. Löschl also finds that sanctions negatively influenced FDI partly because the business partners have started to look cautiously on a collaboration with each other. Mr. Reinhold and Dr. Koschat notice that there are personal, psychological and sociological effects of imposed sanctions, which are more influential and relevant than the economic ones. According to their opinion the loss of trust is even worse than the monetary loss. Mr. Seitz and Dr. Koschat have noticed that their business with Russian partners have almost come to zero when the sanctions were imposed. Dr. Nikitin and Mrs. Markova (both experts on the German market) are seeing less negative influence of sanctions on Russia. They did not notice a great effect of sanctions at the moment. Dr. Nikitin thinks a negative effect of sanctions would be seen, but later on. Dr. Nikitin highlights that the negative effect of sanctions is seen on German partners, for example, the Germans fear that active collaboration with Russian companies after sanctioning will result in a negative image. *P9a Sanctions imposed on Russia have increased the flow of FDI in Austria and Germany* is rejected. None of the experts have mentioned an increase of FDI flow due to the sanctions as a reaction of businesses of instabilities in Russia. Furthermore, the experts on the Austrian market have seen a drop in FDI amount due to the sanctions while German experts have not seen change in FDI because of the sanctions. *P9b Sanctions imposed on Russia have a negative effect on FDI in Austria and Germany* is confirmed for Austria and rejected for Germany. Experts on the German market have noticed almost no effect of sanctions on the flow of FDI from Russia. The reason for the different results between the two countries observed could depend on the size of the market, political factors and the industries the experts have the most experience with. The Austrian experts have experience with real estate, banking and finance services, oil and gas industries.

What is more, the experts also mentioned reasons of such a big amount of Russian FDI in Austria and Germany that did not find reflection in the proposals and have not been broadly highlighted in literature on FDI. Five interviewees (Chamber of Commerce and Industry of the Russian Federation in Germany, Consulate General of Germany in Ekaterinburg, Immobilien Entwicklung & Vermietung, Austrian Business Agency, Vienna Business Agency) have

mentioned historical reasons as important for explaining Russian FDI in Austria and Germany. Under historical reasons some experts from Austria (Immobilien Entwicklung & Vermietung, Austrian Business Agency, Vienna Business Agency) have found highly important the fact that Austria is not a member of any military alliance, in particular NATO.

Another important group of reasons that did not find any reflection in propositions was devoted to a diversification factor. The diversification factor was mentioned by experts (Pallas Capital Investment Banking, Consulate General of Germany in Ekaterinburg and Chamber of Commerce and Industry of the Russian Federation in Germany) from both Austria and Germany.

Moreover, networking is an important factor for businessmen coming to both to Austria and Germany according to the opinion of Vienna Business Agency and Chamber of Commerce and Industry of the Russian Federation in Germany. Mr. Rodimov also mentioned that it fits into the networking theory and finds that it is what really plays a role.

Furthermore, for Germany important reasons to invest are also the size of the market, good infrastructure and qualified personnel. These points in favour of Germany have been mentioned by all experts in the German market. Additionally, a representative of Germany Trade and Invest finds subsidies a deciding factor for some Russian investors.

Finally, 3 out of 4 experts for Austria (Immobilien Entwicklung & Vermietung, Austrian Business Agency and Vienna Business Agency) believe that quality of life is what attracts so many investors from different countries to Austria.

6. Consequences and Perspectives of FDI

The question of predictions and consequences of FDI is very difficult to answer. The traditional forecast models are mostly failing to give an answer to the future of FDI. As I have already mentioned, the parameters influencing FDI flow are constantly changing and are not clearly defined. What is more, the level of influence of each parameter is different. Even when statistics on FDI are made, there are mostly from 3 to 6 different variations of FDI calculations. Thus, any forecast regarding FDI will be very uncertain.

Speaking about the consequences of FDI, according to Kerner (2014, p. 804) FDI has not only an economic effect on home and host countries but also changes many other parameters. FDI "transmit norms, affect security interests, provoke popular reactions, invite political risk, respond to and influence local labour law, and so on". FDI increases the productivity of the home company and also creates working places in the host country. Every country competes to receive FDI from big MNCs because it is a fast approach to improve GDP e.g. by receiving additional facilities. It is also believed that MNCs bring new technologies into a country and MNCs tend to spend a lot on R&D. Davies R. (2018) argues that depending on the mode, FDI has different economic effects on states.

