RESEARCH NOTE

Urgent tasks for research on Russian TNCs

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Rapid cross-border expansion of Russian firms in the past decade has stimulated much research interest in Russian foreign direct investment (FDI), especially since 2003. This paper identifies several problems in the existing literature which still persist, in spite of the significant progress in research on Russian transnational corporations (TNCs). The paper stresses the importance of Russia's unique recent history and its implications for the choice of investment destination for Russian firms. This paper concludes by suggesting that studies focusing on a more nuanced influence of the State on large as well as small and medium-sized Russian TNCs should be undertaken.

Keywords: Russian TNCs, multidisciplinary approach, internationalization, the post-communist economy, FDI drivers, neighbourhood effect, state support

1. Introduction

Less than one third of the 20 largest Russian transnational corporations (TNCs) began their cross-border expansion in the 1990s or during the Soviet period (Kuznetsov and Chetverikova, 2009a, pp. 18–25). Illegal forms of capital flight was more common in the first decade of the difficult post-communist transformation. At the end of 2000, the Russian outward foreign direct investment (FDI) stock was only $20.1 billion and accounted for mere 0.3% of the global outward FDI stock (UNCTAD, 2010, pp. 172, 176). The real boom in Russian FDI began in 2003 and its peak was reached in 2007. During the current global economic crisis, market capitalization of companies worldwide fell. This process led to a significant reduction in the value of Russian foreign

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assets although instances of large divestments by Russian TNCs were rare. As a result, the Russian FDI outward stock, which reached $370.2 billion at the end of 2007, decreased to $205.6 billion at the end of 2008. Then it reached $318.7 billion at the end of 2009 (Bank of Russia, 2010a). Nevertheless, Russia now ranks 15th in terms of outward FDI stock and accounts for 1.3% of the world total (UNCTAD, 2010, pp. 172–176).

The increase of Russian FDI has naturally stimulated scientific research on Russian FDI and its emerging TNCs. Before the boom of Russian FDI started, we could find only one monograph on the topic (Bulatov, 1997) and several articles in leading Russian and Western scientific journals or collected volumes (Bulatov, 1995, 1998, 2001; Vinslav et al., 1999; Heinrich, 2001; Liuhto, 2001a, 2001b; Liuhto and Jumpponen, 2001; Peregudov, 2001; Andreff, 2002; Boyarko, 2002). In contrast, several monographs, special reports and more than 150 articles on various aspects of Russian FDI and TNCs appeared in the period 2003–2009. This was not surprising because Russian researchers tried to understand significant changes in the strategies of Russian companies while foreign experts (especially from the EU countries) tried to assess the drivers of unexpected increase in Russian investment in their countries.

Despite the rapid growth of the scholarship on Russian FDI in recent years, several topics remain a field for heated discussions. In the remainder of this paper, I will identify two areas requiring further research. One group of on-going research questions are concerned with the drivers of Russian investment expansion (section 2). While scholars usually cite the lack of information as the origin of disagreements, I would argue that the main problem is methodological. The second group of research questions is over the role of the State and features of State support for Russian FDI (section 3). Concluding thoughts are give in section 4.

2. Drivers of Russian internationalization – do we need a new multidisciplinary theory?

The analysis of Russian TNCs is often based on comparison with TNCs from other countries. Russian TNCs have also been analysed in the framework of the theory of internationalization which, in fact, are developed over the years for the analysis of TNCs from the United States and West European countries (Andreff, 2003; Kalotay, 2004; Bereznoy, 2008; Filippov, 2008). Thus, the main task for the research on Russian TNCs is the explanation of various deviation of Russian outward FDI from the theoretical norm and "typical" TNCs based in developed countries.

