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Review

Russian transnationals and international investment paradigms

Kalman Kalotay *

Palais des Nations, CH-1211 Geneve 10, Switzerland

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Abstract

This paper explores the main features of outward foreign direct investment by Russian transnational corporations – referred to as 'eagle multinationals' in the literature – and some of the implications of their recent rise to global prominence (since the 1990s) for the paradigms of international investment. Surprisingly, lower middle-income Russia is already a net capital exporter, and some of its firms, to mention Gazprom, Lukoil, Mechel, Norilsk Nickel and Severstal, for example, have already leapfrogged to a global status. The paper aims also at identifying issues for further analysis, such as the growing role of the state in controlling natural resource-based firms and its implications for the future of the Russian transnationals. This paper suggests that different investment paradigms fare divergently in trying to explain outward FDI from the Russian Federation. For example, the eclectic paradigm could be applied to Russian transnationals with some extension on home-country factors. Other theories, however, would require more radical re-thinking in future research.

JEL classification: F23; F21; L71; O52; Q34

Keywords: Russia; Eagle multinational; TNC; Outward FDI; Natural resources; Global firms

Contents

* Tel.: +41 22 907 50 99; fax: +41 22 907 01 94.
E-mail address: Kalman.Kalotay@unctad.org.

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1. Introduction

In one of the latest reminders about the rise of Russian corporations – referred to as 'eagle multinationals' in the literature (Liuhto and Jumpponen, 2003) – the (majority) state-owned natural gas monopoly Gazprom was reported to become in April 2006 the world's third largest company by market valuation (US$ 270 billion), behind two U.S. firms, Exxon Mobil and General Electric (US$ 381 and US$ 358 billion, respectively), and ahead of another U.S. company, Microsoft (US$ 246 billion; Bloomberg, 2006). Largeness itself however is not necessarily a sign of international reach. In theory, there exist huge uninational firms, especially in utilities, which should fall outside the purview of international business analysis. In the case of at least some of the large Russian firms, including Gazprom itself, that is not the case. As will be demonstrated later on, they are important outward investors, making the Russian Federation probably one of the most dynamic sources of outward foreign direct investment (FDI) worldwide. It will be suggested that the outward FDI stock of the Russian Federation grew quicker in 1999–2004 than in any other country, making it by 2004 the 20th most important source of FDI globally.

The rapid rise of the Russian Federation to a global investor status may surprise some observers. Emerging corporations from the developing world, such as China, India or West Asia, have been more often expected to move into the global scene than firms from an economy in transition. The latter would seem to possess less experience in thriving under competitive international market conditions. The emergence of the Russian Federation as a major source of outward FDI hence puts on test the existing paradigms on international investment. Can the behaviour of Russian firms abroad be explained by applying those theories to them? Do not the firms of lower middle-income Russian Federation start investing abroad too early? What has happened to the stage of large inward FDI that should have preceded FDI outflows? How have Russian firms accumulated their surprising competitive strength? How do they sustain and enhance their competitiveness abroad? The answers to these questions are far from being straightforward.

The analysis of Russian FDI abroad is not an easy task, for two reasons. First and foremost, many Russian firms are still reluctant to reveal information about their activities. A second source of difficulty is that the topic has been so far by and large underresearched by the academic community. Hence, the possibility of comparing and contrasting different academic views is relatively limited. In the Russian Federation proper, there have been some of studies undertaken. Notable are the results of Alexander Bulatov (1998, 2001), based on, among other things, a first-hand company survey. Recently, the issue of measuring outward FDI has also captured some attention (Gusev, 2004). A research leader outside the Russian Federation stimulating and coordinating research in the area has been Kari Liuhto, who has also personally undertaken a series of case studies and analyses (Liuhto, 2001a,b, 2005; Liuhto and Jumpponen, 2003; Vahtra and Liuhto, 2005), and organized events and publications around this and other transition-related topics (first at the Lappeenranta University of Technology, then at the Turku School of Economics and Business Administration) in Finland. In Germany, Andreas Heinrich (2001, 2003, 2005) has explored the specific features of the institutional environment and their implications for business operations of

Russian oil and gas companies on foreign markets. In France, Wladimir Andreff (2002, 2003) has analyzed outward FDI from the Russian Federation in global comparison. In the United States, Detelin Elenkov (1995a,b) has attempted to explore the internationalization of Russian aerospace firms.

There is also an important and growing international business literature on Russian firms that has to be duly recognized here. This literature is very solid and results in interesting and valuable insights into the operations of TNCs (including the case of Russia; see e.g., Kets de Vries et al., 2004; Shekshnia, 2001), although some of it may be more focused on management techniques. As a result, it is more interested in the operation of the firm than its international activities per se. With the rise of developing-country TNCs, and of Russian TNCs, embedded in special economic and institutional situations, an analysis looking at the international aspect in the broader context of national development strategies would be required. In this respect, it is possible to follow the advances made for example in the analysis prepared by Igor Filatotchev and his co-authors. Some of these studies came up with results in areas that are linked to the question of outward FDI from the Russian Federation. They have recently analyzed, for instance, the relationship between Russian privatization and inward FDI (Wright et al., 2002), or rather hostility to such FDI (Filatotchev et al., 2001). In an international context, this hostility to inward FDI has resulted on a development strategy that differed significantly from the selective opening of other large emerging economies, such as China, to inward FDI (Buck et al., 2000). They also looked at the question of exports by Russian firms as an alternative way of serving foreign markets (Filatotchev et al., 2001).

There have been however so far very few studies focusing also on the question of how the standard theories of international economics and international business would apply to Russian TNCs (cf. Kalotay, 2003, 2005). This paper hence aims to build on the insights of the existing literature, and bring their arguments further into a comparison with international investment paradigms. As the phenomenon is new, and we know little about its idiosyncrasies, the most realistic approach is some kind of generalizations, based on the observations of a ‘descriptive analysis’. This descriptive analysis allows us some generalizations about the paths that leading Russian firms have followed towards establishing international presence. This paper will suggest for example that, while Russian corporations going abroad differ between themselves in terms of ownership structures, motivations and strategies, they share at least two key characteristics. The first one is their leapfrogging to the global scene. The current international expansion of Russian companies is not a simple continuation of the limited international trading presence of the ‘red multinationals’ (firms investing abroad from the former Soviet bloc; Hamilton, 1986). The foreign activities of the Russian firms born after transition 1991 are broader and deeper, and notably include production facilities. A second common characteristic of the Russian corporations investing abroad is their strong link with the natural resources of their home base. Until recently, with the exception of some telecom firms, they were almost exclusively based on oil and gas, metallurgy, or electricity generation and distribution.

The rest of this paper will be organized as follows: Section 2 will analyze on the basis of balance-of-payments data the dramatic changes in the outward investment position of the Russian Federation taking place between 1999 and 2004. Section 3 will identify the most important Russian outward investing firms. Section 4 will analyze of the sources of competitiveness of Russian TNCs in its historical evolution. Section 5 will deal with the role of the Russian business environment as a major push factor in stimulating outward FDI flows. Section 6 will explain what role the Russian State has played in outward FDI. Section 7 will compare the reality of Russian outward FDI with some key international investment theories. Section 8 will conclude.

