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**INTERNATIONAL EXPANSION OF RUSSIAN
MULTINATIONALS**

**A FOCUS ON HOME-COUNTRY PUSH FACTORS,
EUROPE AND FIVE CEE COUNTRIES**

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International expansion of Russian multinationals
*A focus on home-country push factors, Europe and
five CEE countries*

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International expansion of Russian multinationals *A focus on home-country push factors, Europe and five CEE countries**

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Abstract

Russian multinationals play an active role in international capital flows, although, over the past decade, two financial crises have interrupted the upward trend of their outward foreign direct investment (OFDI). This paper focuses on the specific characteristics of Russian OFDI and multinationals in general, in particular regarding their presence in the European Union – Russia’s prime export market and the main destination of Russian OFDI – and, more specifically, five EU-member Central and East European states, including the Czech Republic, Hungary, Poland, Slovakia and Slovenia. Besides official statistics, the research relies on company data gathered to present the activities of Russian multinationals in this region. Among the investment motives, the focus is on home-country push factors, both negative and positive. The paper also asks whether the emergence and presence of Russian multinationals could be explained by using an existing FDI framework.

JEL: D22, F23, M16

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

1. Introduction

Foreign direct investment (FDI) from emerging economies has recently grown rapidly due to the multinational enterprises (MNEs) in these countries.¹ Among these, Russian multinationals play a very active role (*Kalotay et al., 2014*). *UNCTAD FDI database* suggests that, with the exception of 2015, Russia has since 2002 been among the top 20 countries in the world with the largest outward FDI (OFDI) stock.² It achieved

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¹ Since 2015, UNCTAD has been using the term “multinational enterprises” instead of “transnational corporations” (TNCs). We follow this change in this paper. Thus, here, we do not differentiate between multinational, global and transnational companies.

² Similarly, the acronym for inward foreign direct investment is IFDI.

its best result in 2013, occupying the 13th place. Also with the exception of 2015, Russia has been ranked among the top 15 countries of FDI outflows since 2003. Russia reached the top 10 in 2008 (No. 10), 2009 (No. 9), 2013 (No. 6) and 2014 (No. 7) (*UNCTAD FDI database*, n.d.).

This paper is the first part of a four-year research project into the international expansion of non-European emerging-market multinationals, including those from Russia. The first year has focused on the general characteristics of Russian OFDI and multinationals, and their presence in the EU and five CEE countries, including the Czech Republic, Hungary, Poland, Slovakia and Slovenia. Among the investment motives, home-country push factors have been addressed, while the second year will examine the pull factors responsible for Russian FDI inflows into these five CEE countries. Furthermore, whilst the third year will attempt to establish the main concerns, challenges and negative impact of Russian multinationals on the five CEE markets, the fourth year will explore the opportunities and positive impacts Russian multinationals can provide for this region.

The paper is structured as follows. *Section 2* discusses the general characteristics of Russian OFDI and multinationals. First, they are put into historical context (*Section 2.1*), and then a presentation of their size and geographical structure (*Section 2.2*), as well as of the industrial distribution (*Section 2.3*) is provided. In *Section 2.4*, the motives of Russian OFDI investors are investigated in detail. First, an analysis is conducted of whether extant FDI theorems are able to explain Russian OFDI (*Section 2.4.1*). Next, we provide a brief overview of pull factors driving Russian OFDI (*Section 2.4.2*). More detail is given regarding push factors (*Section 2.4.3*), including the Russian state's role in promoting foreign expansion (*Section 2.4.3.1*). *Section 3* is centred on the role of the EU in Russian OFDI and the expansion of Russian multinationals. Again, their size (*Section 3.1*), geographical structure (*Section 3.2*), industrial distribution (*Section 3.3*) and also EU-specific motives (*Section 3.4*) are presented. *Section 4* focuses on Russian FDI and multinationals in five CEE countries. We take a country-by-country snapshot of the main Russian-involved companies (*Section 4.1*), and, regarding the FDI theorems, we ask whether the presence of Russian multinationals may be explained by using an existing framework (*Section 4.2*). Finally, *Section 5* offers a summary and some conclusions.

2. General characteristics of Russian OFDI and multinationals

2.1. The historical context of Russian OFDI and multinationals

The history of Russian OFDI dates back to the nineteenth century and covers six main periods: (1) OFDI before the socialist era; (2) the stagnation of OFDI after the Russian Revolution of 1917; (3) the gradual growth of the foreign activities of red multinationals in the period from the end of the 1960s until the dissolution of the Soviet Union in 1991; (4) the emergence of the first real Russian multinationals in 1992–1996; (5) the golden era of Russian multinationals between 1997 and 2008; and (6) the survival of Russian multinationals during the global financial meltdown and the Ukrainian conflict [and the most recent 2014–2016 crisis] (*Liuhto and Majuri, 2014: 211*).

According to *Bulatov (1998: 69)*, Russian FDI started to flow out of the country in the last decades of the nineteenth century. The main destinations were China, Persia and Mongolia. Between 1886 and 1914, capital exports were roughly as high as RUB 2.3 billion, equivalent to USD 33 billion in 1996 prices.

Between the two World Wars, the Soviet Union did not withdraw all the capital invested abroad but drastically cut it. To support trade with Turkey, Iran, Afghanistan and Mongolia, a network of trading companies was established and they were operated in these traditional partner countries. West European trading companies were set up only later. In addition, banks, transport, insurance and other companies were also formed abroad with Soviet capital (*Bulatov, 1998: 69–70*).

After the Second World War, the number of companies abroad increased somewhat (*Bulatov, 1998: 70*), but still there were not so many, as a result of various ideological, political and economic barriers (*Liuhto, 2001: 35*). It was more typical to grant government loans to selected countries (*Bulatov, 1998: 70*). By the end of 1983, Soviet companies had established 116 affiliates in the more industrially-advanced (OECD) economies (i.e. the West) and 27 in developing countries (i.e. the South or the Third World) (*McMillan, 1987: 36–41*). In his 1987 article, *Abraham Guillén* published a list of 72 Soviet multinational enterprises with foreign investment holdings in 22 capitalist countries (*Guillen, 2001: 153*). The bulk of Soviet subsidiaries in the West were engaged in the marketing of oil, metals, timber, chemicals, machinery and vehicles (*Liuhto, 2001:*

36). They reached a low level of transnationalization. Few of these companies showed signs of developing as Western multinationals had done (*Filippov, 2008: 6*).

In 1988, there were a total of 125 Soviet companies in 35 different countries. Their role in foreign trade was well shown by the fact that they were selling about 40 per cent of Soviet oil and oil product exports, 60 per cent of the timber, paper and cellulose exports and more than 50 per cent of the exports of civilian-use manufactured goods (*Bulatov, 1998: 70*).

Soviet companies were also not particularly active in other states of the Council for Mutual Economic Assistance (CMEA or Comecon). In the mid-1980s, only a few joint enterprises were operating. However, their number jumped due to expanding foreign-trade rights in the Soviet Union related to Gorbachev's Perestroika and the improvements introduced in joint venture legislation in Eastern Europe. By 1990, at least 175 Soviet-owned joint ventures were registered in the European CMEA countries: 68 in Poland, 50 in Hungary, 38 in Bulgaria, 21 in Yugoslavia and 4 in Czechoslovakia (*Liuhto, 2001: 36*).

In 1990, the Soviet OFDI stock amounted to only USD 699 million, as compared to USD 388 million in 1983 and USD 378 million in 1987 (*Andreff, 2003: 77*). Prior to the collapse of the Soviet Union, the number of Soviet companies was only between 300 and 400. One needs to bear in mind that their foreign operations were motivated not only by business logic but also by political goals. It is also notable that most of the Soviet companies abroad were controlled by Russian firms. Therefore, after the fall of the Soviet Union, it was Russia who inherited the Soviet business units abroad (*Liuhto, 2001: 37*).

Based on official statistics, UNCTAD data show the stock of Russian OFDI remained below USD 5 billion in the mid-1990s. It was less than USD 10 billion at the end of the 1990s and amounted to only USD 19.2 billion at the end of 2000 (*UNCTAD FDI database, n.d.*).³ However, some observers believe the stock of Russian OFDI had exceeded the above-mentioned data for 2000 by the mid-1990s. For example, *Rybkin (1995)* and *Gorshenin (1995)* calculated that the stock of total investment abroad (direct, portfolio

³ The Central Bank of Russia (CBR) is currently providing stock data only for the period starting at end-2009 (*CBR, 2017c*), whereas the UNCTAD database has been recording data since 1993 (*UNCTAD FDI database, n.d.*). Although UNCTAD works with data from the CBR, its numbers differ from those of the CBR due to CBR data revisions.

and other) achieved USD 130 billion at the beginning of 1995. *Khaldin and Andrianov* (1996)⁴ put this at over USD 300 billion, with direct and portfolio investment each accounting for USD 30-40 billion (cited by *Bulatov*, 1998: 71–72). Criticizing these estimates, *Bulatov* (1998: 72) calculated OFDI stock from Russia to be in the range of USD 20–30 billion. At this time, the related Russian authority had data on only 2,000 foreign subsidiaries, while the real number could have been tens of thousands, mainly small offshore companies, which amounted to 60,000 according to *Khaldin and Andrianov* (1996) (also cited by *Bulatov*, 1998: 72).

The actual state of the economy and the changing role of the Russian state have been reflected in Russia's OFDI data. Since the dissolution of the Soviet Union, four crises have shaken the Russian economy: (1) the transformational recession of 1992–1996,⁵ (2) the currency, fiscal, debt and banking crisis in 1998, (3) the global financial crisis of 2008–2009, and (4) the recent crisis that began in 2014, caused by low oil prices and Western sanctions against Russia over its actions in Ukraine. Although the Russian economy returned to modest growth in 2017 (*World Bank*, 2017), these two external factors continue to exert pressure.

Russia's capitalism does not have solid roots. Rather, it is based on a centrally planned economy and a socialist society (*Menshikov*, 1999). While the basic institutions of the market economy were quickly established in Russia, many features of the old system have been preserved. Since the early 1990s, however, the political and economic systems have undergone substantial changes. The main dividing line was the targeted campaign launched against the Yukos oil company in 2003. State–business relations have changed significantly since that time. Following a largely liberal capitalist system, the state has substantially expanded its role in the economy, and thus an etatist period began (*Vasileva*, 2014). The crises of 2008–2009 and 2014–2016 have not contributed to a further such significant increase in the role of the Russian state (*Weiner*, 2016). During Boris Yeltsin's presidency (1991–1999), the Russian state actively contributed to the creation of large private monopolies, giving birth to future multinationals (*Kalotay*, 2008a: 58; 2008b: 98). In 2001, Russia's 23 largest companies accounted for 30 per cent

⁴ *Khaldin and Andrianov* (1996) is cited here after *Bulatov* (1998). However, it should be noted that in his publications *Andrianov* refers to this paper without mentioning a co-author as *Andrianov* (1996).

⁵ According to *Csaba* (2006: 315), Russia experienced a transformational recession between 1994 and 1997, while the years 1992 and 1993 were dedicated to the reordering of power relations.

of the GDP. These companies were under the control of 37 individuals (*Rutland, 2012: 290*). In 2003, 23 oligarchs controlled 35 per cent of the industrial production (while the state had 25 per cent) and 17 per cent of the banking sector assets (while 26 per cent belonged to the state) (*Dutkiewicz, 2011: 17*).⁶

In the 1990s, Russian OFDI did exist but it could mostly be regarded as capital flight from an unstable environment to offshore paradises and tax havens rather than the internationalisation of the companies (*Filippov, 2008: 6–8*). Due to negative domestic push factors, this kind of OFDI, called an “exodus” by *Vahtra and Liuhto (2004)*, appears from time to time. This is closely associated with the phenomenon of “round-tripping” (i.e. FDI leaving the country and returning) (see *Box 1* later in the paper). The opposite of exodus is “expansion”, which is driven by either international pull⁷ or positive domestic push factors. Due to round-tripping and another closely related phenomenon, “trans-shipping”, Cyprus, the Netherlands and the British Virgin Islands lead the eternal list of Russian FDI recipients (see below in details). For example, the main holding companies of the largest Russian steel producers (Evraz, Mechel, Severstal, NLMK, MMK and TMK) are registered in Cyprus. Russian steel magnates own their companies through these holding companies (*Fortescue and Hanson, 2015: 295–296*). The degree of concentration of Russian OFDI stock in (and IFDI stock from) certain jurisdictions is the result of the combination of traditional (tax minimization – a pull factor) and non-traditional motives (the high monopolization of the national economy, insufficient safeguarding of private business, a poor level of financial market development – push factors) of FDI outflows from Russia (*Bulatov et al., 2016: 400*). The latter motives are no less important than tax avoidance (*Bulatov, 2017: 86*).

⁶ In June 2003, 10 leading families or ownership groups owned 60.2 per cent of the Russian stock market (*Guriev and Rachinsky, 2005: 139*). Analysing the top 64 listed Russian companies in 2002, *Boone and Rodionov (2002)* found that the eight largest groups controlled 49 per cent of these companies’ output and the state controlled another 43 per cent (cited by *Guriev, 2010: 526*). In the summer of 2003, the World Bank conducted a survey that sought to incorporate non-listed companies as well. The 22 leading business groups provided about 40 per cent of industrial revenues and employment. Government ownership was estimated at about 30 per cent, while foreign ownership was below 10 per cent (*World Bank, 2005*, cited by *Guriev, 2010: 526*).

⁷ For international pull factors, we do not use either positive or negative attributes, as we believe that they are positive in themselves, or at least we cannot find any negative international pull factors or a case where an international pull factor is coupled with exodus.

According to the data collected by the CBR, FDI outflows from Russia received a big boost first in 2003 and then in 2006 (*Table 1*). In 2008, they hit a new record high (CBR, 2017a). In the 2000s, the marked rise in international energy and commodity prices led to spectacular developments in resource-based sectors in Russia, encouraging Russian companies to venture abroad (*Filippov, 2008: 7*). Oil and gas and metallurgical companies made huge OFDI, typically driven by quests for markets and resources (*Kuznetsov, 2013a: 3*). Russian companies were ready to expand after several years of progressively developing their competitive advantages within Russia. However, the increase in statistics can also be attributed to the fact that the CBR began to record OFDI in a more accurate manner (i.e. it had likely previously under-reported) (*Panibratov, 2017a: 284*).

Table 1. FDI outflows from, and inflows into, Russia, according to the CBR and Rosstat (Russian Federal State Statistics Service), 1992–2016 (millions of dollars)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<i>CBR</i>														
Balance			-408	-1 460	-1 656	-1 681	-1 552	-1 091	501	-306	59	1 795	-1 621	2 372
Outflows			281	606	923	3 184	1 210	2 195	3 179	2 541	3 533	9 724	13 782	17 880
Inflows			690	2 066	2 579	4 865	2 761	3 286	2 678	2 847	3 474	7 929	15 403	15 508
<i>UNCTAD</i>														
Outflows	1 566	1 022	281	606	923	3 184	1 210	2 195	3 152	2 502	3 484	9 550	13 663	16 747
Inflows	1 161	1 211	690	2 066	2 579	4 865	2 761	3 286	2 651	2 808	3 425	7 755	15 284	14 375
<i>Rosstat</i>														
Outflows				20					382	495	303	283	2 064	558
Inflows				2 020					4 429	3 980	4 002	6 781	9 420	13 072
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016			
<i>CBR</i>														
Balance	-7 602	-11 072	-19 120	6 697	9 448	11 767	-1 765	17 288	35 051	15 232	-10 225			
Outflows	29 993	44 801	55 663	43 281	52 616	66 851	48 822	86 507	57 082	22 085	22 314			
Inflows	37 595	55 874	74 783	36 583	43 168	55 084	50 588	69 219	22 031	6 853	32 539			
<i>UNCTAD</i>														
Outflows	29 840	43 849	56 735	34 450	41 116	48 635	28 423	70 685	64 203	27 090	27 272			
Inflows	37 442	54 922	75 856	27 752	31 668	36 868	30 188	53 397	29 152	11 858	37 668			
<i>Rosstat</i>														
Outflows	3 208	9 179	21 818	17 454	10 271	19 040	17 426	76 265						
Inflows	13 678	27 797	27 027	15 906	13 810	18 415	18 666	26 118						

Note: Grey cells indicate years when FDI outflows exceeded FDI inflows.

Source: Own compilation based on CBR (2017a), Rosstat (2014a, 2014c) and UNCTAD FDI database (n.d.).

The growth of Russian assets abroad has largely been driven by cross-border mergers and acquisitions (M&As) (*Kuznetsov, 2013a: 7*). The remarkable acceleration in the outward expansion of Russian firms during the 2000s was possible only due to large-

scale acquisitions, given the fact that greenfield FDI projects are more time-consuming and capital-intensive than M&As (Kalotay, 2015a: 244).

The effects of the global financial crisis began to be felt as of the third quarter of 2008 onwards, followed by a significant decline in 2009 (CBR, 2017a). Russian metal giants suffered the consequences of the downturn more than Russian oil and gas companies (Kuznetsov, 2010a: 12). Steel companies have considerably cut their OFDI since the late 2000s (Fortescue and Hanson, 2015).

However, two years later, in 2011, Russian FDI outflows stood at a new record level, and yet another record was set in 2013. This impetus was broken when the Russian crisis began in 2014 (CBR, 2017a). The fall in oil prices from June 2014, as well as Western sanctions and Russian counter-sanctions directly led to this crisis. The rouble underwent sharp depreciation. Even though recognized for a long time, serious structural problems of the Russian economy were finally brought to light. Russian multinationals have faced constraints in international financial markets. Sanctions against Russian banks financing Russian multinationals represent a big threat to Russian OFDI (UNCTAD, 2015: 69). Consequently, the year 2014 saw a drastic reduction in Russian FDI flows – in both directions (CBR, 2017a). Moreover, a new Russian anti-offshore law took effect in January 2015, aiming to prevent the cash drain from Russia to offshore centres, the use of cross-border tax evasion schemes and, thus, to reduce round-tripping investment (UNCTAD, 2016: 7, 94). In 2015, Russian FDI outflows continued to decline, and they only increased slightly in 2016. However, as during the 2008–2009 crisis, significant acquisitions still took place in 2014–2016 (UNCTAD, 2016: 62; 2017a: 68).