Regarding the expert's opinion on the future of Russian outward FDI, most of them think that the volume of Russian FDI in Austria and Germany will stay the same or will grow. Mr. Reinhold has an opinion that FDI from Russian in Germany will stay at the same level. He stresses the importance of politics in this question: Russia does not have a good image in Eastern Europe. Russia forgets that Eastern European countries are also part of the EU and have a voice in the EU. A lot will also depend on the relations between the EU and the USA and on the relations between Russia and China. Mrs. Markova agrees with Mr. Reinhold and thinks that there will be no changes in tendencies in the next 2-3 years. Companies from the governmental sector will keep coming to Germany. What is likely to happen is an expansion of Russian IT companies in Germany. Dr. Nikitin expects the growth of Russian FDI in Germany and names two main reasons for that. Germany has over 800,000 company owners willing to sell their factories because of their age. Russia has a lot of capital and is one of the biggest investors in the world. This is the situation where supply and demand will meet. Speaking about Austrian market, Dr. Koschat regrets that a growth is not likely to happen in the nearest future due to sanctions, compliance procedures in the banks and currency exchange rates. He could only hope for the improvement of the situation and a full inclusion of Russia in the European market. Mr. Löschl thinks that the level of Russian FDI in Austria will not drop because Austria has a high living standard, which is attractive for Russian investors, possesses the opportunity to hire

qualified personnel and is a good place to be a springboard for further investments in the EU. Mr. Rodimov has commented that he sees the future for Russian FDI in Austria to be bright. The reason for that is a new generation of Russian companies, most of which are from IT sector. He thinks that the IT sector presence will grow in Austria. Mr. Seitz has an opinion that the amount of FDI from Russia in Austria most probably stays the same. The reasons for that are the internal situation in Austria and the sanctions, which are most likely to be prolonged for the next couple of years. He thinks that the situation in Russia is difficult now and this is the reason why not so many companies can accumulate capital to go abroad.

Finally, speaking about the impact of FDI, Dr. Nikitin has mentioned access to Russian technologies that is given through the opening of subsidiaries of Russian companies in Germany. For Russia he thinks FDI is a good opportunity to create a better image and show the world its advances in several sectors. Mr. Seitz finds that the most important advantage for Austria having Russian FDI are Russians. He explains that Russian clients he knows are always looking for quality services and goods. By that they set higher standards and praise quality and sustainability. What is more, he thinks that most of the Russians coming to live in Austria are paying a lot of taxes, which supports a social system of Austria.

7. Conclusion

The research has shown that many existing FDI theories are not applicable for the case of Russian outward FDI in Austria and Germany.

In my master's thesis I came to a conclusion that the following reasons for Russian FDI placement are relevant: currency exchange rate, official language of a country receiving FDI, developed host country institutions, political stability of host country and sanctions imposed on Russia. Among the above-mentioned factors, currency exchange rate, official language of a host country and sanctions play a negative role on attraction of Russian FDI in Austria and Germany while developed host country institutions and political stability of host country help to attract Russian FDI. Other studied factors as a volatility of an exchange rate, culture and cultural differences, the number of Russian immigrants in a host country, level of development of home country institutions and the political situation of a home country are not influencing the decision of Russian FDI placement and even when it does, that influence is very low. However, the above-mentioned reasons are not the only ones, which are influencing Russian outward FDI. The experts also mentioned historical reasons, diversification as a strategy of risk avoidance, existing social network connections, quality of life in a host country, size of the market and an opportunity to find highly qualified personnel in a host country. Exactly these reasons could find reflection in a further research on Russian outward FDI in Austria and Germany.

Moreover, further research of the outward FDI from Russia in Austria and Germany could also be done in investigation of the role of the COVID-19 after which the amount of FDI from Russia in Austria and Germany is expected to change. On the one hand, the economies may opt for collaboration with geographically close partners, where partnership Austria-Russia and Germany-Russia is advantageous. On the other hand, the companies could be having such high damage that they may decide to focus only on their internal market and close productions abroad. One more direction of a future research could be different combinations of CIS countries and EU countries in order to test the generalizability of the conclusions.

Another research direction is an increase in the number of interviews conducted with experts. Furthermore, it would be interesting to conduct interviews with state Russian companies investing in Austria and Germany because they are one of the leaders in number of FDI in the above-mentioned countries.

It is interesting that statistics were not very helpful in answering the question of the master's thesis. Instead, the statistics posed even more aspects that needed to be analysed and researched.

The placement of FDI is an ambiguous question that could not be answered applying only already existing theories of FDI or at least in case of Russian outward FDI in Austria and Germany they fail to explain the reasons for such a great amount of Russian FDI in Austria and Germany.