Table 1
Outward FDI stock of selected economies, 1999 and 2004 (Billions of dollars and growth in %)

Economy	Outward FDI stock 1999	Outward FDI stock 2004	World rank in 2004	Growth per annum, 1999–2004	Ratio of outward to inward stock, 2004	GDP/capita, 2004 (US$)
Russian Federation	1.1	107.3	20	151.0	0.91	4,047
India	1.7	6.6	41	31.0	0.17	626
Ireland	25.2	96.0	18	30.6	0.42	44,521
British Virgin Islands	30.1	97.0	17	26.4	8.17	43,366
Belgium/Luxembourg	151.8	424.9	6	22.9	0.96	35,381
Spain	125.2	332.7	11	21.6	0.96	24,386
Turkey	2.8	7.0	40	20.1	0.20	4,182
France	334.1	769.4	4	18.2	1.44	33,967
The Netherlands	263.8	545.8	5	15.7	1.27	35,683
Switzerland	194.6	393.0	8	15.1	2.17	49,367
Germany	413.4	833.7	3	15.1	2.40	32,708
United Kingdom	686.4	1 378.1	2	15.0	1.79	35,718
Denmark	51.3	99.6	16	14.2	1.01	44,593
Sweden	106.3	203.9	13	13.9	1.25	38,457
World total/average	**5156.9**	**9 757.7**	**–**	**13.6**	**1.09**	**6,411**
Australia	89.6	167.5	14	13.3	0.66	31,598
Canada	201.4	369.8	10	12.9	1.22	31,031
Singapore	55.7	100.9	15	12.6	0.63	25,002
Korea, Republic of	23.3	39.3	26	11.0	0.71	14,266
United States	1216.0	2 018.2	1	10.7	1.37	39,650
Italy	181.9	280.5	12	9.1	1.27	28,913
Taiwan Province of China	60.0	91.2	19	8.8	2.34	13,516
Japan	248.8	370.5	9	8.3	3.82	36,501
China	26.9	38.8	27	7.7	0.16	1,283
Brazil	49.7	64.4	24	5.3	0.43	3,225
Hong Kong, China	321.6	405.6	7	4.7	0.89	23,641
South Africa	33.0	28.8	28	−2.7	0.62	4,507
Malaysia	18.4	13.8	34	−5.6	0.30	4,731

Source: Author's calculations, based on the UNCTAD FDI/TNC database, and Bank of Russia data.

2. The outward investment position of the Russian Federation

According to the data of the country's central bank, the outward FDI stock of the Russian Federation increased from US$ 1 billion in 1999 to US$ 107 billion in 2004, making it the 20th most important source economy of investment worldwide (Table 1). Moreover, if those numbers are correct, the growth rate was by far the fastest in the Russian Federation, faster than in other newly emerging source countries such as India, or rapidly expanding 'offshore' centres such as the British Virgin Islands and Luxembourg.

One should admit that the three-digit growth rate of the outward FDI stock of the Russian Federation is in part a statistical artefact. It may well be that in the 1990s, the outward investment position of the country was largely underreported (Bulatov, 1998; Kalotay, 2005). After 1999, the Bank of Russia started receiving increasingly accurate information but was not fully in a position to revise its previous reporting. That hypothesis may be partly validated by a look at the difference between outflow and outward stock data. Between 1999 and 2004, the cumulative outflows reached US$ 35 billion, while the outward FDI stock rose by US$ 106 billion. Naturally, part of the discrepancy may be due to changing valuations, partly may be due to the fact that not all the private sector outflows of that period (US$ 50 billion) were correctly recorded under FDI; still the dynamics of flow data too indicates fast growth.

Even more important than the question of growth rate is the issue of the net investment position (outward FDI stock minus inward FDI stock) of the Russian Federation. In the sample of the 27 economies presented in Table 1, the Russian Federation is clearly a premature outward investor. Common sense would dictate that poor countries should be capital importers, and higher-income countries should be capital exporters. One can also refer to more elaborate theories such as the investment development path (IDP), which will be analyzed more in detail below. That theory in fact puts the common sense observation into a more elegant form, and hypothesizes a special form for the curve describing the relationship between GDP and net investment position. It does not however change the expectation that the Russian Federation should be a net capital importer, and not a country in which the inward and outward FDI stocks are on almost parity.

In the sample of the 27 economies we selected by the size and growth of their outward FDI, a simple exponential equation can well describe the relationship between the ratio of outward to inward FDI stock in 2004 and the GDP per capita in current dollars in the same year:

$$O/I = 0.0051 \times G^{0.5273} \quad (O/I : \text{outward to inward FDI stock}; G : \text{GDP/capita})$$

with a relatively good R^2 (0.6335) if one considers also the heterogeneity of the sample and the unevenness of the data. Beside the fact that the curve does not seem to follow the form predicted by the IDP, it is also interesting to note that the equation would predict the ratio for the Russian Federation at 0.371, and not at the actual 0.910. In other words, if the Russian Federation followed a pattern similar to other countries, its inward FDI stock would exceed its outward stock almost three times (or its outward FDI stock would be three times less than actually). It will be shown that both hypotheses may be right: while inward FDI is probably well below the potential of the Russian Federation (Kalotay, 2004), outward FDI is in many respects beyond expectations. The focus of the next section is to start analyzing, based on individual firm strategies, the seeming Russian paradox of large outward FDI. Finally, it is individual firms that are realizing the outward investment projects, and not home countries as a whole.

3. The emerging universe of Russian TNCs

The identification of the largest Russian outward investing firms and their peers from developing countries can use internationally agreed company lists. In the Fortune Global 500 list complied at the end of 2005, for example, there were 63 headquartered in emerging economies: nine in the Republic of Korea, eight in India and Saudi Arabia each, seven in Hong Kong, China (including firms from China), and six in Brazil and the Russian Federation each. The rest came from eight other economies. Gazprom was the largest emerging-market firm, Lukoil was 8th and Surgutneftegas 9th. It is then possible to complement that information, for the Russian Federation, with national sources, such as the Expert 400 list (Expert, 2005). That provides us with a list of the 15 largest Russian firms, ranked by market capitalization (Table 2). Six of them figure also on the Fortune list (Gazprom, Lukoil, Surgutneftegas, Sberbank, UES and Norilsk Nickel), while the rest are too small to qualify for that. It is particularly interesting that at the end of 2005, Gazprom was only 10th on the global list, and not 3rd as of today. This discrepancy may be in part explained by changes in market valuations, but also due to the fact that Gazprom's newly acquired oil affiliate, Sibneft, was not yet necessarily taken into account in the valuations. It is only together with Sibneft that Gazprom exceeded the US$ 200 billion mark. It is also notable

Table 2
The 15 largest Russian firms, ranked by market capitalization, 2005

Firm	Industry	Fortune 500 rank	National rank in sales	State ownership (%)	Major foreign shareholder	Report on outward investment	Market value 2005 (US$ million)	Market value 2004 (US$ million)	EBITDA 2004 (%)	Sales 2004 (US$ million)	Sales 1999 (US$ million)	Growth of sales per annum (%)
Gazprom	Oil & gas	10	1	50.01	E.ON (6.5%)	Yes	196,338	90,201	21.1	33,892	12,413	22.2
Lukoil	Oil & gas	76	2	–	ConocoPhillips (20%)	Yes	70,767	41,558	14.7	28,810	10,881	21.5
Surgutneftegas	Oil & gas	94	7	–	–	Not	62,779	34,429	22.6	10,691	3,279	26.7
Sberbank	Banks	232	9	60	–	Not	29,238	17,091	8.9	7,537	–	–
UES	Electricity	234	3	52.70	–	Yes	29,173	14,003	4.7	23,583	10,040	18.6
Norilsk Nickel	Metals	376	10	–	–	Yes	20,171	15,493	27.2	6,742	2,711	20.0
Sibneft[a]	Oil & gas	–	8			Yes	–	16,621	25.5	8,023	1,746	35.7
TNK–BP	Oil & gas	–	6	–	BP (50%)	Yes	–	11,493	28.1	14,298	1,751	52.2
AFK Sistema	Telecom	–	15	–	–	Yes	–	9,684	7.2	5,711	–	–
VimpelCom	Telecom	–	30	–	Telenor (26.6%)	Yes	–	8,490	16.3	2,147	–	–
Novolipetsk Iron & Steel	Metals	–	21	–	–	Not	–	6,973	39.1	4,539	1,041	34.3
Novatek	Oil & gas	–	63	–	–	Not[b]	–	6,722	22.6	874	–	–
Tatneft	Oil & gas	–	18	–	–	Yes	–	5,405	16.3	5,232	1,808	23.7
Severstal	Metals	–	12	–	–	Yes	–	4,529	22.4	6,269	1,500	33.1
Mechel	Metals	–	24	–	–	Yes	–	4,059	36.9	3,636	333	61.3

