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Prospects of various types of Russian transnational corporations (TNCs)

Electronic Publications of Pan-European Institute 10/2007

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Pan-European Institute**

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Abstract

The author offers his estimates of the Russian outward FDI stock and foreign assets of 50 top Russian TNCs. In the paper the IDP paradox is newly explained and specific motives of TNCs are distinguished. Also prospects of various types of Russian TNCs and general barriers to the Russian investment expansion are examined. The whole analysis is based on the synthesis of Western and Russian scientific approaches.

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Introduction

During the 1990s the Russian economy was in a deep crisis of difficult post-communist transformation. As a result many experts began to pay attention only to various Russian problems as though they had forgotten that Russia had a great economic potential and its industrial decline could be a consequence of structural reforms. In the field of foreign investments it meant that scientists usually studied exclusively illegal “capital flight” from Russia and defects of the Russian investment climate for foreign direct investments (FDI) inflows. Among the rare exceptions of publications about Russian outward FDI and raising national transnational corporations (TNCs) I want to remember articles and books of Professor Alexander Bulatov (e.g., Bulatov 1994, Bulatov 1995, Bulatov 1997, etc.).

After the famous financial crisis of 1998 the Russian economy began to grow rapidly and steadily. In several years the largest Russian companies joined the process of internationalization. It was a shock for many observers (especially abroad) that the Russian economy, which was the constant source of bad news, produced so many TNCs. As a reaction many researchers tried to understand this phenomenon. The reader can find the best English bibliography in Vahtra & Liuhto 2005. However there are also some publications of Russian scientists that are not well-known in Western countries. For example, the first overview of Russian largest mineral TNCs from various industries (Boyarko 2002) or the first monograph about specifics, problems and prospects of Russian FDI in the CIS (Libman & Heifets 2006) were published in Russian. In addition to Western explanations of main motives of Russian TNCs' internationalization (Andreff 2003, Heinrich 2003, Kalotay 2005, Liuhto & Jumpponen 2003, etc.) it is important to note various views of Russian researches (Kuznetsov 2005, Pappe & Galuhina 2005).

Nowadays we can already find scores of articles and even several books about Russian outward FDI. However some important scientific questions are still unsolved. In this article I am going to explain some of these problems. In the first section I compare different estimates of Russian outward FDI and show that, apart from round-tripping FDI and pseudo-FDI (as a form of “capital flight”), the real scale of internationalization of Russian business is significant. Then I offer my own estimates of the composition of the top list of Russian TNCs. Also I solve an important

methodological problem by determination the border between TNCs within “integrated business groups”.

I affirm the great heterogeneity of Russian TNCs, which is a serious obstacle in explanation of the real nature of Russian outward FDI. Moreover, I show that it is not very important for the development of company internationalization whether the firm is state or privatized. The basis for its investment expansion consists of its economic potential, previous international business experience and long-term aims of its top-managers. There are four main types of Russian TNCs with several sub-types. In the second section of my article I study their specifics and prospects. At the end I study general barriers to the Russian investment expansion. I show that the EU and CIS countries are the natural geographical vectors for the Russian outward FDI. However Russian TNCs have negative image just in some neighbour countries, although many stereotypes of Russia and its business are false. In such circumstances the adequate state investment policy is very necessary. Unfortunately, I cannot see such well-considered policy yet. Furthermore, sometimes existing separate measures have a lack of economic pragmatism of the Russian state.

1. The real scale of Russian outward foreign direct investments

Nobody knows the exact volume of the Russian outward FDI stock. Even their official estimates vary significantly (frankly speaking – catastrophically). However it is possible to find some answers in the methodology of statistical surveys. Also it is very productive to survey the data from Internet-sites of companies and special databases. Only after we understand the real scale of Russian investment expansion abroad it will be correct to study motives of Russian business internationalization.

1.1. Different estimates of Russian outward investments

At least two official estimates of the Russian outward FDI stock exist in Russia. When experts study FDI inflows into the Russian economy they usually use the data of Rosstat (former Goskomstat – the Federal State Statistics Service). However due to Rosstat the Russian outward FDI stock was only \$ 3.5 billion at the end of 2005 and less than \$ 6.1 billion at the end of 2006 (Rosstat 2005, Rosstat 2006a). Such data shows the absence of the Russian investment expansion abroad, although all serious experts know that it is a false.

Another official estimate is provided by the Central Bank of Russia. It showed \$ 138.8 billion, as of 1.1.2006 (Central Bank of Russia 2006). The basis of this data is the Russian balance of payments. Some experts suppose that such figures are modest too (e.g., Kalotay 2005) but they confuse:

- legal FDI (including investments in oil tankers)
- pseudo-FDI (mainly round-tripping FDI via Cyprus and other off-shores but also some other categories of investments)
- illegal FDI (their share falls down because at the middle of the 2000s it became popular to achieve the reputation of TNC among Russian “oligarchs”)
- other forms of “capital flight”

I suppose, it is incorrect to consider the whole “capital flight” as illegal FDI. “Capital flight” is another problem which is typical for many countries (even such as Germany or Belgium). Thus the data of the Central Bank is not “pessimistic” but it is even “optimistic” if we decide to exclude round-tripping FDI, investments of emigrants with Russian passports in real estate abroad or de-facto portfolio investments of Russian institutional investors (although they can buy more than 10% of the shares).

Nevertheless UNCTAD took into account the data of the Central Bank of Russia and showed \$ 120.4 billion of the Russian outward FDI stock at the end of 2005. Thus Russia was put in the 17th place in the world (UNCTAD 2006). However if we sum the current figures of annual Russian FDI outflows from previous UNCTAD reports (with one-year lag because the last data is always inaccurate) we find that the whole volume was only \$ 54.5 billion even without divestment (table 1).

Table 1. Russian outward FDI by various UNCTAD reports

Year	Source of outflows statistics	FDI outflows, \$ million	Increase of the outward FDI stock, \$ million (by consecutive UNCTAD reports)
1993-1995 average	UNCTAD 2002	3 * 343	Outward stock as of 31.12.2005 = 3,015
1996	UNCTAD 2002	923	
1997	UNCTAD 2003	3,184	5 * 1,876
1998	UNCTAD 2004	1,270	(1996-2000 average)
1999	UNCTAD 2004	2,208	
2000	UNCTAD 2004	3,177	
2001	UNCTAD 2004	2,533	2,340
2002	UNCTAD 2004	3,533	32,942
2003	UNCTAD 2005a	9,727	4,133
2004	UNCTAD 2006	13,782	30,065
2005	UNCTAD 2006	13,126	38,543
Total	–	54,492	120,417

Sources: UNCTAD data and author's calculations.

I suppose, \$ 54.5 billion is not a result of large mistakes in annual calculations. Quite the contrary, this figure corresponds to the information of another sources. First of all I mean company information. Also there are special information databases (M&A 2005-2006; Rossijskij Krupnyj Biznes 2006, etc.) and experts' estimates of large investment projects prices from famous Russian economic newspapers (e.g., Vedomosti 2004-2007). In some cases these sources can be tested by the data of central banks and statistical services of various countries which are the main recipients of Russian FDI.