Regarding the predictions of the development of Russian FDI, the majority of experts gave a positive prognosis on the situation and they expect that the amount of FDI from Russia will stay the same or increase. The experts explained their prognosis by macroeconomic situation of hosting countries, by an amount of accumulated capital the Russian investors possess and by a long-term existing relationship between Austria and Russian and Germany and Russia. Although some aspects such as over-regulation in Austria and Germany as well as sanctions imposed on Russia and rouble deterioration will keep being additional barriers for Russian FDI in Austria and Germany in the next few years.

The most relevant consequences of Russian outward FDI in Austria and Germany that the experts have named are an image improvement of Russian MNCs worldwide and an increase in competitiveness in Austrian and German markets the result of which is a higher quality of goods and services.

The results of this master's thesis could be used by Russian companies considering investing in Austria and Germany as well by Austrian and German businessmen willing to attract more FDI from Russia. Additionally, the master's thesis findings may be used by governmental organisations aiming to help foreign companies to invest in Austria and Germany or by governmental organisations having a goal to assist Russian companies in their internationalisation process.

I hope that this master's thesis has filled in an existing literature gap in studies of Russian outward FDI in Central European countries, in particular in Austria and Germany.

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Appendix I

Inward direct investment transactions broken down by region

Region by ultimate beneficial owner

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Transactions in EUR million													
Global	18,620	4,933	6,672	1,945	7,636	3,105	4,308	3,450	1,341	-7,687	13,237	1,766	4,147
BRICS	1,675	301	493	1,340	1,333	1,507	5,518	3,386	-2,466	363	7,534	-2,780	1,556
CESEE	1,213	-397	-83	24	824	603	3,561	511	188	-121	5,772	-842	1,391
Europe	14,727	5,430	3,251	4,400	5,990	3,061	2,954	-620	8,061	-9,478	15,801	5,991	5,358
EU-28	13,682	5,018	2,899	3,795	3,846	2,962	-939	-778	7,703	-10,076	9,482	6,881	3,194
Euro Area 19	11,353	4,231	2,549	3,318	3,116	3,038	108	521	7,045	-10,363	9,078	6,415	4,919
Belgium	1,260	-198	319	238	63	-281	-311	24	-28	-31	-89	61	-17
Germany	-8,410	4,307	-1,168	-255	2,490	2,466	1,309	-1,421	3,460	-125	4,400	4,344	2,258
Finland	116	-829	312	256	-137	-25	-402	-144	46	45	127	-161	-70
France	444	42	171	197	123	110	-678	196	-442	-258	499	-49	466
Ireland	x	x	x	x	x	x	x	x	x	292	82	-177	-137
Italy	10,424	668	237	2,418	273	-689	-1,724	-1,019	1,207	-6,904	606	385	25
Luxembourg	2,478	72	276	134	74	147	1,081	926	814	777	1,869	376	1,321
Netherlands	3,086	-87	176	1,340	-235	485	1,127	1,183	1,708	-3,769	1,740	758	1,008
Austria ¹	337	-25	-43	-679	366	177	74	593	133	52	-36	742	-53
Slovakia	1	59	-9	14	6	51	-20	-22	-20	0	-1	0	-4
Slovenia	6	27	-50	6	39	-8	-30	50	45	-60	1	6	-3
Spain	-320	682	1,398	289	64	320	-66	-444	-193	239	19	-10	0
Cyprus	415	-355	969	-998	-53	154	-48	522	223	-739	-154	471	10
Rest of EU	2,329	787	350	477	729	-76	-1,047	-1,299	658	287	404	466	-1,724
Denmark	-194	24	98	-46	-4	9	-72	30	1	-1	-10	-11	-16
Poland	35	7	7	7	-3	21	-16	-8	-17	-40	0	-57	-1
Sweden	128	1,027	292	-36	158	248	-1,377	-82	-55	96	40	69	31
Czech Republic	-95	76	-23	-8	-5	20	-23	2	71	41	-16	41	-87
Hungary	0	5	16	31	18	-42	2	-16	42	43	0	16	26
United Kingdom	2,540	-36	-74	538	433	-325	430	-1,221	614	52	397	390	-1,529
Rest of Europe													
Liechtenstein	-79	15	-61	39	58	10	45	230	233	49	-282	175	65
Norway	-207	6	-119	69	1	6	77	-32	-8	29	48	-33	23
Russia	1,358	-222	-46	254	591	624	3,663	559	69	-211	5,797	-877	1,624
Switzerland	-66	419	482	556	701	-355	311	-349	103	712	1,251	-100	299
Turkey	23	21	126	-55	6	2	-15	10	-10	24	1	5	100
America	3,579	-1,802	3,054	-404	895	31	983	-134	-3,498	262	-3,248	-4,416	-2,178
Argentina	x	x	x	x	x	x	x	x	x	0	7	15	26
Brazil	24	-7	340	507	749	677	1,393	-121	-617	-568	1,050	-1,984	479
Canada	-45	-1,087	580	367	251	-58	-180	-112	470	489	182	633	-453
U.S.A	3,313	-979	2,784	-1,441	-559	-609	-565	155	-3,193	116	-5,011	-3,452	-2,302
Asia	-221	774	468	-1,637	900	-217	506	898	-494	1,507	-18	15	890
China	10	-12	275	343	71	-7	-1	-233	-37	585	198	119	22
Hong Kong	189	49	56	107	81	75	636	159	-155	548	-204	-254	-671
India	88	-28	17	22	-1	7	-2	4	10	-12	5	35	23
Japan	-245	39	-18	-161	174	51	-30	773	-207	-57	-134	139	1,640
Near East	174	194	403	-1,291	503	-56	-92	-42	-252	191	-7	-1,207	-304
Israel	x	x	x	x	x	x	x	x	x	134	8	-276	-55
Saudi Arabia	-2	-14	52	-28	-27	-6	-1	6	2	35	12	6	13
United Arab Emirates	168	207	331	-1,255	532	-50	-89	-70	-265	35	-11	-941	-265
Africa	8	521	-153	106	-158	130	-172	3,018	-1,738	18	689	181	69
Oceania	528	11	51	-520	10	92	37	288	-990	4	13	-5	8
Australia	x	x	x	x	x	x	x	x	x	4	13	-5	10