During the global financial depression, in 2009, FDI inflows into Russia suffered more than Russian FDI outflows. Also, in 2014 and 2015, FDI inflows were more severely affected than the other direction. In 2016, however, FDI inflows into Russia increased significantly. In some years prior to 2009, Russian FDI outflows had already exceeded FDI inflows into Russia. This phenomenon, however, has been much more pronounced since the 2008–2009 crisis. According to the CBR, Russia was a net FDI exporter in all the years between 2009 and 2015, except for 2009 (Table 1). In 2015, the ratio of outflows and inflows reached a record high (CBR, 2017a). Moreover, in 2014 and 2015, Russia's OFDI stock was also larger than the IFDI stock (Table 2) (CBR, 2017b, 2017c).

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Table 2. OFDI stock from, and IFDI stock in, Russia, according to the CBR, end of period, 1993–2016 (millions of dollars)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<i>CBR</i>													
OFDI													
IFDI													
<i>UNCTAD</i>													
OFDI	2 301	2 588	3 346	4 390	7 633	8 866	9 553	19 211	43 254	61 248	89 522	105 773	139 241
IFDI	183	3 280	5 601	8 145	13 612	12 912	18 303	29 738	50 544	68 847	94 511	120 201	178 635

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<i>CBR</i>											
OFDI				298 357	361 121	361 750	409 567	479 501	411 270	367 593	419 453
IFDI				377 447	488 993	454 949	514 926	565 654	371 491	347 690	462 697
<i>UNCTAD</i>											
OFDI	232 881	363 481	197 273	288 289	336 355	315 742	332 834	385 321	329 817	282 651	335 791
IFDI	263 903	488 280	212 887	367 379	464 228	408 942	438 194	471 474	290 039	262 748	379 035

Note: Grey cells indicate years when OFDI stock exceeded IFDI stock.

Source: Own compilation based on CBR (2017b, 2017c) and UNCTAD FDI database (n.d.).

Russian multinationals share several common characteristics: a monopolistic (or oligopolistic) position in Russia, a leading position in the sector, sufficient export revenues to finance operations abroad and the willingness to be active on a global scale (Panibratov, 2017a: 284). Table 3 illustrates the top 20 Russian non-financial multinationals ranked by foreign assets in 2014.⁸ Out of these, eight were state-controlled: Gazprom (of which the government owns more than 50 per cent), Rosneft (70%) and Zarubezhneft (100%) in the oil and gas industry; Russian Railways (100%), Sovkomflot (100%), Transneft (78%) in transportation; Inter RAO (71%) in electricity; and Atomenergoprom (100%) in nuclear energy (Bulatov et al., 2016: 399).

Russia's leading multinationals have a concentrated ownership structure, with either government supremacy or oligarchic dominance (Liuhto, 2016: 260). The ownership structure of Russian private multinationals usually differs from that of their typical Western counterparts.⁹ As Fortescue and Hanson (2015: 303) put it regarding Russian steel companies, due to their ownership structure, they are too exposed to debt for expansion because oligarchs who control these companies do not want to open up their share registers in any substantial way. Thus, they are not able to provide equity in the

⁸ Although well known, we still wish to emphasize that FDI, M&A and foreign assets are three different concepts.

⁹ None of their free-floats exceeds 50 per cent (Kuznetsov, 2013a: 5).

Table 3. The top 20 Russian non-financial multinationals ranked by foreign assets, 2014

Rank		Company	Main industry	Main owner(s)	Foreign assets (bln USD)	
2014	2009				2013	2014
1	2	Gazprom	Oil and gas	State: 50,002%	40.1	36.0
2	1	Lukoil	Oil and gas	Vagit Alekperov: 22.96%; Leonid Fedun: 9.78% (the management has a controlling shareholding)	32.6	32.9
3	8	VimpelCom	Telecom	Alfa-Group (Mikhail Fridman)	36.8	30.4
4	23	Rosneft	Oil and gas	Controlled by the state	8.4	9.4
5	4	Evraz	Steel	Controlled by Roman Abramovich, Alexander Abramov and Alexander Frolov	8.7	5.3
6	6	Sovkomflot	Transport	State: 100%	5.3	5.3
7	10	Rusal	Non-ferrous metallurgy	En+ (Oleg Dripaska): 48,13%; Sual's shareholders: 22.80%; Amokenga Holdings (Glencore): 8.75%; Onexim (Mikhail Prohorov): 6.70%	3.7	2.8
8	>25	Russian Railways	Transport	State: 100%	3.2	2.8
9	12	TMK	Steel	Controlled by Dmitry Pumpyansky	2.6	2.5
10	13	Zarubezhneft	Oil and gas	State: 100%	2.4	2.4
11	16	Atomenergoprom	Nuclear	State: 100%	2.8	2.4
12	5	Sistema	Conglomerate	Controlled by Vladimir Yevtushenkov	3.0	1.7
13	–*	Nordgold	Non-ferrous metallurgy	Controlled by Alexei Mordashov	1.7	1.6
14	15	Inter RAO UES	Electricity	Controlled by the state	1.6	1.6
15	21	Eurochem	Chemicals	Controlled by Andrey Melnichenko	1.5	1.4
16	8	NLMK	Steel	Controlled by Vladimir Lisin	1.6	1.3
17	14	Transneft	Transport	State: 100%	1.5	1.1
18	25	MMK	Ferrous metallurgy	Controlled by Viktor Rashnikov	1.1	1.0
19	>25	Polymetal	Non-ferrous metallurgy	Alexander Nesis, Petr Kellner and Alexander Mamut	0.2	1.0
20	11	Norilsk Nickel	Non-ferrous metallurgy	Interros (Vladimir Potanin): 30.3%; Rusal: 27.8%; Crispian Investment (Roman Abramovich and Alexander Abramov): 6.3%	0.6	0.7
Total top 20					159.4	143.6
>25	3	Severstal	Steel	Controlled by Alexei Mordashov	4.8	0.4
>25	7	Mechel	Steel	Controlled by Igor Zyuzin	2.8	0.1

* At that time, Nordgold was not independent, but only a gold-mining division of Severstal. However, if considered separately, it would be among the top 20.

Note: Grey cells indicate state-owned or state-controlled Russian multinationals.

Source: Kuznetsov (2016: 82) and own compilation.

volumes required over the long term to build a truly global company. In difficult times, it is very likely that they will not be able to finance their acquisitions.

No Russian companies appeared on the list of the world's top 100 non-financial multinationals ranked by foreign assets in 2016 (UNCTAD, 2017b). On the other hand, only Lukoil (No. 28), Russia's biggest non-state oil producer, and the gas giant Gazprom (No. 48) could make it to the list of the top 100 non-financial multinationals from

developing and transition economies ranked by foreign assets in 2015 (UNCTAD, 2017c).

2.2. The size and geographical distribution of Russian OFDI

For a long time, both the Central Bank of Russia and the Russian Federal State Statistics Service provided official data on Russian OFDI. However, since 2014, only CBR data have been available. A common feature of these FDI statistics is that they are organized on the basis of the immediate host and investing country, and not according to the ultimate host and investing country. This is particularly problematic as certain third countries, largely *de jure* or *de facto* tax havens and offshore centres, play a significant role in intermediating Russian FDI. At a later stage, FDI is trans-shipped to the final target country or round-tripped back to Russia (Kalotay *et al.*, 2014: 6).¹⁰

Box 1. Indirect FDI, special-purpose entities, round-tripping and trans-shipment

Within the term “foreign direct investment”, “direct” refers to the 10 per cent threshold of voting power or equity ownership. In the case of “indirect FDI”, however, the term “indirect” means the use of a third-country subsidiary for FDI purposes. The method of financing indirect FDI is called trans-shipment (Kalotay, 2012: 546). In the Russian case, this intermediate (or immediate) foreign company is predominantly a special-purpose vehicle/entity (SPV/SPE). SPEs have no or little linkages with the domestic (resident) economy (UNECE, 2011; Montvai, 2015) and play a role in the intermediation of substantial financial resources within groups of companies (MNB, 2014). SPEs can be either offshore or onshore companies (but can no longer be offshores in the EU), providing taxation, regulatory and confidentiality benefits (Tavakoli, 2003; IMF, 2004).¹ An SPE can be a holding company (and this foreign holding company of a Russian firm purchases a company in a third country), but not every holding company is an SPE (for details, see Dippelsman, 2004). There are also examples when the intermediary company is engaged in activities linked to the resident (e.g. Polish or Austrian) economy (e.g. a foreign subsidiary of a Russian company establishes or buys a company in a third country). Naturally, one does not necessarily need to assume suspicious transactions behind all investments through a third country.

Trans-shipment and round-tripping are not unique features of Russian FDI. Trans-shipment is well known among Brazilian multinationals, while round-tripping is also a phenomenon among their Chinese peers (Campanario *et al.*, 2012: 3–6; Kalotay *et al.*, 2014: 6). One of the consequences of trans-shipment and round-tripping is that the immediate host/investing country and ultimate host/investing country differ from each other. Therefore, certain countries are more concerned with FDI flows than their real economic significance would imply (Antalóczy and Sass, 2014: 38). Ultimately, FDI statistics on the immediate host/investing country do not provide a complete image of Russian OFDI. To achieve a more accurate view, one needs to look at company data and case studies (Weiner, 2017a: 195).

¹⁰ Kuznetsov (2013b: 93) considers round-tripping FDI as pseudo FDI.

According to the CBR, at the end of 2016, Russia's OFDI stock was USD 419 billion, still far from the record level of USD 480 billion at the end of 2013 (*Table 2*) (CBR, 2017c). Yet, because of round-tripping, both inward and outward FDI are overestimated (Kuznetsov, 2017: 78–79). Kuznetsov (2017: 79) concludes that at least one fourth of the Russian OFDI stock is pseudo-foreign. Sergey Glazyev, economic adviser to President Putin, went as far as to say that 85 per cent of FDI in Russia was investment by Russian businesses through offshore entities (Bulatov, 2017). Foreign assets of the top 20 Russian non-financial multinationals reached USD 143.6 billion at the end of 2014 (Kuznetsov, 2016: 82).

The economic crisis of 2014–2016 and the new Russian anti-offshore law have reduced the scale and scope of round-tripping FDI (UNCTAD, 2016: 60). In principle, OFDI suffers from devaluation, because it takes more domestic currency to buy the same foreign goods, and if foreign investment is covered by domestic profits, its financing leads to losses. The situation is different in round-tripping, where foreign profits are also sources of financing. These are not affected by devaluation. Regarding trans-shipment, the problem is that if sanctions are in place, then one of its main advantages, i.e. access to foreign funds (e.g. bank loans), is curtailed (Kálmán Kalotay, personal communication, 2 November 2015). In practice, Cyprus' FDI stock in Russia has significantly decreased. Some of the investments in offshore centres are trans-shipped to third countries rather than recycled back into Russia. This trend has been reflected in the decreasing FDI stock from the British Virgin Islands (UNCTAD, 2016: 60). However, as Panibratov (2017a: 284) states, the next few years may see some capital return to Russia.

Unlike other BRIC countries (consisting of Brazil, Russia, India and China), the bulk of Russia's OFDI stock is in developed countries (UNCTAD, 2016: 12). The most important destinations for Russian OFDI are Europe and the United States (UNCTAD, 2015: 69). These observations are based on CBR data, according to both the asset/liability presentation and the directional principle.¹¹ At the end of 2011, 39 per cent of foreign assets of the top 20 Russian multinationals were located in Europe, excluding the CIS, Georgia and Turkey (Kuznetsov, 2013a: 15).

¹¹ In both cases, data are consistent with the methodology set out in the 6th edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6).

CBR data show most of Russia’s OFDI stock is still in Cyprus and the Netherlands, two developed EU countries, and the British Virgin Islands, a developing Caribbean economy, statistically part of Latin America and the Caribbean (like the Bahamas and the Cayman Islands). As a result, the role of Latin America and the Caribbean is overstated. The real Russian FDI stock data for this region is 15–30 times less than official statistics indicate (*Kuznetsov, 2017: 79*).

By definition, Cyprus and the Netherlands are neither tax havens nor offshore jurisdictions, but in reality, many EU countries – including, for example, Luxembourg – should be historically included into these categories (*Weiner, 2017b: 95*). Moreover, the United Kingdom, Ireland, Austria and Switzerland are also leading “conduit countries” (*Bulatov et al., 2016: 400*).¹² Outside Europe, even Canada can act as a trans-shipment terminal (*Kuznetsov, 2017: 79*). Compiled from data from the CBR, *Table 4* clearly shows that Cyprus also takes the first place among FDI investors in Russia. Here, the role of round-tripping is quite obvious. According to *Kuznetsov (2017: 80)*, the Netherlands has attracted very modest amounts of real Russian investment (see below in *Section 3.2*).

Table 4. The top 15 host countries for Russian OFDI stock and the top 15 sources of Russia’s IFDI stock, according to the CBR, based on the asset/liability principle, end of period, 2013, 2016 (millions of dollars)

OFDI stock from Russia				IFDI stock in Russia			
2013		2016		2013		2016	
Cyprus	163 066	Cyprus	150 547	Cyprus	193 640	Cyprus	144 021
BVI	81 818	Netherlands	60 198	Netherlands	64 538	Netherlands	46 442
Netherlands	60 601	BVI	42 111	Luxembourg	42 929	Luxembourg	44 634
Austria	25 891	Austria	22 128	Bahamas	32 040	Bahamas	33 519
USA	21 547	Switzerland	19 602	Bermuda	29 754	Ireland	29 965
Switzerland	12 890	Luxembourg	12 738	Ireland	29 064	Bermuda	22 220
Luxembourg	11 352	UK	9 557	BVI	26 332	Germany	16 908
Germany	9 886	Turkey	8 903	UK	23 050	BVI	15 198
UK	9 192	USA	8 345	Germany	19 177	Singapore	14 698
Bahamas	6 492	Germany	8 138	USA	18 583	France	14 466
Ukraine	5 971	Bahamas	6 766	Sweden	16 200	Switzerland	13 542
Turkey	5 279	Spain	6 329	France	14 112	UK	12 260
Spain	4 783	Ireland	5 445	Austria	12 207	Jersey	11 547
Jersey	4 138	Belarus	3 835	Switzerland	6 834	Austria	5 242
Belarus	4 114	Ukraine	3 427	Jersey	5 023	Sweden	3 891

BVI – British Virgin Islands.

Note: Grey cells indicate the EU states.

Source: Own compilation based on *CBR (2017b, 2017c)*.

¹² In contrast, based on the directional principle, Russian FDI stock in Luxembourg and Ireland are negative (*Kuznetsov, 2017: 80; CBR, 2017e*).

Relying on official statistics, *UNCTAD* (2017: 68) claims Russian firms have targeted emerging markets moderately. According to these statistics, CIS countries have attracted only minor Russian OFDI, mainly concentrated in Kazakhstan and Ukraine (*UNCTAD*, 2017: 68). But based on extensive company-level data, *Kuznetsov* (2017: 79) argues that besides the West (including primarily the US and a number of EU members), neighbouring Ukraine, Kazakhstan and Belarus are also among the leading recipients of Russian multinational capital. More specifically, Russian FDI stock is underestimated by at least 2.5–3 times in Ukraine, by 3–4 times in Kazakhstan and by about 50 per cent in Belarus.

Likewise, Russian FDI stock in Asia is underreported by at least twofold and in Africa by tenfold (*Kuznetsov*, 2017: 81). Although Russia has also dipped a toe in African waters (*Panibratov*, 2017a: 284), the value of Russian FDI has remained insignificant on that continent (*Kuznetsov*, 2017: 80). *Kuznetsov* (2017: 80) notes the rise in the significance of Turkey, Thailand, some other Asian countries¹³ and the members of the Eurasian Economic Union. Observing the shifts in the geographic focus of Russian OFDI, *Panibratov* (2017a: 284) thinks that it is the other BRICS countries that arouse the envy of Russian companies.

For certain countries, CBR data are withheld for confidentiality reasons. If a figure is made up of data of less than three companies, then this should be treated as confidential, and thus is not shown on public-use files (*Weiner*, 2017a: 199). For example, the CBR does not provide data on Russian FDI stock in several Asian and African countries. At the same time, flow data are published. However, they are less important (*Kuznetsov*, 2017: 80).

2.3. Industrial distribution of Russian OFDI

The CBR does not provide data on the sectoral distribution of Russian OFDI, while Rosstat reports only flow data containing information up until 2013. In the period between 2005 and 2013, these data suggest that manufacturing as well as wholesale, retail and repair sectors tended to attract the most Russian FDI, leaving only minor shares for the financial sectors (see *Tables 5a* and *5b*) (*Rosstat*, 2009, 2014b). Following

¹³ Headed by *Alexey Kuznetsov*, the research team of the Moscow-based IMEMO-Institute sees good growth prospects for Russian FDI in Iran, India and Vietnam (*EABR*, 2017: 22).

a different classification, one can see that among the top 20 or 25 Russian multinationals, oil and gas as well as metallurgy are predominant. In the service sector, infrastructural companies occupy a dominant position (*Bulatov et al., 2016: 405*). Between 2004 and 2008, the role of oil and gas declined, but increased again in 2009 and 2011 (*Table 6*) (*Skolkovo, 2007a: 10; 2007b: 6; 2008: 8; IMEMO, 2009: 15; 2011: 22; Kuznetsov, 2013a: 19*). Out of the 20 leading non-financial Russian multinationals ranked by foreign assets in 2014, eight were in metallurgy, four in oil and gas, three in transportation and one in each of the following sectors: chemicals, nuclear energy, electricity and telecommunications. Also, one leading Russian multinational is a conglomerate (*Bulatov et al., 2016: 399*). In contrast, the industrial distribution is much more diverse in the second echelon of Russian multinationals (*Bulatov et al., 2016: 405*). In Europe, Asia and Africa, the sectoral distribution of Russian OFDI is quite diversified, while in North America, Russian FDI has mainly been delivered by metallurgical multinationals (*Kuznetsov, 2010b: 28; 2017: 82*). According to IMEMO's FDI project database, incorporating projects for which FDI stock exceeds USD 3 million, in non-CIS Eurasia, at the end of 2016, most Russian FDI stock was directed at oil and gas (34.3%),

Table 5a. Sectoral distribution of Russian FDI outflows, according to Rosstat, 2005–2008 (millions of dollars and per cent)

	2005	2006	2007	2008	2005	2006	2007	2008
	mln USD				%			
Total	558	3 208	9 180	21 818	100.00	100.00	100.00	100.00
Agriculture, hunting and forestry	-	-	-	-	-	-	-	-
Fishing	-	-	-	-	-	-	-	-
Mining and quarrying	0.0	18	116	775	0.00	0.56	1.26	3.55
Manufacturing	303	2 562	2 210	9 885	54.30	79.86	24.07	45.31
Electricity, gas and water supply	-	14	-	1 089	-	0.44	-	4.99
Construction	0.1	2	3	0.2	0.02	0.06	0.03	0.00
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	243	344	6701	8 246	43.55	10.72	73.00	37.79
Hotels and restaurants	-	-	-	-	-	-	-	-
Transport and communication	0.0	0.2	4	302	0.00	0.01	0.04	1.38
Communication	-	-	4	0.0	-	-	0.04	0.00
Financial intermediation	1	58	123	101	0.18	1.81	1.34	0.46
Real estate and business activities	3	210	23	1 419	0.54	6.55	0.25	6.50
Public administration and defence; compulsory social security	-	-	-	-	-	-	-	-
Education	-	-	-	-	-	-	-	-
Health and social work	-	-	-	0.0	-	-	-	0.00
Other community, social and personal service activities	8	0.0	-	1	1.43	0.00	-	0.00

Source: Rosstat (2009) and own calculations.