Source: Author's calculations, based on the *Fortune Global 500* of 2006 and the *Expert 400* of 2005.
[a] Acquired by Gazprom in September 2005.
[b] Foreign affiliates started operations on 1 January 2006.

that the ranks of Russian firms in market capitalization are as expected, reflecting the ranking in sales.

The universe of large Russian firms as measured by market capitalization is very dynamic also in terms of new entries into public listing. For example, in June 2006, the previously 100% state-owned oil firm Rosneft completed a US$ 10.4 billion-worth international initial public offering (IPO) for 49% of its shares (Neville, 2006), making its implicit market capitalization one of the top 10 for Russian firms. In another case under consideration in the last quarter of 2006, the combination of a tripartite merger between Russian aluminium giants RusAl and Sual and of the Swiss commodities trader Glencore's alumina business, plus a proposed international listing of the merged entity, could result in a firm worth US$ 30 billion in market capitalization (The Lawyer, 2006).

It has to be stressed however that large is not necessarily the synonym for transnational. On the one hand, the majority of the 70,000 transnational corporations (TNCs) of the world (UNCTAD, 2005, p. 265) are small and medium-sized firms, at least according to the definition of their country of origin. On the other hand, there are some very large firms that are uninational, lacking the basic requisite of transnationality, i.e., a structure of a parent enterprise located in the home-country and affiliates located abroad (UNCTAD, 2005, p. 297). ('multinational' is the synonym of 'transnational', commonly used in academic literature.) The fact of having large export volumes, or strategic alliances abroad, or other forms of non-equity cooperation does not confer a transnational status to the large corporation in question. On the list of the 15 largest Russian firms (Table 1) there are three (Surgutneftegas, Sberbank and Novolipetsk Iron & Steel) that have seemingly no affiliates or branches abroad and hence have to be considered uninational. Moreover, Novatek started its international presence through affiliates only at the beginning of 2006. The situation of the newly emerging players (Rosneft and RusAl/Sual/Glencore) is somewhat clearer: even before their IPOs, they used to own assets abroad, making themselves already TNCs at that time. As for the aluminium giant, the acquisition of Swiss assets will further enhance its international character.

One also has to note that some of the firms on the list are not necessarily independent TNCs in the strict sense. We have seen the case of Sibneft that has become the affiliate of Gazprom. We also have to consider the cases when foreign strategic investors have acquired more than 10% of voting rights in a company: BP controls 50% of the BP–TNK joint venture, Telenor controls more than one quarter of VimpelCom, while ConocoPhillips owns 20% of Lukoil. In a very narrow sense, these foreign investors would be the ultimate parents, and these firms would not be qualified as TNCs in their own right. However, if that ownership is short of majority, and the relationship with the foreign owner is closer to an equity-based strategic alliance than control/hierarchy, these firms, too, can still be considered as TNCs in a broader sense.

The 11 TNCs that remain in the list (after deducting the three uninational firms, as well as Sibneft), consist of three groups: The largest, and probably most important, is in the oil and gas industry, with Gazprom and Lukoil as examples of full-fledged international players, and TNK–BP, Tatneft and especially Novatek more limited TNC activities. The second is in metallurgy, with Norilsk Nickel, Severstal and Mechel all important international presence. The third one is in telecommunications, with AFK Sistema (including its affiliate Mobile Telesystems) and VimpelCom both important TNCs. The electricity monopoly UES is a case apart of the three categories: it has huge operations but limited international presence through outward FDI. The international expansion of other Russian TNCs is however less pronounced. (It is present, trough international consortia, in power station and energy-distribution activities of some countries of the Commonwealth of Independent States (CIS), such as Armenia, Georgia, the Republic of Moldova and Ukraine, and acquired, in 2005, two power stations in Bulgaria.)

Information of Gazprom's international activities is relatively limited. Gazprom can nevertheless be considered not just the largest Russian firm but also probably one of the top outward investors. It is usually reported to control more than 93% of Russian natural gas production and about a quarter of the whole world's gas reserves.[1] Its operations are spread globally: on the European continent alone, it has operations in at least 19 countries, involving natural gas distribution and processing activities (Heinrich, 2005).

Gazprom inherited its gas monopoly from Soviet times. It was carved out from the Ministry of Oil and Gas in 1989. It was partly privatized through vouchers in 1993. Until 2004, the Government kept a 38.37% stake in the company. Foreign ownership at the same time was limited to 9% of the shares. In the late 1990s, that limit was raised to 20% (UNCTAD, 2005, p. 78). Unlike Lukoil, which controls various extraction facilities abroad, especially in the CIS, Gazprom's international activities focus more on export promotion (e.g., via long-time delivery contracts), and investment in Western European natural gas processing and distribution, such as pipelines (Heinrich, 2005). Its impact on European gas consumption has been particularly strongly felt in crisis situations such as the conflict with Ukraine on natural gas prices at the end of 2005 and beginning in 2006. It has tried to gain access to large industrial and gas-fired power generation markets in Western and Central Europe, too, taking advantage of the liberalization of the downstream gas market of the EU (idem). It has often established joint venture marketing companies in export countries. Its non-core FDI includes gas equipment manufacturing, petrochemicals and banking. In 2005 Gazprom acquired a majority share in the privately owned petroleum company and TNC Sibneft. The consolidation of Sibneft into its operations should add new segments to its operations both at home and abroad: petroleum extraction and refinery, and also operations in various CIS countries. Sibneft was the fifth largest oil producing and refining company in the Russian Federation, created in 1995 and privatized through a series of auctions in the subsequent 2 years.

Lukoil's strategy is relatively well documented both in its own corporate communications and through the UNCTAD lists of largest TNCs (see UNCTAD, 1999, p. 89; UNCTAD, 2001, p. 119). Established in 1991, transformed into an open joint stock company in 1993 and privatized from 1994 on,[2] it carries out international exploration and production in Azerbaijan, Columbia, Egypt, the Islamic Republic of Iran, Iraq, Kazakhstan, Saudi Arabia, Uzbekistan and Venezuela, refining in Bulgaria, Romania and Ukraine, and downstream distribution affiliates worldwide in at least 15 countries.[3] It has maintained its growth even in the middle of the Russian financial crisis in 1998. It may be hypothesized that, assets abroad have acted as an effective cushion against the shocks coming from upheaval in the domestic economy. The expansion of Lukoil abroad is not just fast but is it successful in terms of entering competitive developed markets such as the United States. This is once again a proof of the global strategies of some outward investing Russian firms. The expansion into the United States took place through the acquisition of Getty Petroleum Marketing at the end of 2000. Given the important costs of establishing greenfield presence, and the informal barriers to such entry by the structure of the U.S. market for the distribution of petroleum products, that was the only possible avenue for Lukoil's effective presence there. On the other edge of the value chain, Lukoil's most important strategic move has been the acquisition, at the end of 2005,

[1] See, for example, http://www.hoovers.com/globaluk/sample/co/factsheet.xhtml?COID=52477, accessed on 10 January 2006.