Inward direct investment in Austria from 2007 till 2019.

Retrieved from: <https://www.oenb.at/isaweb/report.do?report=9.3.32>, accessed on 01.04.2020

Appendix II



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Interview questions in **English**

By answering the questions, you contribute to the master's research on "**Reasons, Consequences and Perspectives of Russian Foreign Direct Investment in Austria and Germany**". If you find it more convenient to answer the questions by phone or in person, please, feel free to contact me and let us schedule a meeting or a phone call. My contact details are XXX@mail.ru, +43 677 61 779 XXX.

1. Why do so many Russian companies and individuals decide to open a subsidiary/make an investment exactly in Austria and/or Germany, from your point of view?
2. What is the influence of the **currency exchange rate** on outward Russian FDI, in your experience? Did you see any reasonable downturn in FDI due to the **rouble's depreciation** in 2014-2015?
3. Does a large number of **Russian immigrants** in Austria and/or Germany help to find qualified staff?
4. Does the official **language** of a country receiving FDI play a role? Do companies or individuals have any difficulties, additional costs, time-spend doing FDI because of the language? What language is mostly chosen for business communication?
5. Do you find that some **cultural differences** between Austrian and/or German business partners and Russian business partners influence decisions on FDI allocation? If yes, then how? Could you, please, give an example.
6. Does a fact of **political stability** of Russia play a great role for FDI? Does a fact of **political stability** of Austria and/or Germany play a great role for FDI?
7. Do you think that the **development level of Austrian and/or German institutions** (rule of law, tax rates, transparency, authorities, protection of foreign investments) positively influences FDI? If yes, then how.
8. Do you think that the **development level of Russian institutions** influences outward FDI? If yes, then how.
9. Did **sanctions** imposed on Russia become an additional barrier for FDI?
10. What are the **perspectives** of FDI from Russia into Austria and/or Germany? Do you think that FDI will increase/decrease? Why do you think this way?

Thank you very much for your time and contribution!

Отвечая на данные вопросы, Вы вносите Ваш вклад в научную работу на соискание степени магистра по теме **«Причины, последствия и перспективы российских прямых иностранных инвестиций в Австрию и Германию»**. Если Вам будет удобнее ответить на вопросы по телефону или лично, Вы можете связаться со мной для выбора удобного для Вас времени встречи или телефонного интервью. Мои контактные данные XXX@mail.ru, +43 677 61 779 XXX.