The level of economic development is usually considered as a basic factor explaining the international investment position of the country. However, the case of the Russia Federation is at odds with such investment-development path theory (Kalotay, 2008, pp. 88–89). Different explanations for the unique evolution of Russian FDI have been put forward (e.g. Kuznetsov, 2007a, pp. 7-11). The most widely accepted argument is that Russian FDI is a form of capital flight prompted by the unfavourable business climate in the Russian Federation (e.g. Kheyfets, 2008, p. 10). However, it is questionable whether cross-border investment by many Russian TNCs really constitutes a form of capital flight. Many Russian conglomerates (oligarchs' empires) have rapidly evolved into classic TNCs. Furthermore, the problems of Russian business environment are not necessarily unique (Bereznoy, 2008, pp. 33–36).

The difficulty in analyzing Russian TNCs arises mostly from the inadequacy of existing FDI theory. Kalman Kalotay has shown how FDI theory might be developed in light of the findings from research on Russian TNCs (e.g. Kalotay, 2008, pp. 99–103). Clearly, TNCs' decisions concerning FDI depend on their characteristics, objective of undertaking FDI, as well as host and home country factors. However, what are the features that are crucial for FDI decisions? Before developing an analytical framework, it is necessary to ask if it is productive to add new elements for every new phenomenon of FDI to the existing theories.

I am not convinced that modern TNCs from the United States and Western Europe are "typical" TNCs while Russian TNCs belong to a special case. We find very different types of firms among Russian TNCs, some of which are comparable to "classic" Western TNCs while others are very different from those based in developed countries (e.g. Kuznetsov, 2007a). We may also note that different types of British TNCs existed one century ago, such as so-called free-standing companies (Wilkins, 1988). New types of TNCs are emerging among developed countries, too – for instance, international new ventures and re-internationalized companies (e.g. Oviatt and McDougall, 1995; Welch and Welch, 2009).

The late Professor John Dunning recognized the need for widening the eclectic paradigm of international production to embrace asset-augmenting FDI. Some companies try to overcome their disadvantages by acquiring strategic assets overseas. For instance, steel and chemical TNCs often buy foreign firms with unique technologies. Such cases are typical for firms in the Russian Federation and other "emerging markets" (e.g. Moon and Roehl, 2001), but FDI with a similar motive is undertaken by in most developed countries. For example, in the 1970s and 1980s, German oil companies rapidly expanded abroad for the control of resources.

The picture becomes even more complicated in the case of large TNCs with many affiliates which simultaneously start several different FDI projects. In such cases, TNCs can support even loss-making foreign affiliates for a period of time.[1] Some large Russian companies attempt to invest abroad (usually in the CIS) simply because almost all similar companies try to develop overseas business. One failure with a FDI project is not crucial for such companies. If their foreign affiliates are successful, companies will receive a new useful experience for future projects.

There are several levels of explanation for FDI expansion and we need both microeconomic and macroeconomic approaches, drawing on the ideas from economic and political theory of international relations, both from the static and dynamic perspectives. On the one hand, all of the drivers and determinants of FDI are connected with each other. That is why some scholars try to develop one theory for the explanation of the whole FDI phenomenon. On the other hand, at the firm level, it is easier to analyse TNCs' investment activities from a more specific perspective applicable only to certain specific cases. For example, individual wishes of business tycoons are not very important for the explanation of modern German or British FDI because there are hundreds sizable German or British TNCs for any individual TNC to matter. In contrast, the owners of the few competitive industrial

[1] The best example of such a TNC is Basic Element, which is one of the largest Russian industrial groups, that undergoes problems of many foreign affiliates during the global crisis but continues its worldwide FDI activities.

giants in the Russian Federation can determine the whole character of its FDI expansion. For instance, Alexey Mordashov controls the largest Russian steel TNC, Severstal (see table 1). The company is registered and listed in the Russian Federation (while its every second member on the Board is foreigner). In a contrasting example, Roman Abramovich and his partners own the second largest Russian steel TNC, Evraz, which is registered in Luxembourg and its shares are listed only on the London Stock Exchange. This decision cannot be explained by some conflicts between Mr. Abramovich and the Government. However, it is well-known that Mr. Abramovich prefers to live in the United Kingdom (where he stayed even when he was the governor of Chukotka District of the Russian Federation). Indeed, the influence of particular circumstance and preferences of individual owners can be a significant determinant of Russian FDI. Their personal decisions can also determine the role of FDI expansion for their companies – some of these businessmen want to become members of the "global business elite" while others try to seek only political rent within the Russian Federation. As a result, there are many large private oil companies in Russia but only few of them try to invest abroad.

