



TURUN KAUPPAKORKEAKOULU
Turku School of Economics

Kari Liuhto

A future role of foreign firms in Russia's strategic industries

Electronic Publications of Pan-European Institute 4/2007

ISSN 1795-5076

A future role of foreign firms in Russia's strategic industries ¹

*Kari Liuhto*²

4/2007

Electronic Publications of
Pan-European Institute

<http://www.tse.fi/pei/pub>

¹ The author gratefully acknowledges the individual research funding from ***the Finnish Foundation for Economic Education (Liikesivistysrahasto)***. I would also like to thank Professor Urpo Kivikari for his comments and support.

² Kari Liuhto received his Ph.D. from the University of Glasgow and the degree of Doctor of Science (Econ.) from Turku School of Economics. Liuhto holds a tenure professorship in International Business and he is Director of the Pan-European Institute (www.tse.fi/pei/e). His research interests include EU-Russia economic relations, energy relations in particular, the investments of Russian firms abroad, and the strategic development plans of the Russian Federation. Liuhto has been involved in several Russia-related projects funded by the European Commission, the European Parliament, the United Nations, and the World Bank.

Contents

1	Introduction	2
2	A brief overview on the historic development of strategic policies in Russia	4
3	Accomplishment of research	8
4	Some of Russia's key industries positioned in the strategic governance matrix	10
5	A summary of the strategic policies in Russia	30
	References	33

1 Introduction

The Russian economy has expanded with exceptional speed during the past eight years. The average annual GDP growth during these years has been around six per cent. Private consumption has increased even faster, reaching double-digit figures annually. The long economic growth in a populous market with more than 140 million consumers has started a genuine foreign investment boom. The annual foreign investment inflow to Russia has multiplied compared with the situation in the first half of the 1990s. During the period 1990-1995, the average foreign direct investment (FDI) inflow was slightly over one billion US dollars per annum (UN, 2002), whereas in 2005 the FDI inflow was nearly 15 times higher. Despite such a sharp increase, one should not forget that Russia's inward FDI stock is still less than USD 150 billion, i.e. it is less than 10 per cent of the US stock (UN, 2006).

Experiences of foreign firms operating in the Russian market differ to a great extent depending on the industry in question. The majority of the foreign firms, for instance, in retail trade, have been very satisfied with the skyrocketing revenues generated by the domestic consumption boom. On the other hand, several foreign corporations operating in a natural resource sector, particularly in the oil and natural gas business, have expressed their growing concern over the strengthening grip of the state. The following quotation aptly describes the aforementioned situation in the oil and natural gas business.

"The Russian authorities' attack on Royal Dutch/Shell and its Japanese partners at the Sakhalin-2 project has been broadened, embracing three other major projects that are wholly or majority foreign-owned. The moves seem intended to advance Russian interests on two fronts: to increase national participation in these four major projects³ and to revise the revenue-sharing arrangements in Russia's favour. ... Legislation now in preparation insists that all 'strategic' oil and gas deposits be under majority Russian control" (BEE, 2006d, 1-2).

³ The following four projects are referred to: ExxonMobil-run Sakhalin-1, Sakhalin-2 formerly controlled by Royal Dutch/Shell, the Kharyaga consortium managed by Total and the Kovykta field led by TNK-BP. These projects involve perhaps the largest foreign investments in Russia. In December 2006, the Russian State turned the clock backwards by forcing foreign corporations to reduce their stakes so that Gazprom gained a majority ownership in the Sakhalin-2 (BOF, 2006j). Similar re-nationalization may also happen in other aforementioned fields (TD, 2006q). Some analysts have already started to call the re-nationalization of natural resources as "*resource nationalism*" (AC, 2006k, 3).