1. По Вашему мнению, почему российские компании и частные лица принимают решение открыть представительство/осуществить прямые иностранные инвестиции (ПИИ) именно в Австрию и/или Германию?
2. Оказывает ли **обменный курс валют** влияние на Ваш опыт российских ПИИ? Заметили ли Вы значительный спад в ПИИ в связи с **девальвацией рубля** в 2014-2015?
3. Помогает ли нахождение значительного количества **российских иммигрантов** в Австрии и/или Германии найти квалифицированных сотрудников для участия в проектах связанных с ПИИ в Австрии и/или Германии?
4. Как влияет **официальный язык** страны, получающей ПИИ: возникают ли сложности, дополнительные затраты, временные затраты у компаний или отдельных исполнителей, в связи с иностранным языком в случае ПИИ? Какой язык чаще всего выбирается для бизнес коммуникации?
5. Считаете ли Вы, что **культурные различия** между немецкими/австрийскими и российскими бизнес-партнёрами влияют на решения о размещении ПИИ? Если да, то каким образом. Пожалуйста, приведите пример.
6. Играет ли фактор **политической стабильности** России большую роль в ПИИ в Австрию и/или Германию? Как влияет **политическая стабильность** Австрии и/или Германии на привлечение российских ПИИ?
7. Считаете ли Вы, что уровень **развития немецких и/или австрийских «институтов»/правил ведения бизнеса** (верховенство закона, налоговое администрирование, прозрачность экономических операций, качество публичного администрирования, защита иностранных инвестиций) положительно влияет на осуществление ПИИ? Если да, то каким образом.
8. Считаете ли Вы, что уровень **развития российских «институтов»** влияет на осуществление ПИИ? Если да, то каким образом.
9. Стали ли **санкции**, наложенные на Россию, дополнительным барьером для ПИИ?
10. Каковы **перспективы ПИИ из России в Австрию и/или Германию**? Считаете ли Вы, что объём ПИИ возрастёт/снизится? Почему Вы так считаете?

Большое спасибо за Ваше время и участие!



Mit Ihren Antworten tragen Sie zur Masterarbeit „**Ursachen, Folgen und Perspektiven russischer ausländischer Direktinvestitionen in Österreich und Deutschland**“ bei. Sollten Sie es vorziehen, die Fragen telefonisch oder in einem persönlichen Gespräch zu beantworten, stehe ich Ihnen gern zur Verfügung, um einen Termin für ein Treffen oder ein Telefonat zu vereinbaren. Meine Kontaktdaten sind: XXX@mail.ru, +43 677 61 779 XXX.

1. Warum beschließen Ihrer Meinung nach so viele russische Unternehmen und Privatpersonen, gerade in Österreich und/oder Deutschland Tochtergesellschaften zu gründen bzw. Investitionen zu tätigen?
2. Welchen Einfluss hat der **Wechselkurs** Ihrer Erfahrung nach auf ausländische Direktinvestitionen (FDI) aus Russland? Haben Sie einen merklichen Abschwung dieser FDI durch die **Rubelabwertung** in den Jahren 2014/2015 beobachtet?
3. Half Ihnen die hohe Zahl **russischer Immigranten** in Österreich und/oder Deutschland dabei, qualifiziertes Personal zu finden?
4. Spielte die **Amtssprache** des Landes, welches die FDI erhielt, eine Rolle? Hatten Unternehmen oder Privatpersonen Schwierigkeiten, zusätzliche Kosten oder Verzögerungen beim Investieren durch die Sprache? Welche Sprache wurde am meisten für die Geschäftskorrespondenz genutzt?
5. Glauben Sie, dass **kulturelle Unterschiede** zwischen deutschen und russischen Geschäftspartnern die Entscheidung über die Platzierung der FDI beeinflusst haben? Wenn ja, wie? Wäre es möglich, ein konkretes Beispiel anzuführen?
6. Spielte der Umstand **politischer Stabilität in Russland** eine wichtige Rolle für FDI nach Österreich und/oder Deutschland? Spielte der Umstand **politischer Stabilität in Österreich und/oder Deutschland** eine wichtige Rolle für das Anwerben russischer FDI?
7. Denken Sie, dass der **Entwicklungsgrad österreichischer und/oder deutscher Institutionen** (Rechtsstaatlichkeit, Steuersätze, Transparenz, Behörden, Investorenschutz) FDI positiv beeinflusst? Wenn ja, wie?
8. Denken Sie, dass der **Entwicklungsgrad russischer Institutionen** die ausgehenden FDI beeinflusst? Wenn ja, wie?
9. Sind die **Sanktionen**, die gegenüber Russland verhängt wurden, zu einem zusätzlichen Hindernis für FDI geworden?
10. Welche **Perspektiven** sehen Sie für russische FDI in Österreich und/oder Deutschland? Glauben Sie eher an einen Anstieg oder eine Abnahme russischer FDI in Österreich und/oder Deutschland? Warum denken Sie so?

Haben Sie vielen Dank für Ihre Zeit und Ihren Beitrag!