I think the most underestimated approaches in FDI theories are historical and geographical methods of analysis.[2] Two important aspects deserve special consideration. First, a non-linear characteristic of economic development determines the importance of various indicators and hence GDP per capita may not be the most appropriate indicator. Second, historical and geographical circumstances may give rise to a significant neighbourhood effect for FDI.

Competitive advantages of companies are typically based on their knowledge assets and sometimes can be exploited only by way of FDI. For example, Russian managers have received a unique experience from the period of instability during the post-communist transformation and can use it in their competition with global leaders in various developing countries. Flexible organizational structures of large Russian private

[2] It is well known that some countries have followed an uneven path of economic development. For example, Argentina, Russia (within its modern borders) and some Central European countries were among high income countries at the beginning of the twentieth century. The first group of TNCs from these countries appeared a century ago. However, rapid economic internationalization of these countries began only in the 1990s or the 2000s. Researchers often underestimate the role of human capital and temporary institutional barriers in FDI processes.

Table 1. Ranking of 20 top Russian multinationals, end of 2008

No.	Name	Main industries of specialization	Foreign assets, US$ million	Foreign sales, US$ million	Foreign employment, thousand
1	LUKOIL	Extraction of oil & gas / refined petroleum products and chemicals / petroleum products retail	23,577	87,677	23.0
2	Gazprom	Extraction of oil & gas / gas distribution / electricity production	21,408	79,412	~ 8.0[a]
3	Severstal	Iron & steel / mining of metal ores and coals	~ 12,198[a]	13,514	~ 14.0[a]
4	Evraz	Iron & steel / mining of metal ores and coals	11,196	12,805	29.5
5	RENOVA	Conglomerate	~ 8,500[a]	9,150	31.2
6	Basic Element	Conglomerate (non-ferrous metals dominate)	~ 6,200[a]	n.a.	n.a.
7	Novolipetsk Steel (NLMK)	Iron & steel / mining of metal ores	4,985	7,138	5.9
8	Sovcomflot	Sea transport	~ 4,642[a]	n.a.	~ 1.0[a]
9	Norilsk Nickel	Non-ferrous metals / mining of metal ores	4,600	10,355	3.9
10	VimpelCom	Telecommunications	4,386	1,520	10.3
11	Sistema	Conglomerate (telecommunications dominate)	3,804	3,983	11.0
12	TMK	Metal tubes	2,361	2,302	4.1
13	Mechel	Iron & steel / mining of metal ores and coals / electricity production	2,315	4,609	7.9
14	Zarubezhneft	Extraction of oil / refined petroleum products	~ 1,900[a]	n.a.	0.7
15	INTER RAO UES	Electricity production and supply	1,374	1,594	~ 13.0[a]
16	Koks	Iron & steel / mining of metal ores and coals	1,073	2,091	3.5
17	Eurochem	Agrochemicals	1,015	3,168	1.1
18	ALROSA	Mining of diamonds / jewelry production and trade	860	1,472	3.1
19	FESCO	Sea and railway transport	~ 707[a]	75	~ 1.0[a]
20	OMZ	Electric power machines / iron & steel	377	588	1.1

Source: Kuznetsov and Chetverikova (2009a, p. 2, 9).

[a] The symbol '~' indicates that the amount is an estimate by the IMEMO team. In other cases reports and questionnaire answers of companies are used.

companies are also very convenient for TNCs in some circumstances (Kuncinas, 2006, p. 24). Of course, the dominance of oil and metal companies among largest Russian TNCs raises questions about the real scale of Russian human capital (see table 1). However, we see rapid internationalization of the Russian telecommunication TNCs and many middle technology-based Russian TNCs, including IT-companies such as Tecnoserv, Croc, LANIT and Playfon (Kuznetsov, 2010, p. 20).