The growing direct involvement of the state in the so-called strategic sectors of the economy has raised several questions, such as ***which industries are to be classified as strategic, what is the future role of foreign firms operating in these industries, which authority in Russia will be responsible for implementing the legislation on these strategic sectors, and how changeable are the laws dealing with the strategic industries in the future?***

These questions puzzle many foreign companies operating or investing in Russia, and hence, ***the main objective of this article is to position Russia's key industries in the strategic governance matrix, i.e. to analyze the growing risks created by the expanding political economy in Russia for a foreign investor.***

2 A brief overview on the historic development of strategic policies in Russia⁴

Russia's strategic policies are closely linked with Vladimir Putin's career. Putin stressed already in his dissertation in 1997 that raw materials are the basis for Russia becoming a superpower in the short run, and that there should be tougher state regulation alongside market mechanisms. He also emphasized the need to create conditions for investment, including foreign companies in appropriate conditions (Jack, 2004)⁵. Putin's goal is to *"increase its [Russia's] attractiveness to foreign investors while enhancing Russian state control"* (Olcott, 2004, 3, for reference see Balzer, 2005, 219).

The implementation of the strategic takeover started without major public notice after the adoption of the first economic program of the Russian Government, i.e. after the election of Putin as the President of the Russian Federation in spring 2000. The first tier of the reform included many legislative changes, such as changing the Land Code and the third part of the Civil Code. The second tier was meant to cover more narrow areas, such as the natural resource sector, in which the government started the development of Water and Forest Codes and the new subsoil law⁶. The implementation of the second tier of legislative changes started in Putin's second term (IEP, 2005).

Russia's strategic agenda became a matter of wider public knowledge rather soon after Putin was elected for a second term in spring 2004. Several statements stressing the need for the state to control strategic natural resources already appeared in the media in the second half of 2004 putting public pressure on the government to start preparing a new law on subsoil use, aiming at barring foreign companies from directly owning strategic resources (Lanes, 2005).

⁴ The strategic policies refer to the underlying ideology and practices of Russia's presidential administration and the Russian Government, which aim at increasing the state's direct and indirect control over strategic sectors. These policies are termed as strategic since the discussion about the state's stronger participation in the Russian economy is frequently labeled under the term strategic, though these policies are more aimed at increasing the state's control than improving the strategic governance of the state.

⁵ Although there exist well-grounded doubts that Putin personally would have had very little time to write his dissertation [the thesis of the candidate of science] while he served the St. Petersburg city administration and the Kremlin, it is a noteworthy detail that his dissertation deals with the strategic governance. For a closer analysis of the thesis, see Balzer (2005).

⁶ The former subsoil law was adopted in 1992 with significant amendments in 1995 (IEP, 2005).

In April 2005, Putin (2005) brought the core idea of the strategic policies to the global limelight in his Federal Assembly Address⁷. He stated as follows: *"investors sometimes face all kinds of limitations, including some that are explained by national security reasons, though these limitations are not legally formalized. This uncertainty creates problems for the state and investors. It is time we clearly determined the economic sectors where the interests of bolstering Russia's independence and security call for predominant control by national, including state, capital. I mean some infrastructure facilities, enterprises that fulfill state defense orders, mineral deposits of strategic importance for the future of the country and future generations, as well as infrastructure monopolies. We should draft and legally formalize a system of criteria to determine the limitations of foreign participation in such sectors of the economy. Simultaneously a corresponding list of industries or facilities will be determined that shall not be extended or receive extended interpretation. Some industrialized countries use this approach and we should also use it."*

In June 2005, Prime Minister Fradkov appointed Natural Resources Minister Trutnev to be responsible for the subsoil law development, and the Russian Government submitted the first draft law to the State Duma, which did not give unreserved support for the law (RIA, 2005).

In October 2005, Trutnev stated that Russia should limit foreign participation in three main areas. First, his ministry wanted limits on foreign participation in auctions for natural resources that are scarce, such as diamonds, uranium, and quartz. Second, foreign firms were to be banned from large mineral deposits with more than 150 million tons of oil and one trillion cubic meters of gas. He named three such fields; the Titov and Trebs oil field in Timan Pechora and the Chayadinskoye gas field in East Siberia. He also added that Euroasia's largest gold deposit, Sukhoi Log and the Udokan copper field would also be classified as strategic. Third, foreign participation was to be restricted in fields close to military sites (Alexander Gas & Oil, 2005).

