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***Kálmán Kalotay, Andrea Éltető, Magdolna Sass,
Csaba Weiner***

RUSSIAN CAPITAL IN THE VISEGRÁD COUNTRIES

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Authors:

Kálmán Kalotay (UNCTAD), Andrea Éltető, Magdolna Sass,
Csaba Weiner senior research fellows (Centre for Economic
and Regional Studies, Hungarian Academy of Sciences)¹

Emails: kalman.kalotay@unctad.org; elteto.andrea@krtk.mta.hu;
sass.magdolna@krtk.mta.hu; weiner.csaba@krtk.mta.hu

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Russian capital in the Visegrád countries

Kálmán Kalotay (UNCTAD), Andrea Éltető, Magdolna Sass, Csaba Weiner (Centre for Economic and Regional Studies, Hungarian Academy of Sciences)

Abstract

This working paper analyses investment by Russian firms in the four Visegrád countries, their motivations and ownership advantages, based mostly on the eclectic paradigm. Beside statistical data, we rely on case studies to present the profile of the most important Russian investors in each host country. The Visegrád countries have attracted less Russian investment than their economic importance would warrant, due to various factors, most notably the joint effects of reticence in host countries and firm strategies that do not necessarily see the subregion as a major priority. Most of the Russian investment examined is market, and to a lesser extent, resource seeking, concentrated in the hydrocarbons, steel and nuclear energy industries, often dominated by state-owned firms. Some innovative private Russian companies, with features similar to developed-country multinationals, can also be identified with market- as well as efficiency-seeking investment. Extant investment theories with the exception of the eclectic paradigm fall short of explaining Russian investment. This paper suggests that further analysis is needed on the role of the home country in stimulating outward investment and directing it to specific locations.

JEL: D22, F23, M16

Keywords: foreign direct investment, multinational enterprises, Central Europe, Russia, Czech Republic, Hungary, Poland, Slovakia

Introduction: context and methodology

The recent rise of outward foreign direct investment (OFDI) from emerging economies can be best explained by the fast expansion of multinational enterprises (MNEs) from a handful of leading countries. Among those top countries, Russia has been particularly dynamic: it has entered permanently the club of the world's 20 largest sources of OFDI stock, and is currently among the top 10 countries of the world in terms of OFDI flows (UNCTAD, 2014).² Moreover, in the 2013 Forbes List of 2000 Global Companies, there were already 30 Russian firms.³ However, only a few large MNEs are responsible for the overwhelming majority of this outward expansion, based in natural resources and in selected services (banking, telecommunications, see Kalotay & Sulstarova, 2010). While these companies have shown global ambitions from the outset, many of them remained regional MNEs, concentrating their foreign assets in Europe and Central Asia (Kuznetsov, 2013). Moreover, there is a clear regional refocusing of Russian OFDI since the onset of the global crisis, targeting the East Central European region (including the Visegrád countries) more than before.

The Visegrád countries (Czech Republic, Hungary, Poland and Slovakia) could indeed be major targets for the expansion of Russian MNEs. Poland has a common border with Russia, while the other three countries are geographically close. Even more important is the common economic heritage Russia and the Visegrád countries share, because in the period between 1949 and 1991, when they were members of the Council for Mutual Economic Assistance (CMEA), they were involved in an almost exclusive trade partnership with each other – with a clear Soviet leadership. The dominance of political factors coupled with a lack microeconomic roots of that economic cooperation resulted in the quick dissolution of the Council – already in 1991 – in the aftermath of a radical change in the global economic landscape. Since then, the Visegrád countries (together

² Direct investment from Russia received a great boost during the 2000's, first in 2003, and then in 2006 (CBR, 2014a). In 2008, Russian FDI outflows reached a record high of \$55.7 billion, but the crisis was strongly reflected in the figures from the third quarter of 2008 and onwards, leading to a major year-on-year decline of 22 per cent in 2009. However, FDI outflows were again at record highs of \$66.9 billion and \$86.7 billion in 2011 and 2013, respectively, placing Russia in the top 5 FDI providers in 2013. Since 2009, except for 2012, FDI outflows have again been exceeding inflows (Weiner, 2011; CBR, 2014a; UNCTAD, 2014). Foreign direct investment by Russian business was less affected by the crisis than foreign direct investment planned and undertaken in Russia.

³http://www.forbes.com/global2000/list/#page:1_sort:0_direction:asc_search:_filter:All%20industries_filter:Russia_filter:All%20states.

with other former CMEA members) reoriented their foreign trade towards developed countries, first of all towards the European Union (EU), reducing Russia's share to negligible, except in oil and gas imports. However, one has to consider that if Russian firms wish to re-establish business links with former European CMEA countries (including East Germany) capitalizing on the tradition of more than four decades of cooperation, they find the Visegrád countries right in the middle of that area, concentrating about 60% of the population; they are also the countries through which the strategic Friendship Pipeline⁴ and gas pipelines flow. If the aim of Russian firms is to establish themselves in the industrial heartland of Europe, the main East–West transport corridors they can use pass through the Visegrád countries.⁵ These countries could therefore become the most natural entrepôt for all firms going West, especially if one considers that they are already part of the EU customs union, and also offer the benefit of free movement of people within the Schengen Zone. As the data presented in a subsequent section show a low share of Russian investment in the Visegrád countries, one can refer to missed business opportunities.⁶

Despite relative familiarity with Russian partners, the reaction of politicians and public opinion in the Visegrád countries to the arrival of Russian firms has not always been positive. Part of the misgivings may be explained by a general “they are not us” attitude, which can be observed in any host country, even the United States (Tyson, 1991). Furthermore, the negative experience of the Soviet military occupation and the inefficient functioning of the planned economic system imposed on these countries by the Soviet leadership between 1945 and 1989 add to these fears. However, part of the local resistance to Russian firms may stem from fears derived from the alleged misbehaviour of those firms in foreign countries. Some Russian MNEs are perceived as a potential threat on the assumption that they may be a tool of Russia's leaders to regain

⁴ It is the world's longest oil pipeline carrying oil on around 4,000 kilometres from Russia to points in Ukraine, Belarus, Poland, Hungary, Slovakia, the Czech Republic and Germany.

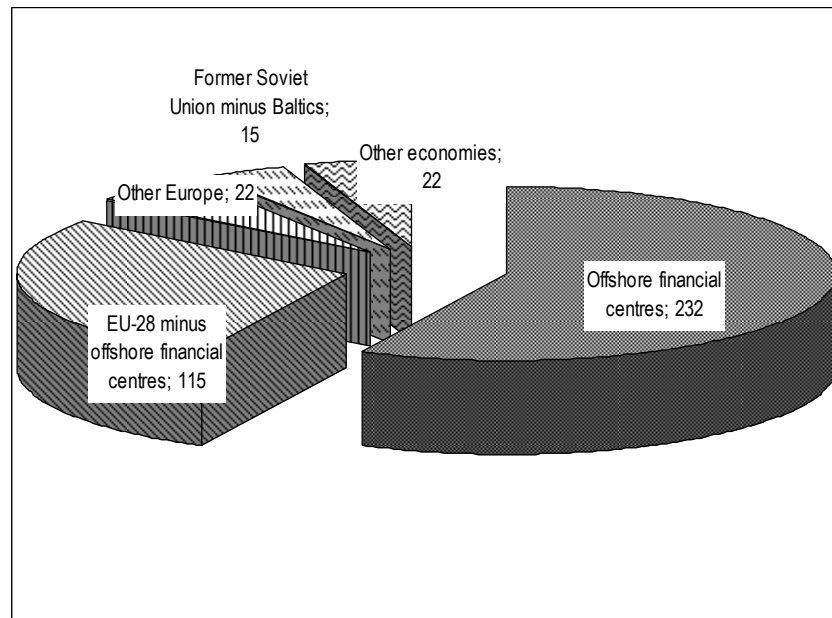
⁵ Corridor III linking the EU capital Brussels to the East passes via the Polish cities of Wrocław, Katowice and Kraków, before going to Kiev (the latter linked to Moscow and St Petersburg via Corridor IX). Corridor V linking Northern Italy to the East passes via the Hungarian capital Budapest, then goes to Uzhhorod in Ukraine, to link up with Kiev, and then Russia. And perhaps the most important of all links is the Corridor II, starting from Berlin, passing via the Polish cities of Poznań and Warsaw, then in the East continuing to Moscow and Nizhny Novgorod via the Belarus capital Minsk.

⁶ This low share cannot be explained by the current Crimean/Ukrainian crisis for at least two reasons: because this low share characterized the pre-crisis period, too; and because the crisis affects all host countries.

political and economic hegemony in the former CMEA region. Additionally questions can be raised about the quality of certain parts of Russian OFDI. One problem is an alleged link with illegal or unethical behaviour (Ledayeva, 2013). The use of transshipment countries to hide the origin of the investor can further exacerbate that perception. It has to be recalled that, in 2012, more than half of the country's OFDI stock had transited via offshore financial centres, more than twice as much as OFDI directly targeting the European Union (EU)-28 (Figure 1).

Our methodological approach is twofold. First, we analyse available macro data on Russian FDI in the four Visegrád countries. Available Russian and host country flow and stock data are examined for the period 2004–2012, using sources of balance of payments of the Visegrád countries and other available data sources. We show discrepancies between the data sets and present anecdotal evidence for the inclination of Russian investor companies to use third countries as intermediaries in their foreign investment projects realised in the Visegrád countries (see e.g. Kuznetsov, 2013).

Figure 1. Russia's OFDI stock by main groups of countries, end 2012
Billions of dollars



Source: Authors' calculation, based on Bank of Russia data.

From the intermediary country, capital either goes back to Russia or lands in a third country – as “non-Russian” investment. As a result, raw data can provide a misleading picture about the geographical and the sectoral composition of Russian OFDI, a

distortion that only case studies can correct efficiently. Thus our second methodological approach is to apply case studies of Russian investment in the four countries analysed. This methodology permits us to get around the above-mentioned data problems that surround Russian OFDI. We observed the following characteristics of the top Russian subsidiaries in each Visegrád country: the main characteristics of the Russian investing company (name, industry, activity, employment, foreign expansion and its motivations, ownership structure with special attention to links to government), and those of the local subsidiary (time of entry, entry mode, Russian share, industry, transshipping or round tripping involved, main motivation of the investor, main changes in its operations after the acquisition). Moreover, we also include the analysis of cases of unsuccessful takeovers alongside the same characteristics.

Our methodological approach has both its advantages and drawbacks. The above-mentioned data problems surrounding Russian OFDI and its high concentration in terms of the number of investing companies clearly favour our approach. Differences between the four analysed countries and their economic relationship with Russia indicate the use of separate country studies. Furthermore, case studies are rich in detail and can provide important information concerning up till then neglected but important features. Case studies can be used as tests for the applicability of theories, which is one of our main aims in the case of Russian MNEs. On the other hand, case studies are not representative and provide limited scope for generalization (OECD, 2009). They are also criticized for being subjective (Gibbert et al., 2008). Our approach of multiple and comparable case studies, analysing the same list of characteristics of Russian subsidiaries in the four countries attempts to widen the scope for generalization.

The paper is structured as follows: First, a brief summary of bilateral foreign direct investment (FDI) statistics is presented. This information is complemented – after a summary of the literature on Russian OFDI and MNEs – by case studies of Russian investment in the four selected countries. The subsequent section presents implications for extant OFDI and MNE theories. The last section concludes.

The place of Visegrád countries in OFDI from Russia: what statistics show

As mentioned, FDI statistics are unable to capture the full complexities of Russian corporate actions. The main limitations are the following:

- FDI measures only the equity-related activities of MNEs. Therefore, should Russian firms engage in non-equity modes of production in Visegrád countries (such as franchising, licensing, contract manufacturing, business process outsourcing etc.); FDI data would reflect reality in the field quite poorly.
- FDI statistics on the countries of origin and destination always register the economy of residence of the immediate investor, not that of the final owner of the assets. Due to the presence of transshipment as a dominant form of OFDI, a large part of data may escape the radar screen of host countries which use only the traditional FDI statistics.