My investigations shows that the outward FDI stock of Russian companies is about \$ 35-45 billion at the end of 2005 and \$ 40-50 billion nowadays. Russian outward FDI stocks exceed \$ 2 billion at least in five countries – Ukraine, Kazakhstan, Germany, the UK and Cyprus (various sources of statistics and results of spatial distribution of Russian FDI see Kuznetsov 2006, Kuznetsov 2007). Due to investigation of methodology my approach allows to compare FDI figures of Russia and OECD members. It is a third of the volume of traditional UNCTAD statistics because I exclude pseudo-FDI. However Russia is still among the leaders of outward FDI (table 2). In detail see the top list of Russian TNCs in the paragraph 1.3.

Table 2. The world league of outward FDI stock, 1.1.2006

No.	Country	Stock, \$ billion	No.	Country	Stock, \$ billion
–	World total	10,671.9	16	British Virgin Islands	123.2
1	USA	2,051.3	17	Russia (UNCTAD)	120.4
2	United Kingdom	1,238.0	18	Denmark	118.1
3	Germany	967.3	19	Ireland	117.9
4	France	853.2	20	Singapore	110.9
5	Netherlands	641.3	21	Taiwan, Province of China	97.3
6	Hong Kong, China	470.5	22	Finland	74.4
7	Canada	399.4	23	Brazil	71.6
8	Switzerland	394.8	24	Austria	67.2
9	Japan	386.6	25	Luxembourg	49.4
10	Belgium	386.3	26	China	46.3
11	Spain	381.3	27	Malaysia	44.5
12	Norway	365.1	28	Portugal	44.5
13	Italy	293.5	...	Russia (FDI of TNCs)	35.0 – 45.0
14	Sweden	202.8	29	Republic of Korea	36.5
15	Australia	159.2	30	Cayman Islands	33.7

Sources: UNCTAD 2006, author's estimate for Russia.

1.2. Motives of Russian “integrated business groups” internationalization

Due to the most popular in the scientific world conceptions the main standard motives for internationalization are market seeking, resource seeking, efficiency seeking and strategic asset seeking (e.g., Dunning 1998). In connection with these ideas the investment development path (IDP) theory is developed. The IDP theory suggests that countries tend to go through five stages (from “least developed” to “developed”), in which the country change its position in trans-border capital migration from being a net recipient to becoming a net source of FDI (UNCTAD 2006). Indeed, on the first stages of economic development national companies have few advantages for outward FDI.

For econometric purposes the current GDP per capita is used in IDP theory for measurement of the level of development. Due to Dr. Kalman Kalotay “the presence of the lower-middle income Russian Federation in the global top list of outward FDI is a major unexplained anomaly for ... the IDP theory” (Kalotay 2005). I absolutely agree with him that this problem exists, but I want to offer another way of solving the paradox.

The first part of my answer is mentioned above. We should examine only real FDI of Russian TNCs (including their illegal part) and not the whole volume of “capital flight”. Then we should take into account the size of Russian economy and calculate outward FDI stock per GDP. According to my estimates of FDI, in 2005 this indicator was approximately 5-6% in Russia while it was 9% in Brazil and 2% in China (two other large lower middle income countries).

The second part of my answer is more important. I see the paradox in misunderstanding of IDP theory. Who says that the stage of economic development can be measured by means of the current GDP per capita? Of course, countries usually develop forward. However during the 1990s Russia suffered decline of GDP due to post-communist transformation. In the 2000s the Russian industrial reconstruction was finished but not all results are displayed nowadays. Nevertheless we can find mainly former Soviet giants among the largest Russian TNCs. For example, Gazprom and Russian oil companies export huge volumes of gas and oil to Europe only due to the national Soviet investments in extracting and transportation infrastructure. Indeed, in 1990 the gas extraction in Russia was equal to the level of 2005 while the oil extraction was equal even to 110% of the level of 2005 (Rosstat 2006b). Then Gazprom and Lukoil make large FDI in the EU countries according to market seeking motives. Many other oil and gas exporters with lower middle income began their industrialization only in the 1960-1970s and built export infrastructure with investments of foreign TNCs.

Thus Russia (as other post-communist countries) is only formally at the second stage of IDP, while really underdeveloped countries are still at the stage of industrialization. Here I want to remember that Russian industrialization was finished in the 1930-1950s. As for only few Soviet TNCs among TNCs from developed countries in the 1970-1980s, it was a result of ideological barriers and planning character of the Russian economy. So it is necessary to investigate the Russian GDP per capita in constant prices during the long period, including scientific outlook (see the results of the leading Russian institute in the field of world economy – table 3).

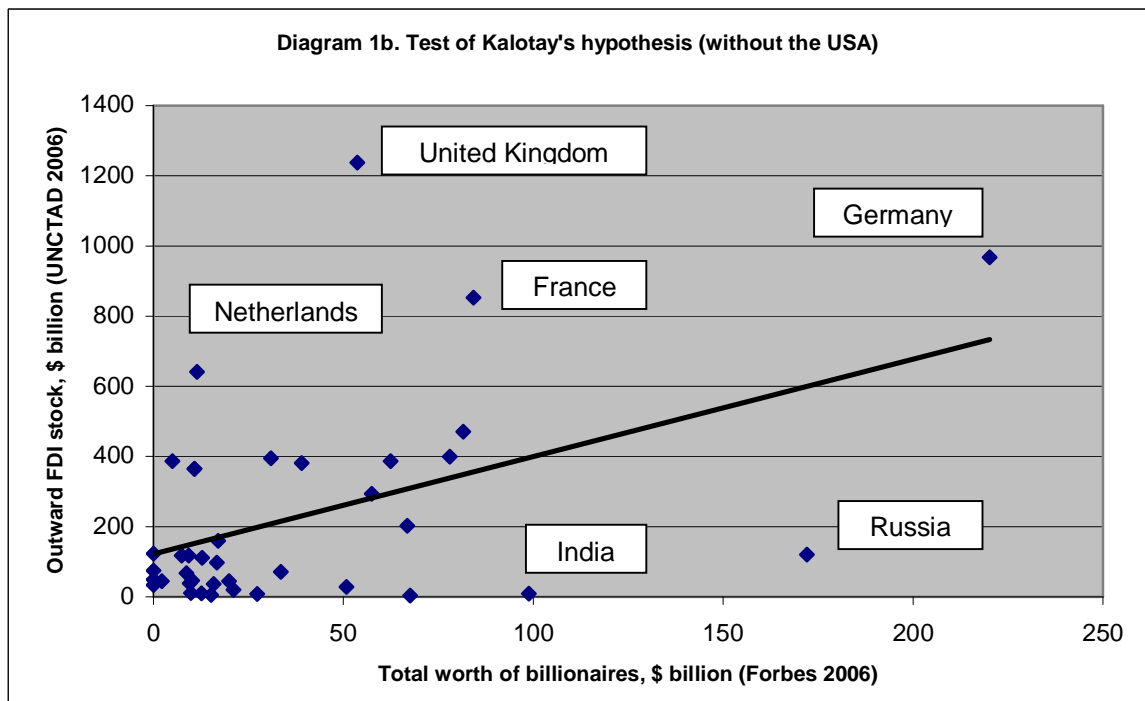
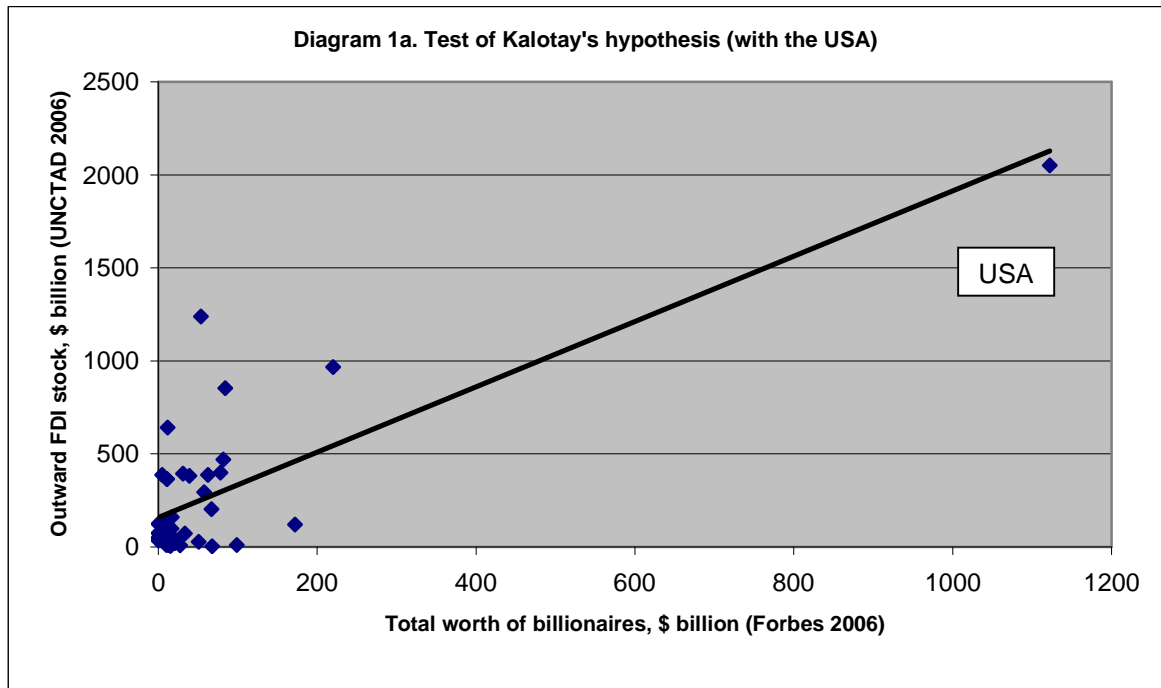
As for Kalotay's idea of the duality of the Russian economy, it is useful mainly for the explanation of "capital flight". I have tested his hypothesis of correlation between outward FDI stock and total worth of billionaires with the data for 2005-2006. I have repeated his results but this method is incorrect because of the USA. As the only world economic superpower with its huge inner market the USA focuses 42.5% of global worth of billionaires. Thus the sample from the same normal general set is not present. However without the USA correlation between two indicators is relatively modest.