In addition to these restriction plans related to strategic natural resources, the Russian Government aims at restricting the participation of foreigners in areas related to national security. In March 2006, Economic Development and Trade Minister Gref released

⁷ Some analysts claim that *"the notion of restricting foreign investors' access to strategic resources was first formally set out by President Vladimir Putin in his 2005 Federal Assembly Address [April 2005]."* (AC, 2006b, 3).

information about a bill aimed towards restricting foreign access to 39 types of activity linked with the production of weapons and military hardware, nuclear materials and nuclear facilities, the space industry, and aviation (Interfax, 2006)⁸.

After a heated debate on the strategic agenda in the spring of 2006, the discussion received even more negative tones in summer 2006, when Trutnev suggested a lowering of the bar for strategic oil and gas fields (TD, 2006a/b). According to BEE (2006a, 7), *"the Natural Resources Ministry is now [June 2006] considering a proposal to lower the thresholds to 50m-100m tonnes for oil and 500 bn cu meters for gas."* If the lowering of the bar would finally be implemented, it would mean that a larger number of oil and natural gas fields would fall under the category labeled as strategic.

The laws relevant for strategic governance are expected to enter into force in 2007 (OECD, 2006a; RIA, 2006e). Even if the new legislative framework for strategic governance are to be put in place and the *siloviki*-originated⁹ **oligarchs**¹⁰ have already taken a stronger grip over certain strategic sectors during the past few years (Colton, 2002; Åslund, 2005b), the strategic policies have not reached their final form, as the following quotation indicates. *"The government will also continue with its policy of establishing state control over the so-called commanding heights of the economy – which is being extended from Russia's energy and metals resources to include other sectors"* (BEE, 2006f, 3).

In a similar tone, Deryabina (2006, 1) writes: *"the plan for the next several years is to establish 30-40 major holding companies in crucial economic sectors, in which the state will hold at least 50%. ... The consolidation of state assets in these holdings can proceed in at least three ways. One way is to consolidate downstream assets of enterprises and joint-stock companies controlled by the state. The United Aircraft Corporation was set up in this way. ... Another way is to buy requisite assets at market prices. ... For example, not*

⁸ The Russian Government has already earlier produced a list of strategic enterprises, which are not to be privatized or sold to foreigners (RIA, 2006d). According to Deryabina (2006, 1), *"as of mid-2006, the list of strategic companies included 514 federal state unitary enterprises and 548 joint-stock companies, where the state is the main beneficiary."* In fact, this list originates from August 2004 (Kremlin, 2004).

⁹ Individuals with backgrounds in roughly a dozen power ministries, such as the Federal Security Service (formerly the KGB), Ministry of Internal Affairs and Ministry of Defense, are usually called *siloviki* (Riviera & Riviera, 2006).

¹⁰ According to Åslund (2005a, 6), *"the popular meaning of an 'oligarch' is a very wealthy and politically well-connected businessman, a billionaire, or nearly so, who is the main owner of a conglomerate and has close ties with the President. In traditional parlance, an 'oligarchy' implies the rule of a limited group of people. It might be more appropriate to call the oligarchs plutocrats, because their power is focused on money."*

only state-controlled nuclear power plants, but also companies that produce equipment for the nuclear energy industry, will be incorporated in the Nuclear Energy Industrial Holding. ... And the third way is to establish state control of corporations in any sector without buying a controlling stake, but by replacing their management with loyal functionaries. This method was tested in the AvtoVAZ car manufacturer."