As mentioned above, investment to offshore centres is often, at a later stage, further transhipped to a final target country, or round tripped back to Russia. This feature is not a unique characteristic of OFDI from Russia. Brazilian MNEs use offshore financial centres as transit points for their OFDI on an even larger scale (Kalotay, 2012).). Even developed country multinationals try to optimize their taxes through techniques known as “Dutch sandwich” or “double Irish”, when they insert a Dutch or Irish affiliate in their foreign investment in third countries. In both cases, a difficulty arises from the fact that one loses track of the final destination of investment projects. One exception can be made with Cyprus due to its almost 100% reliance on Russian (and, to a lesser degree, related Azeri, Kazakh, Ukrainian) capital (Pelto et al., 2004; Kalotay, 2013). For that reason, we can use FDI from Cyprus as a more or less acceptable proxy for transhipped FDI from Russia. Unfortunately, the same rule cannot be applied to the British Virgin Islands, Luxembourg, Bahamas, Jersey etc. where Russian offshore capital is mixed with investment coming from other jurisdictions.

The rest of Russian OFDI targets primarily the so called wider European space (Kuznetsov, 2013a), especially the EU member countries, followed by other Europe and the former Soviet Union. It has to be noted here that even in those locations, some of the transactions can be of transhipped nature, especially in the Netherlands and

Switzerland. Beside the group of tax heavens and wider Europe, the only sizeable target of Russian OFDI is the United States (Table 1).

Table 1. Russia's outward FDI stock by top 20 recipients and main groups of countries, end 2012

Millions of dollars and percentages

Item	Value (\$ million)	Share in total (%)
Total outward FDI stock	406 295	100.00
<i>Offshore financial centres</i>	232 205	57.15
Of which:		
Cyprus (1)	151 806	37.36
British Virgin Islands (3)	46 649	11.48
Luxembourg (7)	9 114	2.24
Bahamas (10)	5 937	1.46
Jersey (13)	5 124	1.26
Saint Kitts and Nevis (14)	4 951	1.22
Bermuda (17)	3 619	0.89
<i>EU-28 minus offshore financial centres^a</i>	114 725	28.24
Of which:		
Netherlands (2)	64 632	15.91
United Kingdom (6)	9 962	2.45
Germany (8)	9 089	2.24
Austria (9)	7 460	1.84
Spain (16)	3 715	0.91
France (18)	3 279	0.81
Bulgaria (19)	2 835	0.70
Ireland (20)	2 538	0.62
<i>Other Europe</i>	22 052	5.43
Of which:		
Switzerland (4)	11 965	2.94
Turkey (11)	5 661	1.39
<i>Former Soviet Union minus Baltics</i>	15 472	3.81
Of which:		
Ukraine (12)	5 404	1.33
Belarus (15)	3 790	0.93
<i>Other high-income countries</i>	15 798	
Of which:		
United States (5)	10 662	2.62
<i>Other economies</i>	6 043	1.49

Source: Authors' calculation, based on Bank of Russian data.

^a EU financial centres: Cyprus and Luxembourg.

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According to Bank of Russia data, the four Visegrád countries accounted for less than 1% of the OFDI stock at the end of 2012 (Table 2). Among these four countries, by far the Czech Republic was the most important destination of Russian capital invested directly. If we add the other seven economies of transition which are members of the EU (especially Bulgaria and Lithuania, in which the Russian stocks exceed \$1 billion), the share in Russian OFDI still reaches only 2%. This has to be compared with the massive share of 37% represented by Cyprus. It has to be noted that in 2009 and 2010, Hungary was the largest recipient of Russian OFDI stock (Table 2). However, it was due to Surgutneftegaz's acquisition of shares in the oil and gas company Mol (see below), which never resulted in an effective control, and ended up with the resale of that share to the Hungarian State.

Table 2. Russia's OFDI stock in Central and East European countries,^a 2009, 2010, 2011 and 2012

Millions of dollars

Ranking ^b	End 2009		End 2010		End 2011		End 2012	
	Country	Value	Country	Value	Country	Value	Country	Value
1	Hungary	2 266	Hungary	2 230	Bulgaria	2 439	Bulgaria	2 835
2	Bulgaria	1 586	Bulgaria	1 884	Serbia	1 488	Serbia	1 784
3	Lithuania	1 380	Lithuania	1 420	Lithuania	1 444	Czech Rep.	1 585
4	Montenegro	1 339	Czech Rep.	1 192	Czech Rep.	1 309	Lithuania	1 329
5	Czech Rep.	1 336	Montenegro	896	Montenegro	935	Montenegro	1 108
6	Poland	596	Bosnia and H.	678	Latvia	704	Latvia	879
7	Estonia	589	Serbia	623	Bosnia and H.	561	Bosnia and H.	725
8	Bosnia and H.	541	Poland	581	Poland	545	Poland	596
9	Latvia	535	Latvia	473	Croatia	250	Croatia	318
10	Serbia	394	Romania	258	Hungary	228	Estonia	267
11	Croatia	206	Croatia	226	Estonia	220	Romania	138
12	Romania	63	Estonia	149	Romania	147	Hungary	106
13	Slovakia	48	Slovenia	59	Slovenia	64	Slovakia	78
14	Slovenia	14	Slovakia	52	Slovakia	59	Slovenia	45
15	Albania	–	Albania	–	Albania	–	TFYR Macedonia	1
16	TFYR Macedonia	–	TFYR Macedonia	–	TFYR Macedonia	–	Albania	–

^a Excluding the CIS and Georgia.

^b In descending order.

Note: The Visegrád countries are highlighted in grey.

Source: Authors' compilation based on CBR (2014b).

National data of the four Visegrád countries also suggest that Russia is not a major source of inward FDI (Table 3). The figures provided by these countries are fairly similar to, but, with some exceptions, somewhat lower than the mirror data obtained from Russia. In Hungary and Slovakia, the values of inward stock from Russia are negative, indicating that the Russian parent firms are net borrowers from their local affiliates in the deals directly registered from Russia. In the Czech Republic and Poland, the values

are positive but remain well below the 1% mark. As for Cyprus, that can be assumed as an important additional source of Russian capital, its share exceeds 3% in each of these countries except Hungary. These are all proofs of an apparently modest presence of Russian capital in the four Visegrád countries. As for the other seven transition economies which are EU members, the presence of Russian capital is more noticeable in the three Baltic States and Bulgaria, but similar to the Visegrád group in Croatia, Romania and Slovenia.

Table 3. The place of Cyprus and Russia in the inward FDI stock of Visegrád countries and other new EU members, end 2012
Millions of dollars and percentages

Host country	Total inward FDI stock	Cyprus		Russia		Russian mirror data	Difference
		Value	Share in total (%)	Value	Share in total (%)		
Czech Republic	136 493	5 372	3.94	411	0.30	1 585	1 174
Hungary	84 811	1 552	1.83	-127	...	106	233
Poland	219 833	7 813	3.55	675	0.31	596	-79
Slovakia	55 905	2 339	4.18	-352	...	78	430
<i>Visegrád total</i>	<i>497 041</i>	<i>17 077</i>	<i>3.44</i>	<i>606</i>	<i>0.12</i>	<i>2 365</i>	<i>1 759</i>
Bulgaria	49 318	2 703	5.48	2 296	4.66	2 835	539
Croatia ^a	33 324	231	0.69	257	0.77	318	61
Estonia	19 382	551	2.84	691	3.56	267	-424
Latvia	13 556	864	6.37	639	4.72	879	240
Lithuania	16 033	491	3.06	762	4.75	1 329	567
Romania	78 135	3 342	4.28	... ^b	...	138	7 ^b
Slovenia	15 494	204	1.32	62	0.40	45	-17
<i>Total of other new EU members</i>	<i>225 241</i>	<i>8 386</i>	<i>3.72</i>	<i>4 838</i>	<i>2.15</i>	<i>5 811</i>	<i>973</i>

Source: Authors' calculation, based on national data.

Note: Data are not strictly comparable across countries because of their differences in terms of deducting special purpose entities from their FDI data.

^a For Croatia, cumulative FDI inflows have been used.

^b Romania reports its inward FDI stock from Russia being less than €100 million, without specifying the amount. The difference with mirror data has been estimated as the value of Russian reports minus €99 million.

The extant literature on Russian OFDI in a nutshell

There is a growing body of literature that deals with OFDI from Russia and activities of Russian MNEs abroad but Visegrád countries as hosts have hardly been addressed. Most of the literature has been produced by a relatively small circle of academics. A common thread of these studies is that they attempt to explain why Russian firms are

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investing abroad, and why their expansion is so quick. As will be highlighted in this summary, the number of studies explaining the selection of one location instead of another is relatively small. Their studies can be divided into five categories: (1) comprehensive overviews, in particular, by Finnish and Russian research institutes, including surveys that have jointly been conducted with the Columbia Center on Sustainable Investment; (2) regionally focused studies; (3) host-country-specific studies; (4) sectoral studies; and (5) company case studies (Table 4).

Table 4. Summary of literature on Russian OFDI and MNEs, 1994–2014

Overview	Regional focus	Country focus	Sectoral focus	Company focus
Bulatov (1994, 1995 & 1998), Vinslav et al. (1999), Liuhito & Jumpponen (2003), Vahtra & Liuhito (2004), Vahtra & Liuhito (2007, 2010, 2011 & 2013a), Kalotay (2005), Deloitte (2008), IMEMO (2009 & 2011), Panibratov & Kalotay (2009), Panibratov (2012 & 2014)	- CIS: Vahtra (2005), Kuznetsov (2006), Kuznetsov (2006) & Liuhito (2004), Weiner (2006) & Purju (2009), Pädam (2005) & Kuznetsov (2008) - <i>West Africa</i> : Degterev (2007)	- <i>Germany</i> : Heinrich & Kheifets (2005) - <i>Bulgaria</i> : Zashnev & Gutnik (2005) - <i>Hungary</i> : Weiner (2011 & 2013) - <i>Poland</i> : Liuhito & Runiewicz (2002), Runiewicz (2005) - <i>Latvia</i> : Zashnev al. (2005b) - <i>Lithuania</i> : Zashnev (2004) - <i>Ukraine</i> : Blyakha (2001) - <i>Belarus</i> : Yermeyeva (2009) - <i>US</i> : Kostyayev (2009) - <i>Brazil</i> : Latukha et al. (2011) - <i>Southwestern Finland</i> : Johansson (2006)	- <i>Mineral resources</i> : Boyarko (2002) - <i>Energy</i> : Ehrstedt & Vahtra (2008) - <i>Oil</i> : Väätänen & Liuhito (2001) - <i>ICT</i> : Panibratov (2005) - <i>Telecom</i> : Lisitsyn et al. (2009), Chetverikova (2009), Survillo & Sutyryn (2001) - <i>Banking</i> : Panibratov & Verba (2011)	- <i>Gazprom & Lukoil</i> : Liuhito (2001) - <i>Gazprom</i> : Heinrich (2003) - <i>Metals</i> : Chetverikova (2009), Survillo & Sutyryn (2001)

Source: Authors' compilation, partly based on literature reviews carried out by Kuznetsov (2010) and Liuhito & Majuri (2014).

The fast rise of Russian OFDI has been noted by various studies, including the paradox of outflows exceeding inflows in certain years, especially since the onset of the global crisis (Weiner, 2011; CBR, 2014a). According to Panibratov and Kalotay (2009), 50 to 60 MNEs account for the bulk of Russian assets abroad, but despite this concentration, the total number of Russian firms investing abroad probably exceeds 1,000. In contrast, by citing the work of Libman and Kheifets (2006), Deloitte (2008) asserted that the total number of Russian companies controlling foreign assets was at least 5,000 in 2005. However, Kheifets (2008) believed there might be 5,000–10,000

firms identified as MNEs according to the UNCTAD criteria, even if purely offshore companies engaged exclusively in financial transactions were omitted.

Foreign assets of the top 20 Russian non-financial MNEs reached \$111 billion at the end of 2011 (Kuznetsov, 2013a), still below their end-2008 peak level of \$118 billion (IMEMO, 2009). The list is dominated by resource-based MNEs, i.e. oil and gas and metals companies with considerable exports, such as Lukoil, Gazprom, Evraz and Mechel (Kuznetsov, 2013a). In the 2000s, Russia's MNEs based on natural resources managed to improve their financial positions through the big export revenues caused by high energy and commodity prices, and this allowed them to expand globally (Weiner, 2006). Russian metals giants suffered consequences of the crisis more severely than Russian oil and gas companies. However, Kuznetsov (2010) claims that during the crisis, there were only few large divestments of Russian MNEs. At the end of 2011, Europe and Central Asia accounted for about two-thirds of the foreign assets, while former Soviet Republics represented 28% of those of the top 20. Contrary to Bulgaria and Romania, the Visegrád countries are not among the leading EU host countries. The top 20 list covers both state-controlled and private MNEs. As Panibratov points out, even in the case of private firms the interest of the Russian state can be high (Panibratov, 2014).