Table 3. GDP per capita (in prices of 2005 by PPP) in the world league of outward FDI stock

No. by outward FDI stock (UNCTAD)	Country	1980		2005		2020	
		<i>place</i>	GDP per capita, \$ thousand	<i>place</i>	GDP per capita, \$ thousand	<i>place</i> (<i>out- look</i>)	GDP per capita, \$ thousand
1	USA	4	25.3	2	42.2	2	63.7
2	United Kingdom	23	17.8	13	32.0	13	44.2
3	Germany	19	19.9	21	29.3	22	40.6
4	France	14	20.7	19	30.1	23	40.4
5	Netherlands	3	26.5	11	32.8	21	40.8
6	Hong Kong, China	40	12.0	17	30.9	6	53.6
7	Canada	11	21.6	10	32.9	8	46.5
8	Switzerland	2	28.0	7	34.5	18	41.6
9	Japan	21	18.6	18	30.8	16	42.4
10	Belgium	15	20.4	12	32.4	19	41.3
11	Spain	28	15.0	24	26.1	28	36.4
12	Norway	9	22.3	4	40.4	4	55.7
13	Italy	17	19.9	22	29.0	24	40.0
14	Sweden	18	19.9	16	31.1	20	41.1
15	Australia	20	19.7	14	31.6	9	45.2
17	Russia	33	13.4	53	11.0	40	26.8
19	Ireland	31	13.8	3	40.9	7	48.1
20	Singapore	46	10.6	20	29.4	11	45.0
21	Province of Taiwan	62	7.0	23	27.5	5	53.7
23	Brazil	56	7.9	61	8.7	67	13.1
26	China	141	0.9	76	6.6	52	18.9
27	Malaysia	79	4.6	55	10.7	55	18.0
28	Portugal	38	12.3	33	20.2	39	28.7
29	Republic of Korea	73	5.3	30	21.8	17	42.3

Sources: Dynkin et al. 2007.

I have tested 40 countries (30 leaders from two partly coincidental top lists – one is ranked by outward FDI stock and another is ranked by worth of billionaires). I also have excluded the USA (diagrams 1a & 1b). In the first case the correlation is 0.77 but in the second one it is only 0.45. Mathematical conclusions have evident explanations. There are billionaires in the countries where portfolio investors dominate (for example, in Saudi Arabia and Kuwait). Also there are TNCs in the countries where shareholders' capitalism exists and there is no "oligarchs" in Russian terms (for example, in Finland and the Netherlands). There is no billionaires in off-shores at all, and so on.



Nevertheless, in fact, other FDI motives of Russian TNCs exist side by side with traditional four groups of motives. Moreover, many debates of researches can be explained by the real plurality of FDI motives of Russian TNCs. For example, it is false that any significant part of Russian FDI services the Russian foreign policy. However it is the truth that political aspects are taken into account in many cases (e.g., in the CIS the political support allows to soften local corruption pressure).

Among the most specific Russian FDI motives, which often combine with market and strategic asset seeking, I can mention:

- improvement of top-managers' image (in Russia the majority of TNCs are owned by "oligarchs" and these people can want to satisfy their ambitions to become global players, members of world elite and so on – in this aspect Kalotay's idea of duality may be productive however not because of the absence of low income industries ability to absorb investments of exporters)
- access to cheap financial resources from international stock exchanges for development of business in Russia (in many cases large FDI of Russian companies are connected with IPO in London or New York – the image of Russian economy remains bad, therefore companies had to pay for additional risks of creditors within Russia, including their imaginary fears)
- strengthening of negotiating power in the future dialogue between Russia and foreign countries (for example, with the EU due to the participation in the "European Round Table of Industrialists" – global status for a Russian firm is important both in conditions of trade protectionism of the EU countries against Russia and in the low competitive environment of the Russian economy)

As for "insurance" against confiscation of the property which was stolen during privatization, the example of Yukos showed its hopelessness. After Mikhail Khodorkovskij went to jail his company lost its significant assets in Lithuania and Slovakia without "help" of the Russian state. However some illegal motives still exist. For example, the Russian TNC under the state control can make FDI due to market seeking motives, which are usually combined with efficiency seeking motives in the CIS countries or strategic asset seeking motives in the EU, but at the same time some top-managers get a possibility to steal some money from incorrectly estimated price of investment project.

So far as "integrated business groups" are still the main units of Russian internationalization, instead of separate TNCs, some FDI motives can be understood only by examining various TNCs of the same owners. However I do not want to replace TNCs in my analysis with transnational "integrated business groups" because nowadays separate companies of different industrial specialization begin to play a more independent role even within such groups.