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Table 5b. Sectoral distribution of Russian FDI outflows, according to Rosstat, 2010–2013 (millions of dollars and per cent)

	2010	2011	2012	2013	2010	2011	2012	2013
	mln USD				%			
Total	10 271	19 040	17 426	76 265	100.00	100.00	100.00	100.00
Agriculture, hunting and forestry	0.0	44	24	2	0.00	0.23	0.14	0.00
Fishing, fish farming	-	-	0.0	10	-	-	0.00	0.01
Mining and quarrying	325	599	2 749	1 937	3.16	3.15	15.78	2.54
Mining and quarrying of energy producing materials	324	150	18	28	3.15	0.79	0.10	0.04
Mining of coal and lignite; extraction of peat	321	-	-	-	3.13	-	-	-
Mining of coal and lignite; extraction of peat	3	150	18	28	0.03	0.79	0.10	0.04
Mining and quarrying, except of energy producing materials	1	449	2 731	1 909	0.01	2.36	15.67	2.50
Manufacturing	1 218	2 974	5 795	59 338	11.86	15.62	33.25	77.81
Manufacture of food products, beverages and tobacco	49	701	399	1 118	0.48	3.68	2.29	1.47
Manufacture of textiles and textile products	-	-	-	-	-	-	-	-
Manufacture of leather and leather products	-	-	-	-	-	-	-	-
Manufacture of wood and wood products	-	-	-	-	-	-	-	-
Manufacture of pulp, paper and paper products; publishing and printing	41	6	2	2	0.40	0.03	0.01	0.00
Manufacture of coke and refined petroleum products	237	7	-	53 670	2.31	0.04	-	70.37
Manufacture of chemicals and chemical products	39	95	1 212	1 003	0.38	0.50	6.96	1.32
Manufacture of rubber and plastic products	5	2	13	0.1	0.05	0.01	0.07	0.00
Manufacture of other non-metallic mineral products	8	1	6	1	0.08	0.01	0.03	0.00
Manufacture of basic metals and fabricated metal products	649	2 105	4 051	3 499	6.32	11.06	23.25	4.59
Manufacture of machinery and equip.	172	15	101	37	1.67	0.08	0.58	0.05
Manufacture of electrical and optical equipment	2	4	10	6	0.02	0.02	0.06	0.01
Manufacture of transport equipment	16	38	0.0	1	0.16	0.20	0.00	0.00
Electricity, gas and water supply	147	-	39	67	1.43	-	0.22	0.09
Construction	25	4	0.4	2	0.24	0.02	0.00	0.00
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	7 333	8 207	5 641	12 250	71.40	43.10	32.37	16.06
Hotels and restaurants	-	0.0	-	0.3	-	0.00	-	0.00
Transport and communication	1 072	5 152	1 162	1 644	10.44	27.06	6.67	2.16
Telecommunications	935	5 107	1 160	1 638	9.10	26.82	6.66	2.15
Financial intermediation	10	283	813	248	0.10	1.49	4.67	0.33
Real estate, renting and business activities	141	1 777	1 201	766	1.37	9.33	6.89	1.00
Public administration and defence; compulsory social security	-	-	-	-	-	-	-	-
Education	-	-	-	-	-	-	-	-
Health and social work	-	-	-	1	-	-	-	0.00
Other community, social and personal service activities	-	-	2	-	-	-	0.01	-

Source: Rosstat (2014b) and own calculations.

Table 6. Sectoral breakdown of foreign assets of the top 20 or 25 Russian multinationals ranked by foreign assets, end of period, 2004–2011 (per cent)

Skolkovo Top 25	2004	2005	2006	2007	IMEMO Top 20	2008	2009	2011
Oil and gas	62	56	53	44	Oil and gas	39.8	45.8	51.0
Metals and mining	13	23	26	36	Steel and non-ferrous metals	32.9	35.9	36.4
					Steel		29,7	25,6
					Non-ferrous metals		6,2	10,8
					Conglomerates	15,7	6,8	
Telecom	7	8	8	8				
Transport	14	10	8	8	Transport		5.1	5.9
Other	4	3	5	4	Other	11.6	6.4	6.6

Source: Own compilation based on *Skolkovo* (2007a: 10; 2007b: 6; 2008: 8), *IMEMO* (2009: 15; 2011: 22) and *Kuznetsov* (2013a: 19).

communication and IT (19.7%) and finance (12.9%). Over the last eight years, ferrous metals have witnessed the most noticeable decline in their share of the Russian FDI stock (*EABR*, 2017: 22).

2.4. The motives of Russian OFDI investors

2.4.1. Russian OFDI and theorems

Russian multinationals challenge some of the premises of traditional FDI theorems (*Kalotay*, 2008a: 59–60; 2008b: 99–103; *Kalotay and Sulstarova*, 2010: 136–138; *Kalotay et al.*, 2014, 2015, 2016). The Heckscher–Ohlin–Samuelson paradigm (*Heckscher*, 1919; *Ohlin*, 1933; *Samuelson*, 1948, 1949) faces a major difficulty in explaining Russia as a top FDI exporter because of the paradigm’s aggregate macroeconomic approach. Similarly, aggregation and uniform thresholds make *Dunning’s* (1981) investment development path (IDP) problematic as it hypothesizes an association between GDP per capita and net OFDI position. The Uppsala School’s stages theory (*Johanson and Vahlne*, 1977, 1990; *Johanson and Wiedersheim-Paul*, 1975) suffers due to (1) the leapfrogging expansion of Russian firms, (2) the fact that they are mostly natural-resource-based giants, and (3) that acquisitions are prevalent. In the case of acquisitions, the partial lack of ownership advantages is compensated by the expertise found in the target firm. Naturally, one can find technology-based Russian firms and greenfield FDI projects. Nonetheless, the process of the internationalization of these companies is much more in line with the theories of either born-global firms (*Knight and Cavusgil*, 1996; *Madsen and Servais*,

1997) or international new ventures (*Oviatt and McDougall, 1994*) (for further discussion, see *Kalotay et al., 2015: 573–575*).

In contrast, *Dunning's* (1977; 1979: 275–276) eclectic paradigm or Ownership–Location–Internalisation (OLI) of international production can, in principle, fit Russian multinationals better. As *Eden and Dai* (2010: 28) put it, “O” describes why firms are engaged in international production; “L” explains where they have gone; and “I”, how they have organized their international activities. *Dunning* (1983: 334) differentiates between asset power (later termed asset-based ownership-specific advantages, O_a) and transaction power (later termed transaction-based ownership-specific advantages, O_t). Transactional advantages were thought to also include the parent company's interactions with domestic business and the public environment. This assumption may be legitimate in developed countries, but it could hardly be tenable for multinationals from countries such as China or Russia (*Kalotay, 2009: 383*). In the meantime, revising the OLI framework, *Dunning and Lundan* (2008: 101–102) added a third type of ownership advantage to the paradigm, i.e. institutional assets or institutional ownership advantages (O_i), drawing substantially on the work of *Douglas North* (e.g., see *North, 1990*). Institutional ownership advantages also incorporate an imprint of the home country's institutional environment (“L” attributes) (*Cantwell et al., 2010: 572*). However, according to *Kalotay* (2008a: 60; 2008b: 103), with the incorporation of institutions and institutional factors as lead components of the locational advantages, the theory became one-sided as it considers the role of institutions in the host countries, but not in the home countries. Hence, *Kalotay and Sulstarova* (2010: 137–138), following *Kalotay* (2008a: 60; 2008b: 102–103), recommend the extension of the OLI theorem by adding a home-country (H) leg to OLIH. Similarly, *Anwar and Mughal* (2014: 15) argue that Russian OFDI follows the eclectic paradigm to a certain extent, but home-country factors also play a significant role. Likewise, in the case of BRIC countries, *Bulatov et al.* (2016: 419) suggest analyses of the economic and political models of the home countries. *Kalotay* (2010b: 41) claims that home-country advantages play a similar role as ownership advantages. Moreover, home-country advantages may be the single most important factor in terms of OFDI from Russia.

2.4.2. Pull factors driving Russian OFDI

According to *Liuhto* (2015a: 11–13), the top 10 motives behind Russian companies investing outward are as follows: (1) OFDI as a personal bank (more convenience in executing financial operations when part of the funds are abroad), (2) market entry and expansion (moving closer to the final consumers), (3) raising profit margins (moving along the value chain from an exporter of raw materials to a seller of final goods), (4) tax planning and minimization of customs fees (tax havens and low tax countries), (5) risk aversion (perceived political risk of the home market), (6) securing a company's logistical chain (acquiring logistical units abroad to secure the exports of commodities from the domestic production site), (7) acquisition of advanced Western technology, (8) serving Russia's foreign policy objectives, (9) acquisition of real estate or the establishment of a firm abroad in order to get a "Golden Visa" (the motive, detected at many Russian small and medium-sized enterprises, to get a long-term residence permit abroad or even foreign citizenship) and (10) a necessity driven by increasing global competition (the constraints of the domestic market push a firm to internationalize). This list includes both pull and push factors.

Domestic push and international pull factors are equally important when examining the motives behind Russian OFDI. As already discussed, an exodus is caused by negative domestic push factors, while expansion might be related to either international pull or positive domestic push factors. Thus, while exodus refers to a negative phenomenon (see *Kalotay*, 2010a: 125–126; 2010b: 46, and *Panibratov*, 2013: 8), the effect of the home country is not necessarily negative.

As widely known, borrowing and extending *Behrman's* (1972) earlier taxonomy, *Dunning* (1993) identifies four types of multinational activity: market-seeking (import-substituting or demand-oriented FDI), resource-seeking (supply-oriented FDI), efficiency-seeking (rationalised FDI) and strategic-asset- or capability-seeking. We refer to these as pull factors.¹⁴ In general, motives behind Russian OFDI are typically resource-seeking and market-seeking. Strategic-asset-seeking FDI is also there, and is especially a motive present among Russian machinery companies outside the top 20 Russian multinationals (*Kuznetsov*, 2013a: 3). However, this statement applies to strategic-asset-seeking FDI in a narrow sense, since this term can also be used in a wider

¹⁴ As this paper is dealing with push factors, we only briefly review pull factors here.

sense. According to *Kalotay*, the definition of strategic-asset-seeking FDI is not entirely clear. By creating this category, Dunning originally meant acquisition of companies with high technology (firm-specific) content. Later on, it received a wider interpretation (*Kálmán Kalotay*, personal communication, 2 November 2015). That is why *UNCTAD* (2005: 8) mentions acquisitions by the former Yukos in Lithuania's Mažeikių Nafta oil refinery and in Slovakia's Transpetrol crude oil transporter as strategic-asset-seeking FDI. Following this wider approach, investment in the trans-Baltic Sea Nord Stream pipeline between Russia and Germany can also be considered in this category. Controlling the pipelines and terminals, i.e. the transport infrastructure secures export deliveries and minimizes costs (*Weiner*, 2006: 7). *Kuznetsov* is still following the traditional (narrow) approach and claims that in a purely economic sense, FDI in infrastructure is either of the market-seeking (i.e. to meet the aim of access to markets) or efficiency-seeking type (in the case of the reduction of transportation costs) (*Alexey Kuznetsov*, personal communication, 4 December 2015). Obtaining new technology and management know-how is still an important motivation (*Fortescue and Hanson*, 2015: 285), though *Panibratov* (2014) claims that emerging-market multinationals are no longer characterized by obsolete technologies and poor management. In fact, they compete successfully with their international counterparts and are becoming more powerful on the global scene, as *Panibratov* (2014) adds. Nonetheless, *Fortescue and Hanson* (2015: 297) illustrate with examples that technology and know-how transfer plays a major role in the foreign expansion of Russian steel multinationals. According to *Kuznetsov* (2013a: 4), efficiency-seeking FDI is more typical for medium-sized Russian multinationals. *Kalotay* (2015a: 249, 254) highlights that when Russian multinationals target upstream markets such as exploration and production, then – unlike other emerging-market investors (such as Chinese or Indian multinationals) – the motivation is typically not about ensuring resources for the home market; rather, they aim to control the value chain globally (i.e. the global markets), especially in developed countries. *Kalotay* (2015a: 249) also stresses that when they acquire companies in their own industry, their main aim is horizontal control (market power). This horizontal control is important not only in the resource-based industries, but also in telecommunications. Finally, image-building and aspirations for better global recognition is also decisive in Russian expansion (*Panibratov and Kalotay*, 2009: 3).

2.4.3. Push factors driving Russian OFDI

Kalotay (2010b: 40) divides home-country advantages into the following four groups: home-country-based competitive advantages (Hc), business-environment advantages (Hb), development-strategy advantages (Hd) and state-involvement advantages (Hs).

Russian OFDI has substantially relied on oligopolistic advantages, arising from dominant positions in the home market.¹⁵ These advantages have then often been supported by home-country policies, promoting the formation of national champions. Home-country-based competitive advantages should be treated in combination with the traditional transaction-based ownership-specific advantages, i.e. some of the former transactional ownership advantages may need to be reclassified to home-country competitive advantages (*Kalotay*, 2010b: 40, 42, 45).

The home-country business environment can be either an advantage or a disadvantage for the company. As a positive effect (an advantage, i.e. a positive domestic push factor), one can refer to an expansion, while in a bad business environment (a disadvantage, i.e. a negative domestic push factor) an exodus is experienced.¹⁶ Up until recently, exoduses have been predominant (*Kalotay*, 2010b: 42, 46).¹⁷ Exoduses were strong in the early 1990s (at the beginning of the transition), and decreased in the mid-1990s. The 1998 Russian crisis caused another rise in capital flight, followed again by normalization. Similarly, the crises of 2008–2009 and 2014–2016 increased the motivation of exodus capital (*Panibratov*, 2014; *Kalotay*, 2015b: 5–6). However, examining the largest cross-border outward mergers and acquisitions by Russian multinationals, *Kalotay* (2015a: 254) states that these firms have already left behind the phase of defensive, system-escape motives. Rather, in their majority, they follow genuinely offensive strategies, i.e. expansion.

For the Russian case, the concept (and not the expression) “system escape” is known from *Bulatov* (1998: 77–79, 81). *Bulatov* adapted this from *Svetličič et al.* (1994), who

¹⁵ Notwithstanding, because of the high monopolization or oligopolization of the Russian economy, the cost of entry to many Russian industries is high for mid-sized local companies not affiliated with regional or federal authorities. Thus, this barrier often prompts them to go abroad (*Bulatov*, 2017: 84–85).

¹⁶ In this paper, we will not elaborate on the problems of the Russian business environment repeated by yearly competitiveness reports. We only add that due to a bad business environment, Russian firms possess the firm-specific ownership advantages of good organizational abilities or technical expertise to operate under such circumstances which can be used abroad if facing similar situations (*Antalóczy et al.*, 2014: 7; *Kalotay*, 2015a).

¹⁷ Naturally, in this paper, we only focus on capital in the form of FDI.

originally used this for pre-transition former Yugoslavia (*Kalotay, 2005: 212*). *Fortescue and Hanson (2015: 284)* consider escape a kind of political motivation. They separate two types of political motivation: of the Yukos and of the Gazprom type. In the case of Yukos motivation, companies invest abroad as a form of capital flight in order to escape a predatory state. This political motivation can be matched with exodus. The so-called Gazprom motivation is quite different. In this case, according to the authors, companies invest abroad because it suits the state's foreign-policy goals that they do so. There is a serious debate about this issue, i.e. the nature and magnitude of the role of foreign-policy goals. Otherwise, while Yukos motivation functions as a negative domestic push factor, Gazprom motivation can be considered a positive domestic push.

Dunning (1993: 61–63) claims that besides his four well-known pull motives, there are three other types of investment: escape investment, support investment and passive investment. In the case of escape investment, OFDI is made to escape restrictive legislation or macro-organisational policies by home governments. This category does not include flight capital which may be associated with war, civil strife and dire economic circumstances. Rather, it involves round-tripping to exploit incentives to foreign investors; relocation of headquarters to escape high taxation levels and/or lack of dynamism in the domestic economy; and relocation of an environmentally sensitive sector.

In transition economies, home-country development-strategy advantages are linked to the methods and strategies that were applied during the transformation. In Russia, these were based on the building up of national champions, a sustained resistance to IFDI, especially in strategic industries, and an increasing emphasis on promoting OFDI (*Kalotay, 2010b: 46*). Similarly to the business environment, the development strategy can also be either a positive or a negative domestic push factor. It is negative if the development strategy is misleading or unsuccessful.¹⁸

In transition economies, state-involvement advantages are related to (1) government policies towards OFDI and (2) state ownership in outward investing firms. Regarding the former, the shift from reservation through acceptance towards some kind of promotion came later in Russia. As to the latter, a tendency towards more state ownership and intervention can clearly be observed (*Kalotay, 2010b: 47–48*).

¹⁸ *Kálmán Kalotay* drew our attention to this case (personal communication, 9 July 2015).

In contrast to the business environment and development strategy, it is difficult to imagine a negative domestic push factor regarding the home-country competitive environment and state involvement. In the case of state involvement, disadvantages that may be experienced while expanding abroad should not be confused with a negative domestic push factor. As one will see below in *Section 2.4.3.1*, state ownership can be either an advantage or a disadvantage in the host country when it comes to foreign expansion (*Kalotay, 2010b: 48*). Finally, with regard to the competitive environment within the home country, if a given company is expanding abroad by exploiting the competitive advantages gained on the domestic market and also by extending the domestic competition to foreign markets, then the positive domestic push factor is accompanied by expansion.