Deryabina (2006, 2) continues *"the results of the Russian government's policy on the domestic and foreign markets are so far uncertain. Stronger economic intervention of the state can make good quite a few negative consequences of the policy advocated in the first 10 years of the reforms. In particular, it can help Russia regain its leading positions in many sectors. But the price may turn out to be excessive. The young Russian market is being forcefully removed from the invigorating influence of competition, and the inertia of a monopoly-based economy may become uncontrollable."*

As strategic governance has not yet received its final form, it stresses the importance to search for an answer to the underlying rationality behind strengthening state intervention into the economy. In order to do this, one should analyze Russia's key industries in terms of their importance for both national security and economic security.

3 Accomplishment of research

The accomplishment of this research started in summer 2005, when the Russian State's direct interventions into business became more frequent, more forceful, and hence more visible. During the past 18 months, the researcher has had a chance to discuss with several of Russia's political and economic decision-makers, such as ministers, members of the State Duma both from conservative and liberal ends, central bankers, regional decision-makers, academics, advisors to government bodies, among other Russian experts. In addition to numerous Russian experts, the author has exchanged ideas with many CEOs of the large foreign corporations operating in Russia.

Despite these illuminating discussions, one should stress that the secondary data forms the core of the data used in this article¹¹. The researcher has collected relatively large amount of information and news database related to the strategic thinking in Russia, i.e. the author has collected numerous company analyses, business reports and news from Russia and outside the country. The main themes focused upon in the data collection have been the development of the regulatory framework, the level of control exercised by the Russian State via direct ownership or through the Kremlin-friendly oligarchs¹², the consolidation processes in various industries, including the ownership development of major business groups, and the strategic importance of these industries either to national security or the economic functioning of the country.

The author has tried to be as objective as possible in analyzing such a massive amount of written material. To decrease the possible subjectivity of the researcher, many quotations have been included in the text. The obvious shortcomings of this paper cannot be denied, since several documents related to strategic policies in Russia are not public or the public expressions of them are deficient, ambiguous, or even dubious. The author has tried to fill

¹¹ As the interviews play only a side role in this research, a listing of the persons interviewed seemed to be unconstructive.

¹² Oligarchs' friendship with the Kremlin is rarely based on patriotism but rather on the symbiotic relationship, where the state gives undervalued assets to oligarchs and in return expects loyalty. Tompson (2005, 163-164) states aptly that *"the oligarchs' fortunes have always depended on state patronage, and the state's attitude towards them remains critical to their survival. That is why they work so diligently to 'colonize' state structures. Oligarchs who fall out of favor with the authorities can soon find themselves out of business, if not out of the country."*

in the gaps in the public data with interviews and discussions. All in all, some 40 interviews have been undertaken to carry out this report.

In order to improve the readability of the paper in the hectic world of today, the author has tried to make the report as concise as possible, which naturally makes it impossible to explain all the background developments in full detail. However, the rather wide reference list aids a reader to deepen his/her knowledge on the background events.