Here it is useful to determine exactly, what is one Russian TNC within “integrated business group”? Russian professor Yakov Pappé (Pappé 2002) offers to divide Russian business units into three levels:

- integrated business groups
- holdings within one separate branch of industry or services
- separate enterprises, including close networks of formally independent plants

I think TNCs mean holdings within separate branches (of course, with FDI). Such TNCs exist within Bazovyj Element (“integrated business group” of Oleg Deripaska), Renova (group of Viktor Vekselberg), Alfa (group of Mikhail Fridman), Interros (group of Vladimir Potanin), Severstal (group of Alexei Mordashov), Sistema (group of Vladimir Yevtushenkov), Industrial Investors (group of Sergei Generalov and others), the state-owned group of Gazprom and some others (Kuznetsov 2007).

The number of TNCs within an “integrated business group” is not connected with its size. For example, we can find two TNCs within Severstal-group (Severstal in metal industry and Severstaltrans in transportation) but four TNCs within Bazovyj Element:

- En+ (the main part is RusAl, non-ferrous metals and subsidiary energy sector)
- INGO (former Ingosstrach, insurance)
- GAZ (motor vehicles, the only foreign plant is situated in the UK)
- Sojuzmetallresurs (mining, golden assets are in Kyrgyzstan and Mongolia)

At the same time there were four TNCs within middle “integrated business group” Industrial Investors until 2006: Far Eastern Shipping Co. in transportation, Russkij Alcohol in beverages, Industrial Investors in metal industry and Agromashholding in machinery (since April 2006 it is the part of another independent TNC Tractor Plants).

After the recent merge of RusAl, SUAL and Glencore it is correctly to distinguish new RusAl and other assets of En+ (mainly in Montenegro, Romania as well) as two different TNCs. Here we can see the main exception from my approach. Indeed, some separate enterprises (the third level in terms of professor Yakov Pappé) can be considered as independent TNCs if they belongs to several “integrated business groups” (including famous foreign giants or the Russian state). The best example is VimpelCom. This separate telecom enterprise (which is the network of different firms) is a part of holding Altimo, which is a telecom TNC of Alfa-group. However VimpelCom is under joint control of Altimo and famous Norwegian TNC Telenor. Thus I offer to distinguish two telecom TNCs within Alfa-group – Altimo (a holding without VimpelCom) and VimpelCom (a separate company).

1.3. The top list of Russian TNCs

After I determine criteria for borders between TNCs it is correct to estimate their foreign assets. In general I agree with Peeter Vahtra and experts of UNCTAD (table 4), but there are several differences. UNCTAD forgot telecom companies. As for Yukos, I suppose, UNCTAD did not remember it because the ranking was made in 2006 although with figures for 2004. My sum for foreign assets of Altimeo and VimpelCom is equal to the estimate of Peeter Vahtra (thus it is the methodological specifics mentioned above). The differences in the data for Severstal and RusAl are insignificant because some acquisitions were made at the end of 2004 but formally closed only at the beginning of 2005.

Table 4. Russian top 10 non-financial TNCs ranked by foreign assets, various estimates

Company	Industry	Kuznetsov, 2004		Kuznetsov, 2005		UNCTAD, 2004		Vahtra, 2004	
		No.	\$ billion	No.	\$ billion	No.	\$ billion	No.	\$ billion
Lukoil	Oil and gas	1	7.8	1	9.9	2	7.8	2	10.7
Gazprom	Oil and gas	2	3.5	2	4.0	1	...	1	...
Norilsk Nickel	Non-ferrous metals	3	2.6	3	2.7	3	1.4	3	2.6
Sovkomflot	Transportation	4	1.5	5	2.1	-	...	-	...
RusAl	Non-ferrous metals	5	1.4	8	1.5	5	0.7	4	2.2
Novoship	Transportation	6	1.3	6	1.9	4	1.3	-	...
MTS	Telecommunications	7	1.2	7	1.9	-	...	5	1.2
Yukos	Oil and gas	8	0.6	-	0.3	-	...	8	0.6
Altimeo	Telecommunications	9	0.4	4	2.3	-	...	-	...
VimpelCom	Telecommunications	10	0.4	-	0.2	-	...	6	0.9
Severstal	Ferrous metals	-	0.3	9	0.9	7	0.2	7	0.7
OMZ	Machine building	-	0.2	-	0.3	6	0.3	10	0.3
Evrax	Ferrous metals	-	0.2	10	0.5	-	...	-	...
Rosneft	Oil and gas	-	0.1	-	0.1	-	...	9	0.3
Mechel	Ferrous metals	-	0.1	-	0.1	8	0.1	-	...

Sources: UNCTAD 2006, Vahtra 2006, Company information and author's calculations.

I do not know the primary sources of assets statistics in the case of Lukoil. There is no official information for this company, especially about the exact value of its approximately 6,000 service stations in almost 20 foreign countries. Some of its industrial projects (both in extraction and refinery) are in the process of realization. Thus announced figures sometimes exceed real investments significantly. That is why I prefer a modest estimate of UNCTAD.

In the case of OMZ there is a mistake without doubts. The volume of its assets is less than \$ 347 million as UNCTAD and Vahtra wrote. In 2004 this company split in two

companies – new OMZ (with main foreign assets in the Czech Republic) and Morskije i Neftegazovyje Projekty (with main foreign assets in the USA and Ukraine). As for Romanian subsidiary Upet, it was sold at the end of 2004. Moreover, in 2006 another Russian firm Gruppa Generatsija acquired it for \$ 14 million.

The main problem is the size of foreign assets of Gazprom. This company has low financial transparency, however not because of some aims of the Russian foreign policy. Investment plans of Gazprom is vague even within Russia. Of course, it is easy to find information about current plans of the company in the regions of Russia. However it is very difficult to know the exact price of separate objects.

Due to foreign sources of official statistics of Russian FDI (e.g., Deutsche Bundesbank 2007, Oesterreichische Nationalbank 2007, etc.) and information about recent acquisitions I can guess that official FDI of Gazprom are less than \$ 4 billion. May be there were some large reinvestments (especially in Germany) but even then its foreign assets are about \$ 5-6 billion. There are several reasons for my opinion.

The company began to make FDI only in the 1990s. Thus we cannot expect that its assets are significantly underestimated (on the contrary, such examples can be easily found in Mongolia in the case of mineral companies established in the 1970s: Mongolrostsvetmet and Erdenet). Furthermore, before the 2000s Gazprom had insufficient resources even for important Russian projects (we can remember Sakhalin and Shtockman).

Also there are several delusions about Gazprom's acquisitions that circulate during several years. However Gazprom did not pay for its option for 16.3% in Slovakian SPP (the price was \$ 0.9 billion, but Gazprom had also plans to participate in the second stage of privatization). Moreover, Gazprom do not control chemical giant Borsod Chem in Hungary. Indeed, till the end of 2006 a significant stake of this company was under control of one Russian family Rahimkulov, but their informal ties with the top-management of Gazprom disappeared in the 1990s.

The most expensive assets of Gazprom are infrastructural objects. So they are situated in countries where Gazprom sells its gas. Indeed, its FDI exceed \$ 1 billion in Germany because the Russian giant owns the largest gas-holder in Western Europe and some other objects (within joint companies). May be the real price of its assets in Germany is

\$ 2-3 billion. Also Gazprom has significant assets in Poland (its official FDI are \$ 0.4 billion), Austria (FDI are less than \$ 1 billion anyway), Estonia, Latvia and Lithuania (approximately \$ 0.5 billion total, the main assets are Kaunas power station, 34% of Lietuvos dujos, 34% of Latvijas Gaze and 37% of Eesti Gaas). In the CIS Armenia is the leading recipient. Real money from Gazprom appeared in that country only in 2002 (the company paid Itera its debt). Nowadays its investments are less than \$ 0.2 billion.