2.4.3.1. A positive domestic push factor: the Russian state's role in promoting foreign expansion

Since the beginning of the 2000s, the Russian government has increasingly started to look at outward foreign investment more favourably (*Skolkovo, 2009: 6*). The government was very cautious for a long time. It was unable to understand the fundamental difference between capital drain and FDI into production assets. Vagit Alekperov, the leader and a co-owner of Lukoil, continued to stress as late as in 2003 that they were often criticized for spending a lot on foreign upstream and downstream assets, but they would not change that strategy. Moreover, he claimed that because of global competition and without government support, OFDI was becoming more and more difficult, adding that, on the other hand, they had recently started to feel the support of the state (*Deloitte, 2008: 36*).

After a strong resistance to capital flight, state leaders have come to show their support for OFDI (*Skolkovo, 2009: 6*). Russia has recognized the need to support those multinationals whose capital exports contribute to the growth of the international competitiveness of the Russian economy (*Kuznetsov, 2013b: 93*). The first real sign of this change at the level of state policy was President Vladimir Putin's speech at the 11th St. Petersburg International Economic Forum in June 2007, where he said they were interested in increasing Russian investment abroad and swapping assets with international partners on mutually beneficial terms (*Deloitte, 2008: 36*). The first time

Dmitry Medvedev (then first deputy prime minister) spoke about this issue in the speech in Krasnodar in January 2008. He urged Russian companies to copy the Chinese way. According to Medvedev, this would reduce dependence on foreign technology, boost production culture, grant the opportunity to diversify investments and win new markets. In addition, Medvedev, who at that time was also the chairman of Gazprom's board of directors, responded to the resistance to Russian investments in Europe, saying that this was no reason for hysteria and they should quietly and measuredly forward their interests and convince people that investments from Russia were effective, transparent and necessary for the given countries (*Belton, 2008; Medvedev, 2008a*). In his speech at the 5th Krasnoyarsk Economic Forum in February 2008, Medvedev underlined the need to significantly increase the means of supporting Russian exports and outward foreign investment as well as the image of Russian business abroad (*Medvedev, 2008b*).¹⁹ In contrast, however, in October 2009, Medvedev adopted a somewhat different tone, expressing concern over outward foreign investment at a time when the domestic economy was in trouble (*Fortescue and Hanson, 2015: 295; Medvedev, 2009*). According to *Fortescue and Hanson (2015: 295)*, Medvedev's concerns were probably fuelled by fear of the political and social consequences of domestic closures and redundancies. However, when Medvedev (as prime minister) offered financial help to Russian steel producers in December 2013, there was no sign of negative governmental attitudes towards foreign assets (*Fortescue and Hanson, 2015: 295; Petlevoy, 2013*). Referring to *Helmer (2013)*, *Fortescue and Hanson (2015: 295)* argue that the negative attitude regarding OFDI has been maintained by Putin, including blocking some foreign projects. Nonetheless, Putin's deoffshorisation campaign is about something else. In his Presidential Address to the Federal Assembly²⁰ in December 2012, he emphasized the role of offshore investments and ownership in Russia and the phenomenon of fleeing from jurisdiction (*Putin, 2012*). In his Presidential Address in late 2013, Putin stated that no government assistance and contracts could be offered to companies that were registered in foreign jurisdictions and whose owners (their final beneficiaries) were Russians (*Fortescue and Hanson, 2015: 295; Putin, 2013*). Finally, in

¹⁹ Medvedev (as a president) paid an official visit to Africa for the first time in June 2009. The four-day visit in Egypt, Nigeria, Angola and Namibia, with a large number of Russian public and private business representatives, had been the most comprehensive ever by any Russian head of state to Africa. The role of the Russian multinationals was quite obvious (*Freemantle and Stevens, 2009: 1*).

²⁰ Federal Assembly of Russia, the parliament includes the lower house (State Duma) and the upper house (Federation Council).

his Presidential Address at the end of 2014, Putin proposed amnesty for capital returning to Russia (*Putin, 2014*). Therefore, this campaign is not directed to outward FDI but is targeting the ownership of Russian assets or assets with a Russian beneficial owner in foreign jurisdictions. Rather, the focus is on taxation – both from the points of view of the Russian oligarchs and Putin (*Fortescue and Hanson, 2015: 296*). As mentioned, the new Russian anti-offshore law has been effective since 2015.

Nevertheless, unlike China, there is no specific going-global strategy in Russia (*Nestmann and Orlova, 2008: 2*). Contrary to the Chinese case, Russian outward expansion is mainly driven by private companies (*Skolkovo, 2009: 6; Weiner, 2011: 283*). As noted above, the list of top 20 Russian non-financial multinationals includes both state-controlled and privately owned companies (*Table 3*). *Panibratov (2017a: 44)* argues that state support for Russian multinationals is quite weak due to the lack of developed policy instruments.²¹ An example for such state support is, nonetheless, the Russian Agency for Export Credit and Investment Insurance (EXIAR), Russia's first-ever such agency, assisting multinationals with export credits and OFDI, which was, however, only founded in late 2011 (*Panibratov, 2017a: 44; EXIAR, n.d.*). In 2013, EXIAR launched a program to insure Russian outward investment against non-commercial risks (*Kuznetsov, 2014a: 130*). Here, one can also mention that Russian embassies regularly provide crucial information for Russian companies to establish initial contacts with foreign companies (*Panibratov, 2017a: 43*). Additionally, in a broader sense, the Russia-initiated regional integration (the Eurasian Customs Union and later the Eurasian Economic Union) is a rare example of government measures that promotes comprehensive support for Russian OFDI. Outside the CIS, the Russian government supports and protects only a few dozen Russian multinationals. Although in 2011 and 2012, there were signs of shifts in discussions among experts and politicians on increased assistance for a broader range of Russian multinationals, real incentives are still lacking for Russian medium-sized multinationals to engage in OFDI (*Kuznetsov, 2013a: 9–10*).

Government involvement can be either an advantage or a disadvantage, but it is an important determinant of the success of internationalization (*Panibratov, 2014*). State-owned companies enjoy many advantages that can help their internationalization. Such

²¹ Elsewhere *Panibratov (2017b: 285)* claims that the government policies towards OFDI are not clear yet.

benefits include financial capabilities, access to loans and administrative support (*Panibratov and Kalotay, 2009: 3*). During a crisis, state-controlled companies have a greater chance of securing the necessary funding for their expansion. Good diplomatic relations can also be used when expanding abroad. State ownership can offer a kind of guarantee when participating in a risky project and during a crisis. On the other hand, it in itself can be a disadvantage when expanding into other states, and, in particular, it may have a negative impact during international political conflicts. Also, furthering the state's interests at the expense of business considerations can be harmful to profits (*Kalotay, 2010a: 125; 2010b: 48*). However, according to *Panibratov (2014)*, the influence of the Russian state on fully or partially privatized companies is also often significant. *Kalotay (2015a: 254)* also emphasizes that the role of the state in influencing the strategies is not limited to companies with a controlling stake. State influence can also be enormous on companies without state ownership. This was evident in the case of companies that were bailed out during the 2008–2009 crisis. The state wished to ensure that the momentum of foreign expansion would be maintained or even accelerated, though commercial logic would have dictated the opposite. This is also apparent in the case of the acquisition of assets that give the Russian government an important strategic advantage. Naturally, state ownership and influence is not a Russian phenomenon *per se*. This is evident in the case of the foreign expansion of Chinese companies, as well as those from smaller countries, such as Kazakhstan, the Czech Republic or even Venezuela (*Kalotay, 2015a: 255*).

Although the influence of the government on Russian OFDI is undoubtedly considerable, its effects vary by firms and sectors (*Panibratov and Latukha, 2014*). When assessing the role of the state, the two most important dimensions are *control* (ownership share and participation in the board of directors) and *interest* (basically, incentives to companies). There are sectors that are of maximum interest to the state and are under strong state control (such as oil and gas, electricity, mining and defence). Having strategic significance, these are both politically and economically important to the government. At the other extreme, there are sectors, such as the automotive, construction, fast food and logistics industries, the importance of which is relatively minimal (i.e. relatively both insignificant economically to the state and politically insensitive) and they do not require significant control, with the exception of some

regionally significant employers (such as the Lada car manufacturer AvtoVAZ in Togliatti or the other well-known Russian vehicle manufacturer GAZ in Nizhny Novgorod). Therefore, the state is rather indifferent to these sectors. This, nevertheless, does not mean that these would not be useful to the economy as a whole. They are very important to people, but not to the government in this respect. So, there must be a distinction between national and government priorities. In contrast, the state is interested in metallurgy, banking, telecommunications and IT because of the high economic output, but is not really motivated to control them. Finally, media, education and sports are not economically important (at least directly), but are under state control because the state intends to manage these sectors (such as the media) and seeks to provide incentives to voters. Nonetheless, the role of the state in the expansion of Russian companies is, on the one hand, overestimated (in the case of natural-resource-based sectors) and, at the same time, underrated (in the case of the relatively small companies in less resource-oriented sectors) (*Panibratov and Latukha, 2014; Panibratov, 2013, 2014*). According to *Panibratov (2013: 14; 2014)* and *Panibratov and Latukha (2014: 19)*, the state's interest focuses on the expansion of two types of Russian multinationals: those where the business itself requires strict control (such as in the case of nuclear energy) and where foreign policy necessitates it (such as in defence).²²

In explaining the relationship between Russian OFDI and Russia's government policies, *Liuhto and Vahtra (2007: 117, 127–130)* identified four categories of companies based on the variables of state control and the transparency and disclosure index. Thus, indirect state control measures (state leverage) were not considered. Among the four types, Non-transparent Patriots are large state-controlled companies with low transparency also serving the interests of Russia's foreign policy. Transparent Patriots refer to large and transparent state-controlled companies with (a level of) conformity to state policy. The Non-transparent Independents category comprises privately-owned companies with a relatively low level of transparency. And, finally, Transparent Independents consist of private companies with transparent and business-oriented internationalization strategies that are not particularly influenced by political considerations. For example, at that time, Lukoil was categorized as a transparent

²² It is interesting that the author does not even mention the gas sector, while perhaps the biggest foreign concern is centred around it. For example, South Stream – aimed at running under the Black Sea to Bulgaria and then onwards – was clearly Putin's gas pipeline project.

independent. However, according to *Panibratov* (2017a: 43), there is governmental pressure on Lukoil to invest more in Kazakhstan rather than in other countries. Similarly, *Liuhto* (2015a: 12) claims that perhaps Russia's foreign policy would have played a certain role in Lukoil's decision to invest in war-torn Iraq in 2009 (*Liuhto*, 2015a: 12). Meanwhile, *Kuznetsov* (2013a: 5) argues that, although some natural-resource-based private companies are politically linked to the Kremlin by personal contacts, their foreign activity is rarely affected by Russian economic diplomacy. Similarly, regarding the largest Russian steel producers, *Fortescue and Hanson* (2015: 296) do not see any indication of intentions to serve Russia's foreign policy. Likewise, through extensive research into this area, *Tepavcevic* (2013: 206–207) finds that business interests prevail over Russian national interests in most instances of Russian OFDI. Russian companies do not follow the official Russian foreign policy reflecting broader national interests. Moreover, some Russian multinationals pursue the individual interests of private company owners, Russian politicians and top managers of state-owned multinationals.

3. The role of the EU in Russian OFDI and the expansion of Russian multinationals

According to *Kuznetsov* (2011a: 11), on the eve of the global financial crisis of 2008–2009 and with the development of Russian multinationals, Russian companies have shifted their focus from Europe to other regions, as illustrated by the statistics on mergers and acquisitions. The geographic distribution of foreign assets of the largest Russian multinationals also suggests a constantly decreasing share in Europe (*Table 7*) (*Skolkovo*, 2007a: 12; 2007b: 8; 2008: 10; *MEMO*, 2009: 16; 2011: 24; *Kuznetsov*, 2013a: 15). Principally, this has long meant the increasing role of North America. Asia and Africa have also received growing attention. The latter fits into the overall logic of Russian internationalization and is weakly influenced by the foreign political events of

Table 7. Geographical distribution of foreign assets of the largest Russian multinationals, end of period, 2006–2011 (per cent)

Skolkovo Top 25	2006	2007	MEMO Top 20	2008	2009	2011
Western Europe	52	42	Western and Central Europe	49	46 ^a	39 ^a
Eastern Europe	11	10				
CIS	22	18	CIS	23	22 ^b	28 ^b
Africa	4	11	Africa	7	9	9
			North Africa and the Middle East		1 ^c	3 ^c
			Sub-Saharan Africa		8 ^d	6 ^d
Asia and Australia	3	9	Asia and Australia	4	4	6
			East Asia and the Pacific ^e		2	4
			South Asia ^f		1	1
			Developed Asia and the Pacific ^g		1	1
North America	6	9	North America ^h	17	19	17
Latin America	2	1	Latin America and the Caribbean ⁱ	0	0	1

^a Europe – Turkey and the CIS (“other Europe”).

^b Also including Ukraine and Georgia (“Eastern Europe and Central Asia”).

^c Also including Turkey.

^d Western and South Africa.

^e At the end of 2008: Mongolia, China, South Korea, Laos, Vietnam and Cambodia. At the end of 2009: Mongolia, China, South Korea, Vietnam and Cambodia. At the end of 2011: Mongolia, China and Vietnam.

^f At the end of 2008, 2009 and 2011: India.

^g At the end of 2008: Australia. At the end of 2009 and 2011: Australia, New Zealand and Japan.

^h Canada and the United States.

ⁱ Also including Bermuda.

Source: Own compilation based on *Skolkovo* (2007a: 12; 2007b: 8; 2008: 10), *MEMO* (2009: 16; 2011: 24) and *Kuznetsov* (2013a: 15).

the mid-2010s. However, a radical turn toward the East is impossible (*Kuznetsov*, 2017: 79).²³ Also, the recent increase in the share of some Asian countries has been due to the exit of a number of Russian investors from the United States and Ukraine, as well as a reduction in the weight of the Caribbean offshore world, rather than the devaluation of the role of the EU (*Kuznetsov*, 2017: 80). The decrease in the Russian FDI has been larger in Ukraine than in the United States (*Bulatov et al.*, 2016: 409). According to *Bulatov et al.* (2016: 409), due to the Eurasian Economic Union, growth opportunities are greater in Belarus and Kazakhstan than in the US. There has been a strengthening of Russian investment presence in the countries of the Eurasian Economic Union (*Kuznetsov*, 2017: 80).

The gradual reduction of non-CIS Europe’s role in favour of North America (the increasing role of the US, however, as revealed above, has been stopped and reversed) and the developing countries has indicated the experience gained through foreign expansion and the evolution of Russian multinationals from regional and bi-regional to

²³ The development of Russia’s Far East also plays an important role in Russia’s pivot to Asia.

real global ones (*Kuznetsov, 2011a: 13*).²⁴ Russian multinationals typically begin their international expansion in other CIS countries (*Panibratov, 2017a: 284*). Based on *Rugman and Verbeke (2008)* and *Sethi (2009)*, *Panibratov (2010: 8)* claims that almost all emerging multinationals evolve from a regional to a global one. Naturally, during their expansion, it is not just geographical distance that matters. *Ghemawat's (2001)* CAGE Distance Framework highlights that cultural (C), administrative (A), geographical (G) and economic (E) distances increase transactions costs, thus promoting a home-region bias (*Sethi, 2009: 357*). *Annushkina and Colonel (2013: 58)* find that the host country's geographic closeness to Russia and its being a former Soviet republic or a tax haven positively affected the particular country's probability of attracting a merger and acquisition or joint venture deal by a Russian multinational, while the similar level of economic development did not significantly influence the multinationals' foreign market selection decisions. Analysing the mergers and acquisitions carried out by BRIC-country firms between 2000 and 2007, *Sethi (2009: 361)* concludes that Russian multinationals are the most home-region-bound among the BRIC economies, since 254 of their 339 M&As were made in Europe.²⁵ Although such detailed M&A statistics are not available after 2007, one can use the lists of the 10 largest M&A transactions of Russian multinationals announced between 2007 and 2009 and between 2009 and 2011, respectively. In both these cases, only two targeted the EU during each period: one in Italy and one in Hungary,²⁶ as well as one in Germany and one in Luxembourg, accordingly.²⁷ However, the Luxembourg-related transaction also included assets in the EU and the United States (*MEMO, 2011: 17; Kuznetsov, 2013a: 17*). It should be noted that the statistics only take into account where the acquired company has been registered, rather than where its assets are located geographically. Moreover, they can

²⁴ *Rugman and Verbeke (2004)* identified four types of multinationals: home-region-oriented, bi-regional, host-region-oriented and global multinationals.

²⁵ Asia had 46 M&As, but many of them were in the Central Asian republics of the former Soviet Union. Eight transactions were in Africa, three in Oceania and only one in Latin America (*Sethi, 2009: 361*).

²⁶ The Hungarian case ended in failure. Surgutneftegaz, Russia's third-largest oil producer, sold the stake it bought in the Hungarian oil and gas company Mol in 2009 to the Hungarian government in 2011. It must be emphasized that between 2007 and 2009, not just the two mentioned, but a total of four transactions targeted the EU. The remaining two deals are, however, not included in our list because the respective assets are in fact in non-EU countries – assets were acquired in Ukraine via Cyprus, as well as in Kazakhstan via the Netherlands (*MEMO, 2011: 17*).

²⁷ Between 2009 and 2011, another acquisition was linked to the EU, i.e. the above-mentioned transaction via the Netherlands, in which the assets were located in Kazakhstan (*Kuznetsov, 2013a: 17*). Note that because of Surgutneftegaz's failure in Hungary, the list of top 10 outward M&A transactions between 2009 and 2011 no longer included the Surgutneftegaz deal.

be located in many different regions. According to *Kuznetsov* (2011a: 11), EU countries are not very popular for greenfield investments. The major projects have been carried out in Asia (e.g. India, Vietnam and Turkey). Between 2009 and 2011, two of the five most significant foreign greenfield projects by Russians, i.e. Gazprom's gas storage construction projects in Austria and Germany, targeted the EU (*Kuznetsov*, 2013a: 17).²⁸

UNCTAD (2017: 68) warns that projects in emerging economies do not allow Russian multinationals the same access to cutting-edge technologies as in traditional advanced countries. Thus, the decline in the share of developed European states can be regarded as a step backwards in terms of using the internationalization of Russian business to increase Russia's competitiveness (*Kuznetsov*, 2011a: 13).