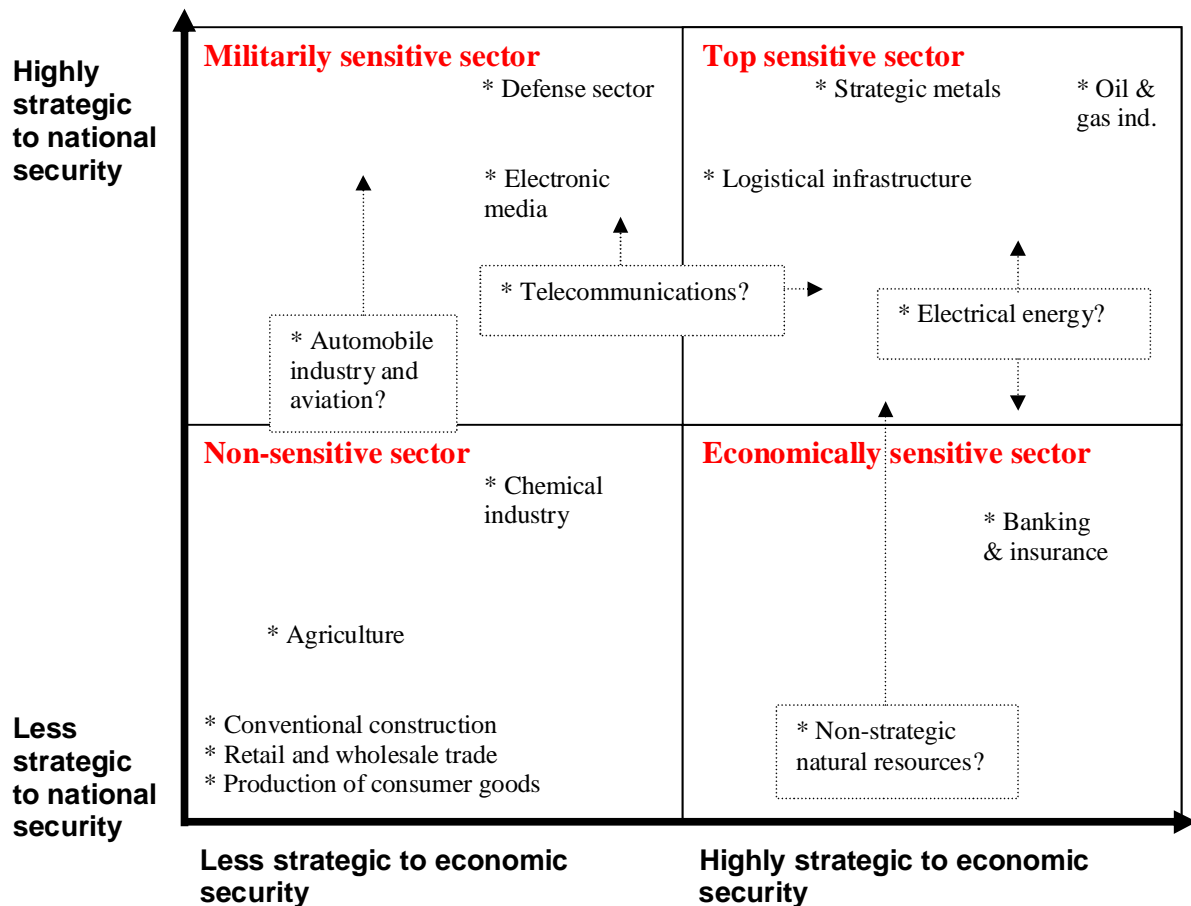
As the strategic governance revolution in Russia proceeds apace, it is necessary to stress that this article was completed at the end of 2006, and hence, this article should be considered as a work in progress rather than a final report.

4 Some of Russia's key industries positioned in the strategic governance matrix

The author aims at positioning some of Russia's key industries in the strategic governance matrix by using two dimensions, i.e. to what extent an industry is strategic for the national security and the national economy. With these two parameters, the Russian economy is divided into the following four sectors: 1) The militarily sensitive sector; 2) The economically sensitive sector; 3) The top sensitive sector; and 4) The non-sensitive sector.

The militarily sensitive sector is highly strategic for Russia's national security, just as the economically sensitive sector is highly strategic for the country's economic functioning. The top sensitive sector stands for those industries which are highly strategic for both national and economic security. On the contrary, the non-sensitive sector has lower strategic importance in both of these dimensions.

Before analyzing these sectors in a more detail, one should emphasize five aspects. First, foreign companies are not allowed to invest in all the sectors relevant to national security, such as the intelligence services, customs and police operations etc., and therefore, the aforementioned industries have been left out of the matrix. Second, the economic security component does not show the industry's significance for the GDP but rather the industry's role in the overall functioning of the economy. Third, the precise positioning of any industry in the matrix is an extremely difficult task since these industries are very broad and anything but homogeneous. Despite the aforementioned complexity, the author has tried to place the core of the selected industries in the matrix. Fourth, it is impossible within this article to place all the essential sectors in the matrix, and therefore, the author has selected some of them to illustrate the underlying strategy agenda in Russia. Fifth, these industries are in flux, and as a sign of it, the researcher has indicated some industries, which are likely to change their place in the strategy mix in the near future.