The investment activity of the top investors is typically driven by the search for markets or resources. Strategic-asset-seeking motives can be found especially among Russian machinery MNEs outside the top 20. Likewise, efficiency-seeking FDI is more typical for mid-sized MNEs. International expansion is done predominantly via acquisitions (Kuznetsov, 2013a). Kalotay and Sulstarova (2010) argue that Russian MNEs challenge some of the premises of traditional FDI theorems (e.g. the investment development path (IDP), the Uppsala school and explanations based on the standard theory of factor movements). Regarding the eclectic paradigm, Kalotay (2008a, 2008b, 2010) and Kalotay and Sulstarova (2010) suggest the extension of the OLI theorem with a home-country leg to OLIH (see later). The influence of the government in Russian OFDI is undoubtedly large, although its effects on the firms and sectors vary (Panibratov & Latukha, 2014). Kalotay (2010) further differentiates between four subsets of H advantages, including home-country-based competitive (Hc), business environment (Hb), development strategy (Hd) and state involvement (Hs) advantages. The influence

of the government in Russian OFDI is undoubtedly large, although its effects on the firms and sectors vary (Panibratov & Latukha, 2014).

Russian capital in Poland

Russia is a surprisingly small investor in Poland despite the common economic heritage and geographic proximity of the two countries as well as the recently increased activities of Russian multinational companies. This is also astonishing given the fact that in the second half of the 1990s, Poland was the second most important destination for Russian investors behind the United States, and the main CEE destination (Weiner, 2006). As it was already shown in Table 3, in 2012, in the total stock of FDI in Poland, capital originating (directly) from Russia represented only 0.31%. Additionally, we can assume that a substantial part of the FDI stock originating from Cyprus can be of Russian origin. Its share in total amounted to 3.55%. Thus, assuming that all FDI from Cyprus conceals Russian FDI, the upper limit of the share of Russia in Polish inward FDI stock is a mere 3.9%. According to Kuznetsov (2010, p. 9), the Russian share (including transshipping OFDI) at the end of 2008, did not exceed 1% in the case of Poland. We can assume that this share can be very similar at the end of 2012. (At the same time, Germany was the largest investor country (15.1% of total in 2012 stock), followed by the Netherlands (14.7%), France (12.3%), Luxembourg (10.2%), Italy (5.6%) and Spain (5.4%). Thus the six top investor countries represented almost two-thirds (63.3%) of the total stock of inward FDI in Poland.)

In terms of annual inflows, in six out of the nine years following the EU accession of Poland, inflows from Russia were negative. In other years, the FDI inflows never exceeded 1% of total. If again, inflows from Cyprus are added, then the inflows would remain negative only in two years (2004 and 2006), and its share in total would be substantially higher. Certain larger divestment transactions affected the annual FDI inflow data. This was characteristic especially during the crisis years of 2007–2009, which affected investment (and divestment) by Russian multinationals in Poland. Lukoil, for example divested some of its Polish gas station network (Filippov, 2011).

According to the data of the Polish National Bank, there is very little new investment in the form of equity capital from Russia to Poland. The main component of FDI is reinvested earnings of Russian affiliates operating in Poland, especially in 2004. Furthermore, these affiliates offer loans to the parent company or other affiliates in Russia, as it is shown by the high level and negative sign of the “Other capital” component, especially in 2004, 2006 and 2009.

A similar calculation applied to Cypriot FDI in Poland results in a completely different picture. New investment in the form of equity capital is much more substantial, especially starting from 2008. Profit repatriation was present in 2008 and 2009, otherwise Cypriot affiliates in Poland reinvested their profits in the host country. Transactions in other capital were less important than equity capital and overall represented a flow towards the Polish affiliates from the Cypriot parent companies (except for 2009). Thus most probably, new Russian FDI in Poland arrives mainly through the intermediation of Cyprus.

Data of the Polish Statistical Office show that in 2012 Poland hosted altogether 25,914 entities with foreign capital.⁷ According to the top investors list of the Polish investment promotion agency for 2013,⁸ the first 5 companies listed in Table 5 are the largest Russian foreign investors in Poland.

⁷ <http://stat.gov.pl/en/topics/economic-activities-finances/activity-of-enterprises-activity-of-companies/economic-activity-of-entities-with-foreign-capital-in-2012,2,7.html>.

⁸ http://www.paiz.gov.pl/publications/foreign_investors_in_poland.

Table 5: Top Russian investor companies in Poland, 2014

Name of the Russian company	Direct or indirect investment	Industry of Russian owner	Activities in Poland	Polish firm acquired – present firm
EKOTON	Direct	Manufacturing of equipment for wastewater treatment	Manufacture of machinery for wastewater treatment	Prodeko-Efk
Kaspersky Lab	Direct	Information and communication, software	and security Infocomm. equipment; computer programming, consultancy	Kaspersky Lab Polska Sp. z o.o.
Luxoft	Direct	Technology, development	software Product development services, technology solutions	Luxoft Poland Sp. z o.o.
Gazprom	Direct	Transporting and storage, energy	Transport via pipeline, gas transmission	EuRoPol GAZ S.A
LUKOIL	Indirect, via Netherlands	Production and trade of oil and gas	Wholesale of oil and gas	Lukoil Polska
Severstal	Indirect, via Latvia	Steel and steel-related mining	Steel production	Severstallat Silesia Sp. z o.o
Bagdasarian	Direct	Manufacture of food, drinks, tobacco	Manufacture of other food	Śnieżka S.A.

Source: Polish Investment Promotion Agency⁹ and authors' elaboration.

Altogether, Russian-owned firms can be grouped as follows.

- *Large resource-based companies:* It is apparent that the two large resource-based oil and gas companies, the top two multinationals from Russia (Kuznetsov, 2013), Lukoil and Gazprom are present in Poland, with fuel retail trade and gas transmission activities, respectively, both headquartered in Warsaw. In 2014, there were 116 *Lukoil* filling stations in Poland, compared to more than 5,800 worldwide, distributed in 27 countries.¹⁰ Before the economic crisis, Lukoil was planning to establish a much larger network of filling stations in Poland.¹¹ Finally, in 2009, influenced by Poland's negative attitude towards Russian capital, Lukoil decided to freeze its investment, i.e. to stop expanding its network of filling

⁹ http://www.paiz.gov.pl/publikacje/inwestorzy_zagraniczni_w_polsce.

¹⁰ http://www.lukoil.com/static_6_5id_2173_.html.

¹¹ <http://www.gasandoil.com/news/2002/02/cne20846;>

[http://www.ceeretail.com/news/47640/lukoil-to-develop-fuel-station-chain-in-poland.](http://www.ceeretail.com/news/47640/lukoil-to-develop-fuel-station-chain-in-poland)

stations as well as constructing a fuel terminal and acquiring Polish refineries.¹² Lukoil opened its first filling station in Poland in 1996.¹³ Lukoil Polska, Lukoil's Polish subsidiary, is owned via the Netherlands-based Lukoil Europe Holdings B.V. No Russian investment has yet been made in Polish refinery assets.

Poland is an important host country for *Gazprom* investment (Panibratov, 2010). *Gazprom* is present in the midstream business by its stake in Poland's EuRoPol GAZ, the owner of the Polish section of the Yamal–Europe gas pipeline, carrying Russian gas to Poland and Germany (and onwards) via Belarus. Commissioned in 1999, the Yamal–Europe pipeline reduced the significance of Slovakia, while Poland became an important gas transit country in Central and Eastern Europe (Weiner, 2013). EuRoPol GAZ is owned by *Gazprom* (48%), the Polish state-controlled oil and gas company PGNiG (48%) and another Polish company, Gas-Trading (4%).¹⁴ EuRoPol GAZ was set up in 1993 to design, construct and operate the pipeline.¹⁵ However, implementing the EU's Third Energy Package, EuRoPol GAZ handed over operation and Poland's state-owned natural gas transmission system operator (TSO) *Gaz-System* became the independent system operator (ISO) in 2010 (Weiner, 2013). In 2000, a serious scandal was unfolded relating the laying of a fibre-optic cable along the Yamal–Europe pipeline.

Another important Russian investor is *Severstal*, one of the world's leading steel and steel-related mining companies. Currently, the company has two divisions: *Severstal Russian Steel* and *Severstal Resources*. The Polish *Severstallat Silesia Sp. z o.o.* was founded in 2008 by the Latvian *Severstallat* that belongs to *Severstal Russian Steel*.¹⁶ Poland is among *Severstal*'s most important destinations in terms of foreign investment in production facilities (Panibratov, 2010, p. 33).

¹² <http://www.hotmoney.pl/nabiezaco/Rosyjski-biznes-ucieka-z-Polski-a9882>.

¹³ <http://www.themoscowtimes.com/sitemap/free/1996/8/article/lukoil-opens-1st-polish-gas-station/319985.html>.

¹⁴ Gas-Trading is minority-owned by the *Gazprom* Group.

¹⁵ <http://www.gazprom.com/press/news/2013/april/article159672/>;

<http://www.gazprom.com/press/news/2003/may/article62430/>;

<http://neftegaz.ru/en/news/view/94450>.

¹⁶ www.severstal.com.

- *Technology companies:* Relatively newly established, quickly growing Russian companies with activities concentrated in the information and communication technology (ICT) industry are also present in Poland with local affiliates. One of them is *Kaspersky Lab*, the well known information technology (IT) security vendor, established in 1997, which is estimated to be one of the world market leaders in its area.¹⁷ While its headquarters is in Moscow, its holding company is registered in the United Kingdom. In Poland, one can find one of the 30 regional offices worldwide, and one of the 11 European offices.¹⁸ The Polish regional office was the fifth to be opened (Panibratov, 2010).

Moreover, a less widely known, but also quickly growing ICT company, *Luxoft* has also invested in Poland. Luxoft is an IT solutions service provider. It is specialized in application and product engineering outsourcing services for enterprise IT organizations and software vendors. The company is incorporated in British Virgin Islands. According to the website of the company, Krakow is amongst the most important delivery locations, with sales and marketing activities as well, while Wroclaw is also a global location of the company.¹⁹ The Krakow centre, established in 2010, offers application and product development services and specializes in solutions for the travel, automotive and finance industries.²⁰ The Wroclaw location was opened in 2013.²¹ It focuses on solutions for the banking and financial industry. The important position of Poland for the company can be underlined by the fact that out of its 20 locations worldwide, there are two in Poland. Moreover, the development centres of the company are located in a few countries: Russia (Moscow, St. Petersburg and Omsk), Ukraine, Poland, Romania, the United Kingdom and Vietnam (Filippov, 2011). Both latter cases underline the importance of third countries, through which the Russian investment in

¹⁷ http://rbth.com/articles/2010/04/29/the_virus_warrior_a_start_up_tale.html.

¹⁸ <http://www.kaspersky.com/about>.

¹⁹ <http://www.luxoft.com/luxoft-overview/fact-sheet/>.

²⁰ <http://www.luxoft.com/pr/extends-global-delivery-network-with-opening-of-poland-development-center/>.

²¹ <http://www.luxoft.com/pr/luxoft-extends-global-delivery-network-with-opening-a-second-delivery-location-in-poland/>.

Poland is realised. Furthermore, it is interesting to note that these two companies are present with market-seeking affiliates in Poland, though in the case of the development centre of Luxoft, efficiency-seeking motives also play a role. Apart from favourable wages, political stability and protection of intellectual rights were important factors for Luxoft.²²

- *Engineering companies:* *EKOTON* belongs neither to the Russian top multinationals, nor to the quickly growing IT company category. It is an industrial group whose main activity is providing engineering services and producing equipment for wastewater treatment using environmentally friendly technologies. It was founded in 1995. The Polish subsidiary plays a much larger role for this medium-sized multinational company: it has altogether 300 employees and three plants in three countries: Poland (Bialystok), Russia and Ukraine.²³ Out of the six representative offices, one can also be found in Poland.²⁴ This investment is mostly local market seeking, but access to the EU market with a large potential may be at least as important. The geographic position of Poland also plays a role, as well as the “knowledge” factor, given the innovative nature of production and products.