[2] http://www.lukoil.com/static_6_5id_212_.html, accessed on 29 May 2006.

[3] http://www.lukoil.com/materials/doc/DataBook/DBP/LUK_DataBook%202005_E_General%20Info.pdf, accessed on 29 May 2006.

of the Canadian-based independent oil firm Nelson Resources, which operates large exploration and extraction facilities in Kazakhstan.

The other Russian oil and gas firms are less transnationalized. TNK–BP owns a relatively important petroleum refinery affiliate, as well as gas stations in Ukraine. It also controls now Slavneft, itself the owner of a refinery and petrol stations in Belarus. Privately owned gas producer Novatek registered its first foreign affiliates (Novatek Overseas AG and Runitek GmbH, both in Switzerland) in November and December 2005, respectively, aiming to facilitate the marketing and trading of Novatek's products in international markets. Tatneft, the Russian Federation's fifth largest oil producer (measured by reserves), also has limited presence abroad. It has sales affiliates in Ukraine and Western Europe, production sharing contract in the Syrian Arab Republic, and a service contract for prospecting and developing an oil field in the Islamic Republic of Iran. It also opened a representative office in the Libyan Arab Jamahiriya in 2004, and manages a Ukrainian oil refinery in the name of shareholders located in Tatneft's region, Tatarstan (although Tatneft's direct ownership seems to be below 10%).

In metallurgy, Norilsk Nickel is considered to be the largest Russian TNC in terms of assets abroad. Officially established as a state-owned concern in 1989, and privatized in two steps (1995 and 1997) to Oneximbank, it is currently a world leader in the production of several strategic metals, in particular, palladium, platinum, nickel, cobalt and copper (Vahtra and Liuhto, 2005). It also carries out the sales and marketing of platinum-group metals (iridium, osmium, palladium, platinum, rhodium and ruthenium), cobalt and gold. Norilsk has been expanding abroad through a series of investments into trading and mining companies such as a 51% stake in the U.S.-based Stillwater Mining in 2003, 20% stake in Gold Fields Ltd. of South Africa, and the acquisition of the London-based metal trading company Norimet Ltd. in 2000. Norilsk Nickel is particularly active in the U.K., U.S., Swiss, Belgian and South African markets.

The second largest Russian TNC in metallurgy, Severstal, has opted for an internationalization strategy, focusing on acquiring assets in developed countries. Severstal is indeed one of the most spectacular newcomers to the international natural resource/iron and steel scene, leapfrogging to a global status through large acquisitions abroad after 2003. The success of its internationalization is due to its management style, and less to its roots in Soviet-era autarkic iron and steel production. The firm started operations as the state-owned Cherepovets Steel Mill (in 1955). It was gradually privatized after 1993. It started technological upgrading of production via a joint venture with a U.S. partner in 2001. That became the basis for expansion abroad from 2003 on. Severstal bought, first, Rouge Industries in the United States in 2003, followed by the takeover of Lucchini Industries of Italy in 2005. It also entered into a coke producing joint venture and started to build a greenfield steel plant in the United States. Severstal was motivated not just by its expertise in improving the efficiency of ailing iron and steel production facilities but also by market seeking motives: its plants in the United States are suppliers of major car producers. In 2006, in competition with Mittal Steel, Severstal attempted to merge with a larger global player, the Luxembourg-based Arcelor. (At the time of writing this paper, Mittal Steel's bid seems more likely to succeed; cf. Marsh, 2006).

One of Severstal main Russian competitors, Mechel, opted for a different kind of internationalization, based on low-cost iron and steel production. It specializes on specialty steels and alloys, in which it alone accounts for more than half of the domestic output, and long products, in which it is the second largest Russian producer (behind Severstal). Mechel has become an important international low-cost steel and mining group, owning coal operations in Kazakhstan, two steel mills in Romania and a steel product manufacturer in Lithuania. While Mechel has been known for its expertise in improving and turning around production facilities in bad shape (just like its main competitors, the Russian Federation's Severstal and the Netherlands-based Mittal Steel), it decided to discontinue similar 'rescue' operations in Croatia, where production costs were too high.

In telecommunications, AFK Sistema, although a holding company owning electronics, insurance, banking, real estate, retail, and media companies, too, is deriving most of its revenues from its Sistema Telecom affiliate, which itself controls more than 50 operators in fixed and mobile telephone, Internet, paging, and multimedia services. Most of the Sistema and Sistema Telecom firms are uninational, while the holding's largest company, Mobile TeleSystems (MTS), founded in 1993, is the market leader in wireless communication both in the Russian Federation and the CIS. Until the end of 2005, Germany's Deutsche Telekom was a minority shareholder and technological partner of MTS. It divested from MTS at the end of 2005. MTS is active abroad particularly in the CIS (Belarus, Kyrgyzstan, Turkmenistan, Ukraine, and Uzbekistan). VimpelCom, the second largest operator of the Russian Federation and the CIS (founded in 1992 and co-owned by the Alfa Group – the joint venture partner of BP in the BP–TNK company – and Norway's Telenor) focuses on Kazakhstan, Tajikistan and Ukraine. In addition, Alfa holds shares in a Ukrainian and a Kyrgyz operator. Moreover, in 2005, Alfa purchased a 13% minority share in Turkish Turkcell, itself a major competitor in various CIS markets (Azerbaijan, Georgia, Kazakhstan, and Republic of Moldova). With one exception, Russian mobile operators entered the local markets through the acquisition of local firms. The leading Russian mobile operators are an important source of finance, technology and managerial experience in the CIS host countries. Part of their expertise has been generated in the Russian Federation, and part of it has been drawn from Western telecommunications companies, which are minority shareholders in the Russian companies.

The universe of Russian TNCs naturally goes beyond the group of leaders analyzed here. Some of the TNCs not entering the list of the largest firms by market capitalization, such as the majority state-owned diamond producer Alrosa, are already important on the global scene, too. Others have more limited operations abroad. There is also some case study evidence on Russian medium-sized, small and family businesses investing abroad (see Johansson, 2006, for Russian firms in Finland). However, the market leaders analyzed here continue dominating the outward investing phenomenon, and the subsequent analysis, too, will keep the focus on them.

4. Sources of competitiveness

The rise of the Russian TNCs in the global scene raises the questions of where these firms derive their competitive strengths, how their expansion abroad further enhances their competitiveness, and in general, to what degree they resemble to the TNCs we saw in the developed world. The answer is that, once we consider the specificities of the three industries in which Russian outward FDI is particularly important (hydrocarbons, metallurgy and telecoms), the resemblances with Western TNCs are quite important. It is rather the unique and especially fast way of their creation – through a privatization programme carried out in the 1990s – that makes these Russian TNCs idiosyncratic. This is naturally a neutral observation, and not a value judgment on the Russian privatization process in the early 1990s, which is believed to be at the origin of the current Russian TNCs.