Territorial proximity and close psychic distance (due to linguistic, cultural and historical ties) play an important role in explaining the geographical distribution of Russian FDI. The "neighbourhood effect" is evident in FDI from a range of countries, but it is especially relevant for Russian TNCs for which the main determinant can be found in its historical circumstances (Kuznetsov, 2008a, 2008b, 2008c).

Although the world's largest economies, except China and Japan, are also among the main recipients of FDI from Russia,[3] the shares of Ukraine, Belarus, Uzbekistan, Armenia, Serbia or Montenegro in Russian FDI were much higher than their shares in global FDI (UNCTAD, 2010, pp. 167–176). Russian TNCs are "fortunate" in terms of neighbouring countries. Many other emerging economies share the border with developing countries with few possibilities for significant FDI (e.g. India and South Africa) or with rich countries with higher wages and intensive competition (e.g. Mexico and Slovenia). The Russian Federation, in contrast, is largely surrounded countries with Russian or other Slavic-speaking population, common features of economic and legal systems, problems of post-communist transformation, developed industrial chains and strong cultural and political ties.

As a result, the shares of former Soviet republics and some Slavonic Balkan countries are significant (see table 2). Moreover, we should remember that almost two thirds of Russian FDI in the period 2007–2009 was round-tripping and trans-shipping FDI received in certain offshore economies. The final destination of these types FDI flows are usually the CIS, Central European countries or the Russian Federation itself (e.g. Pelto et al., 2003). In many cases, Russian companies

[3] Russian FDI in the United Kingdom and Mediterranean countries are often connected with investments in real estate. The appearance of non-European countries among the most important destinations (for instance, Canada, India and the United Arab Emirates) may perhaps shows the maturity of some Russian companies.

Table 2. Destinations of non-financial FDI outflows (net) from Russia, 2007-2009

Destination	2007, US$ million	2008, US$ million	2009, US$ million	Total, US$ million	Total, %
CIS countries	*3,244*	*2,413*	*3,109*	*8,766*	*6.1*
Ukraine	1,601	551	671	2,823	2.0
Belarus	765	619	896	2,280	1.6
Kazakhstan	103	326	974	1,403	1.0
Uzbekistan	354	414	223	991	0.7
Armenia	269	266	166	701	0.5
Other countries	152	237	179	568	0.4
Top 10 destinations of mainly round-tripping and trans-shipping FDI	*34,302*	*26,548*	*29,320*	*90,170*	*62.5*
Cyprus	14,630	9,369	16,930	40,929	28.4
Netherlands	12,502	2,732	3,624	18,858	13.1
British Virgin Islands	1,425	3,790	2,366	7,581	5.3
Bermuda	2,689	3,257	793	6,739	4.5
Switzerland	1,404	2,426	1,807	5,637	3.9
Luxembourg	497	2,722	1,420	4,639	3.2
Gibraltar	886	1,190	2,127	4,203	2.9
Cayman Islands	52	718	296	1,066	0.7
Belize	-10	50	236	276	0.2
Ireland	227	294	-279	242	0.2
Five largest EU members	*3,731*	*6,716*	*4,263*	*14,710*	*10.2*
Germany	674	1,860	1,178	3,712	2.6
United Kingdom	2,454	3,886	2,166	8,506	5.9
France	257	217	386	860	0.6
Italy	87	295	162	544	0.4
Spain	259	458	371	1,088	0.8
Top 10 other European destinations	*1,001*	*2,237*	*4,116*	*7,354*	*5.1*
Hungary	-12	542	1,789	2,319	1.6
Austria	230	253	458	941	0.7
Bulgaria	168	387	229	784	0.5
Czech Republic	248	319	142	709	0.5
Serbia	44	11	609	664	0.5
Finland	110	154	185	449	0.3
Montenegro	188	173	85	446	0.3
Sweden	-55	177	254	376	0.3
Bosnia and Herzegovina	1	55	287	343	0.2
Latvia	79	166	78	323	0.2
United States	974	7,265	1,628	9,867	6.8
Canada	181	6,723	20	6,924	4.8
United Arab Emirates	901	240	60	1,201	0.8
Turkey	183	272	106	561	0.4
India	13	401	2	416	0.3
Other destinations	681	1,387	2,244	4,312	3.0
Total	*45,211*	*54,202*	*44,868*	*144,281*	*100.0*