According to the list of the previous years, *Bagdasarian*, a Russian company active in food production, owner of Śnieżka S.A. – Lubzina is also present on the Russian market. The entry mode in Śnieżka was greenfield, located in a special economic zone in order to qualify for investment incentives. Having a look at the top Cypriot investors in Poland, we could not identify any of them, which would conceal a Russian company.

Overall, the surprisingly low involvement of Russian multinationals in Poland can be partly attributed to the negative sentiments attached to Russian capital in the country (Weiner, 2006). This can be illustrated by the fact that besides successfully operating

²² <http://bigstory.ap.org/article/poland-emerging-major-european-outsourcing-hub>.

²³ <http://en.ekoton.com/about-us/#>.

²⁴ http://issuu.com/elenashestakovskaya/docs/ekoton_booklet_2014_engl?e=4852988/7529014#search.

Russian affiliates, the Polish resistance towards Russian capital is manifest in unsuccessful takeovers as well like in the case of Azoty Tarnów. It is the biggest chemicals producer in Poland and its takeover by the Russian firm Acron was hindered in 2013 and 2014 because Azoty is considered as a strategic asset for the Polish state.²⁵ Another case was that of the Polish construction firm Polimex. In 2012 the Russian VIS Construction wanted to be the biggest shareholder but as a reaction the Polish Industrial Development Agency bought the largest package of shares instead.²⁶

Furthermore, articles published in the Russian press call the attention to the Polish “resistance” towards Russian economic expansion in the country. According to a survey, cited by the English-language version of Pravda, the Russian newspaper, 62% of Poles in 2012 believed that their government should prevent that Russian companies or citizens take over Polish firms.²⁷

²⁵ See e.g. www.bloomberg.com/news/2013-04-19/azoty-dives-on-polish-gambit-to-thwart-russian-buy-warsaw-mover.html and <http://www.chemanager-online.com/en/news-opinions/headlines/russian-firms-be-fined-over-grupa-azoty-investments>.

²⁶ <http://uk.reuters.com/article/2012/10/23/poland-russia-investment-idUKL5E8LJPIC20121023>.

²⁷ http://english.pravda.ru/world/europe/02-11-2012/122691-poland_russia-0/.

Russian capital in the Czech Republic

Nominally, Russia represents a small portion of the inward FDI stock of the Czech Republic. However, if the sizeable investment originating in Cyprus, as well as Russian investment transhipped via other countries, is added, the real importance of Russian capital in the Czech Republic is much higher. It is also confirmed by the data of the Bisnode business information agency: in terms of the *number* of foreign-owned companies, Russians were at the first place in 2013. According to the *aggregate capital stock* in Czech firms, Russians occupy 21st place with 19% of companies with foreign equity.²⁸

At the end of 2012, representatives of Czech business circles established the Russian–Czech Mixed Chamber of Commerce²⁹ with the goal to support Russian investment in the Czech Republic. The Chamber opened a Representation in Moscow in June 2014 for assistance in agreements on cooperation, partner search and marketing in Russia. Russian investors are present mainly in the Czech manufacturing sector, but there are also two banks with Russian interests.

- *Banking:* The *European–Russian Bank* was founded in Prague in 2009 as a branch of First Czech–Russian Bank (FCRB) which was the first (and then the only) Russian bank, which received a license for banking activities in the EU. FCRB was founded in 1996 in Moscow and dominated by the former Czech Investment and Postal Bank. After the fall of the scandalous Investment and Postal Bank,³⁰ the bank gradually came under Russian (Gazprom) control. FCRB was established to operate foreign trade and investment projects of the Russian Federation in the Czech Republic and the provision of banking services to companies that are involved in the Czech–Russian trade relations. The *European–Russian Bank* opened another office in Karlovy Vary in 2010. According to press information, the *European–Russian Bank* and the FCRB could have ties to Russian intelligence and organised crime.³¹ In 2012,

²⁸ <http://euro.e15.cz/archiv/rusove-jsou-nejpocetnejsimi-zahranicnimi-vlastniky-ceskych-firem-1044923>.

²⁹ http://www.leadersmagazine.cz/2013/02/18/new-possibilities-for-czech-russian-cooperation/#.U5bKrvl_vTo.

³⁰ <http://www.ce-review.org/00/25/culik25.html>.

³¹ <http://jamestownfoundation.blogspot.hu/2009/09/from-tanks-to-spies-to-banks-european.html>.

at times of embargo against Iran, the First Czech–Russian Bank was said to service Iran trade facilities.³² Russia’s largest bank, *Sberbank*, acquired the Czech assets of Austria’s *Volksbank* in 2012, together with the *Volksbank* affiliates in six other countries of Central and Eastern Europe.³³ *Sberbank CZ* has 23 branches in the Czech Republic and employs 720 people.³⁴

- *Real estate*: Russian *capital* (in large part from private persons) has a strong presence in the Czech real-estate industry, because Karlovy Vary is a popular tourist and business meeting place for Russians, who purchased houses, hotels and other real estate there. In 2013, the Czech Republic was the 9th most important destinations for Russian real-estate investment.³⁵
- *Manufacturing*: Czech assets were used to leverage competitiveness in a strategic way in the case of pipe manufacturer *ChTPZ Group*³⁶’s acquisition of *MSA*, a leading manufacturer of industrial valves (via *Arkley Capital S.a.r.l.* registered in Luxemburg, which manages the assets of *ChTPZ*).³⁷ It was a strategic step from *ChTPZ* to increase *ChTPZ Group*’s competitiveness and meet the requirements of fuel and energy sector companies more comprehensively. The transaction – according to estimates worth more than ten million dollars – provided the *ChTPZ Group* access to the market for oil and gas pipeline accessories. The Czech company was integrated to *ChTPZ Group* administratively, when the 25-year-old son of the Russian energy and industry minister *Khristenko* was put to the board of directors in *MSA*.³⁸ The Russian owner also wished to modernize the firm, to increase its sales in Russia, to draft investment proposals, to bolster capacity in the Czech Republic and to build a similar plant in Russia.

³² <http://online.wsj.com/news/articles/SB10001424052702303299604577323601794862004>.

³³ Bosnia and Herzegovina, Croatia, Hungary, Serbia, Slovakia and Slovenia.

³⁴ <http://www.bloomberg.com/news/2014-01-23/sberbank-plans-to-expand-in-czech-republic-and-germany.html>.

³⁵ From among other CEE countries, Latvia is 6th, Croatia 14th, Estonia 16th, Hungary 18th, Slovenia 19th, Lithuania 25th (<http://prian.ru/pub/26825.html>).

³⁶ Chelyabinsk tube-rolling plant group

³⁷ <http://www.msa.cz/en/o-firme/rimera-group>.

³⁸ <http://www.vg.hu/vallalatok/miniszter-az-apid-akkor-kapsz-egy-ceget-ajandekba-139404>.
and <http://en.novaygazeta.ru/investigations/8586.html>.

Expansion was the main aim for the personal protective equipment producer *Vostok-Service* buying *Cerva Export Import a.s.* in 2006. *Cerva* has been operating on the market since 1991 and concluded direct business contracts with important world suppliers and manufacturers. After its acquisition, *Cerva* began to develop and expand more. In 2007, *Cerva* established affiliates in Russia. In 2009, a new informational system SAP was introduced and the whole company moved to its new offices. The company acquired 100%, and 51% shares in two companies – the Hungarian *Vektor Kft.*, the biggest manufacturer of special clothing in Central and Eastern Europe, and *Panda*, an Italian manufacturer of work and leisure shoes. The company's turnover increased dynamically and exceeds €70 million. *Cerva* became a springboard for the European expansion of *Vostok-Service*, which now is an international holding company with foreign assets in the Czech Republic, Slovakia, Poland, Hungary, Italy and India. In 2007, the press spoke of *Vostok-Service* as a firm with low transparency of ownership structure but it is also one of the few examples for successful Russian companies in the light industry. The firm has powerful owner and contacts, important business partners.³⁹ *Vostok-Service* is owned by Vladimir Golovnev, member of the ruling United Russia party. From 2007 to 2011, he was a member of Duma, a Deputy Chairman of the Duma's Economics and Business Committee. In 2013, the press discovered that clothes for *Vostok-Service* are made under inhuman conditions by women prisoners.⁴⁰

Expansion into new industries, such as regional air transportation, was the main motive of *Ural Mining and Metallurgical Company's* (UGMK) acquisition of a 51% stake in the Czech aircraft manufacturer *Aircraft Industries a.s.* in 2008. The deal can be linked to UGMK's plans of expansion into new sectors, such as regional air transportation and the production of short-haul aircraft. UGMK is the second largest copper producer in Russia. The Czech plant is the largest Czech manufacturer of small transport aircrafts, its flagship aircraft is L-410. The Russian owners of the company have spent on R&D and on new technology – for instance, a varnishing plant. A year after UGMK purchased 51 per cent of the company, orders arrived from the Russian and other ex-Soviet markets for \$14 million. This figure has increased five times until 2013, reaching \$76 million. (Sales of the L-410 aircraft in the rest of the world increased much less dynamically.) The

³⁹ <http://www.rumafia.com/material.php?id=95>.

⁴⁰ <http://newslanc.com/2013/10/05/who-profits-from-russian-slave-labor/>.

company's global turnover and its profit rose and the number of employees increased from 515 to a thousand for 2014.⁴¹ In 2011, the press wrote about a dramatic board meeting at the Czech firm when two executive were shot.⁴² In 2013, UGMK bought all 100% of stock in Czech Aircraft Industries. "Now we are reformatting management and will be forming an investment program that takes into account our understanding of the development of this enterprise, and considering the market that is developing in Russia and beyond," said the company's general director, Andrei Kozitsyn.⁴³

Three Skoda subsidiaries were also acquired by a Russian investor. The Škoda JS company in this form has been active in engineering and supplies for the nuclear energy industry since 1999. (Presently Škoda JS employs 1100 employees).⁴⁴ Škoda Hute s.r.o. and Škoda, Kovárny s.r.o. produced metallurgy, steel products. In 2004 the Russian OMZ (United Heavy Machinery) took over these companies. OMZ is a large Russia-based international heavy industry and manufacturing conglomerate owned by Gazprombank since 2006.⁴⁵ The motivation of OMZ was market access to East European markets – as the manager himself told the press.⁴⁶ In 2007, Škoda Hute and Kovárny were merged and re-branded to Pilsen Steel s.r.o. In 2010, Pilsen Steel was sold to United Group SA (established in 2008 as an international metallurgy group with headquarters in Luxembourg and operating offices in Moscow and Pilsen).⁴⁷

- *Hydrocarbons*: Market access was a motivation for Russia's *Lukoil* in taking over the JET filling stations in the Czech Republic in 2007 and created an own Czech affiliate for the operation of the 44 filling stations.⁴⁸ In 2014, Lukoil rationalized its activity and sold these stations to the Hungarian Mol oil company.⁴⁹ Lukoil owns also Lukoil

⁴¹ http://czechrepublic.newsdeskmedia.com/Images/Upload/micro_sites/czech-republic/PDFs/flying-high.pdf.

⁴² <http://www.express.co.uk/news/world/283000/Two-shot-dead-at-Czech-plane-plant>.

⁴³ <http://business.highbeam.com/407705/article-1G1-349594143/ugmk-consolidates-100-stock-czech-aircraft-industries>.

⁴⁴ <http://www.skoda-js.cz/en/about-company/company-profile.shtml>.

⁴⁵ <http://www.rzd-partner.com/press/288657/>.

⁴⁶ <http://www.power-m.ru/eng/press/news.aspx?news=1725>.

⁴⁷ www.untgroup.com.

⁴⁸ The petrol stations of Poland (83), Hungary (30) and Slovakia (14) were taken over at the same period.

⁴⁹ <http://www.themoscowtimes.com/business/article/russia-s-lukoil-sells-petrol-stations-in-czech-republic-slovakia-hungary/504573.html>.