Figure 1 Positioning Russia's key industries in the strategic governance matrix**Non-sensitive sector**

Production of consumer goods: Consumption-oriented industries do not affect either Russia's military security or economic functioning, and thus, they are of a lesser importance to the strategic governance of the Russian Federation. To the strategic masterminds of Russia, it is of a lesser significance whether consumer goods are produced by a Russian company or a foreign one as long as production takes place inside the country. Assumingly, the Russian leadership prefers domestic production over the imported goods, and hence may be tempted to use various measures to hinder the import

of consumer goods in the future. I believe that the attempts to slow down imports via various administrative measures will continue, even after Russia has joined the WTO¹³.

The temptation to slow down imports with various administrative practices is obvious, since the imports keep growing extremely fast – close to 30 per cent in the first half of 2006 – and the share of consumer goods in imports has become larger. Even if over 40 per cent of the Russian imports consists of machinery and vehicles, one should not forget that passenger cars represent nearly a tenth of the total imports, indicating that the consumption-orientation in imports is increasing along with the rising living standard. The development in Russia's retail trade also refers to a high import-orientation. The share of imports in the value of retail trade has risen to over 45 per cent (BOF, 2006a/b/c).

Retail and wholesale trade: In the beginning of the 1990s, Russia reminded one in many respects of a bazaar economy. This was natural outcome since the centrally planned system was suddenly dismantled and retail trade attracted numerous new agents, as the starting of a retail business did not require a considerable investment. The liberalization of imports filled these small retail entities with imported goods. Since the massive devaluation of the Ruble in 1998, domestically-produced goods have gained a foothold in the Russian retail market (TD, 2005).

Over the last decade, hypermarkets and supermarkets have sprung up in Russia's more affluent cities. Consumers in the larger conurbations, who tend to be more time conscious, have become quickly used to shopping in more modern environments and have been willing to pay a premium for the convenience factor. Consumers in the regions, however, remain more sensitive to price. Despite such a change in the retail sector, open air markets, kiosks and pavilions, at which the vast majority of people did their shopping in Soviet times, still account for approximately 80 per cent of retail spending, although the savings that they offer have virtually diminished (BOF, 2006b).

As competition intensifies and retailers put increasing pressure on profit margins, the market will be forced to consolidate further (BEE, 2006b). As an example of a further

¹³ Just a few days before the Christmas 2006, several thousand trucks were awaiting their access to Russia in three border crossing points at the Finnish-Russian border. The total length of these three lorry lines exceeded 100 km, stressing the need to speed up the customs and other imports-related procedures at the Russian side of the border. The Finnish-Russian border is not the only location in Russia, where Soviet-type lining has re-appeared.

consolidation, one can give the rather fresh acquisition of Pyaterochka¹⁴ over Metronom for approximately USD 200 million (TD, 2006g).

Even if a considerable consolidation process takes place in trade and some oligarchs are involved in this process, it can be argued that the retail and wholesale trade belongs to the non-sensitive sector, and most probably, this sector will also remain open for foreign investors in the future. Due to trade's low political risk, relatively small investment requirements, and high growth¹⁵, many foreign retail chains have recently been established in Russia. For example, Wal-Mart, the world leading retail chain with over USD 300 billion in revenues seeks, to enter Russia along with many other foreign retailers (AC, 2006g).

Conventional construction: Some 130,000 companies operate in the Russian construction business, and over 95 per cent of these firms are privately-owned. The share of the foreign construction corporations in the Russian construction market is around five per cent, the Turkish enterprises occupying approximately 2-3 per cent, the Finnish firms around one per cent, while the remaining foreigner firms account altogether for one per cent of the market (RT, 2006).