With the change from centrally planned to market economy, the country needed private property, and fast. Given the heritage of 74 years of communist ownership, the transition to private property took place in the 1990s at a quick pace. The share of the private sector in the generation of the gross domestic product jumped from 5% in 1990 to 70% in 1998 (Kalotay, 2001). In the Russian

Federation, unlike in Central Europe, inward FDI was not considered to be a main avenue to arrive to a private sector-based economy, mostly because of political and strategic considerations. Natural resources, in particular, were seen to be too sensitive to be controlled by foreigners. “[I]nternational investors were almost totally excluded from the mass privatization in 1992 and later from Loans for Shares in 1995 (which allowed the companies’ capital to be transferred to a number of oligarchies at greatly reduced prices). Not until 1997 were the restrictions on their participation in Russian companies’ capital lifted” (Locatelli, 2006, pp. 1081–1082). From the point of view of the authorities of that time, it was the lack of interest by foreign investors to invest massively into high-risk the Russian Federation that prompted the pre-eminence of insider forms of privatization. “[F]oreign capital could play only a limited role in privatization. Given the size of our economy and the socioeconomic risks involved, it was obviously unrealistic to count on massive foreign investment in Russian privatization”, contended former prime minister Gaidar (2003, p. 92).

While interpretations on the reasons may differ, it remains a matter of fact that for the Russian Governments of the early 1990s, the creation of a national capitalist class seemed to be the most evident way of capitalism building. It was estimated that by 1998, 49% of former state property had been privatized to insiders, compared to 3% in Hungary and 5% in the Czech Republic. Conversely, only 3% of former state property had been sold to foreign buyers in the Russian Federation, compared to 48% in Hungary and 15% in the Czech Republic (Kalotay and Hunya, 2000, p. 41). Put it in a positive interpretation, “[i]n the early days of capitalism, a handful of entrepreneurs pushed hard for accelerated privatization. They ended up with extremely valuable assets for themselves, but arguably also gave a great boost to private economy development in the Russian Federation (Kets de Vries et al., 2004, pp. 643–644).

Once during the 1990s, large industrial groups were created in the Russian Federation, these firms started consolidating their competitiveness through oligopolistic or monopolistic advantages, first at home, later on abroad. In 2001, the Russian investment bank Troika Dialog calculated that around 70 large financial and industrial groups controlled 40% of the Russian GDP (Shekshnia, 2001, p. 20). It is true to both the natural resource-based industries such as oil and gas and metallurgy, in which international prices of key products affected largely the profitability of future TNCs and to the telecoms industry, in which partnership with foreign TNCs in obtaining technological edge and oligopolistic behaviour played an important role. These oligopolistic advantages resulted in a high concentration of wealth, facilitating the global expansion of the largest firms.

Moreover, almost perfectly following the textbook cases of using ‘ownership advantages’ created at home as a stepping stone for international expansion (M&As; cf. Hymer, 1960), the newly capitalist Russian Federation is the scene of merger talks and hostile takeover bids related to oligopolistic competition in the newly privatized industries (Radygin, 2002). These talks are then sometimes called off, just to be re-started later on. The best-known case was the project of two oil companies, Yukos (not analyzed here) and Sibneft (cf. Table 2) to merge in 2003. The merger was called off and, as mentioned above, the state-owned Gazprom purchased Sibneft instead. There are also news about Norilsk Nickel eventually bidding for another metals company, Alrosa (BBC Monitoring Former Soviet Union, 2006) or two engineering companies with potentially large international presence, OMZ and Power Machines merging (Financial Times, 2003). The result is that, according to Table 2, in 2004, as expected, earnings before interest, taxes, depreciation, and amortization (EBITDA) of Russian TNCs, enjoying oligopolistic benefits, were particularly high in natural resources, and somewhat lower in telecoms. Sales also grew rapidly over the period 1999–2004: more than 60% per annum for Mechel, more than 50% for TNK–BP and more than 30% for Severstal (Expert, 2005).

Once the preconditions were created, the expansion of Russian TNCs abroad has been fairly fast. That was related to the preferred mode of entry: mergers and acquisitions (M&As) have been by far the preferred modes of entry in foreign markets. Russian natural resource-based firms started internationalizing through exporting their products. The profitability of those exports benefited from the difference in price levels between the domestic and world markets. As a next step, to diversify the production basis and to access foreign markets, Russian energy companies started acquiring companies abroad and establishing foreign affiliates. These affiliates are also used as a means to avoid excessive export duties and to introduce more favourable taxation planning.

To understand why Russian TNCs had to expand abroad via takeovers, one has to consider the stylized facts about transition in the Russian Federation in the early 1990s. In the CIS, the dissolution of the Soviet Union in 1991 took place when close to 100% of manufacturing was state-owned, and logically, each successor state took over the control of the assets on its own territory. That resulted in an unbalanced situation for Russian firms: they continued to have business links with the new independent countries but without an appropriate or unclear coordination mechanism in place. That resulted in a propensity for Russian firms trying to take over control of firms, especially upstream, in order to get rid of the coordination problem. In developed markets, it was the elimination of the state monopoly of foreign trade that created a new situation for Russian firms. In order to take advantage of the direct bilateral business links made possible by the liberalization of foreign economic relations, they had to establish presence in key Western markets, and improve access to processing and distribution networks. While the former in principle could be done through greenfield projects, in the latter M&As have been the only feasible channels of quick market entry.

Russian firms have special ways attempting to overcome the liability of their foreignness. In itself, that liability has peculiar characteristics. In some markets of the former Easter bloc, Russian firms have strong business links and familiarity with local conditions. It is rather political sensitivity in those locations that affects the strategies of Russian TNCs. In Western markets, it is rather the cultural distance from the unknown Russian firms that can complicate the life of Russian entrepreneurs. In both case, these constraints have given birth to a peculiar 'Russian' way of doing business and acquiring assets abroad through shadow (offshore) firms instead of by purchasing shares up front in the TNCs' own names.[4]

These strategies of proxy-based operations can have opposite impact on outward FDI from the Russian Federation in the short and long terms. In the short term, they are increasing outward FDI. In fact, some business people would argue that this is the sole, or the fastest way, to access assets abroad. In the longer term, however, they can reduce the readiness of host countries to accept Russian FDI. In this area, in Ukraine, the use of offshore firms located either in financial centres such as Cyprus and British Virgin Islands, but also in the United Kingdom and the Netherlands by Russian TNCs to acquire assets has been reported to be the norm (Shapran, 2005). According to official statistics, with US$ 543 million at mid-2005, the Russian Federation was only the seventh source of FDI, behind first-place Cyprus, second-place United States and third-place United Kingdom. However, considering the assets acquired by Russian firms directly or through offshore companies, the real value could be three times higher (at the range of US$ 1.2–1.8 billion), making the Russian Federation the number one investor in the country (ibid). In Hungary, Gazprom's efforts to gain control of the plastic maker Borsodchem while using proxies such as the privately owned and Austria-based CE Oil and Gas in 2001 became a hotly debated

[4] For a summary of such types of transactions, see Kalotay (2002).

issue (Financial Times, 2001). (That effort was at that time countered by the MOL Hungarian Oil and Gas Company, another shareholder in Borsodchem. Nevertheless, in 2006, the CEO of Gazprom's banking affiliate in Hungary 'General Banking and Trust', managed to increase his personal shareholding in Borsodchem to 18% by using his U.K.-registered family-owned firm 'Firthlion'; Budapest Business Journal, 2006.) Even the purchase of Yuganskneftegas by the state-owned Rosneft followed this business style. At the auction, the assets were bought directly by a little known Baikalfinance group, which was some days later purchased by Rosneft. These low-transparency transactions raise concerns in those host countries about intentions although Russian experts insist that that the funds used for those transactions are of legal origin (see Livshits, 2001). It remains to be seen and analyzed if in the future there will be a trend by Russian TNCs to switch away from these types of transactions, dissipating a large part of concerns in host countries.

