THE FACTOR OF LANGUAGE AND OTHER CULTURAL AND HISTORICAL PROXIMITY IN THE PROCESSES OF BUSINESS' TRANSNATIONALIZATION

The culture's impact on the business transnationalization character has been studied for four decades already. At the same time, it's possible to single out works studying this issue both within the framework of just microeconomic approaches (i.e. at the level of certain enterprises) and with employment of macroeconomic methods. In the first case we are first of all speaking about the research stimulated by G. Hofstede's works, he offered to measure national cultures by a number of indicators to reveal the degree of various countries' proximity from the point of view of organizational aspects of doing business[1]. When reviewing the second case, we should specially mention the Uppsala school of the internationalization process of the firm that was the first to correlate geographical governing laws of distribution of overall foreign direct investments (FDI), exported from certain countries, and the process of gradual informing businessmen about special features of foreign business[2]. Later, after generalizing and developing the conclusions from the main publications by J. Johanson, the leader of this school, as well as a number of other researches, we offered to single out the factor of language and other cultural and historical proximity as very important in the processes of transnational corporations' (TNC) foreign expansion[3]. We'll mention in passing that the name of the factor will most likely require clarification and closer definition.

Urgent tasks for academic analysis

[1] Hofstede G. Culture's Consequences: International Differences in Work-Related Values. Beverly Hills, CA: Sage, 1980.
[2] Johanson J., Vahlne J.-E. The Internationalization Process of the Firm — A Model of Knowledge Development and Increasing Foreign Market Commitments // Journal of International Business Studies. 1977. #1. P. 23—32.
[3] Kuznetsov A.V. Foreign Direct Investments: "The Neighbourhood Effect" // World Economy and International Relations. 2008. # 9. P. 40—47.

Many aspects still stay insufficiently studied no matter the relatively long period of academic analysis of the culture's impact on special features of business' transnationalization[4]. First, some hypotheses presented in the 1970—80s were not duly confirmed later by empirical materials. However, that was mostly related to the necessity of detailed specification of this or that culture's impact on special features of doing business — in particular, the first G. Hofstede's calculations were made on the basis of non-representative material. At the same time, we'll emphasize that, as a rule, corrections of conceptions made in the course of new empirical research, do not disprove the main theoretical ideas.

Second, the requirement to take the expanding impact of globalization into account originated only recently. When J. Johanson and his colleagues from Sweden described stage-by-stage internationalization of companies set up by their compatriots, they proceeded from the fact that "teaching" a company was synonymous to teaching its managers. However, it is possible in the contemporary environment that an individual with already a good experience in doing business abroad in some other TNC can join the company (such examples were unusual in the 1970s). At the same time, foreigners quite often become top managers of today's TNC, so it's rather difficult to speak about a national character of this or that business environment. It's not accidental that firms becoming TNC in the first year after their setting up are fairly widespread in the 21st century, so it's correct to speak about the birth of "international" companies and not their transnationalization (or internationalization — here the terminological variant reading is also preserved).

At the same time, the impact of language barriers and other obstacles for free foreign expansion of companies-investors, caused by cultural differences, is undoubtedly preserved, though clipped. This means that it is not always possible to use some exact mathematical calculations, while selection of a fairly

[4] Though it is much shorter than the period during which the culture's impact on other economic processes is studied, including those of world economic dimension — it's enough to remember, for example, works by M. Weber.

representative set of facts still allows to draw general governing laws and later explain the presence of numerous exceptions. For example, in case of FDI geography's analysis it's very difficult to divide the impact of the language factor, common history of the two countries (often being parts of one state for a long time) and just territorial proximity within the framework of "the neighbourhood effect." Thus, according to the IMF data, mostly based on national statistics, by the end of 2016 26.8% of all Finnish foreign direct investments were concentrated in Sweden, 23.5% of all Greek FDI were in Cyprus, 35.1% of all Slovakian were in the Czech Republic, etc. At the same time, 57.5% of all accumulated FDI in Cuba were Spanish and 20.5% FDI in Austria were German[5].