Construction can also be positioned in the non-sensitive sector as it does not contain major security concerns. Despite this general rule, there are some peculiar cases, where a construction project led by a foreign company has been taken over by a Kremlin-friendly corporation in a suspicious administrative manner (RL, 2006). Non-transparent administrative manners emphasize the fact that some companies are more equal than others in Russia, even if they would operate outside the political economy.

The domestic construction companies obviously use even non-legal measures to improve their position against foreign competition, but however, the Kremlin's official position towards foreign competition in construction seems to be rather neutral (Putin, 2004)¹⁶.

¹⁴ Pyaterochka is Russia's largest grocery retailer and it operates in some 20 Russian regions. In Moscow, the company accounts for a third of the modern grocery retail space (TD, 2005).

¹⁵ Retail sale volume in Russia has increased annually approximately 10 % and major multinational firms have reported a 15-30 % growth of sales in US dollar terms in the past few years (BEE, 2006b).

¹⁶ In summer 2006, Putin invited foreign construction firms to Russia to take part in Russian projects to build roads and seaports, modernize airports and work in housing and communal services (RIA, 2006b). Even if this message from the

Thus, it can be argued that the construction sector contains only business risk though one has to acknowledge the fact that the construction business is overwhelmingly shadowed by corruption, since authorities at all levels are connected with it, i.e. land selling and leasing of land, construction permissions, numerous inspections etc.

In the case of constructing strategic sites, such as nuclear power stations, ports and other strategic logistical sites, the preference is nonetheless given to domestic corporations regardless of their competitiveness. Occasionally, foreign firms may participate in these strategic construction projects as subcontractors, if the domestic companies lack the required skills.

It is important to note that some Kremlin-friendly tycoons have recently intensified their activities in construction. For example, Russia's leading aluminum oligarch Deripaska acquired a 75 per cent-stake in Glavmosstroj, with the intention of turning the Soviet behemoth into a modern construction leader (Troika, 2006h). One may only guess the true motives of this acquisition.

Agriculture: Even if agriculture's share of the Russian GDP is not particularly high (around 6 %), one should bear in mind that agriculture employs a tenth of the Russian workforce and close to a fifth of the Russian imports consists of food and agricultural products (EIU, 2006b; Korchagina, 2006). For a country with a population exceeding 140 million, the large foodstuffs imports are a security concern, especially if the global situation of the foodstuffs safety worsens due to bird flu, mad cow disease or some other cause.

Increasing strategic attention towards agriculture may have been observed. The national priority project on agriculture is one sign of the growing strategic importance of the agriculture¹⁷. Although agriculture has received more federal attention, one should keep in mind that the share of agriculture and the national priority project related to it in the overall federal budget is small¹⁸. Though the state's financial allocations to agriculture are

Kremlin would be sincere, the researcher believes that the Kremlin messages are not always executed on the lower level, if they are not followed by the Kremlin's control.

¹⁷ Russia's Ministry of Agriculture, under the auspices of the President, launched a priority national project Agro industrial complex development program at the end of 2005 (PEI, 2006).

¹⁸ The state has allocated around half a billion US dollars for the national priority project dealing with agriculture. Here one should remember that Russia's federal budget revenues amounted to approximately USD 175 billion in 2005. In other words, Russia's national budget in that year was less than 10 % that of the USA (CIA, 2006).

relatively modest, it is interesting to notice that some Russian oligarchs, possibly guided by the Kremlin, have started to invest in agriculture, although the return on investment is considerably higher in several other sectors (EIU, 2006a; Korchagina, 2006).

Chemical industry: Russia's chemical industry represents some six per cent of the country's industrial output. Although nearly 8000 firms operate in the sector, 90 per cent of these companies are small (Kommersant, 2004). Despite the large number of small entities, the industry is dominated by a dozen corporations. In fact, 10 chemical corporations, excluding petrochemical corporations, reach the list of Russia's 200 largest companies. The state possesses significant ownership stakes in the major corporations, but the industry as a whole is, to a large extent, privatized.