5. The role of the Russian business environment

When explaining the reasons for outward FDI from the Russian Federation, one should consider not just the pull of the international markets as sources of competitiveness, but also the push factors of the domestic business environment. In other words, using the terms of the literature, outward FDI from the Russian Federation is both 'expansion' and 'exodus' (Liuhto, 2005). Indeed, in the Russian Federation, the business environment is still difficult, despite recent improvements, and the alternative ways of creating areas of better treatment do not seem to work fully. Russian TNCs still follow 'system-escape' motivations, as described by Bulatov (1998), following and adapting the reasoning of Svetlicic et al. (1994) on the motivation of outward FDI in pre-transition former Yugoslavia. One of the main differences however is that the environment 'escaped' is no longer a centrally planned one but a business system based mostly on market principles.

Recent changes of the Russian business environment have sent contradictory messages to domestic and foreign investors. On the one hand, there have been a series of impressive measures to improve the Russian business climate including the rationalization of taxes. On the other hand, in the case of the Russian firm Yukos, tax administration has been used to reach certain non-economic, non-fiscal goals. At the moment the tax authority approached, in November 2004, a joint venture with a foreign investor (TNK–BP), it sent the message that a potential reversal of the improvement of the business climate was not totally excluded, despite the fact that the amount requested (US$ 90 million) was a fraction of the one demanded from Yukos (US$ 3.5 billion for year 2001 only) (Ostrovsky, 2004).

An important part of FDI outflows from the Russian Federation appear to be motivated by the desire of investors to diversify assets as a safeguard against domestic instability. This is then linked with the phenomenon of 'round tripping'. (Round tripping refers to the transfer of funds abroad in order to bring some or all of the investment back as FDI and claim the tax and other benefits offered to foreign investors; see UNCTAD, 1998, p. 290). One indication of the existence of round tripping in the Russian Federation, especially before the financial crisis of 1998 was a fast parallel increase of inflows and outflows itself. Another proof was the persistent high share of offshore Cyprus in both inflows and outflows—a small island that otherwise has no ownership advantages at its local firms (UNCTAD, 2000, p. 65; Pelto et al., 2003). Finally, the discrepancy of home and host country statistics is also pointing towards the existence of round tripping. A large part of Russian investment into developed countries is not reflected in host country statistics either because the individual transactions are too small to be registered, or are transferred through third countries, typically outside the area of the Organisation for Economic Co-operation and Development (Sheets, 1996).

6. The role of the state

There is one more factor that is crucial in explaining the evolution of outward FDI from the Russian Federation: the role of the state. During the presidency of Boris Yeltsin (1991–1999), it was the Russian State that actively contributed to the creation of the large private monopolies giving birth to future TNCs. One has to admit that the Russian State did not have any particular policy promoting outward FDI actively at that time. On the contrary, its efforts were more directed towards regularizing the unregistered part of those outflows (Kalotay, 2002). Even today, the state does not seem to posses any promotion policy in this area.

It does not mean however that the Russian State would remain passive in the area of outward FDI management. In recent times, the Russian State seems to have decided, with the strengthening its participation in Gazprom: it increased its stake from 38.37% to 50%-plus one by paying US$ 7.14 billion in cash in 2005 (Dittrick, 2005). Paradoxically, it was the increase of the state's share to majority that opened the way for lifting the restrictions on foreign ownership on the rest of the shares. It also acquired some privately owned assets, such as Yuganskneftegas and Sibneft mentioned above—aiming at increasing its share and influence in natural resources. That influence now goes beyond the firms that it owns, and seems to affect the strategies of some privately owned companies too. Indeed, currently the balance of influence between the state and the oligarchs in changing. Until 1999, the latter occupied an undoubted dominant position in their relationship. Since then, the power balance has tilted gradually in favour of the state.

The result of the growing role of the state is that the internationalization strategies of the state-owned TNCs such as Gazprom (Table 2) and Rosneft are influenced by the course of the Russian foreign policy, too (cf. Pravda, 2005). In general, the Russian State sees these two companies as the core for a publicly owned TNC cluster to be developed in the future. In the literature, this cluster has been called 'patriots' (Vahtra and Liuhto, 2005) or 'Kremlin universe' (Aton Capital, 2004). At the end of 2004, Rosneft acquired Yuganskneftegas, the key extraction affiliate of the Yukos company, while in 2005 Gazprom acquired a majority share in the privately owned petroleum company and TNC Sibneft. Recent reports indicate Gazprom's interest in machinery TNC OMZ, which is controlling important assets in the Czech Republic (Vedomosti, 2005).

The change of power balance between state and oligarchy is deeply rooted in Russian political and social traditions.[5] In brief, property rights turned out to be more fragile and more relative than in Western societies (Litsukova, 1999). In the Czarist times, an important part of private property was reversible and conditional on state service. Bolshevism went even further, banning private property and making the persons executing the ownership functions state employees and/or managers (Gaidar, 2003). Although former bureaucrats and managers often transformed themselves to owners with the help of the Russian Federation's 'insider' privatization, the acceptance of such private property by a society educated for seven decades in the belief of 'social' ownership and egalitarian values has always remained very low. With the widening of social differences, the number of relative (compared to new capitalists) or absolute losers (compared to their standard of living in Soviet times) of transition swelled, increasing the pressure on the Government to redress the power of oligarchs.

[5] In his mock scientific 'First Law of Petropolitics', three-time Pulitzer winner Friedman (2006) argued that "[t]he price of oil and the pace of freedom always move in opposite directions" (p. 28) in all oil and gas-rich weak states (coined 'oil-rich petrolist states' in his analysis), such as the Islamic Republic of Iran, Nigeria, the Russian Federation and Venezuela. That thesis, which remains to be proven by researchers, does not exclude the possibility that each of these societies have their own traditions of 'authoritarian' State underlying that common trend.

However, increase in state power also faces important domestic and international constraints. The birth of capitalism has given rise to a large number of entrepreneurs in the Russian Federation (not just oligarchs), and these entrepreneurs have a major interest in stable and normal property rights. Russian business has become truly international, and partners abroad want to deal with firms embedded in Western-type property. Finally, the forces that prone a further disengagement of the state from direct involvement in production have not disappeared from the Russian political scene.[6] For these reasons, while a return to Soviet times with total public ownership is unlikely, it is far from being settled where the limits of the state's role will be established. Needless to emphasize that the final shape of relationship between the state and large firms will have major implications for outward FDI from the Russian Federation. If those firms are 'washed back' to dependent status, they will become followers of the Government's foreign policy, independently of their ownership. If the rise of the state's power is contained, on the other hand, one can expect more private-interest based and more diverse strategies from the part of Russian TNCs.