Aviation Czech s.r.o that provides fuel supply and fuelling aircraft of contractors at international airports of Prague and Ostrava.⁵⁰

Local market was also an aim for *Gazprom* with acquiring a 50.14% share in the Czech Vemex (gas importer) via its German affiliate (Gazprom Germania GmbH) in 2009.⁵¹ Other owners of Vemex were indirectly also bound to Gazprom. Vemex has another Czech affiliate since 2011 dealing with distribution: Vemex Energie, controlled by 51%. Vemex has a 100% affiliate in Slovakia too: Vemex Energo s.r.o., which was founded in Bratislava in 2003 to trade natural gas in Slovakia. Vemex Energo offers natural gas of Russian origin, which obtained under a contract between the companies Gazprom export and Vemex. In 2011, Vemex Energo also began the market supply for households and small clients as a part of the expansion of trade activities of companies operating within the Gazprom Group on end-user markets of EU countries. In 2011, EU Commission officials conducted searches in the offices of Gazprom Germania and Vemex too because of “concerns that the companies concerned may have engaged in anticompetitive practices in breach of EU antitrust rules or that they are in possession of information relating to such practices”.⁵² In 2012, the Commission opened formal investigation and prepares antitrust charges against Gazprom.⁵³

- Reverse geographical expansion was the main motivation of *TVEL Fuel Company*, which belongs to the Rosatom Group. Together with Czech ALTA Invest, it founded the firm *ALVEL* in 2011, taking a minority share in the joint venture. The Czech partner is the majority shareholder possessing 50% +1 shares of the equity capital. The rest belongs to the Russian investors. It was a culmination of a long-term cooperation between the Czech firm Alta Invest and the Russian TVEL that manufactures and

⁵⁰ In 2014, the Czech Administration of State Material Reserves imposed a 27 million crowns fine on the firm for violating a contract on oil supply. Lukoil signed a contract in 2009 for replacing old fuel with new one when the fuel prices were falling. Later the fuel prices went up and it was unprofitable for Lukoil to supply the promised fuel. The contract was repeatedly extended and modified to more suit Lukoil. According to the last version signed a year ago, Lukoil does not have to replace the old fuel with aviation fuel, but with standard diesel oil or gasoline. But Lukoil did not supply the fuel by the deadline in 2013. The case is on the personal level influenced by top politics, because the head of Lukoil Aviation Czech is Martin Nejedly, President Milos Zeman’s counsellor and vice chairman of his party. See <http://radio.cz/en/section/news/lukoil-czech-lands-27-million-fine-over-oil-reserves-deal> and <http://praguemonitor.com/2014/01/06/ln-politics-influences-state-firms-dispute-lukoil>.

⁵¹ <http://www.vemex.cz/en/about/>.

⁵² <http://en.ria.ru/world/20110928/167199336.html>.

⁵³ <http://www.ft.com/cms/s/0/e42946bc-8fed-11e3-ae9-00144feab7de.html#axzz34y11y0Sj>.

supplies fuel for a total of 76 power reactors in the world, of which there are four reactors at Dukovany and two in Temelín. One third of the electricity produced in the Czech Republic comes from nuclear power plants using Russian nuclear fuel. ALVEL combines Czech knowledge, speciality and technical execution with Russian technologies and TVEL know-how. ALVEL functioned successfully throughout 2012; all planned economic indicators were achieved. According to the results of the accounting period, the revenue exceeded €2.5 million.⁵⁴ The Company is planning to expand geographically, including the East European markets (Slovakia, Hungary and Bulgaria) and to open a branch in Moscow to promote company's services on the Russian market.

- *Steel: Evraz Holding's* privatization-related acquisition of the giant Vítkovice Steel (2005) was driven by market-seeking motives.⁵⁵ The acquisition of Vítkovice Steel was carried out by the Cyprus-registered affiliate of Evraz Mastercraft Limited. Evraz Vítkovice Steel (EVS) was hit by the crisis and the general downturn in the European steel market and in end-2012 steel production was stopped for four months and in 2013 again twice for a month.⁵⁶ The number of workers has gradually decreased in EVS to 1,100. In 2013, EVS produced only 571 thousand tons of steel products. The company became indebted, trade unions protested. On 3 April 2014, a group of private investors including Martinley Holdings, Nabara Holdings, Vitect Services, Hayston Investments and Dawnaly Investments purchased 100% of shares (each buying 20%) of Evraz Vítkovice Steel a.s. from Evraz. Investors paid \$89 million for the plant plus took on its

⁵⁴<http://www.tvel.ru/wps/wcm/connect/tvel/tvelsite.eng/presscenter/news/dbcd94004ef23e78ade3ef398191de8b>.

⁵⁵ The history of Vítkovice Steel dates back to 1830 with steel production. Later the company built its own rolling mills. By the mid-2000s, Vítkovice Steel became the third largest steel company and employed 1,600 people. Its steel production reached 960 thousand tons of steel per year. In 2005, the Czech Government approved the results of the tender for sale of this last government-owned steel company. The tender winner was the Russian group Evraz Holding, which offered \$285 million for the company. The firm promised to invest around \$120 million more to the development of the company and the region. Evraz Group was created in 1992 by Alexander Abramov and the most (31%) of its shares is owned by the Russian billionaire Roman Abramovich. The steel production of Evraz is 13.7 million tons, owns steel mills and mines in Russia, Ukraine, the Czech Republic, Italy, the United States, Canada and South Africa. Evraz is the largest steel producer in Russia and the twelfth largest steel producer in the world.

⁵⁶ <http://rt.com/business/russia-czech-steel-evraz-457/>, <http://www.rzd-partner.com/news/cargo-owners/russia-s-evraz-resumes-steel-output-at-czech--vitkovice-steel/>.

debt of \$198 million, including \$129 million it owes to Evraz⁵⁷ and want to continue the company's development.

- *Telecommunications, information technology (IT)*: The Russian micro-electronics producer *JSC NIIME & Micron* used the Czech Republic as a springboard for expansion in third markets. NIIME & Micron (a Russian micro-electronics producer) and Czech *STROM Telecom* (a Czech telecommunications equipment and software manufacturer) established *Sitronics* in 2002 as a Scientific Concern. In June 2004, the Company gained a controlling share in *Kvazar-Micro*, the largest Ukrainian IT company.⁵⁸ As a result of this, the Company launched an IT services business line. In 2005, assets that formed the Scientific Concern, as well as *Kvazar-Micro* and *Sitronics* were consolidated into the brand name *Sitronics*. In June 2006, *Sitronics* purchased a majority stake in the Greek *Intracom Telecom*. This purchase gave access to South European, Middle Eastern and African telecommunication service markets, which generated substantial product range synergy, as well as opened up numerous R&D designs. In 2007, *Sitronics* put 17.5% of its shares on the London Stock Exchange, introduced new technologies and funded corporate development with the gained capital.⁵⁹ Since 2008, the company has undertaken key measures to optimize and integrate the Group's businesses and in 2009, *Sitronics* launched new products and concluded numerous landmark contracts. In 2012, the Russian *AFK Sistema* group gained full control of *Sitronics*.⁶⁰ (The chairman of *Sistema* was arrested in September 2014 on suspicion of a former money laundering.)⁶¹

An analysis of key projects (Table 6) reveals a variety of motives for Russian investors' presence in the Czech Republic.

⁵⁷ <http://www.praguepost.com/economy/38165-evraz-sells-vitkovice-steel-to-investor-group#ixzz33t0PeX3C>.

⁵⁸ *Sitronics Annual Report 2008* (www.sitronics.ru).

⁵⁹ www.sitronics.com.

⁶⁰ <http://www.themoscowtimes.com/business/article/sistema-gets-full-control-of-sitronics/467039.html>.

⁶¹ <http://www.reuters.com/article/2014/11/14/us-russia-sistema-yevtushenkov-arrest-idUSKCN0IY10N20141114>.

Table 6. Main Russian investors in the Czech Republic, 2014

Name of the Russian company	Direct or indirect investment	Industry of Russian owner	Activities in the Czech Republic	Czech firm acquired – present firm
Evraz Group	Indirect, via Cyprus	Mining, steel and vanadium production	Steel mills	Vítkovice Steel – Evraz Vítkovice Steel (sold in 2014)
Gazprom	Indirect, via Germany	Energy	Gas distribution	Vemex
Vostok Service	Direct	Textile, clothing	Personal protective equipment	Cerva Export-Import
Lukoil	Indirect, via Netherlands	Oil, and gas	Petrol stations	JET petrol stations (sold in 2014)
Lukoil-Aero	Direct	Oil, gas	Airport fuel supply	Lukoil Aviation Czech s.r.o
Sberbank	Indirect, via Austria	Banking	Banking	Volksbank offices
UGMK	Direct	Copper mining	Aircraft manufacturing	Czech Aircraft Industries
ChTPZ	Indirect, via Luxemburg	Pipeline manufacturing	Pipeline fittings	MSA
TVEL	Direct	Nuclear fuel	Nuclear fuel supply	Alta Invest – ALVEL (joint venture)
JSC NIIME & Micron	Direct	Microelectronics	IT services	Strom Telekom – Sitronics TS
OMZ (Gazprom)	Direct	Heavy industry	Engineering and supplies for nuclear energy industry	Škoda JS
OMZ, later United Group SA	Direct	Heavy industry	Metallurgy, steel	Škoda Hute, Kovárny (later Pilsen Steel s.r.o)

Source: Authors' collection.

In sum, the Russian presence in the Czech Republic serves mostly as a local market access or a starting point for gaining positions in the neighbouring regions. Regarding the entry mode of Russian investors, we cannot find pure greenfield investment, only acquisitions or joint ventures. The activities of Russian-owned firms in the Czech Republic are not always transparent, follow the oligarchic practice of the home country and sometimes do not fulfil legal requirements.⁶²

⁶² There are also “sleeping” Russian firms with no activity, like Albion CZ that was liquidated in June 2014 and belonged to Alexander Babakov (member of the Russian Duma and banned from the EU). See: <http://www.novinky.cz/ekonomika/347574-rusky-poslanec-babakov-unikl-sankcim-v-cr-dablickou-firmu-zlikvidoval.html>.

Russian capital in Hungary

Russian investment in Hungary has attracted lots of attention at the turn of the century (due to the acquisitions of shares in Hungary's petrochemical manufacturers BorsodChem and TVK by the Russian gas giant Gazprom) and at the beginning of the 2010s (due to the acquisition of shares in Hungarian oil and gas company Mol by Surgutneftegaz, Russia's third largest oil producer). In both cases, Russian attempts ultimately proved to be unsuccessful due to local resistance to takeovers, fuelled by fear of Russian capital. Still, Russian FDI plays a limited role in Hungary. Hungary's leadership in Central and Eastern Europe in attracting Russian FDI is deemed to be temporary, being limited to the end of both 2009 and 2010 (Table 2), and was only because of the Surgutneftegaz deal. Acquired in 2009, and subsequently sold in 2011, Surgutneftegaz's stake in Mol was the single largest Russian FDI project in Hungary.⁶³ Not only was the deal highly significant in Hungarian context, but it presented the evidence that very large outward direct investment from Russia was also registered during the economic crisis. The Surgutneftegaz deal occupied the sixth and seventh places among the top outward merger and acquisition (M&A) transactions from Russia between 2007 and 2009 and between 2007 and 2010, respectively (IMEMO, 2011; Kuznetsov, 2011). But excluding the Surgutneftegaz deals, Hungarian and Russian bilateral data reflect mainly the activities of the *Rakhimkulov family* (i.e. those of Megdet Rakhimkulov and his sons, Ruslan Rakhimkulov and Timur Rakhimkulov). This is so despite the fact that more than 2,000 joint ventures with Russian ownership are operating in Hungary.⁶⁴ Among the top 20 non-financial Russian-based MNEs, ranked by foreign assets, only a few companies are active in FDI in Hungary.

The main industries of involvement of Russian capital in Hungary include banking, hydrocarbons, metallurgy, machinery and real estate:

⁶³ Surgutneftegaz picked Mol for its first outward foreign direct investment. The purpose of the acquisition was unclear, and the ownership structure of Surgutneftegaz has not been made public either. Mol did everything possible to keep Surgutneftegaz away from exercising its ownership rights, prompting Surgutneftegaz to resell its stake to the Hungarian State.