Another result of my investigations is the conclusion that among Russian TNCs there are a lot of non-resource based firms (table 5).

Table 5. Russian top 50 non-financial companies ranked by foreign assets, 1.1.2007

Foreign assets, \$ billion	Companies
More than 10.0	Lukoil ¹
2.0 – 6.0	Gazprom ¹ , RusAl ⁵ , Sovkomflot ¹² , MTS ¹³ , Novoship ¹² , Altimo ¹³
1.0 – 2.0	Norilsk Nickel ⁵ , Zarubezhneft ¹ , Evraz ⁴
0.5 – 1.0	VimpelCom ¹³ , Severstal ⁴ , UES of Russia ¹¹
0.2 – 0.5	Alosa ³ , Amtel-Vredestein ⁷ , Prisco ¹² , OMZ ¹⁰ , Itera ¹ , Slavneft ¹ , Sojuzneftegaz ¹ , MAIR ⁴ , Severstaltrans ¹²
0.1 – 0.2	Sitronics ¹⁰ , Chelyabinsk Tube Rolling Plant Group ^{4,5} , Alliance Group ¹ , Rosneft ¹ , National Reserve Corp. ^{1,10} , TNK-BP ¹ , Mechel ⁴ , En+ (without RusAl) ^{5,11} , NLMK ⁴
0.07 – 0.10	Eurocement ⁶ , Far Eastern Shipping Co. ¹² , NPO Mashinostroyenia ¹⁰ , SUAL ⁵ , Vostok-Service ⁸ , Russkij Solod ⁹ , Tractor Plants ¹⁰
0.04 – 0.07	Transnefteproduct ¹² , S.P.I. Group ⁹ , Akron ⁷ , GAZ ¹⁰ , Sistema Telecom (without MTS) ¹³ , Kuzbassrazrezugol ² , Industrial Investors (metal branch) ^{4,5} , Eldorado ¹⁴ , Wimm-Bill-Dann ⁹ , Mezhrespublikanskij Vinzavod ⁹ , TMK ⁴ , Transmashholding ¹⁰

¹ – oil and gas	⁶ – construction materials	¹¹ – electrical energy
² – coal	⁷ – chemicals	¹² – transportation
³ – non-metal mineral mining	⁸ – means of protection	¹³ – telecommunications
⁴ – ferrous metals	⁹ – beverages	¹⁴ – trade
⁵ – non-ferrous metals	¹⁰ – machine building	

Sources: Company information, author's calculations.

Also the list of Russian transnational banks becomes longer every year. Besides famous VTB I can also note Alfa-bank (subsidiaries in the Netherlands, Ukraine, Kazakhstan, the USA and the UK), Sberbank (subsidiaries in Kazakhstan and Ukraine), Rosbank (subsidiaries in Switzerland and Belarus), Konversbank (it controls

Snoras in Lithuania, Latvijas Krajbanka in Latvia and former Pointon York in the UK), Bank of Moscow (it controls Moscow – Minsk bank in Belarus, Latvijas Biznesa Banka in Latvia, Eesti Krediidipank in Estonia and BM Bank in Ukraine) and some others.

Of course, when we see relatively small FDI volumes of Russian industrial companies the question appears whether foreign activities of these firms are accidental or they are young TNCs. It is useful to remember the discussion of Russian economists in the 1980s about Korean, Latin-American and Chinese multinational companies (e.g., Bereznoi 1986). It was popular to divide all direct investors into real TNCs and other investors, including pseudo-TNCs (Ivanov 1976, etc.). Such approach needs modern corrections, but it can be really productive in comparison with the definition of UNCTAD (for this organization a TNC and a firm with outward FDI are synonyms).

I think there are five significant criteria of real TNCs:

- Leading positions in a branch (typically in the world but in the case of Russian TNCs average age we can investigate the situation within home country). Thus we cannot omit industries with relatively small plants, for example, beverages. Wimm-Bill-Dann is on the 47th place among Russian non-financial TNCs but it is the leading company in Russian juice and milk industries. It acquired plants and then modernized them in Ukraine (in 2000 in Kiev and two years later two plants in border regions of Eastern Ukraine), Kyrgyzstan and Uzbekistan.
- Foreign subsidiaries, which produce goods or services in main fields of company specialization. Thus we can exclude pure exporters with small trade offices abroad.
- Significant number of host countries (typically we need at least 5-10 countries). Of course, not all firms of my top list are real TNCs due to this criterion. However many Russian companies began to make FDI only in 2005-2006 and they will develop their investment expansion rapidly. Furthermore, some relatively small companies have FDI in several countries. For example, Tractor Plants owns factories in Kazakhstan and Ukraine (former assets of Agromashholding), Belarus, the Republic of Moldova and even Denmark as well.
- High transnationalization index (TNI). So far as the share of exports in the whole turnover forms 1/3 of TNI and almost all Russian TNCs from my top list are significant exporters, they can maximize their TNI even without huge FDI.

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- Global strategy and multinational top-management. However it is very difficult to know about real plans and motives of Russian “oligarchs”. Also it is almost impossible in some cases to define whether an independent member of the Board (even a foreigner) is really independent.

At the end of this section I want to stress that there are many tasks for researches of Russian TNCs but their investment expansion is the fact. Some Russian FDI are pseudo-FDI but even with legal investments of real (although usually young) TNCs Russia stays firmly in the top list of 30 countries, ranked by outward FDI stock. However the problem of adequate research methods for Russian TNCs is more complicated. There are several different types of Russian TNCs and some of them have absolutely different nature while several sub-types can merge in the future. Moreover, the reaction of host-countries varies significantly depending on the type of Russian TNC. And the state control is not the main thing. For example, state-owned NPO Mashinostroyenia has successfully invested more than \$ 100 million in joint venture BrahMos in India, because this military-industrial corporation acts as a “classic” TNC from a developed country due to transfer of technology in Russian traditionally competitive niche.

2. Prospects of Russian TNCs

In this paper I do not have the aim to make a detailed survey of all Russian companies with significant volume of foreign assets. I show only typical examples of TNCs, their main features and problems of their further investment expansion. As for detailed information about their projects abroad, many articles exist nowadays, even in English (Vahtra 2006, RusAI 2006, Weiner 2006, Lisitsyn et al. 2005, UNCTAD 2005b and also many case studies).

2.1. Main types of Russian TNCs

The most obvious basis for a typology of Russian TNCs is their history which influences on the modern features of their internationalization. Firstly, I can note former Soviet TNCs (so named “red multinationals”). They existed in planned economy which essence absolutely differed from principles of market economy. Although some experts think that these “strange animals ... disappeared with the economic system that generated them” (Andreff 2003), in fact, some of successors of Soviet enterprises abroad are still alive. Moreover, several largest Russian TNCs of this type develop their internationalization. Secondly, I should note “classic” TNCs, that can be found in any country with FDI outflows. Of course, these TNCs dominate among Russian investors as well. Thirdly, 15 countries in Eurasia were the parts of one country during many decades and there was a relatively short space of time between the split of the Soviet Union and the mass internationalization of Russian companies. It is not matter for FDI analysis how we estimate events of 1991. Whether it was the end of the Russian (Soviet) empire or the loss of “primordial” Russian lands, in several months plenty of integrated economic regions, networks of plants and even families were divided by state borders. Moreover, during the 1990s the majority of these borders were fictitious for economic relations (even when political leaders thought otherwise). Thus the simple reconstruction of torn economic ties in the post-Soviet territories led to the birth of Russian TNCs. At last, fourthly, shady times of half-criminal privatization and instable reforms of the 1990s gave birth to various Russian pseudo-TNCs.

