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INDEPENDENT NEWS FROM RUSSIA

China, Qatar Keen to Boost Investment in Russia as Western Enthusiasm Cools

By The Moscow Times

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ST. PETERSBURG — Sovereign wealth funds in China and Qatar on Friday signaled their increased commitment to Russia, boosting Moscow's hopes of strengthening ties with Asia and the Middle East as relations with the West deteriorate.

Major sovereign wealth funds in the Middle East and Asia have invested in Russian businesses and backed its state-funded private equity fund, the Russian Direct Investment Fund, or RDIF. By contrast, U.S. financial investors in the country remain few.

"CIC has invested several billions of dollars in Russia," said Ding Xuedong, chairman of the $575 billion CIC, on the sidelines of the country's main annual investment conference in St. Petersburg.

"We will continue to increase our investment in Russia, not only in the public markets, but in direct investments," he said.

Russia's RDIF separately announced that Qatar's sovereign wealth fund, the Qatar Investment Authority, is allocating $2 billion to investments with the fund.

Numerous U.S. financiers avoided the annual investment conference in St. Petersburg on advice from the White House. Washington and the European Union have imposed sanctions against various individuals deemed close to President Vladimir Putin in response to the situation in Ukraine.

"In our platforms — we raised $10 billion from our partners — about 90 percent came from Asia and the Middle East," said Kirill Dmitriyev, RDIF's chief executive. "Those longer-term investors ... take a longer-term view on Russia. They see some turbulence but realize it is impossible to isolate the sixth-largest economy in the world."

Among those present on a panel discussion on Friday were senior executives at Korea Investment Corporation and Kuwait Investment Authority, or KIA. European funds, facing less government pressure than their U.S. counterparts, also showed commitment to Russia.

"We think there is a lot of potential in this country," said Laurent Vigier, CEO at France's CDC International Capital. "We are looking actively at the moment at opportunities in this country and are optimistic about the medium and long term."

Buyout Blues

Private equity firms have in general found Russia a tricky place to invest, citing concerns about corporate governance, the rule of law and finding a lack of opportunities. U.S. giant TPG is the notable exception, making several times its money on its investment in supermarket chain Lenta.

"The history of private equity in Russia is about 20 years old — in that period we have had at least two tsunamis of global political events and upheaval and we are now in the middle of the third," said Drew Guff, founding partner of New York-based Siguler Guff & Co., which has invested in Russia for many years.

"There were at one point 30 different private equity funds raising money [in Russia] at the same time. And then the global crisis of 1998 came and the tsunami wiped out many of the competitors."

Anatoly Chubais, the architect of Russia's post-Soviet privatizations, said a problem is that limited partners, or LPs — the investors in private equity firms — use foreign money rather than Russian investors. He said the solution was a major restructuring of non-government pension funds.

"It is ironic when the entire private equity industry that exists here, while investing in Russia, makes almost no use of Russian LPs," Chubais said. "It is totally wrong and the situation could be radically changed."

China Commitment

CIC, which invests in Russia directly as well as via a joint venture with the RDIF, has a minority stake in Russian potash company Uralkali and has done deals with the RDIF to invest in projects such as infrastructure for senior citizens and forestry.

"Our exposure to Russia is relatively small, which means the potential is big," said Xuedong, who is particularly focused on agriculture and energy. "We focus on the long term and on increasing our exposure to Russia."

Xuedong said that in the coming 10 to 20 years infrastructure will provide lucrative opportunities and said that Russia should "renew and update" its infrastructure.

Using government money for such projects would not be sufficient, he said, and other instruments, such as public-private partnerships, could be used.

"Governments should sell some of the businesses ... to private investments and the money received for the sale of such businesses could be re-channeled into projects," Xuedong said. "If we take this approach, we could speed up the infrastructure development rates."

Still, some were skeptical that Asian investors would commit heavily given Russia's slowing growth and the risk of recession.

"I suspect most Asian and Middle East investors are going to look at this picture and see the same things that everyone else does — that you had growth slowing before the annexation of Crimea and the conflict with the West," said Bernard Sucher, board member of Russian investment group Aton.

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