⁶⁴ The sources of this figure are the Hungarian Investment and Trade Agency (HITA, and its predecessor ITD Hungary) and the Trade Representation of Russia in Hungary.

- *Banking:* Having played a significant role, right from the start, both as a representative and an investor for his own account, Megdet Rakhimkulov, a former Gazprom official, has been a top Russian investor in Hungary. The General Banking and Trust (ÁÉB) was bought in 1996 by *Gazprombank* and had been taken over gradually by the Rakhimkulovs' family company, the Hungary-registered Kafijat, and its London-registered (at that time) subsidiary Firthlion Ltd. Kafijat was used to acquire stakes (directly or indirectly) in companies in Hungary. A number of companies merged into Kafijat, and, finally, at the end of 2007, ÁÉB also did so.⁶⁵ Previously, about 70% of ÁÉB's operations had been devoted to Gazprom and Gazprombank. In 2004, this proportion accounted for about 8–10%, but a large part of the operations was still linked to Russian clients.⁶⁶ After ÁÉB discontinued its activities, no Russian-related bank existed in Hungary (except for representations), although the Rakhimkulov family has continued to own a 9% share in Hungary's leading retail bank OTP Bank Nyrt. But *Sberbank's* takeover of Volksbank International AG in 2012 also included the assets in Hungary (see above). A continuation of history is proven by the fact that part of these Hungarian branches had been owned by ÁÉB. Sberbank is operating only 51 branches in Hungary, and has not reached a share of 5 per cent in most segments. The aim is, as a universal bank, to have a share of more than 5 per cent in all important segments in Hungary by 2018.⁶⁷ Again, investment in the sector is mainly of a market-seeking motive. The primary objective of Sberbank Hungary Zrt. is to provide comprehensive services to Russian private and corporate clients, and to enhance the trade between the Central and

⁶⁵ Rakhimkulov moved back to Russia in 2007. With this, he changed his residency status from a Hungarian investor to a Russian one. In 2008, the Cyprus-based AWB Consulting Services Ltd. and Charing Investments Ltd., i.e. the companies of the Rakhimkulov brothers, acquired Kafijat ("A Rakhimkulov fiúk tőkeátcsoportosítása", *HVG*, No. 31/2008). In 2008, Kafijat's share capital was reduced substantially and large dividends were paid. Available sources suggest Firthlion is now equally owned by AWB Consulting Ltd. and Charing Investments Ltd. (<https://www.check-business.co.uk/business/03760112/firthlion-ltd>; <https://www.duedil.com/company/03760112/firthlion-ltd/people>). We do not know whether there have been any changes in the ownership structures of the two Cypriot companies since 2008. Timur Rakhimkulov, now a minority shareholder, is going to be the majority owner of Business Telecom Nyrt., or BTel, a Hungarian telecom provider, via his Hungary-registered company SkillInvest Kft.

⁶⁶ Simon, Ernő and Ildikó Szép, "Meg kell köszölni a sikerhez – Beszélgetés Megdet Rakhimkulovval, az Általános Értékforgalmi bank többségi tulajdonosával", *Figyelő*, Vol. 48, No. 45, 2004, pp. 68–71.

⁶⁷ Palkó, István, "Mit keres egy orosz óriás a magyar és a német bankpiacon?", *Portfolio.hu*, 7 July 2014, http://www.portfolio.hu/vallalatok/penzugy/mit_keres_egy_orsz_orias_a_magyar_es_a_nemet_bankpiacon.200990.html.

East European countries and the Commonwealth of Independent States.⁶⁸ Currently, the Hungarian banking industry is facing refund obligations regarding foreign-currency loans which were very popular before the economic crisis, but since then the exchange rates have depreciated markedly.⁶⁹

- *Hydrocarbons:* Neither in the gas industry nor in the case of oil, were Russian oil and gas companies able to control the entire value chain from wellhead to final customer (i.e. to vertically integrate their business). The state-controlled *Gazprom* plays a limited role as an investor in Hungary, and the issue of unbundling of transmission assets under the EU's Third Energy Package for an internal gas and electricity market in the EU further limits its abilities. *Gazprom* uses *Panrusgáz Gas Trading Zrt.*,⁷⁰ an intermediary established in 1994, to channel imported Russian gas to local incumbent Hungarian Gas Trade Zrt., a subsidiary of Hungary's state-owned electricity company MVM. *Panrusgáz* was forced to pay significant amounts of "crisis tax" in Hungary, prompting *Panrusgáz* to ask for revoking its gas trading licence.⁷¹ Among gas traders in Hungary, two companies have Russian owners. One of them is *Centrex Hungary Zrt.* which was registered in 2004. The Russo-German joint venture *WIEE Hungary Kft.* was established in 2010 and received a gas trading license in Hungary in February 2011. Its ultimate owners are *Gazprom* and the *BASF Group's Wintershall* of Germany.⁷² *Gazprom's* joint projects with

⁶⁸ <http://www.sberbank.hu/en/home/headline/about.htm>.

⁶⁹ Refund obligations concern unfair unilateral contract changes and exchange-rate margins (Gergely, Andras, Marton Eder and Zoltan Simon, "Hungary Banks Face \$4.1 Billion Cost on Loan Refund Bill", *Bloomberg*, 12 September 2014, <http://www.bloomberg.com/news/2014-09-24/hungary-central-bank-supports-use-of-reserves-for-loan-refunds.html>).

⁷⁰ The Russian shareholders of *Panrusgáz* are *Gazprom Export* (owning 40% of the shares), the export arm of *Gazprom*, and the Hungary-registered *Centrex Hungary Zrt.* (owning 10% of the shares). Incorporated in 2004, *Centrex Hungary* is an affiliate of the *Gazprombank*-controlled and Vienna-based *Centrex Europe Energy & Gas AG*. (Note that *Gazprom* has not had control over *Gazprombank* for many years.) Accounted for a minor amount, *Centrex Hungary* is another long-term buyer of Russian gas for Hungary.

⁷¹ In December 2010, *Panrusgáz* asked for the Hungarian energy regulator to revoke its gas trading licence, which the Hungarian Energy Office did so in February 2011.

⁷² There is also another gas trader in Hungary, an obscure one, which had Russian ownership. *MET Hungary Zrt.* (formerly *Mol Energy Trade Kft.* and then *Mol Energy Trade Zrt.*) was set up in 2007 by *Mol* and became half-owned by the Belize-based *Normeston Trading Ltd.* in late 2009. In 2012, *Normeston's* stake was sold to a company registered in the Cayman Islands. The only information released is that *Normeston* is owned by a Russian national. The Hungarian watchdog NGO *Atlatszo.hu* speculated that *Rakhimkulov* was behind *Normeston* (Sarkadi Nagy, Márton, "Orosz oligarcha lehetett a Mol

Mol in Hungary did not turn out to be fruitful. Their two joint ventures, including SEP Company Kft. and Pusztaföldvár Gas Storage Zrt., went into voluntary liquidation and were deleted from the registry in 2014 and 2012, respectively.⁷³ Meanwhile, in Hungary's gas sector, MVM has become established as the main player (both as the largest gas trader and commercial gas storing company) in no time. Also, it has obtained a foothold in Hungary's gas transmission. Due to the failure of Surgutneftegaz, there are no Russian companies with shareholdings in the Visegrád countries' refinery industry. In Central and Eastern Europe, three Russian companies have oil refineries, including those of Lukoil (in Romania and Bulgaria), Zarubezhneft (in Bosnia and Herzegovina) and Gazprom Neft (in Serbia). *Lukoil*, Russia's second largest (and the largest privately owned) oil producer, became a participant in Hungary's motor fuels retail and wholesale market in 2004, although limited in size. In 2014, Lukoil Hungary Kft., Lukoil's Hungarian subsidiary through a Netherlands-based Lukoil affiliate, controlled a network of only 75 filling stations in Hungary with a 6% retail market share in 2013 (Lukoil, 2014). Examining the Hungarian gasoline retail market for the period 2007–2008, Farkas et al. (2009) found that the prices of the vertically integrated Lukoil had been one of the lowest in Hungary, and possibly the largest competitive pressure on the market had been coming from Lukoil. Meanwhile, the vertically integrated Mol and OMV were selling for higher-than-average prices. Motor fuels of Lukoil Hungary Kft. are supplied both from Hungary's Mol Duna Refinery and Romania's Petrotel–Lukoil Refinery. Due to the crisis tax in Hungary, Lukoil Hungary Kft. had handed back its wholesale fuel licence

tulajdonostársa", *Atlatszo.hu*, 4 December 2013, <http://atlatszo.hu/2013/12/04/orosz-oligarcha-lehetett-a-mol-tulajdonostarsa/>).

⁷³ SEP Company Kft. was set up in 2006 to examine the possibilities of the extension of the trans-Black Sea Blue Stream gas pipeline (running from Russia to Turkey) as well as construction of underground gas storage facilities and creation of a gas trading hub in Hungary, but none of the ideas were implemented. However, SEP Company Kft. had some role in South Stream's preliminary studies. Registered in early 2010, Pusztaföldvár Gas Storage Zrt. aimed at constructing an underground gas storage facility in Hungary. According to Hungarian economic daily *Világgazdaság*, Mol revised cost estimates for the project, which proved to be too high, about twice the former number ("Világgazdaság: a Mol lemond a gáztárolóról", *Hvg.hu*, 16 November 2011, http://hvg.hu/gazdasag/20111116_mol_gaztarolo). Compared to its gas consumption, Hungary is a great power of gas storages, and there is no need for further expansion ("Fő feladatunk, hogy közös nevezőre hozzuk a Gazprom Export és az E.ON Földgáz Trade érdekeit", *gáz.áram*, Spring 2010, pp. 18–21).

but later returned to the market.⁷⁴ In 2014, Lukoil decided to withdraw from the CEE region. Its Hungarian and Slovakian filling stations are expected to be acquired by Norm Benzinkút Kft, which had been registered in Hungary but is related to Russia.⁷⁵ Natural-resource-seeking Russian FDI has also appeared in Hungary. *Gazprom Neft*, Gazprom's oil arm and Russia's fourth largest crude producer, has interests in exploration ventures in Hungary via Serbia's NIS, majority owned by Gazprom Neft.⁷⁶

- *Metallurgy*: There is a strong indirect Russian presence in Hungarian metallurgy. In late 2009, Russian investors obtained a stake of 50% plus two shares in Ukraine's *Industrial Union of Donbass (ISD)*. As a result, the iron and steel industry in Dunaújváros (situated some 70 kilometres south from Budapest) and Diósgyőr (being part of the Northern Hungarian city Miskolc) acquired Russian ultimate owners. In some media sources, the Russian state-owned *Vnesheconombank (VEB)* appears as the largest owner of ISD and ISD Dunafer Danube Ironworks Zrt. in Dunaújváros.⁷⁷ But in official documents, the role of VEB is described as assistance to unnamed Russian investors to purchase ISD.⁷⁸ Due to the permanent crisis of Hungarian iron and steel, this engagement seems to carry high risks. In 2013, it was announced that as part of a cost optimization program, they were looking to cut staff by 1,500. As a reaction, the Hungarian government decided to buy ISD Dunafer from VEB, but the offer was refused. In July 2014, the United States widened its sanctions to include VEB. At the time of the takeover, Dunafer was presumably needed for ISD because of Hungary's rolling

⁷⁴ B. Horváth, Lilla, "Erősített tavaly a Lukoil", *Világgazdaság*, 24 May 2013, <http://www.vg.hu/vallalatok/erosített-tavaly-a-lukoil-404253>.

⁷⁵ It is a joint venture between IMFA Petroleum Kft. (set up by a former Hungarian representative of the now defunct Russian oil producer Yukos) and the above-mentioned Belize-based Normeston Trading Ltd.

⁷⁶ NIS' affiliate Pannon Naftagas Kft. was registered in Hungary in 2011. It is taking part in exploration projects in Hungary in a consortium with the Hungarian affiliates of Canada's Falcon Oil & Gas and Austria's Rohl-Aufsuchungs Aktiengesellschaft (RAG). Moreover, in 2014, NIS bought half of RAG Kiha Kft., a subsidiary of RAG via RAG Hungary Kft., which owns an exploration licence in its own right.

⁷⁷ Ábrahám, Ambrus, "Májusban döntést ígérnek az állókohóról", *Népszabadság*, 25 April 2013, http://nol.hu/gazdasag/majusban_dontest_igernek_az_allo_kohorol.