3.1. The size of Russian FDI in the EU

Eurostat and the CBR display very different data on the size of Russian FDI in the EU. Eurostat data until 2012 are reported in line with the BPM5 methodology. In contrast, figures for 2013–2016 are based on new methodological standards, i.e. BPM6 and the 4th edition of the OECD Benchmark Definition of Foreign Direct Investment (BMD4). Hence, data beginning in 2013 are not directly comparable with those referring to earlier years (*Eurostat*, 2017f). As mentioned, CBR statistics are consistent with the BPM6 methodology. Differences in data are in large part a result of the activities of special-purpose entities. EU aggregates include them, but national data does not necessarily do so (*Eurostat*, 2017f). This is why national data cannot be simply aggregated. The solution would be to provide data on the basis of the country of the ultimate investor. This is the direction in which statistics are heading, but it is not easy to credibly identify the ultimate owner. For example, Hungary's central bank, the MNB, started publishing inward FDI positions calculated by the ultimate investor in 2016 (*Weiner*, 2017a: 195).²⁹

According to *Eurostat* (2016a), the figures of Russian FDI in the EU27 increased by 13.5 times over eight years, from EUR 5.6 billion at the end of 2002 to EUR 75.2 billion at

²⁸ The three other projects took place in Ukraine, the breakaway Abkhazia region of Georgia and Kazakhstan (*Kuznetsov*, 2013a: 17).

²⁹ While FDI statistics on the immediate owners use the 10 per cent threshold of ownership/voting power, FDI statistics on an ultimate investing country basis identify only one ultimate investor as the ultimate controlling parent of the resident company, and allocate all the foreign direct investment stocks to this one ultimate investor.

the end of 2012 (*Table 8*).³⁰ By comparison, a simple accumulation of country data from the CBR suggests the size of Russian FDI in the EU27 amounted to USD 276.1 billion at the end of 2012, as compared to USD 197.0 billion at the end of 2009 (*Table 9*) (CBR, 2017c).³¹ For end-2016, the CBR reported Russian FDI stock in the EU28 of USD 296.2 billion (CBR, 2017c), while Eurostat gave the figure of EUR 84.9 billion (*Eurostat*, 2017b).³²

Russian FDI is considered of less importance to the EU than *vice versa*. Likewise, in the case of bilateral trade in goods, Russia depends more on the EU than the EU on Russia. In 2016, 45.7 per cent of Russia's exports went to the EU, while 38.3 per cent of its imports came from there (*FTS*, 2017). In contrast, in 2016, Russia bought only 4.1 per cent of EU exports and comprised 7.0 per cent of EU imports (*Eurostat*, 2017c: 2). However, Russia has an important or exclusive role regarding certain products in certain countries (*Liuhto*, 2015b: 79–81).

According to *Eurostat* (2016a), Russia's share in the IFDI stock of the EU27 from extra-EU27 sources reached only 1.93 per cent at the end of 2012 (*Table 8*), despite being the seventh largest FDI investor, following the United States, Switzerland, Japan, Canada, Norway and Brazil.³³ Among the BRIC countries, Russia even overtook China (EUR 27.4 billion), if Hong Kong (EUR 50.7 billion) is not taken into account. However, this is still a remarkable increase because Russia's share was only 0.35 per cent in 2004, and since then it has grown year by year (*Eurostat*, 2015). At the end of 2016, Russia's share in the EU28's total IFDI stock by extra-EU28 investing countries was 1.36 per cent (*Eurostat*, 2017b). In contrast, according to the CBR, the EU28's share in Russia's OFDI stock accounted for 67.5 per cent at the end of 2012 and 70.6 per cent at the end of 2016 (*Table 9*) (CBR, 2017c).³⁴ Nevertheless, the EU's significance for Russia is incontestable, even if we exclude some of the trans-shipment transactions and all the cases of round-tripping.³⁵

³⁰ The year 2012 is highlighted because, as noted, Eurostat introduced new methodology for collecting data starting in 2013. Data for special-purpose entities are available from 2013 onwards.

³¹ CBR data are constructed according to the asset/liability principle (CBR, 2017c) rather than the directional principle (CBR, 2017e).

³² Flow data are presented in *Table A1* (Eurostat) and *Table A2* (CBR) in the Appendix.

³³ Russia's significance is greater in certain countries.

³⁴ The share of the EU has been around 65 per cent each year since 2009.

³⁵ Naturally, a very precise calculation of this aspect cannot be done.

Table 8. Russian FDI stock in the EU, according to Eurostat, end of period, 2004–2016 (millions of euros)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013 ^a	2014 ^a	2015 ^a	2016 ^a	I (%)	II (%)	III (%)
EU28	:	:	:	:	30 021	46 937	50 375	56 947	75 345	50 006 (22 062)	50 563 (9 117)	76 186 (33 203)	84 942 (38 970)	100.00	1.36	0.60
IV (%)										1.16	1.03	1.27	1.36			
V (%)										0.46	0.42	0.56	0.60			
EU27	5 570	12 117	14 578	24 591	29 967	46 859	50 263	56 793	75 190							
VI (%)	0.35	0.66	0.72	1.02	1.20	1.68	1.60	1.53	1.93							
VII (%)	0.11	0.21	0.22	0.32	0.38	0.55	0.55	0.57	0.72							
EU25	5 519	11 931	14 326	24 034	29 103	45 836	49 042	55 356	73 369							
EU15	3 714	8 373	11 636	20 114	21 925	26 962	27 576	33 446	46 138							
<i>EU15 plus Cyprus and Malta</i>																
Austria	:	421	461	2 976	1 980	4 889	4 948	5 544	6 590	:	:	:	:	:	:	:
Belgium	:	:	:	:	42	-1 007	-982	-825	-797	-1 262 (-1 001)	-704 (-449)	-185 (-130)	-81 (-49)	N/A	N/A	N/A
Cyprus	439	745	902	1 189	1 585	1 377	1 116	1 472	2 198	24 275	15 769	30 324	31 133	36.65	48.97	16.40
Denmark	35	63	165	90	109	152	134	298	531	6	68 (5)	89	102	0.12	0.27	0.09
Finland	366	378	413	538	365	506	503	634	583	:	:	830	986	1.16	14.86	1.29
France	422	448	740	266	276	361	529	323	463	1 101	1 452	1 645	1 808	2.13	1.01	0.27
Germany	918	1 031	3 486	3 477	4 305	2 593	2 878	3 156	3 197	2 842	3 587	3 881	4 361	5.13	2.06	0.58
Greece	40	45	41	47	:	:	:	41	34	33	34	33	26	0.03	0.62	0.11
Ireland	-17	-38	-131	468	76	86	201	208	465	550	345	-27	358	0.42	0.07	0.04
Italy	33	37	44	37	93	435	278	186	447	454	416	527	144	0.17	0.41	0.04
Luxembourg	:	:	:	:	:	:	:	:	:	-43 339	-48 543	-35 809	-37 134	N/A	N/A	N/A
Malta	:	6	7	10	11	12	12	12	1	-1	-2	39	43	0.05	0.03	0.03
Netherlands	93	117	40	240	304	347	328	445	558	44 205 (43 287)	45 943 (44 155)	43 913 (42 615)	50 289 (48 524)	59.20	2.52	1.30
Portugal	0	0	3	5	14	16	42	51	62	74	102	123 (2)	147 (2)	0.17	:	:
Spain	:	715	768	1 028	1 507	1 855	2 390	2 994	3 830	4 605	5 439	6 321	6 790	7.99	6.22	1.31
Sweden	-22	206	26	-66	-457	8	-249	-238	-183	225	169	107	175	0.21	0.27	0.06
UK	:	:	:	244	1 660	837	1 394	1 608	1 492	1 974	:	:	:	:	:	:

(continued on next page)

Table 8 (continued)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013 ^a	2014 ^a	2015 ^a	2016 ^a	I (%)	II (%)	III (%)
<i>EU-member CEE countries (EU11)</i>																
Bulgaria	49	179	248	522	792	1 005	1 175	1 424	1 741	1 820 (1)	1 982	1 930	1 952	2.30	20.70	4.90
Croatia	12	10	24	86	54	78	112	154	155	188	255	287	302	0.36	9.07	1.15
Estonia	144	179	252	290	395	407	494	540	691	764	828	647	686	0.81	22.62	3.73
Latvia	235	346	380	348	370	367	334	389	487	565	1 053	1 188	1 316	1.55	36.39	9.78
Lithuania	396	1 703	522	1 004	487	495	715	598	575	518	185	217	274	0.32	10.56	1.96
Romania	2	7	4	35	72	17	46	13	79	62	36	42	139	0.16	2.09	0.20
<i>of which five CEE countries</i>																
Czech R.	57	46	90	104	169	242	300	242	311	413	448	675	613	0.72	5.04	0.55
Hungary	95	-5	17	699	-209	1 130	1 521	-69	-97	-55	-13	-46	-47	N/A	N/A	N/A
Poland	446	540	502	277	183	117	39	59	513	271	356	369	271	0.32	1.96	0.15
Slovakia	3	1	12	-32	-55	-105	-183	-286	-233	-282	-309	-168	-204	N/A	N/A	N/A
Slovenia	-4	-3	2	29	36	55	74	35	47	79	63	62	73	0.09	3.68	0.56

: Not available.

N/A – Not applicable because of negative value.

^a Break in time series from 2013.

I – As a share of total Russian FDI stock in the EU28 at the end of 2016.

II – As a share of Russian FDI in the total IFDI stock by extra-EU28 investing countries in the respective EU member countries at the end of 2016.

III – As a share of Russian FDI in the total IFDI stock of the respective EU member countries at the end of 2016.

IV – As a share of Russian FDI in the EU28's total IFDI stock by extra-EU28 investing countries at the end of the respective years.

V – As a share of Russian FDI in the EU28's total IFDI stock at the end of the respective years.

VI – As a share of Russian FDI in the EU27's total IFDI stock by extra-EU27 investing countries at the end of the respective years.

VII – As a share of Russian FDI in the EU27's total IFDI stock at the end of the respective years.

Note: The value of stock held by special-purpose entities is in brackets where it is available and its value is different from 0.0.

Source: Own compilation and calculations based on Eurostat (2015, 2016a, 2017b).

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Table 9. Russian FDI stock in the EU, according to the CBR, based on asset/liability principle, end of period, 2009–2016 (millions of dollars)

	2009	2010	2011	2012	2013	2014	2015	2016	As a % of total ^a	As a % of EU28 ^b
Total	298 357	361 121	361 750	409 567	479 501	411 270	367 593	419 453	100.0	
EU28 ^c	197 197	243 553	232 749	276 502	308 126	290 619	258 849	296 232	70.6	100.0
<i>as a % of total^d</i>	66.1	67.4	64.3	67.5	64.3	70.7	70.4	70.6		
CEE ^c	10 894	10 722	10 393	11 936	14 917	13 085	12 481	12 859	3.1	4.3
<i>as a % of total^d</i>	3.7	3.0	2.9	2.9	3.1	3.2	3.4	3.1		
5 CEE countries ^c	4 261	4 115	2 205	2 417	2 877	3 038	2 987	3 060	0.7	1.0
<i>as a % of total^d</i>	1.4	1.1	0.6	0.6	0.6	0.7	0.8	0.7		
<i>EU15 plus Cyprus and Malta</i>										
Austria	6 052	5 456	3 955	7 459	25 891	37 230	22 561	22 128	5.3	7.5
Belgium	18	70	137	733	273	588	494	454	0.1	0.2
Cyprus	115 898	149 530	125 355	151 322	163 066	125 701	112 362	150 547	35.9	50.8
Denmark	92	85	406	627	1 330	1 103	1 321	1 671	0.4	0.6
Finland	974	1 151	948	1 309	1 382	1 160	2 481	2 907	0.7	1.0
France	1 339	1 562	1 768	3 287	3 666	3 462	2 890	2 880	0.7	1.0
Germany	7 444	6 721	6 337	9 111	9 886	9 709	9 427	8 138	1.9	2.7
Greece	471	742	499	558	571	661	631	685	0.2	0.2
Ireland	661	1 285	1 848	2 541	2 732	2 700	3 320	5 445	1.3	1.8
Italy	1 908	1 425	1 340	1 697	2 063	2 428	2 347	2 482	0.6	0.8
Luxembourg	14 801	12 004	12 093	9 130	11 352	14 848	14 672	12 738	3.0	4.3
Malta	34	35	38	90	76	98	97	99	0.0	0.0
Netherlands	24 569	39 668	56 933	65 615	60 601	66 217	61 886	60 198	14.4	20.3
Portugal	37	61	73	98	134	225	223	229	0.1	0.1
Spain	3 059	3 553	3 115	3 722	4 783	6 285	6 294	6 329	1.5	2.1
Sweden	880	1 404	436	841	97	133	161	225	0.1	0.1
UK	10 341	10 278	10 058	10 045	9 192	8 809	8 311	9 557	2.3	3.2
<i>EU-member CEE countries (EU11)</i>										
Bulgaria	1 586	1 884	2 439	2 854	2 863	3 143	3 247	3 256	0.8	1.1
Croatia	206	226	250	355	398	394	385	390	0.1	0.1
Estonia	589	149	220	276	400	459	490	469	0.1	0.2
Latvia	535	473	704	941	3 046	1 881	1 931	2 010	0.5	0.7
Lithuania	1 380	1 420	1 444	1 335	1 406	312	301	307	0.1	0.1
Romania	63	258	147	138	36	34	29	30	0.0	0.0
<i>of which five CEE countries</i>										
Czech R.	1 336	1 192	1 309	1 598	1 844	1 968	1 896	1 894	0.5	0.6
Hungary	2 266	2 230	228	107	237	280	230	264	0.1	0.1
Poland	596	581	545	589	627	510	563	578	0.1	0.2
Slovakia	48	52	59	78	97	117	127	129	0.0	0.0
Slovenia	14	59	64	45	72	163	172	194	0.0	0.1
<i>Non-EU-member CEE countries</i>										
Albania	-	-	-	-	2	5	5	5	0.0	
Bosnia and Herz.	541	678	561	725	875	938	576	616	0.1	
Macedonia	-	-	-	1	1	4	4	5	0.0	
Montenegro	1 339	896	935	1 109	1 226	1 329	1 328	1 342	0.3	
Serbia	394	623	1 488	1 784	1 786	1 548	1 197	1 370	0.3	

^a As a share of total Russian OFDI stock at the end of 2016.

^b As a share of total Russian FDI stock in the EU28 at the end of 2016.

^c Own calculations resulting from the simple accumulation of country data.

^d As a share of total Russian OFDI stock at the end of the respective years.

Source: Own calculations based on CBR (2017c).

Russian OFDI could have been much larger in the EU. Many transactions have not been realized, not just because of business or regulatory reasons, but also because of political resistance to Russian FDI. An extreme case is when the Russian company or the state exerts pressure on companies to acquire them or punishes them in response to an unsuccessful acquisition. Such examples are known in Central and East European states (*Weiner, 2006*), which, however, cannot be regarded as commonly used Russian business practices.

3.2. Geographical distribution of Russian FDI in the EU

Stock data from *Eurostat* (2017b) show that at the end of 2016, the largest recipients of Russian FDI in the EU were the Netherlands, Cyprus, Spain and Germany. However, statistics also show that the bulk of Russian FDI stock in the Netherlands is held by special-purpose entities and the situation should be similar for Cyprus for which SPE data are not available (*Table 8*). Besides Cyprus (with 16.4 per cent), Russia secures the highest share of the IFDI stock in the three Baltic States (Latvia – 9.8%, Estonia – 3.7%, Lithuania – 2.0%) and Bulgaria (4.7%). Russia's share is somewhat above one per cent in Spain, the Netherlands, Finland and Croatia. In other EU countries, it remains below one per cent. However, earlier data suggest that the role of Russian FDI is also notable in Austria, for which data are lacking. In addition, *Astrov* (2009) draws attention to an important phenomenon regarding non-FDI issues in Austria. Referring to unofficial sources, he argues that Austrian banks provide a safe haven for Russian capital, including that of Russian senior officials. Russian politicians and businessmen often visit Austrian banks when travelling there officially and for tourist purposes. Similarly as does the United Kingdom, Austria also offers asylum to certain Russian oligarchs.

According to data from the CBR, Russian FDI stock at the end of 2016 was by far the largest in Cyprus (USD 150.5 billion), followed by the Netherlands (USD 60.2 billion), the British Virgin Islands (USD 42.1 billion) and Austria (USD 22.1 billion) (*CBR, 2017c*). Three of these four countries are EU members. By the end of 2016, 78.6 per cent of Russian FDI stock in the EU was accumulated in these three countries (Cyprus – 50.8%, the Netherlands – 20.3%, Austria – 7.5%) (*Table 9*).

In contrast, using a different methodology, IMEMO's FDI project database gives a much more accurate picture than official data. Accordingly, at the end of 2016, the main destinations in non-CIS Eurasia were Italy, Germany, Great Britain, Turkey, Switzerland, Iraq and Bulgaria. This database shows minor Russian FDI stock in Cyprus (USD 0.05 billion at the end of 2016). Likewise, real Russian FDI presence is much smaller in Luxembourg (USD 0.01 billion), Spain (USD 0.22 billion), Ireland (USD 0.56 billion), Latvia (USD 0.88 billion) and the Netherlands (USD 1.06 billion) than officially registered (*EABR*, 2017: 24).³⁶

CBR data (*Table 9*) suggest similar numbers for the CEE region to the ones Eurostat mentions above (*Table 8*). At the end of 2016, Bulgaria was the largest host country of Russian FDI stock within CEE at USD 3.3 billion, followed by Latvia (USD 2.0 billion), the Czech Republic (USD 1.9 billion), Serbia (USD 1.4 billion) and Montenegro (USD 1.3 billion). The CEE region accounted for 3.1 per cent of the Russian OFDI stock (*CBR*, 2017c). In contrast, again, IMEMO's FDI project database helps build a more accurate picture. These data highlight that Russian FDI is underestimated in Bulgaria (USD 4.02 billion vs. USD 3.26 billion at the end of 2016), Serbia (2.55 vs. 1.37), Romania (1.57 vs. 0.03) and Poland (1.14 vs. 0.58) (*EABR*, 2017: 24).

The preference to invest in neighbouring countries can be observed in the case of the three Baltic States. However, two factors limit the expansion of Russian companies in the wider Baltic Sea region. On the one hand, Russian companies face fierce competition from Swedish investors (in Finland and the three Baltic States) and German investors (mainly in Poland) and, on the other, political problems are also not negligible (*Kuznetsov*, 2012; 2014b: 63). Outside the former Soviet Union, the linguistic and cultural barriers are small in South-East Europe (*Kuznetsov*, 2011a: 5, 10; 2013b: 94).