The states, where companies started turning into true TNC only recently, are of special interest for analysis of the factor of the language and other cultural and historical proximity in business' transnationalization processes. This allows following the whole evolution of their internationalization well. In this connection, Russian empirical material becomes interesting not only for development of some certain practical recommendations for our country but also for revision of theoretical concepts created abroad. We have already managed to come to a number of interesting conclusions based on the materials of the leading Russian TNC, which we have been studying for two decades already. Recently, respective works are supported by the Russian Science Foundation (grant #14-28-00097)[6] and more applied orders from the Eurasian Development Bank, connected with direct investments' monitoring in post-Soviet space[7].

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[5] Our calculations are based on the IMF data (http://www.imf.org).

[6] The collective monograph became the main intermediary result of the work under the grant: Optimization of Investment Relations in Contemporary Russia / Ed. by A.V. Kuznetsov. Moscow: Institute of World Economy and International Relations of the RAS, 2016 (the text is freely available on the website http://www.imemo.ru).

[7] The two latest brochures published both in Russian and in English are: Kuznetsov A.V. et al. Mutual Investments Monitoring in the CIS States — 2017. St. Petersburg: Center for Integration Studies of the Eurasian Development Bank, 2017 (report # 45); Kuznetsov A.V. et al. The EAEU and Countries on the Eurasian Continent: Monitoring and Analysis of Direct Investments — 2017. St. Petersburg: Center for Integration Studies of the Eurasian Development Bank, 2017 (the texts are freely available on the website http://www.eabr.org).

The proximity effect in direct investments' geography

The language and other cultural and historical proximity effect has been well traced in such an indicator as the share of Russian capital investments in the total sum of accumulated FDI in the country. Thus, we evaluated the accumulated sums of Russian direct investments in the end of 2016 in various states, taking into account investments via offshore companies and other "transshipping points." For example, the share of Russian investments exceeding 30% of total accumulated FDI in Europe was seen only in Byelorussia, from 5% to 20% in the Ukraine, Moldova, Latvia, Bulgaria, Serbia, Bosnia and Herzegovina (thanks to Republica Srpska) and Turkey.

However, the importance of Russian investments is also determined by other factors. In particular, high figures outside Europe can be determined by political barriers for considerable foreign capital investments in case of significant Russian TNC projects — the Democratic People's Republic of Korea (total FDI amount from all countries is less than US$ 1 billion) and Tajikistan (total FDI amount is less than US$ 2.5 billion) can serve as examples. The presence of an important Russian investor can turn out to be decisive for the countries with more considerable total FDI as well. Thus, in South Asia Russian investors play the biggest role not in India but in Pakistan and Bangladesh only because of capital investments by VEON (former VimpelCom) that inherited affiliations in these countries in the course of merger of Russian and their Western partners' assets. Currently, the company, in which the LetterOne Foundation controlled by the Russians owns 47.9% of the voting shares, has nearly 85 mln clients in Pakistan and Bangladesh, which is more than the total VEON figures for Russia and the Ukraine[8].

[8] The statistics for the companies is mostly given by us according to their corporate reporting. In this case: Form 20-F. 2017. VEON Ltd. Bermuda. P. 11.

Previously this method was tested by us on the geography of Austrian and Swedish FDI in Europe[9]. Notwithstanding similar scales of capital investments exported from Austria and Sweden, their joining the European Union in 1995 at the same time and some other common for the two countries factors, geographical preferences of investors differ greatly in their case. This can't be explained by difference in the investment climate of recipient countries - there is Austro-Hungarian striving for expansion to the Balkan Peninsular "surfacing" after nearly a hundred years in a queer way in the geography of Austrian FDI, and traces of Swedish imperial domineering in the Baltic Sea "come through" after even a longer period. Really, according to the IMF, in the end of 2016 the share of Swedish FDI in the total amount of accumulated direct capital investments in the world was 1.3%, but per 21% in Norway and Denmark, per 29% in Lithuania and Latvia, 38% in Finland and more than 48% in Estonia. Cf: the share of Austrian FDI did not reach 3% in any of the mentioned countries (it was less than 1% in Denmark, Finland and Lithuania). But the share of Austrian capital investments in Slovenia and Macedonia amounted to 28%, in Bosnia and Herzegovina and alienated from Serbia autonomous province of Kosovo and Metohija — 20%, Slovakia, Serbia, Croatia — 15-16%, Czech Republic, Bulgaria and Romania — 13-14%, while on the whole the share of Austrian FDI in the world amounted to 0.8%. It's not surprising that the share of Swedish capital investments in the total FDI amount did not exceed even 2% in any of the mentioned 10 countries of Central and Eastern Europe (CEE)[10].