Although I am the first researcher who has divided all Russian TNCs into these four types, many scientists described some features of just such types before me. However the spectrum of Russian TNCs is more complicated. Within any type distinguished due

to its history I study various sub-types depending on the basis for their investment expansion (table 6).

Table 6. Types of Russian TNCs

Type	Sub-type	Best examples	Industry of TNC
Successors of Soviet enterprises abroad	Transformed giants under the state control	VTB (Vneshtorgbank) Zarubezhneft	Banks Oil and gas
	Fragments of “red” TNCs under the state control	Mongolrostsvetmet Tento (Technointorg)	Mining Foreign trade
	Privatized Soviet TNCs	INGO (Ingosstrach) Sojuzvneshtrans	Insurance Transportation
“Classic” TNCs	Private and state-owned firms formed on the base of famous Soviet plants and internationalized in the 90s (<i>“classic” TNCs of developed countries</i>)	Lukoil RusAl Evraz OMZ	Oil and gas Non-ferrous metals Ferrous metals Machine building
	New (usually private) firms – children of liberal reforms (<i>“classic” TNCs of developing countries</i>)	Sitronics Conversbank Eldorado Gloria Jeans	Machine building Banks Trade Sewing
TNCs arisen due to the “civilized” divorce of former Soviet republics	Private and state-owned networks of plants or service companies	UES of Russia Severstaltrans Tractor Plants	Electrical energy Transportation Machine building
	Private Russian firms internationalized due to foreign strategic investors	MTS VimpelCom TNK-BP	Telecommunications Telecommunications Oil and gas
Pseudo-TNCs	Private and state-owned shipping companies with legal “capital flight”	Sovkomflot Novoship Prisco	Transportation Transportation Transportation
	Firms for round-tripping FDI and “capital flight”	Various small companies in Cyprus	Business services

Source: author’s investigations.

The basis for investment expansion of Russian TNCs consists of:

- economic potential
- previous international business experience
- long-term aims of top-managers

For example, small fragments of “red” TNCs under the state control have a very limited economic potential. Thus if they have even any competitive advantages they will exploit their old foreign assets and never will change into “classic” TNC. It seems that their acquisition by another Russian TNC is more probable. On the contrary, transformed

giants under the state control can develop their internationalization and add new foreign assets to their Soviet inheritance abroad. Furthermore, state-owned TNCs, unlike privatized giants, can receive financial or political state support even nowadays. For example, in December of 2005 state-owned VTB (Vneshtorgbank) got \$ 1.3 billion from the Russian federal budget for the purchase of former “Soviet banks abroad” shares (in London, Paris, Frankfurt/Main, Luxembourg and Vienna).

The main difference between two sub-types of “classic” TNCs consists of both economic potential and previous international business experience. Many famous private and state-owned Russian firms, in contrast to large successors of Soviet enterprises abroad, began to make FDI only in the 1990s or even in the 2000s. However they were exporters and due to favourable state of oil or metal markets received huge financial means and could force their way into the world top list of TNCs. Furthermore, as experienced exporters, they knew both neighbour and remote foreign markets. As a result they began to invest worldwide. On the contrary, new firms usually limit their spatial expansion to the neighbour countries because of lack of experience and money.

Two sub-types among the TNCs arisen due to the “civilized” divorce of former Soviet republics illustrate the influence of long-term aims of top-managers. Top-managers of former Soviet networks have ambitions to become global players very rarely. Even the chief of UES of Russia Anatoly Chubais with his utopian concept of “liberal empire” decided to invest within the CIS. The only exception was an attempt to buy power station in Bulgaria (by the way, in Soviet period that Slavonic country has nickname “the 16th republic of the USSR”). However even this project failed. On the contrary, top-managers of joint companies usually have plans to exploit resources of their foreign strategic partners only at the beginning of internationalization (while foreign TNCs try to conquer the whole CIS under support of Russian partners). Then they can buy the stake of foreigners and try to make FDI outside the CIS (the best example is MTS which started its successful internationalization with Deutsche Telekom).

Of course, it is difficult to classify several TNCs at all. For instance, on the one hand, Gazprom is a typical successor of Soviet enterprises abroad. Its subsidiary Sojuzgazexport established long-term contacts in foreign countries since the 1970s. But on the other hand, Gazprom became the company only in 1989, while it was an ordinary state ministry before Perestroika. The most part of its investments was

exported in 1991 or later. Thus only political aspects of Gazprom's expansion prevent us from classifying this company as a "classic TNC" (although under the state control). Because of such problems I show specifics of sub-types in the next paragraphs in detail.

2.2. Successors of Soviet enterprises abroad

TNCs of this type own the oldest foreign assets under the Russian control. For example, the main subsidiary of state-owned Vneshtorgbank is Moscow Narodny Bank (a part of VTB Europe) which was established in London in 1912. It was nationalized after the Bolshevik October Revolution and nowadays Vneshtorgbank controls 88.9% of its shares. Another Vneshtorgbank's subsidiary is former Banque Commerciale pour l'Europe du Nord – EUROBANK, which was acquired in Paris in 1925. At the present time the Russian banking giant controls 87% of its shares. Several Vneshtorgbank's subsidiaries were established in other developed countries in the 1970s. All of them supported the Soviet foreign trade. Therefore their status became indefinite in the 1990s. However the Central Bank of Russia stopped their illegal privatization and then these foreign banks became a "gift" for Vneshtorgbank.

In the market conditions Vneshtorgbank tries to transform itself into the "classic" bank. That is why it develops mainly its business within Russia and establishes new subsidiaries only in countries where the Russian trade reputation is relatively high and the Russian state has intentions to develop close economic relations (e.g., Ukraine, Armenia, Vietnam, Angola, etc.).

Zarubezhneft is also a transformed state-owned giant. Due to its specialization in oil extraction this company had a subsidiary only in socialist Vietnam during the Soviet period. However the modern strategy of this TNC looks like the strategy of Vneshtorgbank. Zarubezhneft tries to use its revenues from Vietnam for the quick development of its business at home. Besides oil extraction in Russia Zarubezhneft makes relatively small FDI. It realizes plans to extract oil in Turkmenistan, Kazakhstan and some developing countries outside the CIS. Also the company diversifies its business by acquisition of a refinery and a chemical plant in Bosnia.

The prospects of such TNCs are more or less evident. They will concentrate on their activities in Russia, however they will continue to diversify their business abroad. Their

FDI will grow rapidly in the CIS and even in Africa, India or Middle East while their position will change insignificantly in their first host countries (which are the EU members or former socialist countries). In the future these firms can become “classic” TNCs regardless of their state or privatized status.