Source: Bank of Russia (2010b).

established small trade and service affiliates abroad in the 1990s for specific purposes necessitated by the post-communist transformation. For example, Russian businessmen tried to take advantages of the privileges accorded to foreign investors by the Government during the privatization through round-tripping FDI. They wanted to avoid barter or even artificial bankruptcy of their enterprises when the whole Russian economy had a severe non-payment crisis and a lack of liquid assets. In the 2000s, owners of Russian companies continued to use offshore economies for other purposes (including FDI activities) because of the lack of confidence in the protection of property rights in the Russian Federation.

Given the historical, cultural and institutional background of Russian TNCs, which differ significantly from those of developed country TNCs, analysis of those firms would necessitate a framework that could take into account those factors.

3. The role of the State

Another urgent research issue is the role of the State in Russian TNCs' expansion abroad. There is a wide-spread perception that the State has a significant influence on the operation of Russian TNCs, especially among foreign scholars. Of course, the strength of a State can be understood in different ways but I prefer to distinguish the abilities of the ruling groups to hold their political power from their abilities to realize political goals. In the case of the Russian Federation, in spite of absolute political dominance of the ruling party "United Russia", the administration of President Medvedev and Prime Minister Putin has not been able to make significant progress in the acceleration of Russian industrial modernization or in the struggle against corruption (although these aims are among their priorities). The success of the Russian Federation in foreign policy is more evident because some of the weaknesses of the post-communist era were rectified in the 2000s. However, several urgent problems still persist in the Russian Federation, including the visa regime of the EU countries for Russian nationals, which has been likened to a new Iron Curtain separating the Russian Federation from the rest of Europe.

It is difficult to draw a distinction between Russian State-owned and private companies in some cases. In fact, "patriots" (State-controlled corporations with political goals which take precedence over business rationality) and "conformers" (private companies which frequently operate in line with Russia's official policies) are rare examples.[4] It is not uncommon that top-managers of a Russian TNC under State control abuse their position and pursue their own interests. Such managers ignore both Russian national interests as well as the economic objectives of the TNC. Thus, it is impossible to characterize all State-owned firms as patriots. Managers of the firms in the "conformer" category very often have close relationship with State officials and they often exploit such relations successfully. A good example is found in Moscow. Mr. Luzhkov was the mayor of the Russian capital during the period 1992–2010.[5] It is difficult to see any realization of Russian national interests in Luzhkov's activities. While his wife Elena Baturina became billionaire and the richest woman in Russia, Moscow suffers from a lack of basic infrastructure. Baturina's company controls a large part of the construction industry in Moscow and now invests abroad.

Moreover, it is difficult even to say that Russian private companies are more efficient (in pure economic terms) than similar Russian State-owned corporations. The main reason for this situation is connected with key features of the Russian privatization process in the 1990s. In fact, some resource-based companies had owners who had close relationship with Boris Yeltsin's administration imposed on them. In contrast, some State-owned firms were "saved" from such questionable privatization. For example, in the 1990s, Zarubezhneft controlled only a former Soviet oil project in Viet Nam which was very profitable for the State. Its planned privatization was shelved and, today, Zarubezhneft successfully continues its foreign operations. Furthermore, this State-owned company has diversifies its operation in terms of geography and business.

Some companies have assumed a leading role in the Russian economy due to State participation but it is difficult to see any special State support in their cross-border expansion. For example, the Bank of Moscow is one of the largest Russian banks with affiliates in Belarus, Estonia, Latvia, Serbia and Ukraine. It was founded by the Moscow regional government, which today controls two thirds of the Bank's

4 These terms coined by Vahtra and Liuhto (2004, p. 94).

5 After the political reform introduced by Vladimir Putin, the Mayor of Moscow is chosen by presidential appointment rather than election.

shares. Indeed, the Bank of Moscow was allowed to compete with State-owned giant Sberbank due to the participation of the regional government. However, the Bank of Moscow became more successful in its management and tried to conquer markets of neighbouring countries at the beginning of the 2000s (its affiliate in Serbia was founded only in 2008). As for Sberbank, it began its foreign expansion only in 2006 and today its presence abroad is limited to the CIS area.