Eurostat's (2017d) inward FATS data show that in 2014 3,534 Russian-controlled enterprises operated in the EU, compared to 265,000 foreign-controlled enterprises.³⁷

³⁶ Regarding the top 20 Russian non-financial multinationals ranked by foreign assets at the end of 2011, two old (Germany and Italy) and two new EU members (Bulgaria and Romania) were the most popular EU host countries (*Kuznetsov*, 2013a: 4).

³⁷ Eurostat's Foreign Affiliates Statistics (FATS) are compiled according to the ultimate controlling institutional unit (UCI) concept. This means that the ultimate controlling institutional unit (enterprise, branch or natural person) is not controlled by another institutional unit. The words "subsidiary" and "affiliate" can be misleading because these Russian-controlled enterprises can be controlled by either natural persons or companies. As already emphasized, standard FDI statistics (reported according to the immediate owners) use the 10 per cent threshold of ownership/voting power, while FATS statistics are

According to this methodology, the majority of Russian-controlled enterprises were located in Central and Eastern Europe, including 946 in Latvia, 702 in Slovenia, 538 in Bulgaria and 331 in Croatia (*Table A3 in the Appendix*).³⁸ The main sector for these companies is wholesale and retail trade (*Table A4 in the Appendix*) (*Eurostat, 2017e*).

3.3. Industrial distribution of Russian OFDI in the EU

According to *Eurostat* (2017b), the service sector accounted for 83.1 per cent of Russian FDI stock in the EU at the end of 2015 (*Table 11*). Between 2008 and 2010, the share of services was lower (*Table 10*) (*Eurostat, 2016b*). The electricity, gas, steam and air conditioning supply sector is the only other one worth mentioning. Foremost among service sectors are financial and insurance activities, though professional, scientific and technical activities play a notable role as well. Real estate activities and private real estate activities are also relatively important (*Table 11*). However, in our view, this gives a distorted picture due to special-purpose entities and transactions via third countries. *Table 12* shows which sectors attracted the largest share of Russian FDI in each EU country (*Eurostat, 2017b*). Yet with knowledge of the largest Russian FDI deals in individual EU countries and whether these were carried out directly or indirectly, i.e. through a third country (indirect or direct FDI), one can conclude that not only FDI data of the individual countries but also their sectoral distribution well illustrate how seriously Russian FDI through third countries distorts statistical data.

According to *Kuznetsov* (2010b: 28), Europe is one of the key regions of Russian FDI sectoral diversification. In the first place, one can highlight the present and former machinery assets of Renova and Sistema conglomerates, the heavy machinery producer OMZ (United Heavy Machinery Plants or Uralmash–Izhora Group) and the largest Russian tractor producer Traktorniye Zavody.³⁹ Also, chemical companies (from fertilizer manufacturers to the leading Russian perfumery and cosmetics company Kalina), companies in the wood and paper industry (see, e.g., Investlesprom), various

based on the country of the ultimate controlling institutional unit, but do not report the value of the foreign investment stocks.

³⁸ These data, naturally, do not include all the companies with Russian involvement.

³⁹ Traktorniye Zavody went bankrupt.

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Table 10. Russian FDI stock in the EU, breakdown by economic activity (NACE Rev. 1.1 and NACE Rev. 2), according to Eurostat, end of period, 2005–2012 (millions of euros and per cent)

	NACE Rev. 1.1					NACE Rev. 2				
	2005	2006	2007	2008	2009	2008	2009	2010	2011	2012
All FDI activities (mln EUR)	12 117	14 578	24 591	29 967	46 859	29 967	46 859	50 263	56 793	75 190
All NACE activities (mln EUR)						28 112	42 306	47 402	53 331	71 733
Services (mln EUR)	8 823	12 158	21 590	14 184	27 112	14 135	27 509	29 551	48 987	66 411
The share of services (%)	72.8	83.4	87.8	47.3	57.9	47.2	58.7	58.8	86.3	88.3

Source: Eurostat (2013, 2016b).

Table 11. Russian FDI stock in the EU, breakdown by economic activity (NACE Rev. 2), according to Eurostat, end of period, 2013–2015 (millions of euros and per cent)

	2013		2014		2015	
	mln EUR	%	mln EUR	%	mln EUR	%
All FDI activities	50 006	100.00	50 563	100.00	76 186	100.00
All NACE activities	49 288	98.57	49 290	97.48	73 954	97.07
A. Agriculture, forestry and fishing	4	0.01	3	0.00	1	0.00
B. Mining and quarrying	55	0.11	61	0.12	19	0.03
C. Manufacturing	-676	N/A	410	0.81	439	0.58
D35. Electricity, gas, steam and air conditioning supply	2 966	5.93	3 459	6.84	3 248	4.26
E. Water supply; sewerage, waste management and remediation activities	-3	N/A	-23	N/A	-27	N/A
F. Construction	346	0.69	343	0.68	292	0.38
G–U. Services	40 681	81.35	38 335	75.82	63 301	83.09
G. Wholesale and retail trade; repair of motor vehicles and motorcycles	2 508	5.02	1 813	3.58	1 253	1.64
H. Transportation and storage	2 098	4.19	1 809	3.58	983	1.29
I. Accommodation and food service activities	247	0.49	329	0.65	306	0.40
J. Information and communication	72	0.14	19	0.04	116	0.15
K. Financial and insurance activities	20 179	40.35	14 124	27.93	40 481	53.13
L. Real estate activities	2 852	5.70	3 385	6.70	3 713	4.87
M. Professional, scientific and technical activities	12 114	24.22	16 233	32.10	16 091	21.12
N. Administrative and support service activities	564	1.13	585	1.16	339	0.44
O/T/U. Public administration; activities of households and of extraterritorial organisations	32	0.06	23	0.05	2	0.00
P85. Education	0	0.00	1	0.00	2	0.00
Q. Human health and social work activities	5	0.01	5	0.01	2	0.00
R. Arts, entertainment and recreation	7	0.01	4	0.01	7	0.01
S. Other service activities	1	0.00	7	0.01	10	0.01
Private real estate activities	719	1.44	1 273	2.52	2 233	2.93
Not allocated	5 913	11.83	6 704	13.26	6 680	8.77

: Not available.

N/A – Not applicable because of negative value.

Source: Own calculations based on Eurostat (2017b).

Table 12. Russian FDI stock in the EU, breakdown by country and economic activity (NACE Rev. 2), according to Eurostat, at the end of 2015 (millions of euros)

	Austria	Belgium	Cyprus	Denmark	Finland	France	Germany	Greece	Ireland	Italy	Luxembourg	Malta	Netherlands	Portugal
All FDI activities	:	-185	30 324	89	830	1 645	3 881	33	-27	527	-35 809	39	43 913	123
All NACE activities	:	-185	30 324	89	:	:	3 463	33	-27	437	:	39	43 913	123
A. Agriculture, forestry and fishing	:	:	0	:	0	:	0	0	0	0	:	0	0	0
B. Mining and quarrying	:	0	0	0	0	:	0	0	0	0	:	0	0	0
C. Manufacturing	:	:	0	:	-66	-115	42	-3	-279	-53	:	0	1 076	0
D35. Electricity, gas, steam and air conditioning supply	:	0	0	0	:	:	:	1	0	0	:	0	0	0
E. Water supply; sewerage, waste management and remediation activities	:	0	0	0	0	:	:	0	0	0	:	0	0	0
F. Construction	:	0	0	0	0	:	-1	25	0	0	:	0	4	:
G-U. Services	:	-4	30 324	10	41	1 764	484	10	252	491	:	39	42 833	:
G. Wholesale and retail trade; repair of motor vehicles and motorcycles	:	:	:	5	-18	:	41	1	:	490	:	0	2	0
H. Transportation and storage	:	0	:	1	:	192	312	0	0	-1	:	:	1	0
I. Accommodation and food service activities	:	0	0	0	0	:	0	0	0	0	:	0	0	:
J. Information and communication	:	0	:	5	:	:	:	0	-6	1	:	0	0	0
K. Financial and insurance activities	:	-150	29 657	-1	0	:	-43	9	:	0	:	0	42 718	1
L. Real estate activities	:	0	436	0	:	1 604	57	0	0	0	:	:	112	:
M. Professional, scientific and technical activities	:	:	:	-1	0	:	128	0	0	0	:	:	0	:
N. Administrative and support service activities	:	0	0	0	0	:	-29	0	360	0	:	:	0	0
O/T/U. Public administration; activities of households and of extraterritorial organisations	:	0	1	1	:	:	0	0	0	:	:	0	0	:
P85. Education	:	0	0	0	0	:	0	0	0	0	:	0	0	0
Q. Human health and social work activities	:	0	0	0	0	:	:	0	0	0	:	0	0	0
R. Arts, entertainment and recreation	:	0	0	0	0	:	0	0	0	0	:	:	0	0
S. Other service activities	:	0	0	0	0	:	0	1	0	0	:	0	0	0
Private real estate activities	:	0	0	0	:	:	419	0	0	89	:	0	0	0
Not allocated	:	0	0	4	:	-2	0	0	0	0	:	0	0	93

(continued on next page)

Table 12 (continued)

	Spain	Sweden	UK	Bulgaria	Croatia	Estonia	Latvia	Lithuania	Romania	Czech R.	Hungary	Poland	Slovakia	Slovenia
All FDI activities	6 321	107	:	1 930	287	647	1 188	217	42	675	-46	369	-168	62
All NACE activities	:	107	:	1 930	287	647	:	118	42	378	-46	369	-168	62
A. Agriculture, forestry and fishing	:	0	0	2	0	:	:	:	:	:	:	0	:	1
B. Mining and quarrying	:	0	0	20	0	:	0	0	0	0	0	0	0	0
C. Manufacturing	:	:	0	115	45	13	48	52	25	43	-55	-50	-205	19
D35. Electricity, gas, steam and air conditioning supply	:	0	0	111	0	23	118	:	0	-1	:	0	:	0
E. Water supply; sewerage, waste management and remediation activities	:	0	0	0	0	0	0	0	:	:	0	0	0	0
F. Construction	:	0	:	146	60	5	22	4	10	0	:	0	0	0
G-U. Services	:	:	:	1 429	183	562	508	63	7	319	4	419	37	42
G. Wholesale and retail trade; repair of motor vehicles and motorcycles	:	0	:	255	19	193	81	24	3	44	-11	51	7	6
H. Transportation and storage	:	0	8	1	0	7	30	4	:	7	:	402	:	0
I. Accommodation and food service activities	:	0	0	224	17	1	3	1	0	:	:	0	7	13
J. Information and communication	:	0	0	1	0	6	9	1	0	0	0	-2	:	0
K. Financial and insurance activities	:	:	:	52	0	63	253	2	0	:	0	0	:	-1
L. Real estate activities	:	0	0	847	63	253	112	26	0	80	:	0	0	13
M. Professional, scientific and technical activities	:	:	:	32	79	20	10	2	0	11	19	0	22	11
N. Administrative and support service activities	:	0	0	13	5	16	2	2	0	:	-3	-31	1	0
O/T/U. Public administration; activities of households and of extraterritorial organisations	:	0	0	0	0	0	0	0	0	:	0	:	0	:
P85. Education	:	0	0	0	0	0	2	:	0	0	0	0	0	0
Q. Human health and social work activities	:	0	0	0	0	0	0	0	0	0	0	0	0	0
R. Arts, entertainment and recreation	:	0	0	0	0	1	5	1	:	0	0	0	0	0
S. Other service activities	:	0	0	3	0	2	1	:	0	0	0	0	0	0
Private real estate activities	:	0	0	0	0	0	:	99	0	297	0	0	0	0
Not allocated	:	118	0	109	0	43	25	0	0	:	0	0	0	0

: Not available.

Source: Own compilation based on Eurostat (2017b).

players linked to the food industry and building materials manufacturers have all expanded abroad. In the service sector, the EU market has proved to be a tough challenge for most Russian players because of the strong competition, especially for insurance companies (during the global financial crisis, Ingosstrakh and Reso postponed plans to expand into the EU until better times). Nonetheless, some Russian multinationals have achieved success in this sector, firstly in Central and Eastern Europe. For example, the Bank of Moscow expanded to Latvia and Estonia.⁴⁰ But the foreign acquisition by Sberbank in 2012 constitutes a much more significant step.⁴¹ Finally, Russian multinationals have also gained presence in atypical sectors. For instance, belonging to the Sistema conglomerate, the oldest Russian tourism company Intourist has hotels in the EU as well.⁴² Following successful expansion in Africa and India, UTair established a subsidiary in Slovakia to provide helicopter services in Europe. Kaspersky Lab and the IBS Group (through Luxoft) have internationalized their activities in software development. Interfax news agency has also developed its foreign network (*Kuznetsov, 2010b: 28*).

Russian real estate purchases in Europe can be basically divided into two groups. The first group includes real estate purchases by the richest Russians that have constantly been observed from the 1990s onwards. Investment in real estate abroad was one of the most well-known forms of capital flight in the 1990s. Many oligarchs understand the instability of their situation and try to accumulate reserves abroad. Some Russian owners of palaces and villas also emigrated from Russia. The second group consists of smaller-scale purchases by the middle class, which have only recently become a massive phenomenon. The main factor, a push one, was the high real estate prices in Moscow, St. Petersburg and other large cities where representatives of the Russian middle class live and which they cannot afford. At the same time, putting personal cash into Russian stocks is very risky, while savings in banks are unprofitable. Thus, first, buying foreign high-quality cars became popular, after which more and more funds have begun to be directed toward the purchase of “dachas” (summer cottages or seasonal homes) in

⁴⁰ The Latvian bank is no longer owned by the Bank of Moscow. Even its name was changed, but it has remained in Russian hands.

⁴¹ Currently, Sberbank is being targeted by EU sanctions, but not by the US. In contrast, US sanctions are hitting the Bank of Moscow.

⁴² Intourist's hotels are managed by the Cosmos Group.

Russian provinces and abroad since the mid-2000s (*Gutnik*, 2010: 88; *Kuznetsov*, 2010a: 4; 2011b: 7).

Most of the real estate purchases are done by individuals, while the role of Russian multinationals is relatively small. However, examples for the latter include Intourist's five-star hotels in Karlovy Vary in the Czech Republic (Savoy Westend Hotel) and in Forte dei Marmi in Italy (Principe) (*Cosmos Group*, n.d.), or the Beetham Tower (or One Blackfriars Road Tower) in London, an unsuccessful project of Sergei Polonsky's Mirax Group, a former real estate development company (*Designbuild-network.com*, n.d.).

The Moscow-based Gordon Rock real estate agency developed two lists of target countries of real estate purchases by Russians abroad. If the buyer intends to live in the property or wants to use it as a "dacha", then the list of countries is the following (excluding the CIS): Bulgaria, Spain, Montenegro, Germany, Turkey, the Czech Republic, Latvia, Italy and France. When purchasing real estate as an investment, the list is as follows: Germany, the United Kingdom, the United States, France, Austria, Switzerland, Spain, the Czech Republic, Israel and Latvia (*Agureyeva*, 2014).

3.4. EU-specific motives of Russian OFDI

In the EU, the most important motives of Russian multinationals consist of sales promotion, access to, and retention of, markets. Most Russian multinationals are major exporters, while the EU is Russia's main trading partner. Compared to the domestic market and developing countries, Russian OFDI investors see poor prospects in Western Europe and CEE for access to raw materials and increasing efficiency by lower labour costs (*Kuznetsov*, 2011a: 10). According to *Kuznetsov* (2011a: 10), the role of strategic-asset-seeking FDI (access to new technologies or the development of cross-border production chains) is small (see above), though it would be important for the modernization of the domestic economy. Russian energy multinationals have headed towards the vertical integration of supply chains (oil companies by purchasing foreign refineries and filling stations, while Gazprom by investing in infrastructure). However, this direction has recently been challenged. In the oil sector, Lukoil has been selling its European downstream assets and Rosneft, Russia's state oil champion, has also downsized its European investment programmes. In the gas sector, the creation of the

single gas and electricity markets in the EU (including the EU's Third Energy Package) and the ambitious climate governance constitute an abrupt transformation of a long-standing model of cooperation between Russia and the West (*Deák, 2017*). Many Russian metallurgical multinationals have had research and development centres in Europe, but their research and development spending has been very small in the EU, and technology transfer has been more frequent in North American plants. Among the largest Russian multinationals, only Renova and Sistema conglomerates can be highlighted in terms of innovation (*Kuznetsov, 2011a: 10–11*).

Russian steel exporters are subject to import regulation and market protection on the EU market. With Russia's accession to the WTO in December 2011, EU quotas for Russian steel products ceased to exist, though Russia had not fully utilised the quotas even before that. However, anti-dumping procedures continue to be a problem for Russia in the EU.

Kuznetsov (2011a: 11) claims that it was common for Russian multinationals to strengthen their position in the EU before listing their shares or depositary receipts on European stock exchanges. More concretely, Russian companies bought subsidiaries in the EU in 2006–2007 to make their IPO abroad comfortably (*Alexey Kuznetsov, personal communication, 4 December 2015*). The motive of attracting much cheaper sources of financing as compared to domestic funds was typical for the period prior to the 2008–2009 crisis, owing to the underdeveloped domestic stock market. Finally, for many Russian multinationals, the EU is still attractive because of its political stability, securing themselves against the possible nationalization of assets in Russia (*Kuznetsov, 2011a: 11*).

4. Some patterns and trends of Russian FDI and multinationals in five CEE countries

CBR statistics show the five CEE countries accumulated only 0.7 per cent of Russian OFDI stock at the end of 2016 (*Table 9*) (*CBR, 2017c*). Thus, Russian official statistics

indicate they played a minor role.⁴³ Only the Czech Republic held a relatively larger Russian FDI stock as of end-2016. Poland, Slovakia, Hungary and Slovenia combined have attracted less Russian FDI than the Czech Republic alone. However, at the end of both 2009 and 2010, Hungary took a leading position in Central and Eastern Europe in terms of attracting Russian FDI. This proved to be temporary, and was only due to one item, i.e. the acquisition of shares in the Hungarian oil and gas company Mol by Russia's Surgutneftegaz. Due to local resistance to the 2009 takeover, Surgutneftegaz sold the stake to the Hungarian government in 2011.