The presence of the factor of cultural and historical proximity in both cases is not a researcher's invention. Companies-investors quite often call some adjacent countries their "home" markets. It's easy to be convinced of that seeing official

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[9] Kuznetsov A.V. Reinterpretation of the Big Europe Concept in Connection with the Ukrainian Crisis // International Life. 2014. # 12. P. 1—17.

[10] Author's calculations are based on the IMF data: Table 6-o: Outward Direct Investment Positions US Dollars, by All Reporting Economies Cross-classified by Counterpart Economies, as of end-2016 (http://data.imf.org).

websites and annual reports of the three biggest financial TNC of Austria and Sweden presented there. Thus, Austrian Erste Group Bank singles out three geographical levels of its activities — Austria, CEE and all other states (including neighbouring Germany and Switzerland). The two other leaders of the Austrian financial sector — Raiffeisenbank International and Vienna Insurance Group — directly call Austria and all CEE countries their "home market"[11]. The definition of "home" markets differs in case of Swedish transnational banks. In particular, Nordea Group refers Sweden, Finland, Denmark and Norway to them but, for example, does not include the Baltic States. Swedbank, on the contrary, refers only Sweden, Estonia, Latvia and Lithuania to them but not Finland, Denmark and Norway. Svenska Handelsbanen announced 6 "home" markets — Sweden, Finland, Denmark, Norway, the Netherlands and the UK (however, the Baltic States are nor referred to them)[12].

Looking for the border between cultural and historical proximity and political partnership

Surely, it's not always possible to find the border between the language and / or other cultural and historical proximity and political expediency (including supported by economic profits) in the FDI geography. For example, why does Russian Alrosa mine diamonds abroad only at its subsidiary in Angola or why is the main foreign asset of OMZ — the engineering company in nuclear power engineering — located exactly in the Czech Republic?

Development of bilateral agreements on encouragement and mutual protection of capital investments is a good illustration for a non-evident border between cultural and historical proximity and political partnership. By now, nearly 3 thousand such

[11] See information on the official websites: http://www.erstegroup.com; http://investor.rbinternational.com и http://www.vig.com.

[12] See information on the official websites: http://www.nordea.com; http://www.swedbank.com и http://www.handelsbanken.com.

agreements were already signed in the world[13]. The record breakers are Germany, China and Switzerland, but Russia has investment agreements with 68 countries that have come into force[14]. Among others, this list includes Abkhazia and South Ossetia, which are not taken into consideration by UNCTAD, Serbia and Montenegro (successors of Russia's agreement with Yugoslavia) as well as Byelorussia and Tajikistan, with which Russia had only multilateral investment agreements (entered into within the EAEC framework).

The oldest acting bilateral agreements on encouragement and mutual protection of capital investments, in which Russia participates, were concluded by the Soviet Union — in 1989 with Belgium, the UK, Canada, Luxemburg, the Netherlands, Finland, France and FRG, and in 1990 with Austria, Spain, Republic of Korea, and Switzerland. All of them came into force in 1991 after ratification (there were also agreements with Italy of 1989 and Denmark, China and Turkey of 1990, later replaced with new agreements). The choice of the countries is fairly evident: the USSR expected to attract new technologies into joint ventures from developed Western countries that were traditional trade partners of the Soviet Union. However, addition of South Korea, China and Turkey in 1990 certified search for new investment partners in the East (and capital inflow from all three countries turned out to be fairly considerable already in the 2000s).

Unfortunately, these agreements are nearly unsuitable for protection of foreign capital investments of Russian TNC that originated in the 2000s (no one thought about that at the final stage of the Gorbachev's Perestroika (restructuring) — there was the task to attract direct European investments into the USSR). The list of countries, with which the Russian Federation signed bilateral investment agreements, was noticeably expanded in the first decade of the Russian

[13] Out of 3,324 international investment agreements, taken into consideration by UNCTAD in the end of 2016, 2,957 were bilateral. See: World Investment Report 2017: Investment and the Digital Economy. P. 111 (http://www.unctad.org).