The sub-type of privatized Soviet giants has two specific features. Firstly, they do not have special intentions to support the economic expansion of the Russian state (while Vneshtorgbank went to Angola because state-owned TNCs Alrosa and Zarubezhneft made FDI in that country). Secondly, privatized companies do not have any financial support from the Russian state. As a result their new FDI are relatively small and are usually located in the CIS. For example, Ingosstrach was the leading Soviet insurance company abroad. It established Black Sea & Baltic in the UK and SOVAG in Germany in 1925 and built subsidiaries in Austria, Finland and the Netherlands after the Second World War. After Ingosstach’s privatization newly organized INGO made only small FDI in Belarus, Kyrgyzstan, Armenia and Ukraine.

In all such privatized TNCs Soviet assets will play a significant role in comparison to their new FDI projects even in the future. For instance, Sojuzvneshttrans works as before in Iran and Afghanistan where its subsidiaries Irsotr and Afsotr were established in the 1970s.

As for fragments of “red” TNCs, their prospects are vague. Some of them do not have any economic basis in Russia. For example, Mongolrostsvetmet and Erdenet are joint ventures of the Russian and Mongolian governments. In the future they can only be liquidated, sold or become parts of other TNCs. All these variants were realized in the 1990s with other “red” TNCs. For example, the largest Soviet trade firm in the USA Amtorg was liquidated, the stake in a retailer of Russian motor cars Scaldia-Volga was sold to Belgium partners while Ulan-Bator Railways became the joint venture of Russian Railways in Mongolia.

Another group of “red” TNCs consists of state trade organizations. Sometimes it is difficult to estimate their real control over foreign subsidiaries. The best example is Stankoimport which was established in 1930. Formally it controls more than 30 companies worldwide however in fact the most part of them lost their ties with the mother Russian company. Only few trade firms publicize their subsidiaries abroad. For instance, Technointorg (Tento) puts information on its Internet-site about subsidiaries in

the UK, France, Finland, Australia and Germany (although the main foreign activities of this company are connected with Belarus and Armenia). The prospects of these companies are vague too, especially after their possible privatization.

2.3. “Classic” TNCs

These Russian TNCs are numerous. The majority of companies are private however there are also several TNCs under the state control. For example, state-owned oil company Rosneft has significant foreign assets in some CIS countries and Algeria, while Alrosa participates in several projects in Angola, including diamond mines of Catoca, processing enterprise Camatchia-Camagico and power station Hydrochicapa (it is still under construction).

The “classic” character means that such Russian TNCs are similar to TNCs from other countries. Nevertheless there is one important peculiarity. The most part of famous Russian TNCs are oil and metal companies. However their FDI distribution shows their common features with TNCs from developed countries, where non-natural resource-based companies usually dominate. Russian oil and metal TNCs make FDI all over the world like famous European, American or Japanese TNCs. For example, RusAl has taken over bauxite mines or non-ferrous metal plants in Ukraine, Armenia, Italia, Australia, Guinea, Nigeria and Guyana. Some leading Russian TNCs almost ignore neighbour countries of the CIS. For example, Evraz has invested in industrial companies only in the Czech Republic, Italy, the USA and South Africa (however I can remember its unsuccessful attempt in Georgia) while NLMK has FDI only in steel enterprises within the EU (in particular, this company has just invested almost \$ 1 billion in joint company with Italian Duferco).

Moreover, Russian TNCs based on famous Soviet giants often begin modernization of acquired companies, although strategic asset seeking motives are also exist. For instance, Lukoil makes reconstruction of refineries in Ukraine, Bulgaria and Romania while Kuzbassrazrezugol has plans to reanimate coal mines of Powerfuel in the UK.

On the contrary, many Russian TNCs from non-natural resource-based are small and prefer to invest in the CIS countries or Central Europe. For example, the telecom equipment producer Sitronics has owned Strom Telecom in the Czech Republic since 2002, Kvazar Micro in Ukraine since 2004 and Intracom Telecom in Greece since

2006. The retail company Eldorado has started the development of its networks in Kazakhstan and Ukraine. Several private banks has established their subsidiaries in neighbour countries. And so on. Such companies can invest worldwide only in small laboratories according to strategic asset seeking motives. For example, former cooperative society Gloria Jeans is the leading Russian producer of jeans. It has a sewing factory in Ukraine and resource subsidiaries in China while its design laboratories are situated in Milan (Italy), Chicago (the USA) and Sao Paulo (Brazil). In many cases such new companies look like TNCs from developing countries because of their limited economic potential.

There is no clear border between two sub-types of Russian “classic” TNCs. Some “children of liberal reforms” take over former Soviet giants and thus get their economic potential. For example, Vostok-Service was established in 1992 as an intermediary firm. Then Vostok-Service took over some producers of special footwear and means of protection in Russia and began to develop market subsidiaries in the CIS. In 2006 this firm acquired a plant in the Czech Republic and large retail networks of Červa in various CEE countries. At the same time many former Soviet giants do not try to develop their FDI expansion. For instance, the leading Russian producer of fertilizers Akron has industrial subsidiaries only in China, while his large competitor Eurohim controls only one plant in Lithuania.

As for prospects of “classic” TNCs, I suppose all former Soviet giants will start to invest abroad in 2-3 years if they have any competitive advantages. However the whole amount of Russian TNCs will continue to grow later because some middle firms from the group of “children of liberal reforms” will begin their investment expansion too. The majority of FDI deals will be acquisitions, although greenfield FDI will be possible.

Large Russian “classic” TNCs will invest worldwide, while young firms will prefer to invest in the CIS (according to market seeking motives). Sometimes middle Russian TNCs will make FDI in the EU, the United States (according to strategic asset seeking motives) or even in Brazil and Newly Industrialized Asian economies (by the aim to develop cooperation with leaders of emerging markets). I suppose that large mergers with Western leaders will be very rare, including unsuccessful attempts (like Severstal’s unrealized merge with Arcelor in 2006). However some growing middle Russian TNCs will be acquired by leading TNCs from developed countries.

2.4. TNCs arisen due to the “civilized” divorce of former Soviet republics

The most famous Russian TNC of this type is UES of Russia. Its FDI are based on the united energy system of the former Soviet Union. However there are also several other networks of firms in the post-Soviet area, including Estonia and Latvia. For example, Severstaltrans tries to control export infrastructure with FDI. That is why this company has owned railway operator Spacecom in Estonia since 2003 and has taken over terminals of Estonian Oil Service and Trendgate. Moreover, Severstaltrans owns 70% of shares of Daugavpils locomotive repair-works. Outside these two countries Severstaltrans has never acquired any foreign assets. Also some post-Soviet networks exist in strategic resource-based industries. For instance, nuclear state-owned company TVEL participates in uranium mine Zarechnoye in Kazakhstan.

Nevertheless I suppose that political motives are not dominating for such investment expansion. The decline of Konstantin Grigorishin’s financial empire in Ukraine shows that Russian investors can be successful in the CIS countries only if their foreign subsidiaries have strong economic ties with their Russian enterprises. Indeed, Energy Standard Group of Grigorishin controlled 16 regional electric companies and several machine-building plants in Ukraine in 2001 (via Switzerland). However Grigorishin’s empire had no economic roots in Russia and its leader’s political activities in Ukraine led to the end of the whole investment expansion in the middle of the 2000s.

Networks of plants or service companies usually make FDI only in the CIS. However sometimes they try to reconstruct economic ties in Central Europe too. For example, Transmashholding has acquired Fahrzeugtechnik Dessau in East Germany. Also this Russian TNCs has taken over Rigas Elektromašīnbūves Rūpnīca in Latvia and has established joint venture in Pavlodar (Kazakhstan). By means of these deals Transmashholding wants to diversify its production of locomotives, carriages, refrigerators and other railway vehicles and makes its value chains more reliable due to internalizing of external processes.