Box 2. Understanding the low Russian FDI presence in Hungary

The reasons for the low Russian FDI activity in Hungary are manifold. Hungary had a relatively swift economic transformation and an extensive privatization process, including in some major segments of the energy sector in the 1990s. Key positions in the national economy had already been occupied by private companies by the late 1990s, when – with a couple of exceptions⁴⁴ – the first Russian actors capable of investing abroad consolidated themselves. By the late 1990s, Hungary had almost fully privatized its economy. In the energy sector, the emergence of a domestic private company, Mol, played a crucial role in fighting back Russian investment efforts. In turn, Prime Minister Orbán's recent drive for renationalization partly explains his limited openness to new Russian FDI. The Hungarian government has recently bought back a high number of energy assets from Western investors, and it would like to keep these for the long term. In certain cases, EU regulatory issues also work in ways that run counter to Russian FDI expectations. For example, the EU's Third Energy Package limits Russia's abilities. Furthermore, Russian capabilities for new investments have been diminished by the 2008–2009 financial crisis and, more recently, by low oil prices and Western sanctions. In recent years, the investment climate in Hungary has also been unfavourable. It is clear that the controversial "crisis tax" has negatively affected Russian players. The so-called "Robin Hood" tax is a burden on energy firms, while a tax on public utility pipelines and cables has also been introduced. Furthermore, cultural gaps, the non-Slavic language and the lack of a sizeable Russian diaspora have limited the Russian outreach for many individuals and smaller companies (*Weiner, 2015; Deák and Weiner, 2016*).

Using company data and case studies, *Weiner (2017a)* demonstrates that the activities of Russian investors in Hungary have been paved with failures. These have been evident in both divestments and unrealised plans. *Kalotay et al. (2014)* suggest that the low share of Russian investment in the Visegrad countries may be referred to as business opportunities that the Russian parties failed to exploit. *Weiner (2017a)* confirms this assumption in the case of Hungary.

As compared to CBR data, IMEMO calculates lower Russian FDI in the Czech Republic but higher in Poland (*Table 13*). The significant negative gap in the Czech Republic could

⁴³ In *Box 2*, we try to explain the low figures for Russian FDI in Hungary.

⁴⁴ Until 2000, Gazprom and Lukoil accounted for around 90 per cent of Russia's assets abroad (*RUSAL-EIU, 2006: 17*).

Table 13. Comparing Russian FDI stock in five CEE countries using different methodologies, end of period (millions of dollars and millions of euros)

	IMEMO (mln USD)			CBR (mln USD)			Eurostat (mln EUR)		
	2014	2015	2016	2016			2016		
				Total	Equity	Debt instr.	Total	Equity	Debt instr.
Czech Rep.	988	909	932	1 894	1 806	88	613	659	-46
Hungary	196	141	165	264	260	5	-47	38	-85
Poland	1 407	1 339	1 144	578	457	121	271	421	-150
Slovakia	330	333	89	129	117	12	-204	5	-210
Slovenia	178	182	140	194	139	56	73	42	31

Source: Own compilations based on *EABR* (2017: 24), *CBR* (2017c), *Eurostat* (2017b) and *IMEMO's* database.

be explained by FDI in real estate, while the difference in data in Poland could be related to re-estimates of stocks by the CBR (perhaps regarding Gazprom's FDI) and transshipping FDI (in the case of Roust – Russian Standard) (*Alexey Kuznetsov*, personal communication, 16 December 2017).

Based on national statistics, Eurostat indicates lower numbers for all the five countries than those provided by both the CBR and IMEMO's database. Moreover, in Hungary and Slovakia, the values of IFDI stock from Russia are negative. If Russian FDI stock data are disaggregated into equity and debt instruments, one will see that these negative total data are recorded simply because of negative debt instrument stocks, i.e. the negative stocks of debt instruments ("negative net liabilities") are larger than the positive stocks of equity ("positive net liabilities"). In the case of Hungary, we have a detailed answer to this issue. The stocks of debt instruments are negative mainly because of trade-credit claims (more precisely, claims are larger than liabilities). These are trade credits among corporate group members in a direct investment relationship. Specifically, foreign (i.e. non-Hungarian and non-Russian) multinationals have subsidiaries both in Hungary and Russia, and these Hungarian subsidiaries trade with the Russian subsidiaries. Most notably, Hungarian subsidiaries supply goods and services to the Russian subsidiaries, reflected in the higher stocks of claims (assets) than those of the liabilities (*Weiner*, 2017a: 198–199). As noted above, the Hungarian central bank, the MNB, started publishing inward FDI positions calculated by the ultimate investor. For end-2015, the MNB shows Russian FDI stock totalled EUR -46.4 million on the basis of the immediate investing country⁴⁵ and EUR 161.1 million by the ultimate

⁴⁵ These calculations do not include special-purpose entities.

owner (MNB, 2017a, 2017b),⁴⁶ compared to the CBR's USD 230 million based on the immediate host country (CBR, 2017c).

4.1. A snapshot of the main Russian-involved companies in five CEE countries

4.1.1. Poland

Russia is a surprisingly small investor in Poland despite the common economic heritage and geographic proximity of the two countries and also despite the fact that Poland was the second main destination of Russian OFDI behind the United States in 1995–1999 (Kalotay, 2003: 11–13; Kalotay *et al*, 2014: 12). Russian oil and gas as well as metal multinationals have been represented in Poland through the FDI activities of Gazprom, Lukoil and Severstal. However, Lukoil divested its downstream assets in 2016. Gazprom's main interest in Poland is its ownership in 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. In Poland, Gazprom also concentrates on the use of natural gas – both compressed and liquefied natural gas (CNG and LNG) – as a fuel for vehicles. Severstal's Severstallat established a pipe producer and steel distributor company, which acquired assets in Poland. Besides resource-based companies, software and information technology constitute another important part of Russian FDI in Poland, including the activities of Luxoft (a leading global provider of software development services and IT solutions, controlled by Anatoly Karachinsky's IBS Group) and Kaspersky Lab (a well-known cybersecurity and anti-virus provider, owned by ex-Soviet intelligence officer Eugene Kaspersky). Russia's Ekoton represents the engineering sector, focusing on application for integrated pollution prevention and control (IPPC) permits, environmental impact assessment (EIA), ecological/environmental audits, Natura 2000 reports, environmental programs, asbestos removal plans and regional development strategies, including tourism development strategies. Finally, it is important to mention the acquisition of vodka producer and spirits distributor Central European Distribution Corporation (CEDC) of Poland by Russian Standard, owned by

⁴⁶ End-2016 data by the ultimate owner have not yet been made available.

billionaire Roustam Tariko. In addition to these, Poland has also been the target of a couple of unsuccessful takeover attempts made by Russian firms.

4.1.2. Czech Republic

Although Russia's share in the IFDI stock of the Czech Republic is small, there are several important companies that are in Russian hands. Regarding the oil and gas sector, Gazprom is involved in different segments of the Czech gas sector. It supplies final customers through Vemex and it co-owns an underground gas storage facility. Initially, Vemex sold gas exclusively to large- and medium-sized customers, but with the acquisition of a majority stake in Czech energy retailer RSP Energy in 2011 (renamed Vemex Energie), Vemex entered the retail and household sector of gas and electricity in the Czech Republic. Vemex is also active on the Slovak market (see below in *Section 4.1.4*). In addition, the Gazprom Group owns public CNG stations in the Czech Republic, and Vemex also supplies automatic gas-filling compressor stations controlled by independent companies. Gazprom was also engaged in the Czech gas wholesaler Gas-Invest. However, it was liquidated and then terminated in 2011. In contrast, Lukoil has not been successful in the Czech Republic. Lukoil has already twice left the Czech retail fuel market. In 2003, Lukoil sold its three petrol stations (*E15.cz*, 2014). Between 2006 and 2014, Lukoil again owned petrol stations in the Czech Republic. Lukoil was also a jet fuel supplier through the company Lukoil Aviation Czech, which was mainly known among the public for its relations with Czech politicians. Following a scandal, Lukoil Aviation Czech was terminated in 2016.

Russia has held a strong position in the Czech steel sector. Controlled by Roman Abramovich, Alexander Abramov and Alexander Frolov, Evraz, a major metallurgical and mining company bought Vítkovice Steel of the Czech Republic, a manufacturer of rolled steel products, during the privatization conducted in 2005 through its Cyprus-registered subsidiary Mastercraft Ltd. Vítkovice Steel took on the new name Evraz Vítkovice Steel (EVS). However, in 2014, a private investor group, including five Cyprus front companies, bought EVS. Evraz refused to identify the beneficial owners of the Cyprus entities (*Helmer*, 2014). In 2007, EVS acquired Nikom of the Czech Republic which converts vanadium oxide produced by Russia's Evraz Vanady Tula into ferrovanadium, which is then used by the steel industry. Renamed to Evraz Nikom in mid-2012, the

company has been in the hands of Evraz Group S.A. of Luxembourg since the end of 2012.⁴⁷

In 2004, the year of the Czech Republic's accession to the EU, OMZ, whose principal shareholder is Gazprombank,⁴⁸ acquired three Skoda Holding subsidiaries, Skoda Jaderne Strojirenstvi (Skoda JS), a supplier of technologies for the nuclear power industry; Skoda Hute, a company with a focus on the production of steel and pig-iron forgings; and Skoda Kovarny, a dominant world leader in the manufacture of four-stroke diesel motor cranks and wind power station shafts. Reportedly, the acquisition represented the biggest post-1989 Russian investment in the Czech Republic (*New Europe*, 2004). In 2007, Skoda Hute and Skoda Kovarny were merged and renamed Pilsen Steel, but was finally bought in 2010 by the Luxembourg-registered United Group, established in 2008, with an operating office in Moscow and belonging to Russian investor Igor Shamis. Skoda JS has a subsidiary in Slovakia, Skoda Slovakia (see *Section 4.1.4*), and also holds ownership stakes in ÚJV Řež of the Czech Republic (concentrating primarily on design and engineering, supporting the safe and efficient operation of nuclear and classical power plants, fuel cycle chemistry, as well as on providing complex services for radioactive waste management) and MKHO Interatomenergo of Russia (providing services for the design, installation and maintenance of integrated security systems). In 2007, OMZ acquired the Brno-based Cheteng Engineering (formerly Chepos), active in design, procurement and construction services. However, Cheteng ended in liquidation.

In addition, Russian FDI investors have been engaged in a couple of other important FDI projects in the Czech machinery sector. The first foreign assets of ChTPZ Group (Chelyabinsk Tube-Rolling Plant) or ChelPipe, controlled by Andrei Komarov, was MSA, a manufacturer of pipeline valves in the Czech Republic, acquired in 2006. Urals Mining and Metals Company (UMMC, also known as UGMK) acquired a 51 per cent stake in the Czech aircraft manufacturer Aircraft Industries, formerly LET Kunovice, in 2008, which it increased to 100 per cent in 2013. UGMK is a top Russian producer of copper, zinc, coal, gold and silver. Its principal owner is Iskander Makhmudov. Aircraft Industries also operates Kunovice's private international airport and an aviation high school.

⁴⁷ Evraz Group S.A. is a holding company controlled by the London-headquartered Evraz plc.

⁴⁸ Gazprom has not had control over Gazprombank for many years.

There is another Russian-involved company in the Czech Republic that is related to the nuclear sector. In 2011, TVEL, belonging to the Russian Rosatom Group, and the Czech engineering company Alta Invest formed a joint venture, Alvel, majority owned by Alta, with the aim of localising fuel services for Czech and European nuclear power plants and promoting TVEL fuel types designed for Western reactors. Rosatom's representative office responsible for the Central European region is based in the Czech Republic (called Rosatom Central Europe), with a branch located in Hungary.

The next important Russian-owned company deals with software solutions and electronic production. Sistema's company in the Czech Republic, NVision Czech Republic a.s., is the main research and development centre of Russia's NVision Group OSS/BSS (operations support systems, OSS; business support systems, BSS) division. Controlled by Vladimir Yevtushenkov, the Russian Sistema conglomerate is mainly interested in information technology, telecommunications and microelectronics in the EU.

In the light industry, the workwear manufacturer Vostok-Service has pursued successful international expansion through Cerva Export Import of the Czech Republic, bought by Vostok-Service in 2006. Cerva were the first foreign assets of Vostok-Service, owned by former Russian parliamentarian and member of the ruling United Russia party Vladimir Golovnev.

Two Russian banks – the First Czech–Russian Bank (FCRB) and Sberbank – have owned subsidiaries in the Czech Republic. The Czech central bank granted an operating license to the FCRB subsidiary, ERB in 2008. The FCRB was founded in 1996 with majority shares by the now-defunct Czech Investment and Post Bank (IPB Bank) and is now controlled by Russian businessman Roman Popov. However, in July 2016, the CBR revoked FCRB's licence and in October 2016 ERB Bank also lost its license. In 2012, Sberbank, Russia's largest lender controlled by the CBR, became the owner of Volksbank International AG (though the transaction did not include the Romanian subsidiary). It bought operations in Slovakia, the Czech Republic, Hungary, Slovenia, Croatia, Serbia, Bosnia and Herzegovina and also Ukraine. In the Czech Republic, Sberbank has 28 branches.

Finally, Russians have established a palpable presence in the Czech real-estate industry. First of all, they have very significant capital investment in hotels and other real estate in the famous Karlovy Vary spa resort.

4.1.3. Hungary

For almost 20 years after 1989, Russian corporate presence in Hungary was facilitated through the activities of Megdet Rakhimkulov, a former senior manager at Gazprom and its Hungarian representative. In 1996, Gazprombank (at that time, Gazprom's subsidiary) purchased a Hungarian bank, the General Banking and Trust (ÁÉB), which was later gradually taken over by the Rakhimkulov family's companies. His influence reached its zenith in the mid-2000s. Over the next years, he gradually retired and formally moved back to Moscow. His two sons took over much of the family's business activities in Hungary and Cyprus. In the 2000s, the Rakhimkulov family rationalized its portfolio, decreasing their shares of some sectoral assets. All the chemical and machine-industry plants and even ÁÉB were sold in the mid-2000s.

Gazprom's main ownership interest in Hungary is Panrusgáz, an intermediary joint venture for Russian gas imports. Among the Hungarian gas traders, two have Russian owners. One is Centrex Hungary, an affiliate of the Gazprombank-owned and Vienna-based Centrex Europe Energy & Gas AG, and the other company is WIEE Hungary, a subsidiary of Gazprom Schweiz. Until recently, there was also a third trader, an obscure one, called MET Hungary, which had some Russian interest. Gazprom's other plans and projects in Hungary include failures. Investment in Hungary's oil industry has also included many failed efforts, including those of Yukos, Surgutneftegaz, Lukoil and Gazprom Neft. Yet, Gazprom Neft, Gazprom's oil arm and Russia's fourth-largest crude producer, is still active in Hungary via Serbia's NIS oil company, the majority of which is owned by Gazprom Neft.

Apart from Russia's presence in the energy sector, there are only a limited number of important assets in Russian ownership. In Hungary, there have only been two Russian-owned banks, including, in the past, the ÁÉB, and, now, a subsidiary of Sberbank. Additionally, the Rakhimkulov family's 8.9 per cent stake (with a voting power of 9.0 per cent) in Hungary's leading retail bank, OTP Bank, considered a portfolio investment and estimated at 0.5 per cent of Hungary's GDP, is also important to mention as this constitutes by far the biggest item on the list of Russian investments in Hungary.

Additionally, there is a strong Russian presence in Hungarian metallurgy, and there have also been a few Russian capital-related projects in Hungary's machinery worth mentioning. One large Russian (and also Ukrainian) industrial investment in Hungary is

the ISD Dunafer steel plant. At the end of 2003, Dunafer was tendered and bought by a consortium, consisting of Ukraine's Industrial Union of Donbass (ISD) and the Swiss Duferco International Trading Holding Ltd. Severstal also submitted a bid. However, a change of ownership occurred in late 2009, when Russian investors obtained a stake of 50 per cent plus two shares in the metallurgical assets of ISD. After that, as a creditor, Russia's state-owned Vnesheconombank (VEB) practically controlled ISD, but in 2017, Hungarian media sources suggested that Dunafer had a new Russian owner, Suleyman Kerimov, a Russian billionaire and representative of the Republic of Dagestan in the Federation Council of the Federal Assembly of Russia (*Vg.hu*, 2017).

In the same sector, though not in production, but in sales, a Hungarian affiliate of the Russian mining and metals company Mechel has played some role. The company, called Mechel Service Hungary, has sold Mechel's steel products to Hungarian customers, but is now under voluntary liquidation.

Another Russian-related company is VBH Budapest, a wholesaler and retailer of metal fittings. It is the Hungarian subsidiary of the German VBH Holding GmbH, a market leader in the fittings industry in Europe, majority-owned by the Russian businessman Viktor Trenev.

In the Hungarian machine-building industry, in light of the construction of new units at Hungary's Paks Nuclear Power Plant (Paks-2), the most relevant company with Russian involvement is Ganz Engineering and Energetics Machinery, owned by TsKBM, a part of Rosatom's machine-building division Atomenergomash. Ganz Engineering and Energetics Machinery is involved in the manufacture and installation of hydromachines, nuclear power station machinery and oil drilling equipment.

The activities of Uraltrak are also related to the machine industry. Established in 1990, it is the only official Hungarian dealer of Russia's Chelyabinsk Tractor Plant-Uraltrak, owned by the Russian state-owned tank and railway car manufacturer Uralvagonzavod.

Renova Group, whose beneficial owner is Viktor Vekselberg, a Russian tycoon, has been present in Hungary with three Swiss high-tech and engineering groups (Oerlikon, Sulzer and Schmolz + Bickenbach), in which it owns significant or controlling stakes. However, Sulzer's Hungarian subsidiary, Sulzer Pumps Wastewater Hungary, was sold

in 2013. Under its new name Zultzer Pumpen, the company continues its activities in the sales, service and operation of pumps, mixers, flow boosters, fans and blowers. Of the production sites of the Oerlikon Group, one is located in Hungary. Oerlikon Eldim (HU) produces honeycomb products used in aero engines. The third subsidiary, Schmolz + Bickenbach Magyarország is a wholesaler of specialty steels deriving from the group's mills.

Interestingly, Russians also have some link to the Hungarian electronics industry as Rosneft holds a very minor stake in Orion Electronics that provides electronics manufacturing and marketing and distribution services.

Another relatively widely known Russia-owned company is LIT Budapest that deals with disinfection technologies, including the use of UV in the treatment of drinking water, wastewater, technological water and water for swimming pools and spas. The company's main activities encompass the sale and installation of equipment, maintenance and servicing. Russia's LIT is reportedly among the world's top three developers and manufacturers of UV systems for water, air and surface disinfection.