In a broader context, concern can be raised about a too strong state and too weak private property. Historically, under such phenomena the Russian Federation was heading towards sustained backwardness (in Czarist times) or stagnation (under communism). More recently (for the period 1999–2004) relatively robust proofs have been found that state ownership of natural resources leads to a slowdown in output, exports and GDP in the Russian Federation, while the opposite is true for private ownership (Ahrend, 2005). A similar relationship could be detected when contrasting the performance within the Russian Federation of industries dominated by state ownership (e.g., gas and electricity) with those predominantly in private hands (oil and coal; idem). In the light of this performance, questions can be also raised about the opportunity cost of the Government spending on increasing participation say in Gazprom, Sibneft and Yugansneftegas. Here it is not the principle of state ownership per se that could be contested. In the developing world, many outward investing firms, especially in natural resources are state-owned. One can recall the cases of the China National Petroleum Corporation, the Corporación Nacional del Cobre de Chile, the Oil & Natural Gas Corporation (India), the Pemex (Mexico), the Petrobras (Brazil),[7] the Petróleos de Venezuela, the Petronas (Malaysia) or the Vale do Rio Doce (Brazil).[8] However, those firms are operating in a more business-oriented tradition, in which the success of foreign operations could be judged mostly on grounds of efficiency. And even in some of those firms, say Petróleos de Venezuela, a recent increase in state control (1999) resulted in a slowdown of investment in oil wells and, consequently, a one-fourth drop in output (Smith, 2006; Webb-Vidal, 2006). In the Russian Federation, where the tradition of business-oriented state enterprises is weaker, the risk of falling production remains even higher.

7. Russian outward FDI and the FDI theory

When new TNCs are emerging for an unorthodox location, it is legitimate to ask if the FDI theories developed for traditional source countries and firms can be applied to them, or we have to develop a new theory. Alternatively, we have to ask if there is a need for parallel theories: while

[6] "The State itself must also give up its own 'extrusion racket'—that is, curb its appetite for tax revenues. This is a perfectly achievable goal if the state can only give up its role as chief investor in the Russian economy", suggested former Prime Minister (he held that post from June to December 1992) in his analysis written in 1994, and translated into English nine years later (Gaidar, 2003, p. 110).

[7] In Petrobras, the Government owns 56% of the voting shares.

[8] In Vale do Rio Doce, the State keeps a golden share.

keeping the old theories for the older home economies, we need to develop an alternative one for the new source countries. Unfortunately, past experience in this respect is rather inconclusive. If one considers the rise of Japanese TNCs after the 1960s and the implications for FDI theory, beside the ‘flying geese’ theory (Kojima, 1973, 2000) it did not result in major breakthroughs in theory. Moreover, the ‘flying geese’ theorem is increasingly treated as a special case of the macro theory of FDI, which can be integrated with mainstream FDI theories (Dunning and Lundan, 2007, Chapter 4). This is quite surprising given the unusual strategies that the Japanese firms were adopting that time. Similarly, the emergence of developing-country TNCs has given rise to a large number of important and in-depth studies – the fact that there are transnational corporations (TNCs) originated form developing countries was already observed by Wells (1977, 1983), Lall (1983) and various other authors (see Kumar and McLeod, 1981) since the late 1970s – it was concluded that their existence did not call for the development of a new theory (Caves, 1996, pp. 238–241). Here again, innovation is mostly in some important details: A more recent key finding in research on FDI from developing countries is the use of leapfrogging strategies to reach a global status, documented for the case of East and South-East Asian TNCs (Mathews, 2001).

The rise of Russian TNCs is too recent to warrant similarly definitive conclusions. One can however ask if there is any reason to expect that this time the rise of the new player would trigger a paradigm change in FDI theory. One could also argue that many of the findings of the literature on developing-country TNCs would be applicable to the Russian Federation, too. Although the Russian Federation is not a developing but a transition country, it shares certain characteristics with the former, and theories related to developing-country TNCs can be adapted to the Russian context, starting with Mathews’ (2001) insights on leapfrogging.

It does not mean however that theory should remain static. The experience of Russian TNCs challenges some of the premises of certain theories (e.g., the IDP and the explanations based on the standard theory of factor movements). The eclectic paradigm seems to be more ‘resilient’ to the specificities of Russian TNCs, although the Russian case may indicate the need for certain adjustments already indicated in the case of developing-country TNCs.

For both the Heckscher–Ohlin–Samuelson (HOS) paradigm (Heckscher, 1919; Ohlin, 1933; Samuelson, 1948, 1949) and the IDP (Dunning, 1981, 1986), the most important ‘anomaly’ of the Russian Federation lies in its premature net outward investor position, in breach of the standard macro theories of capital flows and FDI. The presence of the lower middle-income the Russian Federation in the global top list of outward FDI is a major unexplained deviation from these standard theories. For the HOS paradigm, the Russian exception is the biggest challenge since the Leontief paradox (Leontief, 1954; according to which the United States exported labour-intensive goods and imported capital-intensive goods). On the basis of the classical theory of international trade only, even the world of inward FDI would be difficult to theoretize. If those flows followed the classical theory, developing economies and the Russian Federation should be the main recipients of FDI, and not the developed economies. And probably outward FDI from the Russian Federation and other economies in transition should not exist at all.

These deviations from the HOS paradigm reflect the limitations of the highly macroeconomic and abstract approach of the latter. As has been highlighted in the explanations of the seemingly illogical intra-industry trade of developed countries in the new trade theory (Krugman, 1983), countries can be less and less be treated as homogeneous blocs. A description trying to grasp their complexities should consider the differences between, say industries (when it comes to business) or social groups (when it comes to characteristics of labour). In the case of the Leontief paradox, the explanation is that the U.S. on average may be more capital than labour-intensive; nevertheless there are important segments in labour-intensive industries that can compete on international markets. Moreover, labour-intensive industries, say garment, can have capital-intensive segments inside themselves, say fashion goods. In that case it is the lack of detailed information that masks the real nature of exports (capital-intensive).

In the same spirit, one major way to explain the Russian paradox is to differentiate the country into high and low-income segments, and to attribute outward FDI to the high-income part. But as this explanation may be relevant for the IDP, which also differentiates countries by level of development, it will be dealt with in conjunction with the latter. For the IDP, the behaviour of the net investment position is the opposite of what the theory would predict: instead of inward FDI exceeding outward FDI and growing faster than the latter, outward FDI exceeds inward FDI and grows faster than inward FDI.

Some parts of the international business theory, especially some of the basic assumptions of the Uppsala internationalization school (Johansson and Wiedersheim-Paul, 1975; Johansson and Vahlne, 1977, 1990) and of the eclectic paradigm of Dunning (1977, 1993), are relatively well equipped to explain, with some adjustments, the outward FDI of the Russian Federation, too.

As for the Uppsala theory, it posits that the internationalization of firms takes place through stages. Because of their limited experience in the initial phase and the uncertainty of foreign markets, firms should internationalize via international trade first. That assumption holds to Russian firms to some degree, although they started establishing sales and distribution affiliates much quicker than the Uppsala theorem would predict. It is true though that some of the foreign assets of outward investing Russian firms are still in the area of trading, confirming the assumption that the nature of such affiliates is closer to that of exports than to production affiliates. However, Russian firms also possess important production assets abroad, too, although very often in socially and culturally similar countries (which is again in line with the predictions of the Uppsala school). In contrast to the 'shallow' transnationalization of the red multinationals which carried out mostly marketing and sales operations abroad (Hamilton, 1986), the Russian TNCs of the 21st century have a genuine interest in 'deep' transnationalization via upstream activities. Red multinationals, if owned any production facilities, it was always in the 'East'. The Russian TNCs of our age are already owners of large extraction and production facilities outside the former Soviet bloc. Russian TNCs, especially in natural resources, also seem to be in line with what is expected to be the usual strategies of such firms, and described already 30 years ago or more by Penrose (1968), Vernon (1971, pp. 26–59), and McKern (1976).