⁷⁸ "Vnesheconombank Chairman Vladimir Dmitriev's Interview to the TV Channel Russia 24" (TV Channel Russia 24, Interview, 2 December 2013), *VEB – News*, 3 December 2013, http://veb.ru/en/press/news/arch_news/index.php?id_19=31057; "Regular Meeting of Vnesheconombank's Supervisory Board Held", *VEB – Supervisory Board Decisions*, 19 December 2013, http://veb.ru/en/press/ns/archive/index.php?id_19=31110.

mill capacity and the access to the EU market. But the EU market has been losing its significance and the restrictions have been cut.⁷⁹ Metallurgy in Diósgyőr has moved from one liquidation to another, and at the company DAM in Diósgyőr, there has been no production since December 2008. In 2010, the liquidator sold the assets of Diósgyőr metallurgy to Öko-Ferr Kft., belonging to ISD Dunaferri's ISD Power Kft. Mechel Service Hungary Kft., an affiliate of the Russian mining and metals company *Mechel* registered in 2010,⁸⁰ has decided to limit its local engagement to selling Mechel's rolled products to Hungarian customers.

- *Machinery*: There are two major Russian capital-related projects operating in Hungary.⁸¹ In 2008, Ganz Machinery Works Holding Zrt. started a joint venture with its Russian state-owned partner *Transportno-Tekhnologicheskoye Mashinostroyeniye (TTM)*⁸² of Atomenergomash called Ganz Engineering and Energetics Machinery Kft., involved, among others, in the manufacture and installation of hydro machines, nuclear power station machinery and oil drilling equipment. The company has unique knowledge and experience in Central Europe in planning and manufacturing of small-series products. Its high-capacity power plant pumps are also in demand in the Russian and Ukrainian nuclear industry.⁸³ Another Russian group, *CTP/Agromash Holding B.V.*⁸⁴ took over Austria's Vogel & Noot in 2009, including its

⁷⁹ Lehardt, Olivér, "Vasmű tér, végállomás", *Vs.hu*, 16 January 2014, <http://vs.hu/mega/dunaferr-dunaujvaros-katasztrofa-riport/>.

⁸⁰ It is directly owned via the Netherlands-based Mechel Service Global B.V., an affiliate founded in March 2009.

⁸¹ Since its privatisation in 1993, the Russians had always had shareholdings in DKG-East Oil and Gas Equipment Manufacturing Zrt. (and its predecessors), a manufacturer of equipment for the oil, gas and petrochemical industries. DKG-East is currently in the hands of Hungary's Olajterv Group. Meanwhile, not only have the owners of DKG-East changed, but so have the target markets of its products.

⁸² In 2010, TTM was replaced by *Tsentralnoye Konstruktorskoye Byuro Mashinostroyeniya (TsKBM)*. TsKBM is owned by Atomenergomash, which is owned by Atomenergoprom, an affiliate of Russia's Rosatom State Atomic Energy Corporation. TsKBM is a 51% owner of the joint venture.

⁸³ http://ganz.info.hu/index.php/en/company/about_the_company.

⁸⁴ Concern Tractor Plants (CTP), the previous parent company, is now part of the Netherlands-registered Machinery & Industrial Group N.V. (M&IG; initially it was operating under the name of Concern Tractor Plants N.V.), which became the holding company for the former. However, the group is managed by CTP being headquartered in Russia. The Netherlands-registered Agromash Holding B.V. also belongs to M&IG. M&IG is a leading manufacturer of earthmoving machinery. In 2010, through a debt restructuring, Vnesheconombank acquired 100% of M&IG shares but did not obtain control over the company. Most of the shares had been held by Mikhail Bolotin.

two Hungarian agricultural machinery factories. One of them produces ploughs in the city of Mosonmagyaróvár, close to Austria and Slovakia; the other one located in the city of Törökszentmiklós in Central Hungary produces cultivators, compact disc harrows, subsoilers, packer and rollers. Production started in Mosonmagyaróvár in 1993, while in Törökszentmiklós in 2008. In machinery distribution, Uraltrak Kft., established in 1991, is the only official local dealer of Russia's Chelyabinsk Tractor Plant, a specialist of engineering and production of industrial tractors and engines.

- *Real estate:* The interest of Russian players in Hungary's real estate market is palpable, though Hungary is not among the top destinations for residential real-estate purchases by Russians. Nevertheless, in 2013, Russian citizens were the most important non-EU foreigners buying residential real estate in Hungary.⁸⁵ Zala County is the most attractive destination (with special attention to the spa city of Hévíz), followed by Budapest.⁸⁶

Epitomized by Surgutneftegaz's attempt to take over Mol, Hungary has also seen both divestments and unsuccessful projects by the Russians.⁸⁷ Russian firms have been discouraged, among others, by tax charges, such as the controversial crisis tax (finally abolished at the end of 2012), the so-called "Robin Hood" tax on energy firms and the tax on public utility pipelines and cables. Still, some investment is on the horizon. One of the particularities of these projects that they go beyond the standard definition of OFDI:

- The extension of the nuclear power plant near Paks, located in Central Hungary, is a project mostly based on an intergovernmental agreement, signed in January 2014. The Russian state-owned company Rosatom is expected to participate in the design and construction of the future fifth and sixth blocks of the plant, and the Russian partners will provide a government loan of up to €10 billion to Hungary. VEB will act as an agent for the Russian government.⁸⁸

⁸⁵ In contrast, EU citizens are no longer obliged to obtain permit.

⁸⁶ "Özönlenek az oroszok a magyar lakás piacra? Itt a friss jelentés", *Napi.hu*, 8 May 2014, http://www.napi.hu/ingatlan/ozonlenek_az_oroszok_a_magyar_lakasiacra_itt_a_friss_jelentes.580952.html.

⁸⁷ The Hungarian Airlines Malév was under Russian control for three years. It was renationalised in 2010, and finally went bankrupt in 2012.

⁸⁸ Two "mothballed" power stations in Eastern Hungary have been taken over by the Russo-Ukrainian consortium.

- In a more classical OFDI project, in May 2014, Magnit, Russia's largest grocery retailer announced to build a logistics centre and a transport department, with a fleet of 1,000 trucks, in North-Eastern Hungary. But the project has been put on hold due to the crisis in Ukraine. Hungary's geographic location and the agricultural base might have played a role in the investment decision. Part of the food supplies would come from Hungary, which is not a novelty, because Magnit has already bought food products from Hungary. A great advantage of the Záhony area in North-Eastern Hungary at the Hungarian–Ukrainian border is that it has broad-gauge lines. Trucks carrying products to Magnit from Western Europe are currently going to Russia via Belarus.⁸⁹ The issue of the Záhony area has always been in the forefront of the Russo–Hungarian relations. A joint venture aimed at setting up and operating an international warehouse and logistics centre in Záhony was established in 2003 but it was struck off the register in 2008 after liquidation. Both Slovakia and Hungary raised the idea of building of a broad-gauge railway through their countries.
- One potential large project involving OFDI but also other types of transactions could have been the construction of the local section of the South Stream gas pipeline. But South Stream was abandoned on 1 December 2014.⁹⁰ A Hungarian–Russian joint venture (South Stream Hungary Zrt.) involving Gazprom was registered in March 2010.

⁸⁹ Szakonyi, Péter, "Itt a döntés, óriási orosz cég jön Magyarországra", *Napi.hu*, 30 May 2014, http://www.napi.hu/magyar_vallalatok/itt_a_dontes_oriasi_orosz_ceg_jon_magyarorszagra.581895.html ; "Záhonyban lesz az orosz Magnit központja", *Origo*, 10 June 2014, <http://www.origo.hu/gazdasag/20140610-zahonyban-lesz-az-orosz-magnit-kozpontja.html>.

⁹⁰ See "Russia Decision to Drop Pipeline Puts EU in Tough Spot –Update", *Dow Jones Newswires*, 2 December 2014, <http://www.capital.gr/dj/news.asp?details=2171008>.

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Table 7. Main Russian investors in Hungary, 2014

Name of the Russian company	Direct or indirect investment	Industry of Russian owner	Activities in Hungary	Hungarian firm acquired - present firm
Sberbank	Indirect, via Austria	Banking	Banking	Volksbank Hungary Zrt. (now: Sberbank Hungary Zrt.)
Rakhimkulov family	Indirect, Cyprus	Various	Investment and asset management	Kafijat Trading and Consulting Kft. (now: Kafijat Investment and Asset Management Zrt.) ^a
Rakhimkulov family	Direct indirect, the UK and Cyprus	Various	Investment and asset management (banking) ^b	OTP Bank Nyrt. (9%)
Gazprom Export (Russia, 40%) and Centrex Hungary Zrt.) ^c (Hungary, 10%) (Initially: Gazprom – 50%)	Direct and indirect, via Austria	Energy and banking) ^d	Gas intermediation ^d	Joint venture: Panrusgáz Hungarian-Russian Gas Industry Rt. (now: Panrusgáz Gas Trading Zrt.)
Ukraine's controlled Russian investors	ISD, Indirect, via Lichtenstein and then via Cyprus	first Steel production	Production of flat-rolled products	Dunaferr Danube Ironworks Rt. (now: ISD Dunaferr Danube Ironworks Zrt.)
Lukoil	Indirect, via the Netherlands	Oil and gas	Retail and wholesale of oil products	Independent, Avanti and JET filling stations as well as greenfield investment (now: Lukoil Hungary Kft.), but have sold to Hungary's Norm Benzinkút Kft.
Rosatom's (Initially: Rosatom's TTM)	TsKBM Direct	Manufacturer of special pumping equipment for the nuclear power industry, research centres and other industries	Manufacture and installation of hydro machines, nuclear power station machinery and oil drilling equipment etc.	Ganz Engineering Environmental Kft. (Present joint venture: Ganz Engineering and Energetics Machinery Kft.) (51%)
CTP/Agromash Holding Netherlands (M&IG Netherlands) ^e	Indirect, via the Netherlands through Austria	Agricultural machinery	Production of agricultural machinery	Vogel & Noot Mezőgépgyár Kft. and Vogel & Noot Talajtechnika Kft.) ^f
Gazprom	Russia	Energy	Gas transmission ^b	Joint venture: South Stream Hungary Zrt. (50%) ^g

Source: Authors' compilation.

^a Family company of the Rakhimkulovs.

^b This refers only to the activity of the particular Hungarian firm.

^c There were changes in the ownership structure of Panrusgáz. Centrex Hungary is an affiliate of the Gazprombank-controlled Centrex Europe Energy & Gas AG (Austria).

^d This refers to the activity of Gazprombank.

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^e Vnesheconombank acquired 100% of M&IG shares but did not obtain control over the company. Most of the shares had been held by Mikhail Bolotin.

^f UniCredit Bank Austria AG, Austria, took a mortgage over the shares.

^g On 1 December 2014, Russia abandoned the South Stream gas pipeline project.

Russian capital in Slovakia

Compared with the other Visegrád countries, the analysis of Russian corporate strategies in Slovakia is at a nascent stage. To the best knowledge of the authors of this paper, no proper case study on their strategies has been prepared so far. The lack of such studies can be in part explained by the fact that Russian firms are more reluctant to engage in interviews (although it is not fully impossible) (see IMEMO, 2011). The other explanation is that Slovak researchers have seen more priority in following the strategies of Western MNEs in the process of EU accession than the activities of Russian firms. For these reasons, we cannot present a full in-depth analysis of Russian firms in Slovakia.

The identity of Russian investors in Slovakia is only partly known – mostly the big household names, such as *Gazprom*, that has limited activities in the country under the name of Vemex Energy, headquartered in the Czech Republic; *Lukoil*, which entered Slovakia in 2007 when it bought ConocoPhillips' gas stations in various countries,⁹¹ including the Visegrád Four; and *Sberbank*, which in 2012 acquired Austrian Volksbank's affiliates in seven countries, including the Visegrád Group except Poland. In the past, Yukos participated in the privatization of the pipeline company Transpetrol (2002); however following its bankruptcy, the Slovak State bought back that share in 2009. A common thread of these entries into Slovakia was that they were always related to large-scale acquisitions, which facilitated instant access to the local market.