[14] The basis of the analysis is the UNCTAD database (http://investmentpolicyhub.unctad.org/IIA/CountryBits/175#iiaInnerMenu), made more accurate with the help of Russian legal databases.

Federation's existence (the years when they were signed and came into force after ratification are given in brackets): Denmark (instead of the Soviet agreement), Cuba, Romania and Slovakia (1993/1996); Greece (1993/1997); Bulgaria (1993/2005); India (several years ago the agreement was terminated on the initiative of the Indian party), Vietnam, Kuwait and the Czech Republic (1994/1996); Albania, Hungary, the Federal Republic of Yugoslavia, and Sweden (1995/1996); Norway (1995/1998); Mongolia (1995/2006); Italy (instead of the Soviet, 1996/1997); the Democratic People's Republic of Korea and Laos (1996/2006); Macedonia and the Philippines (1997/1998); Turkey (instead of the Soviet) and Egypt (1997/2000); Lebanon (1997/2003); Argentina, Kazakhstan, the Ukraine, South Africa and Japan (1998/2000); Moldova (1998/2001); Lithuania (1999/2004); Armenia (2001/2006). As you see, they were mostly European and Asian countries — the exceptions among 32 countries were Cuba, Egypt, Argentina and South Africa. Agreements were signed but not ratified with several more countries — the United States and Poland (1992), Portugal (1994), Croatia and Ecuador (1996), Cyprus and Uzbekistan (1997), Tajikistan (1999), Slovenia and Ethiopia (2000). It became clear by the middle of the 2000s that ratification of some of these documents had in principle no sense any more.

On the whole, investment agreements signing by Russia in the 1990s was not very systemic. The state of affairs started changing in 2002, when the new standard agreement on encouragement and mutual protection of capital investments was used as the basis, it was called to protect the interests of not only foreign investors in Russia, but also guarantee the rights of Russian companies investing capital abroad. This standard agreement was approved by the decision of the Government of June 9, 2001, #456 (with the following editions of April 11, 2002, #229 and of December 17, 2010, #1037), replacing the previously acting standard agreement approved by the decision of the Government of 1992 (with alterations and addenda of 1995). The new standard agreement takes into account the WTO requirements and contains a number of important provisions referring to the mechanism of settlement of investment disputes[15]. On the whole, one can see Russia turning to emerging countries: Yemen (2002/2005), Syria (2005/2007), China (instead of the Soviet, 2006/2009), Indonesia, Jordan and Qatar (2007/2009), Venezuela (2008/2009), Libya (2008/2010), Abkhazia, Turkmenistan, and South Ossetia (2009/2010), Angola (2009/2011), Singapore (2010/2012), UAE (2010/2013), Equatorial Guinea (2011/2016), Nicaragua (2012/2013), Zimbabwe (2012/2014), Uzbekistan (instead of the old non-ratified, 2013/2014), Azerbaijan and Bahrain (2014/2015), Cambodia (2015/2016), Iran (2015/2017). In 2003-2015, a number of agreements were signed as a part of Eurasian integration projects' development, supported by Russia. As a result, a new format of agreements was offered in various years for Armenia, Byelorussia, Vietnam, Kazakhstan, Kirgizia, Tajikistan, and the Ukraine. Bilateral agreements between Russia and Thailand (2002), Algeria (2006), Namibia and Nigeria (2009), Guatemala (2013), Morocco and Palestinian territories (2016) await their ratification. In some cases we are speaking about Russian companies-investors lobbying their interests to protect from political risks in some or the other countries. In other cases there is progress in Russia's political dialogue with partners in Asia, Africa or Latin America (this is quite often accompanied by the first in history official visits by the heads of states and governments).

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The presentation of examples like the ones above can be continued for a long time. However, in our opinion, it is already evident that the use of analysis of the factor of the language and other cultural and historical proximity may turn out very productive to reveal new governing laws within the framework of the usually carried out strictly economical or political and economical research of FDI.

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15 http://www.mid.ru/foreign_policy/economic_diplomacy/-/asset_publisher/VVbcI0If1FVU/content/id/2631716