The activities of Russian investors in the logistics and transportation industry have been paved with failures. An exception is GEFCO Hungary, a subsidiary of the French GEFCO S.A., 75 per cent owned by Russian Railways RZD. With its headquarters in Budapest, its logistics base is located in Biatorbágy, a village near the capital. GEFCO S.A. offers a wide range of logistics services and transport solutions by road, sea, air and rail.

The presence of Russian residents in Hungary's real-estate market is a visible phenomenon, though Hungary is not among the top destinations for residential real-estate purchases by Russians. The 232-room Lotus Therme Hotel & Spa, the only five-star hotel in the spa city of Hévíz can serve as an example of the presence of Russians in the Hungarian hotel and spa industry.

Russian FDI in Hungary could have been much larger than it is at present, but – similarly as in the case of Poland – Russian investors have been involved in a couple of unsuccessful takeover attempts in Hungary, which failed due to local resistance to Russian capital.

4.1.4. Slovakia

In Slovakia, Russia has quite moderate FDI activities and is more about failures than success. In the gas sector, Gazprom is active only with a Vemex subsidiary, Vemex Energo, founded in 2003 to trade in gas and electricity. Vemex Energo should not be confused with the above-mentioned Vemex Energie of the Czech Republic. The Gazprom joint venture, Slovrusgas, a middleman gas trader went into liquidation in 2005 and was dissolved in 2010. In the oil sector, although Yukos took over a 49 per cent stake in Slovakia's oil transporter Transpetrol during the privatisation process conducted in 2002, the Slovakian state bought it back in 2009. Another failure relates to Lukoil, which sold its Slovakian filling stations. Sberbank's activities were also discontinued in Slovakia. In 2016, Penta Investments, a Czech-Slovak financial group, became the 99.5 per cent owner of Sberbank Slovensko, Sberbank's Slovakian subsidiary. In 2017, Sberbank Slovensko was merged into Prima banka Slovensko, 99 per cent owned by Penta. Sberbank had 39 offices in Slovakia. In contrast, Slovakia has performed an important role in the activities of UTair, Russia's No. 1 helicopter operator and world leader in the helicopter market in terms of fleet size and carrying capacity. The main base of UTair in Europe is the international airport at the spa town of Piestany in Slovakia. UTair Europe's helicopters are used for aerial work mostly in inaccessible terrain. Finally, as indicated, Skoda JS of the Czech Republic also runs a subsidiary in Slovakia. Skoda Slovakia was founded in 1995 and deals with the construction, maintenance, repair, modernization and decommissioning of facilities in nuclear energetics and of hydropower plants and in classical energetics, chemical, petrochemical and heavy industry, as well as trading and transport. Aside from these, Atomstroyexport, the foreign trade engineering company of Rosatom, as well as the general contractor for Hungary's Paks-2, has also participated in a couple of very important non-FDI project in Slovakia (regarding the Mochovce and Bohunice nuclear power plants, partly with Skoda JS).

4.1.5. Slovenia

The first serious Russian FDI investor in Slovenia was the Kemerovo coking coal plant, known as Koks, one of Russia's leading producers and exporters of merchant metallurgical coke. Koks is part of the Industrial Metallurgical Holding, owned by the

family of the State Duma deputy Boris Zubitsky. In 2007, through privatization, Koks bought the majority of the SIJ Group, the largest Slovenian vertically integrated metallurgical group. In Slovenia, Sberbank operates a network of only 12 branch offices. In addition, Russia has some interest in Slovenian tourism. In 2012, Platanus, a Slovenian firm owned by a Russian citizen and incorporated in 2010 bought a majority stake in the Maribor-based tourism company Terme Maribor. Slovenia would have received significant amounts of Russian FDI and gained an important transit role if the South Stream gas pipeline had been built.

4.2. FDI theorems and Russian multinationals in five CEE countries

With the participation of the present author, *Kalotay et al.* (2014, 2015, 2016) asked whether the presence of Russian multinationals in the Visegrad countries could be explained by using the OLI framework. Contrary to findings in the literature on other emerging multinationals (*Narula, 2006; Mathews, 2002*), we found only traces of acquiring competitive advantages or ownership advantages. Rather, we identified investment aiming at exploiting existing advantages. This may be due to the fact that there is a very small number of this type of acquisition targets in the Visegrad countries. As for Russian firms' asset-based advantages, it is obvious that their access to raw materials⁴⁹ and related technical knowledge are very important for their investments in the Visegrad countries, as investment in oil, gas and metals are predominant. Another industry performing similarly is nuclear energy production. The asset-based advantages of Russian firms in the Visegrad countries are closely related to their transaction-based advantages. Both the asset and transactional ownership advantages of Russian firms are reinforced by the locational advantages of Visegrad countries as these countries rely almost exclusively on certain Russian natural resources. Similarly to hydrocarbons, iron and steel, as well as nuclear energy industries, the machinery industry also shows an interconnection of ownership and locational advantages. For technology-based companies, the locational advantages are not specific to the Visegrad countries in the case of market-seeking motivations; but such factors are involved when it comes to efficiency-seeking motivations. Investigating the motives and patterns of Russian

⁴⁹ Perhaps some clarification is needed here. We meant here that the ownership advantages of Russian companies come from the control of raw materials rather than the desire to obtain raw materials in the Visegrad countries.

investment in the Visegrad countries, we can state that the technology-based firms show characteristics similar to developed-country multinationals. Other large state-owned and natural-resource-based firms are not similar to traditional multinationals. Yet others, for example real-estate investors, fall under no straightforward categorization. A locational disadvantage specific to the Visegrad countries is also at play. As mentioned, several examples of negative approaches towards Russian capital in the Visegrad countries could be found, though the reactions of the Visegrad host governments to Russian multinationals have been mixed. The expansion of Russian multinationals in the Visegrad countries is similar to other emerging-country multinationals in the form of relatively high state involvement, either transparently or in an indirect way. The role of the Russian state and the Russian economic-policy environment in prompting OFDI raises the issue whether that factor can be assimilated under transaction-based advantages, or a home-country factor has to be added to the OLI legs. We suggested that the main elements of the OLI paradigm could be applied when explaining Russian FDI in the Visegrad countries, but its extension with home-country factors seemed to be necessary. This refers first of all to natural-resource-based multinationals, mainly oil, gas and steel, but home-country interest is also prevalent in other industries. In the case of Russian multinationals active in innovative industries, home-country factors play a minor role. Russian FDI in our fifth country, Slovenia, seems to confirm what we found in the four Visegrad countries regarding the theorems.

5. Summary and conclusions

Russia has a long history of OFDI, with the golden era ending with the global financial crisis. By that time, Russian multinationals had become significant factors in international capital flows, though they are not ranked among the largest multinationals. Having faced two financial crises over the past 10 years that interrupted the upward trend, the current period is rather about their survival.

Several important features of Russian OFDI should be noted. Among them, the phenomenon of round-tripping leads to Russian FDI being overestimated in both

directions. Round-tripping and the offshore orientation of Russian OFDI are strongly related to negative domestic push factors (including the poor business climate in Russia), as well as to the tax minimization strategies of Russian multinationals. Negative push factors are very important in driving corporate decisions to invest abroad. Concerning a typical positive push factor, the Russian state's role in directly promoting foreign expansion, one can argue that the state supports only the largest Russian multinationals but Russian OFDI is not dominated by state-controlled companies. State-owned companies possess many advantages that can help them internationalize. However, the Russian state's influence on private companies is also frequently quite significant. The leading Russian private multinationals have an oligarchic ownership structure. Regarding the theorems, all our research suggests that the extension of the OLI theorem with a home-country leg to OLIH is needed, though it may require yet further tests in the future.

Due to the specific features of Russian OFDI and the lack of statistics referring to the ultimate host/investing country, the role of certain host countries is underestimated, while that of others is overstated. Europe's leading role in Russian OFDI remains unchallenged. Meanwhile, Europe's share is falling, but this had already started many years ago, regardless of the EU–Russia relations that have definitely reached a very low point at present. As the Minsk II ceasefire agreement of February 2015 has not been met, the end of the sanctions by the European Union, Russia's prime export market and the main destination of Russian OFDI, is not in sight. Russia's pivot towards Asia as a means of diversifying away from Europe had been formulated before the events in Ukraine. Nonetheless, despite some steps in this direction, an explosion in Russian expansion has not been witnessed and is not projected.

In Europe, possibly, the largest recipients of Russian FDI are Italy, Germany and the UK. In Central and Eastern Europe, Bulgaria, Serbia and Romania can be mentioned. The five CEE countries are not among the main destinations, though Russian FDI in the Czech Republic or Poland is not negligible either. Even Slovenia has received notable Russian-involved companies. Nevertheless, company data demonstrate that the activities of Russian investors in five CEE countries have been paved with failures. These have been evident in both divestments and unrealised plans. The low share of Russian investment

in five CEE countries may be referred to as business opportunities that the Russian parties failed to exploit.

In general, Russian OFDI is still dominated by oil and gas multinationals, though Russian businesses are represented practically in every sector. In our five CEE countries, most Russian FDI has been done in hydrocarbons, iron and steel and machinery, but banking, software solutions, electronic production, real estate and even the light industry have also been targeted.

Opposition to Russian investment could continue to grow in the EU. While examples of Russian pressure on companies to sell to them have been known to occur in CEE countries within the EU, there are also already precedents in Western EU states for transactions that have failed because of resistance to Russian investment. In general, there is no need to worry about Russian OFDI, but some of the concerns expressed are certainly attested. We believe that it is the Russian party who would benefit most from alleviating these fears.

Appendix

Table A1. Russian FDI flows into the EU, according to Eurostat, 2004–2016 (millions of euros)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013 ^a	2014 ^a	2015 ^a	2016 ^a
EU28	:	:	:	:	2 814	12 485	7 621	2 855	7 975	4 925 (-1 818)	12 186 (8 216)	17 840 (15 107)	7 392 (4 608)
EU27	261	2 832	1 504	10 501	2 809	12 477	7 610	2 824	7 945				
EU25	275	2 723	1 363	10 226	2 460	12 303	7 373	2 615	7 702				
EU15	424	1 962	2 287	10 020	-414	-189	-1 222	3 237	4 466				
<i>EU15 plus Cyprus and Malta</i>													
Belgium	-10	5	-3	22	-10	-137	94	231	-77	-504 (-645)	438 (532)	565 (317)	101 (-19)
Denmark	:	7	108	11	33	65	-49	158	139	-5 (2)	44	19	-4
Germany	266	131	2 514	581	305	-1 430	95	55	146	1 144	792	914	576
Ireland	-2	-16	-34	648	-385	144	81	-24	148	124	-323	168	379
Greece	6	:	:	:	:	:	:	13	10	25	27	20	13
Spain	47	86	147	:	484	358	494	654	833	:	:	:	:
France	12	34	64	156	59	75	211	130	993	149	342	154	207
Italy	1	2	8	85	865	343	-319	-18	259	138	-60	126	-395
Cyprus	93	302	172	279	318	461	-281	317	879	-1 954	-2 259	-9	-937
Lux.	-35	-1 082	-1 017	-1 021	-2 399	-705	-1 305	-626	1 216	:	:	:	:
Malta	:	:	:	:	3	1	-1	0	-1	-1	-1	-1	:
Netherl.	10	22	21	55	64	11	2	90	89	1 142 (841)	12 457 (11 630)	-793 (-204)	3 992 (3 674)
Austria	85	76	35	124	-171	286	271	443	622	:	:	:	:
Portugal	0	0	1	:	:	:	:	9	13	13	29	22 (-1)	24
Finland	48	38	19	64	-35	138	77	60	9	:	:	-218	340
Sweden	-44	2	27	-130	-268	:	-321	:	-87	:	52	1	11
UK	:	:	:	485	:	1	:	219	47	:	:	:	:
<i>EU-member CEE countries (EU11)</i>													
Bulgaria	-16	109	136	245	298	166	205	207	256	72 (-0,3)	131	30	23
Croatia	2	6	19	70	5	9	11	31	30	41	69	46	22
Estonia	47	57	55	-4	114	78	32	37	97	115	91	-27	38
Latvia	24	70	6	37	60	9	20	48	156	:	269	102	171
Lithuania	168	309	-1 086	230	148	4	158	92	-134	-63	-275	37	51
Romania	2	1	5	29	51	8	31	2	-13	-17	-24	6	70
<i>of which five CEE countries</i>													
Czech R.	25	3	-18	-8	112	-29	24	39	-72	143	20	100	3
Hungary	14	-7	0	-75	-751	938	267	-1 726	-22	33 (2)	436	-43	9
Poland	-522	29	-32	-245	-19	-68	-23	19	20	-34	72	9	16
Slovakia	0	-3	9	-7	-5	-48	-84	-101	56	-48	-64	126	-39
Slovenia	0	1	-2	28	5	-21	18	17	10	21	-19	-6	7

: Not available.

^a Break in time series from 2013.

Note: The value of stock held by special-purpose entities is in brackets where it is available and its value is different from 0.0.

Source: Own compilation and calculations based on Eurostat (2015, 2017a).

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Table A2. Russian FDI flows into the EU, according to the CBR, based on the asset/liability principle, 2007–2016 (millions of dollars)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total	44 801	55 663	43 281	52 616	66 851	48 822	86 507	57 082	22 085	22 581
EU28 ^a	32301	32262	26853	36107	39913	32224	18168	35834	9502	12760
<i>EU15 plus Cyprus and Malta</i>										
Austria	230	253	458	847	512	1 035	5 265	1 135	746	258
Belgium	80	49	36	36	61	536	-450	302	32	-44
Cyprus	14 700	15 524	15 288	18 309	22 930	20 920	7 671	23 546	4 249	9 924
Denmark	-15	16	48	-4	389	215	752	0	401	307
Finland	110	154	186	236	63	271	91	146	1 454	95
France	257	217	386	334	656	1 430	449	523	74	121
Germany	673	1 860	1 488	1 880	971	1 118	1 334	1 016	738	559
Greece	33	58	32	318	88	63	98	185	12	15
Ireland	230	299	-438	1 185	527	512	264	91	479	1 125
Italy	87	295	158	315	387	403	538	587	117	165
Luxembourg	497	2 633	765	2 483	2 005	-504	1 314	639	786	-1 683
Malta	9	32	-1	8	-1	-10	2	40	4	-14
Netherlands	11 991	4 684	3 376	7 035	9 901	2 599	-3 022	2 132	461	881
Portugal	3	25	24	25	24	30	45	103	3	9
Spain	258	458	375	490	812	980	1 356	1 879	152	125
Sweden	-55	177	256	203	489	390	-720	57	-1	34
UK	2 454	3 886	1 997	1 232	1 474	632	1 294	1 935	-439	755
<i>EU-member CEE countries (EU11)</i>										
Bulgaria	125	441	261	319	522	716	554	308	48	41
Croatia	95	75	13	23	103	31	71	111	19	23
Estonia	13	29	11	21	30	85	120	149	63	-5
Latvia	79	166	78	147	328	348	568	513	-22	-73
Lithuania	57	57	64	49	66	28	46	-66	3	8
Romania	1	25	39	196	-96	-1	-101	-1	1	0
<i>of which five CEE countries</i>										
Czech R.	248	319	142	360	337	265	340	277	24	43
Hungary	51	542	1 789	48	-2 724	67	155	67	12	13
Poland	28	-50	13	-2	30	-2	73	31	67	43
Slovakia	13	29	7	11	19	49	32	28	12	5
Slovenia	49	9	2	3	10	18	29	101	7	30
<i>Non-EU-member CEE countries</i>										
Albania	0	0	0	0	0	0	1	4	0	0
Bosnia and Herz.	1	55	287	94	104	149	78	123	15	7
Macedonia	0	0	0	0	1	3	1	3	0	1
Montenegro	188	173	85	117	160	185	173	187	31	37
Serbia	44	11	609	208	372	63	-39	-42	-10	-38

^a Own calculations resulting from the simple accumulation of country data.

Source: CBR (2017d).

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Table A3. The number of foreign and Russian-controlled enterprises in the EU, 2013–2015

	2013		2014		2015	
	Total	Russian	Total	Russian	Total	Russian
EU28	256 815	3 100	265 706	3 534	:	:
<i>EU15 plus Cyprus and Malta</i>						
Austria	9 926	132	10 164	137	10 484	138
Belgium	1 384	5	1 344	5	1 317	5
Cyprus	306	21	296	:	303	14
Denmark	3 793	4	3 645	7	:	:
Finland	2 874	27	2 951	25	:	:
France	25 322	:	22 779	23	28 053	:
Germany	26 869	133	28 076	149	27 698	150
Greece	1 710	:	1 918	:	2 437	6
Italy	12 150	38	12 509	49	12 836	48
Ireland	:	:	3 729	:	3 305	:
Luxembourg	8 910	:	9 346	9	9 388	:
Malta	157	0	167	0	194	0
Netherlands	12 077	30	12 494	48	12 557	44
Portugal	4 775	0	5 812	1	5 931	1
Spain	11 255	4	11 423	4	12 607	5
Sweden	11 786	11	12 027	9	:	:
United Kingdom	21 432	14	22 230	13	:	:
<i>EU-member CEE countries (EU11)</i>						
Bulgaria	12 058	624	11 275	538	12 050	484
Croatia	3 986	329	4 078	331	4 685	361
Estonia	761	19	777	21	784	22
Latvia	6 491	767	7 085	946	7 689	1 016
Lithuania	3 361	143	3 629	152	3 833	196
Romania	25 274	36	29 491	48	27 164	53
<i>of which five CEE countries</i>						
Czech Republic	13 104	81	12 991	96	12 613	119
Hungary	17 689	134	18 273	166	17 180	155
Poland	6 935	19	7 081	22	7 109	17
Slovakia	3 136	:	3 493	:	3 604	10
Slovenia	5 743	495	6 623	702	7 213	806

: Not available.

Source: Eurostat (2017d).

Table A4. The number of Russian-controlled enterprises in the EU, breakdown by economic activity, 2014

Total	3 534
B. Mining and quarrying	8
C. Manufacturing	277
D. Electricity, gas, steam and air conditioning supply	38
E. Water supply; sewerage, waste management and remediation activities	:
F. Construction	:
G. Wholesale and retail trade; repair of motor vehicles and motorcycles	1 022
H. Transportation and storage	:
I. Accommodation and food service activities	218
J. Information and communication	:
K. Financial and insurance activities	:
L. Real estate activities	:
M. Professional, scientific and technical activities	517
N. Administrative and support service activities	207
S95. Repair of computers and personal and household goods	3

: Not available.

Source: Eurostat (2017e).

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