Another mode of entry for Russian companies is the participation in public tenders for large-scale construction contracts. These transactions are not FDI *per se*; however, they play an important part in Russian state-owned firms' internationalization strategies. In Slovakia, the most important deal of this type is the nuclear power equipment and service export monopoly *Atomstroyexport's* participation in the 3rd and

⁹¹ As mentioned in the Hungarian case study, too, Lukoil is about to sell its gas stations to another, mostly Russia-linked company at the moment of closing this study.

4th phases of the reconstruction of the Mochovce Nuclear Power Plant. Russian companies were also participating in tenders for the Bohunice Nuclear Power Plant. The participation of Russian companies in those bids in Slovakia has been coordinated since 2012 by Rusatom Overseas, which is a wholly owned affiliate of the State Atomic Energy Corporation Rosatom.⁹²

The lack of information about the majority of Russian companies, often small in size, is related to the fact that their reputation is still low in the aftermath of the withdrawal of Soviet troops in 1991, and they compensate this special liability of foreignness by registering companies under local names, helping them remaining mostly invisible.⁹³ The identification of Russian firms is further complicated by the fact that many of their transactions targeting Slovakia are financed by capital transhipped via the Netherlands, Cyprus and Switzerland.⁹⁴

Challenges for the extant theories

The main challenge of the emergence of new sources of OFDI for extant theories is to strike a balance between preserving their explanative power under the conditions of increasing diversity and maintaining their relative simplicity. It would be an easy response to create a special theory for each and every new case: one for the Dragon multinationals (it already exists, see Matthews, 2002), one for the Russian Eagles (it does not yet exist), etc. The limitation of this approach is that such a fragmentation of theory would make cross-country (and retroactive, over time) comparisons impossible. The explanation for Dragons cannot be transferred to Eagles and vice versa. However, if extant paradigms do not develop together with time, they risk becoming extinct theories soon. To illustrate evolution over time, let us draw a parallel with trade theory: the idea of comparative advantage is almost 200 years old but not yet completely dead despite the rise of its competitors. To survive, it needed to expand its purview to factor

⁹² See "HNClub: Ruský kapitál sa tlačí na Slovensko", 18 February 2013, <http://hn.hnonline.sk/hnclub-178/hnclub-rusky-kapital-sa-tlaci-na-slovensko-540166>.

⁹³ The authors are grateful to Sonia Ferencikova for drawing their attention to this point.

⁹⁴ See "Slovensko samení. Investori z východu striedajú západných", 25 November 2012, <http://spravy.pravda.sk/ekonomika/clanok/253102-slovensko-sa-meni-investori-z-vychodu-striedaju-zapadnych/>.

movements, and received a big push by the invention of the revealed comparative advantage method in the 1960s (Balassa, 1965).

For OFDI theories, a similar approach would be the most reasonable. The world has evidently changed since the times of the creation of the original theories and paradigms; the issue is if they contain sufficient flexibility to adjust to new circumstances, such as the rise of Russian OFDI, and its growing concentration in the wider Europe.

Traditional theories of capital endowments and movements such as the Heckscher–Ohlin–Samuelson (HOS) paradigm (Heckscher, 1919; Ohlin, 1933; Samuelson, 1948) face a major difficulty in explaining how lower middle-income the Russian Federation is on the global top list of OFDI. In principle, Russia should be a capital importer, not a capital exporter country. The main reason for the HOS' limited power of explanation is its aggregate macroeconomic approach, which does not for instance consider such structural elements as the split of Russia into high and low-income segments, and the accumulation of capital by the high-income group, used in part for international business expansion (Kalotay, 2008). The same weakness of aggregation, and a wish to establish uniform thresholds across countries and time, make it difficult for the IDP (Dunning, 1981) too, to explain why Russia's investment position turns into balance (and since 2009 FDI outflows have been exceeding inflows)⁹⁵ prematurely.

The Uppsala School (Johanson & Vahlne, 1977, 1990; Johanson & Wiedersheim-Paul, 1975), positing that the internationalization of firms takes place through stages, also suffers regarding the international leapfrogging of Russian firms. Firms following the Uppsala stages start operating with limited experience and face uncertainty on foreign markets; they internationalize via international trade at best. They envisage investing abroad gradually. Why this theory does not hold to the majority of Russian firms? Because they are not the typical technology-based small upstarts, but mostly giant firms deriving large income from natural resources. Among the Russian investor firms in the Visegrád region, we have found some technology-based firms (Kaspersky Lab, Sitronics), but they are not the dominant ones and even they internationalised very rapidly. In the same vein, the Uppsala School applies well to greenfield OFDI but less to the acquisition

⁹⁵ See UNCTAD data published on-line on 25 June 2014 in conjunction of the launching of the *World Investment Report 2014*.

of foreign assets, in which the relative lack of experience is compensated by, at least partly, the expertise found in the target firm.

The OLI paradigm of Dunning (1977) can in principle fit Russian MNEs better. For firms to successfully invest abroad, they must possess ownership advantages (O), which enables it to invest successfully in a foreign country. The host country must possess certain location advantages (L), linked to the firm-specific advantages of the investor. Furthermore, the firm in question invests abroad, that is internalizes foreign transactions (I) only when it is more profitable than other forms of presence, such as exports. The original OLI framework has been extended and modified several times.⁹⁶ In their most updated form by the author (Dunning & Lundan, 2008), ownership advantages can be divided into asset-based advantages (Oa) such as cutting-edge technologies, marketing prowess or powerful brand names, and transaction-based advantages (Ot) such as common governance of assets and interaction with other corporate networks). From this, it can be deduced that transaction-based ownership advantages are indirectly shaped and influenced by the home-country business environment and culture (e.g. the Chinese Guanxi networks). Despite these advances, besides papers applying successfully the framework, there have been studies which in the case of new MNEs have not found satisfactory results when they applied the OLI framework for explaining their emergence (Child & Rodriguez, 2008). The eclectic paradigm was also criticized for not explaining FDI from less developed countries to developed ones.⁹⁷ Thus we should ask whether the emergence and presence of Russian MNEs in the Visegrád countries can be explained using the OLI framework.

As for Russian firms' Oa, it is obvious that their (exclusive) access to raw materials and related technical knowledge are very important for their investment in the Visegrád countries. In all the four countries, investment in oil- and gas-related activities dominates; there is also some steel-production investment. These activities derive Oa advantages from the parent companies' natural-resource-related expertise. Another

⁹⁶ As Narula (2010) argues, too much extension and sub-categories for the eclectic paradigm can endanger the usefulness of the theory. Rugman (2010) also considers the paradigm too eclectic, very broad and overdetermined.

⁹⁷ Moon and Roehl (2001) suggest an "imbalance theory" for unconventional FDI instead, claiming that a firm wants to search for balance between ownership advantages and disadvantages when investing abroad.

industry performing similarly is that of nuclear energy production: Russian firms are already present in Slovakia, and Hungary concluded an agreement about extending its nuclear power plant's capacity with the help of Russian companies – and the Russian government. On the other hand, we could find Russian companies, whose competitive advantage is very similar to that of developed-country MNEs, in the sense that they are based on innovation and R&D activities. We can find even born global companies among them, which internationalized very early in the life cycle of the company. The most notable case is that of Luxoft (and to a lesser degree of Kaspersky Lab) investing mainly in Poland, not only with a market-seeking motive (representative office) but also with an efficiency-seeking motive (local lab with exporting activities). We could find only traces of acquiring competitive advantages or ownership advantages instead of exploiting existing ones (Narula, 2006). Only the case of Sberbank in acquiring an Austrian bank together with its affiliates in the Visegrád countries may belong to that category.

The Oa advantages of Russian firms in Visegrád countries are closely related to their Ot advantages. For instance, in almost all cases, the development of business required the use of existing business links. The most evident case is that of financial services, in which the main motivation of Russian banks investing abroad has been providing financial services to locally active, directly or indirectly Russian-owned affiliates. In these cases the ownership advantages can be partly related to existing deep contacts with these companies at home and providing them similar to home financial solutions – though some of these are more characteristic of an evolving market economy environment. The effort to use the same practices in a host country can be traced in the quasi criminal cases in the Czech Republic.

The ownership advantages (both Oa and Ot) of Russian firms are reinforced by locational advantages, as the locations/countries in question rely almost exclusively on certain Russian natural resources. The two types of advantages are interconnected through personal, economic, infrastructure and technical networks inherited from the CMEA era in the case of hydrocarbons, iron and steel and nuclear energy industries. The machinery industry shows a similar interconnection of ownership and locational advantages: they are partly related to the production of related equipment, and ownership and related locational advantages are based on the same common inherited

factors. For technology-based companies, the locational advantages are not specific to the Visegrád countries in case they have market-seeking motivations; but they become important if they have efficiency-seeking ones: the relatively low wages of highly skilled local labour, and similar languages (in the case of the Slavic countries) offer important locational advantages.

The expansion of Russian MNEs in Visegrád countries is similar to other emerging-country multinationals in the form of relatively high state involvement, either transparently or in an indirect way. The term transparently refers to cases when firms are majority owned by the Russian State (such as in the case of Gazprom) or enter into the host markets through state contracts (such as in the case of the nuclear power industry). The term indirect means state influence without any formal link developed. Indirect influence can become a norm in state capitalism (Grätz, 2014). The role of Russian State and the Russian policy environment in prompting OFDI raises the issue if that factor can be assimilated under the Ot factor, or a home-country (H) factor has to be added to the OLI legs. State-owned companies obviously possess advantages that facilitate their internationalization (such as financial and administrative support). That hypothesis can be extended to privately owned firms whose international expansion is seen by the State as strategic priority and as a consequence, it is supported by all available means. In the case of Russian MNEs active in innovative industries (especially ICT-related services), home-country factors play a minor role. State influence is low although the Government is still very much interested in the development of these industries and companies (Panibratov & Latukha, 2014). The OLIH hypothesis (Kalotay & Sulstarova²⁰¹⁰; Kalotay, 2010) needs to be further tested in the future, both against findings on Russian OFDI and OFDI from other emerging markets, also based on state capitalism (e.g. China).

Conclusion

The number of studies on Russian direct investment and the activity of Russian multinationals abroad is growing fast as the country is becoming one of the key sources of OFDI on the European and global scene. Knowledge about the activities of Russian

MNEs in specific locations is however uneven. Relatively little is known about their activities in the Central European region. To start filling that gap, this paper has described the motives and patterns of Russian investment in the region, finding a broad variety of investors in the four Visegrád countries. Certain companies (the technology-based firms) show characteristics similar to developed-country MNEs, other firms are large state-owned and natural-resource-based firms, alike the ones found in other emerging countries, and yet others fall under no straightforward categorization (e.g. real estate investors).

The reactions of the Visegrád host Governments to Russian MNEs have been mixed. The group of state-owned resource giants has stirred up more concerns about their perceived relationship with Russian foreign policy objectives. Additionally, the use of transshipment and other tactics to hide the origin of capital by some Russian investors has given rise to serious worries in Visegrád countries. Divergences in the attitudes of the Visegrád countries can explain the main differences in the presence and activities of Russian MNEs in each country analysed.

This paper has also drawn tentative conclusions on the applicability of international business theory to this special case of OFDI, especially as far as Dunning's eclectic paradigm is concerned. On the basis of the analysis of the Visegrád countries, it has been found that the main elements of the OLI paradigm can be applied when explaining Russian FDI there, but its extensions with home-country factors seem to be necessary. This refers first of all to MNEs in natural-resource-based industries, mainly oil, gas and steel; but home-country interest is prevalent in other industries, too.

To validate the results of this paper, further research on Russian OFDI in the four Visegrád countries is necessary in the future. Moreover, in order to compare these conclusions with the findings of studies on Russian firms in similar geographical areas, it is also imperative to investigate patterns of Russian investment in other EU countries. The analysis of the activities and motivations of Russian MNEs in turn need be compared with the behaviour of other emerging-market MNEs. In this respect, it is already possible to count on studies on Chinese MNEs which, to some extent, seem to reinforce the idea of home-country influence (see Wei et al., 2014); yet other studies re-confirm the importance of EU countries in the global strategies of Chinese firms (see for example,

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Ebbers & Zhang, 2010; Spigarelli, 2012). The task is to weave these strands of literature together to arrive to a more coherent explanation of activities of emerging-market MNEs.

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