At the same time, we can see some examples of coordination between Russian TNCs and Russian foreign policy. For instance, Russian private companies toed the line with the Russian Government's official position and temporarily decreased their economic contacts with Estonia in 2007 after a grave of Soviet soldiers was desecrated in Tallinn (Kuznetsov and Chetverikova, 2009b, pp. 75–76). However, it is difficult to find strictly defined Russian national goals (interests) in many other cases. For example, there are opposite views on the gas conflicts with Ukraine and investment in gas transportation in Belarus. Some experts speak of the end of Russian gas diplomacy and real transformation of Gazprom into a classic TNC while others perceive it as the beginning of an active gas diplomacy. Russian political influence is a factor of Russian investment expansion in Central Asia (much like in the case of United States firms' investment in Latin America or German TNCs' investment in Eastern Europe) but it is not a crucial factor (Kuznetsov, 2008c). It is impossible to prove strong connection between Russian investment and Russian foreign policy in countries of Asia and Africa, although sometimes the Russian Government tries to help Russian private TNCs in those regions.[6] The Government usually protects existing projects while its role at the initial stages of Russian investment is not significant.

The current Government support for Russian outward FDI is weak and uses only a few instruments (Kheyfets, 2007; Kuznetsov, 2007b, pp. 259–261). The main problem seems to be the lack of experience in investing abroad. For example, the State insurance agency for export credits and FDI is only in plans of the Russian State Bank for Development and Foreign Economic Affairs (Vnesheconombank). The Russian Federation has also modest positions in the field of double taxation and bilateral investment treaties, especially outside traditional regions of Russian firms' foreign expansion. The whole ideology of the

[6] The best example is Rusal.

current investment policy appears to centre on the protection of dozens of existing Russian TNCs.

Large Russian companies sometimes try to enlist the support of the Government with claims of investment protectionism in foreign countries. The best example was Surgutneftegaz. In 2009, this Russian company tried to become a direct investor of the largest Hungarian oil and gas company MOL through the purchase of its 21.2% shares. However, the Hungarian Government changed the law and Surgutneftegaz became a portfolio investment. Of course, Surgutneftegaz gave a cause for such a decision because there was no information about its real owners, but at the same time, there is widely held perception that the political establishment in the EU does not welcome the rise of Russian TNCs, especially in the energy industry.[7]

5. Conclusions

In this paper, my aim is to demonstrate ambiguity of some wide-spread perceptions about the activities of Russian TNCs and then to outline urgent tasks for further research on Russian TNCs.

First, I stress that the Russian Federation has followed a unique and unusual path of economic development in the twentieth century because of its political situation. Although TNCs from the Russian Federation may have the similar drivers and determinates of internationalization as do developed country TNCs to an extent, the type of dominant large national conglomerates that are typical in the Russian Federation are rare in developed countries. As a consequence, scholars in the field of Russian FDI need to take note of the specific nature of certain Russian TNCs, most notably the influence of the Soviet past on the economic activities of the Russian Federation and its neighbouring countries. The Soviet past has created certain institutional barriers for outward FDI. At the same time, common history and culture of the CIS and Baltic states has facilitated FDI by Russian TNCs.

Second, I try to draw attention to various patterns of interaction between the Russian Government's officials and Russian State-owned and private TNCs. The situation can change when State support for

[7] MOL is a key company for the Nabucco pipeline project, which bypass the Russian territory.

Russian outward FDI becomes more complicated. However, the manner of such intervention is not predetermined and may be influenced by recommendations of scholars. For example, the choice of the main target of State support (Russian business giants or hundreds of middle investors) will determine the whole ideology of the Russian policy in the field of outward FDI.

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