When it comes to the eclectic paradigm, the internalization aspect (I advantages), drawn on Coase's work (Coase, 1937), can be used as a point of reference to explain the behaviour of Russian TNCs, too. As for the ownership (O) advantages, originating in Hymer's (1960) and Vernon's (1966) contributions, their application is less straightforward. In principle, it should be the firms of the most advanced countries that possess those advantages and exploit them through international expansion. There have been important developments in the interpretation of O advantages that make it easier to apply to other countries. For instance, a distinction has been introduced between 'Oa' advantages, consisting of property rights and intangible assets – ostensibly a strong point of very advanced TNCs – and advantages of common governance, learning experiences and organizational competence (Ot), which can be gained also in relatively less advanced firms that do not seemingly have technological advantages, or even have disadvantages in that area (Dunning and Lundan, 2007).

In most cases, the outward expansion of Russian firms follows and confirms the extended OLI paradigm. The large Russian TNCs base their international expansion on certain ownership advantages, which are less technology based ('Oa') given the fact that technology firms are underrepresented in foreign expansion, but more related to the organizational and management skills of some Russian TNCs. They show a remarkable 'Ot' advantage in the iron and steel industry, in turning around ailing facilities is remarkable. In addition, the fact that the outward investing firms are significantly more profitable than firms with no foreign expansion (Table 2) can be taken as an additional indirect proof of organizational and common governance-type ownership advantages being used for international expansion. Moreover, the difference between the two groups may be underestimated given the differences in their accounting methods. Various large firms from the TNC group follow international standards and have international auditors, limiting the possibility of reporting higher than reality profits. In turn, many of the firms in the locally owned group follow self-defined standards, making their reporting less comparable.

An additional element in the equation of Russian FDI abroad is of excess capital. As highlighted, the bulk of Russian outward investing firms are in energy, metallurgy and mining, and these are industries that generated large cash flows in the period of 1998–2004. Over those years, the profits of Russian corporations were estimated to rise 2.5 times (Crane et al., 2005, p. 420). For this excess capital, it was natural to seek investment opportunities abroad, in addition to the domestic ones. One way of interpreting this excess capital is to see it as a special case of Ot advantages. In the former Soviet Union, in the former members of the defunct Comecon, as well as in some countries that used to have traditional close links with the U.S.S.R. (such as Angola, Ethiopia or Nicaragua, for instance, cf. Kornai, 1992, p. 6), Russian firms had inherited yet another Ot advantage: their familiarity with the local business and regulatory environments. They can sometimes rely on personal links inherited from the times of the former Soviet Union. The ease of entry is particularly high in the CIS, partly because of the common regulatory heritage, and partly because the language barrier is small. Russian is often used in other CIS countries as business language. In turn, the problems Russian TNCs face in these markets may be due to their oligopolistic behaviour: they can be perceived as firms practicing too high prices and too low quality. Similarly, some host countries may unwelcome a too heavy dependence on a single source of FDI in certain industries they consider to be strategic. Despite these question marks, Russian TNCs do not seem to be plans to leave these markets.

From the individual cases analyzed above it emerges that the horizontal integration of production capacities and oligopolistic or monopolistic behaviour in the home base is an important source of internalization advantages for the majority of Russian TNCs. In this sense, they are following Hymer's classical insight. This is partly a heritage of the Soviet times and the centrally planned economy. At that period of time, central planners liked to group the producers of the same products into horizontal groups. But conglomeration is also driven by rivalry and competition in the post-privatization phase. As a new development, the groups of firms can include not just production facilities but also distribution networks and banking (which used to be separated from production during Soviet times). Alfa Bank, for example, is the 'banker' of the Alfa Group mentioned above. In this case, the bank acts as the coordinator of the group. In the case of the Gazprom Group, the roles are the reverse, and the production company controls the Gazprombank.

In sum, an effort to apply the eclectic paradigm to Russian outward FDI these days provides promising results, with one major exception. Probably more than in any other country, the home-country environment and other home-country factors mentioned above are playing a key role in determining outward FDI. And here, surprisingly, the OLI paradigm is missing a fourth, 'home-country' leg. It would seem that the successive expansions and modifications of that paradigm have tried to incorporate the home-country environment implicitly under extensions of the ownership advantages, which are now becoming quite long and increasingly difficult to tackle. Naturally this article does not contend that if the OLI paradigm were extended into an 'OLIH' (with H denoting the home-country) that would be applicable to Russia only. In that sense, the possibility of crating a separate theory of Russian TNCs, distinct from the general, or global, paradigm is small.

There may be in turn various arguments raised in favour of a globally applicable 'OLIH' theorem. One of them is the fact that the lack of home-country factors is creating problems of theoretical interpretations of outward FDI in other countries, too: for instance, they may need to factor in state-ownership as an additional factor, just like Russia. Another main consideration is that, with the incorporation of institutions and institutional factors as lead components of the locational advantages (Dunning and Lundan, 2007), the theory became one-sided, considering the role of institutions in the host countries, but not in the home countries. Thirdly, in some varieties of FDI theories, especially the ones dealing with cultural issues and cultural distance (see, e.g., Hofstede, 1983; Shenkar, 2001) home and host country factors have been implicitly merged. This cultural distance is highly important for explaining Russian FDI in the CIS. Hence, unless the eclectic paradigm would disown that part of the theory, it would need to accept home-country factors take their due place in the theory. In such a potential reconsideration of the theory, evidence from Russia would be important to take into account—with due consideration to the fact that its experience would need to be compared with that of the other leading outward investing countries.

8. Conclusions

Outward FDI from Russia is expected to stay with us and increasingly become a global phenomenon. Some of its features may change as Russian TNCs increasingly interact with their global peers. The high concentration of the outward FDI of Russia in natural resources is also expected to be a long-term feature. Compared to those other emerging countries, Russian firms are expected to remain focused on controlling the upstream (exploration and extraction) and downstream (distribution) parts of their value chain, will also prevail, even if control of the firms proper may change hands.

It is a main difference with outward FDI from other emerging markets, which is more of a knowledge-seeking type when going abroad that Russian TNCs are mostly natural resource-based. In the case of China, another emerging outward investing country, the acquisition of strategic assets (including technology and brand names) is just as important as the access to natural resources and markets (UNCTAD, 2003). Indeed, it has been argued that knowledge should be a prime motive for developing-country firms to invest abroad, given the major cost disadvantages they have to overcome in that process (production is much cheaper in the home base). In the case of India, especially in the information technology and pharmaceutical industries, national firms have gained international competitiveness as a main source of fast expansion abroad (UNCTAD, 2004a). Even in the case of Brazil, the number of TNCs investing abroad exceeded 1000 by the end of the 1990s, reflecting not just a more diversified company base for outward FDI, but also more knowledge-seeking motives (UNCTAD, 2004b). It is not the home-country business environment or the consequent round tripping that would make Russia a special case in the 'BRIC' group. The latter phenomena have been reported for the cases of China and Brazil, too.

The most probably scenario for the future is that Russian TNCs will marginally modify their expansion abroad (see Aton Capital, 2004, for more details). Reflecting the priorities of the government, they may somewhat slow down their expansion in other countries. They may also end up reflecting more foreign policy considerations than before. In the latter issue, however, one has to differentiate between firms that are by and large controlled by the government (e.g., Gazprom/Rosneft) and the ones over which its influence is more indirect. All in all, the authorities may reserve their right to veto the sales of strategic Russian TNCs to foreign investors, invoking concerns either about competition or national security or both—their veto in the case of Siemens' (Germany) bid for Power Machines in 2005 set a precedent (BBC Monitoring Newsfile, 2005; Wall Street Journal, 2005). In both ownership segments, one can expect that in the future, the behaviour of Russian firms will more and more approach the behaviour of other global firms, located in developed countries.

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