In the future TNCs arisen due to the “civilized” divorce of former Soviet republics will not get many incentives to make FDI outside the CIS. However some of these companies can transform into “classic” TNCs and begin to invest worldwide. First example has already appeared. It is Tractor Plants with industrial FDI in Denmark.

As for another sub-type, I suppose that private Russian firms internationalized due to foreign strategic investors will probably disappear. Even nowadays there are few TNCs of this type. MTS has already acquired the stake of its German partner (however the spatial expansion of MTS in Belarus, Ukraine, Uzbekistan and Turkmenistan was realized in the period of Deutsche Telekom's participation).

VimpelCom repeats the strategy of MTS. Before 1998 VimpelCom was a local telecom operator in Moscow region. After Norwegian Telenor acquired almost 30% of its shares VimpelCom began to conquer other Russian regions. In 2004 this company made its first FDI in Kazakhstan. In 2005-2006 Vimpelcom took over telecom companies in Ukraine, Tajikistan, Uzbekistan, Georgia and Armenia. At the same period conflict between Telenor and VimpelCom's main owner Altimo began.

Amtel was found by Singaporean businessman Gupta, who acquired several Russian producers of tires. However Russian partners (especially from Alfa-Group) increased their role after Amtel sold its assets in Ukraine and realized the merge with Vredestein in the Netherlands. Nevertheless some experts consider Amtel-Vredestein as non-Russian company. Also it is arguable whether TNK-BP is a Russian TNC with FDI in Ukraine or a subsidiary of a British oil giant.

2.5. Pseudo-TNCs

I suppose it is useful to make only several comments on this type of TNCs. Its existence became the consequence of instable Russian economic and political situation during the 1990s. Shipping companies transferred their oil tankers and other ships to Cyprus, Malta, Liberia and other countries of "cheap flags" in that period because there were no Russian International Register and conditions for investments in shipbuilding were unfavourable.

Nowadays Russian internationalized shipping companies begin to transform into "classic" transport TNCs. They acquire foreign shipping companies (for example, Sovkomflot and Novoship have taken over Spanish firm Marpetrol). Also they have stakes in infrastructural companies abroad (for instance, Prisco controls a producer of ship paints in Hong Kong and various agent firms in the USA, Australia and some Asian countries).

As for offshore companies, they participate in various manipulations with Russian assets. For example, three small Cypriot companies with Russian capital acquired large Stoylensk ore processing factory near Lipetsk in 2004. In fact, these companies were not independent – Limtan Investments Ltd., Aheron Investments Ltd. and Omnilax Holdings Ltd. were under control of Russian metal giant NLMK. Thus the prospects of such pseudo-TNCs exclusively depend on the Russian investment climate and features of Russian national business culture (see the detailed analysis of the problem in: Pelto et al. 2003).

2.6. Main general barriers to the Russian investment expansion

The prospects of all types of Russian TNCs show that the EU and CIS countries will stay as the main geographical vectors for the Russian outward FDI. Only several former Soviet giants can be classified as “classic” TNCs of developed countries and, indeed, they have possibilities to invest worldwide. The majority of young Russian TNCs does not have necessary financial resources and experience for their expansion outside neighbour countries. Moreover, their limited competitive advantages allow successful market- or efficiency-oriented FDI only in comfortable conditions of post-communist countries of the CIS and Central Europe. The rare exceptions can usually be explained by strategic asset seeking motives, but such FDI are often connected with the EU countries too (however with Western European members).

At the same time Russian TNCs have negative image just in some neighbour countries. Indeed, many fears exist in the EU and CIS countries (e.g., Zashev 2005), while African or Latin-American countries consider Russian TNCs as a good alternative to traditional investors from the USA, European countries or even South Africa and China. The main defects of Russian investors’ image in the EU and CIS countries are their low standards of business culture and possible “imperialist” aims.

Corruption is a real problem of Russia. However its “export” to the recipients of Russian FDI depends on their own business culture. If some post-communist officials are bribers they will get bribes from some Russian managers. Thus it is a simplification to find problems only in Russia. For example, I suppose it is sophistry to distinguish Russian and Ukrainian business cultures.

As for political aspects of Russian investment expansion, it is mainly the result of phobias abroad. Of course, the Russian state has its own political interests. However the majority of Russian private TNCs pursue their own economic interests in neighbour countries. It is obvious at least for Russians. Indeed, if the Russian state cannot force private business to pay adequate salaries and other social expenses (including educational and R&D) inside the country, how can this state force the same TNCs to support its foreign policy?

In such circumstances the adequate state investment policy is very necessary. Unfortunately, I cannot see such well-considered policy yet. Furthermore, sometimes existing separate measures have a lack of economic pragmatism of the Russian state. I suppose, it is useful to support the diversification of Russian economic relations, including investment expansion. It means various incentives for middle TNCs in Africa and other developing countries, where they cannot make FDI otherwise because of high political risks. On the contrary, Russian Ministry of Foreign Affairs signs special agreements with large TNCs (e.g., Russian Railways, UES of Russia, etc.) which make FDI in neighbour countries with comfortable investment climate for Russian business.

Conclusions

The past four years have witnessed the rapid growth of Russian FDI outflows. Such strong internationalization of Russian companies astonishes many experts. Nevertheless I suppose the Russian investment expansion has not reached its peak. Many new Russian TNCs can appear in next few years. In fact, scientists underestimate the whole economic potential of Russia because the deep industrial decline during the Russian transformation of the 1990s. However many Soviet giants and new Russian firms have competitive advantages and their owners want to be global players.

Furthermore, modern Russian TNCs make up a very heterogeneous group. Indeed, some companies can internationalize not only due to their competitive advantages but thanks to their special features inherited from the Soviet past. I can see at least four various types of Russian TNCs:

- 1) successors of Soviet enterprises abroad;
- 2) "classic" TNCs;
- 3) TNCs arisen due to the "civilized" divorce of former Soviet republics;
- 4) pseudo-TNCs.

The most widespread type is "classic" TNCs, however some famous Russian TNCs belong to other types (e.g., Vneshtorgbank, VimpelCom, UES of Russia, Novoship, etc.). However I suppose the majority of Russian TNCs will transform into "classic" TNCs. Nevertheless Russian "classic" TNCs can differ too. There are "classic" TNCs of developed countries and "classic" TNCs of developing countries. The first group consists of large companies organized on the base of famous Soviet plants (for instance, Lukoil, Norilsk Nickel, RusAl, Severstal, Evraz, OMZ and so on). They can make FDI worldwide according to various motives. The second group consists of new firms which are "children of liberal reforms". Typical examples are telecom producer Sitronics, Conversbank, retailer Eldorado, sewing company Gloria Jeans, etc. Their investment expansion is usually limited because of the lack of experience and financial resources. They prefer to invest in the EU and the CIS, especially in neighbour countries. However such companies can demonstrate strategic asset seeking motives when they make modest FDI in other countries.

At the end I want to stress the necessity of changing the whole attitude to Russian TNCs. Foreign experts should divide real problems and false stereotypes. Russians should improve their business culture and elaborate the state support measures of national TNCs' investment expansion which are adequate for market economy.

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