The chemical industry plays a rather important intermediary position in the Russian economy. It provides materials to several key industries, such as the oil and gas business and even to the defense sector (Vahtra & Liuhto, 2004). The military-connection makes the chemical industry more sensitive, though it still today can be classified as belonging to the non-sensitive sector. Should the military drift in Russia continue, it cannot be completely ruled out that the chemical industry would move towards the security sensitive sector, i.e. more parts of the chemical industry would end up in the hands of the new oligarchy formed by the businessmen having their earlier career in the army or the security services.

Militarily sensitive sector

Defense sector: The position of the army and the defense sector as a whole has strengthened in Russia during Putin's two presidencies. In 2006, Russia's total military expenditure rose by almost 30 per cent, excluding the impact of inflation (Cooper, for reference see Warfare 2006)¹⁹. Most probably, Russian military expenditure also continues its fast growth in the future. The increased budget spending is, on the one hand, due to the fight against terrorism as well as military modernization, and on the other hand, due to the country's overall aim at strengthening its military capability (Moscow News, 2006; RIA, 2006a).

¹⁹ According to Julian Cooper, national defense accounted for 2.7 % and the total military expenditure 4.3 % of the Russian GDP in 2005. In other words, national defense represented around 15 % and the total military expenditure some 25 % of Russia's federal budget expenditure (Warfare, 2006).

Despite the increased budget spending on defense, one should not forget that Russia's total military expenditure is less than USD 40 billion. In comparison, the US military expenditure is over ten times larger (CIA, 2006; DID, 2005/2006). Looking to the aforementioned figures, Russia's increased defense spending does not look so worrying, since the weakening of the army's control over tens of thousands nuclear warheads would be a more threatening factor.

It can be argued that the increased military spending in Russia indicates more about the priorities of the Russian Government rather than the hidden militarization of the country. In this context, one should not keep in mind that approximately 18 per cent of the Russian population lives under the poverty line (CIA, 2006)²⁰.

Although Russia's defense sector is large, it is much different from the Soviet military complex, which included vast civilian production. Since the major part of the civilian production under the defense sector has either been privatized or has collapsed, the defense sector does not offer many investment opportunities for foreign investors. Besides, the Russian Government is reluctant to allow foreigners to take over companies important to the army. Defense Minister Ivanov's opinion on the future development of the Russian aviation industry underlines the aforementioned conclusion (Kremlin, 2006).

In 2005, Russia's official arms exports came to USD 5-6 billion, and the figure is estimated to climb to USD 8 billion in 2007. Rosoboronexport is not only Russia's official arms exporter but it has also become an influential actor in Russia's metal-related business²¹. In November 2006, Rosoboronexport accumulated a 66 per cent-share in VSMPO-Avisma, the globe's leading titanium producer.

Automobile industry and aviation: In 2006, Russia is estimated to assemble some 850,000 automobiles, including foreign models. AvtoVAZ is clearly the dominant car producer in Russia. The company's annual output reaches 700,000 vehicles. In addition to domestic production, over 600,000 cars are estimated to be imported (RIA, 2006f).

²⁰ In comparison, the respective figure in the USA is some 12 % (CIA, 2006).

²¹ It was peculiar to notice that Rosoboronexport was one of the main sponsors of the national ice hockey team of Russia in one of the international ice hockey tournaments organized at the end of 2006. Even if the advertisements of the arms exporter in sports should not be over-dramatized, it does not show the best judgment from those involved.

At the end of 2005, Rosoboronexport took over the largest automobile producer, AvtoVAZ, and soon thereafter, the consolidation plans of the main actors in the Russian automobile industry have received support from the Kremlin (Moscow Times, 2005; AC, 2006a). Besides Rosoboronexport, some Kremlin-friendly oligarchs own significant stakes in the leading automobile producers (Åslund, 2006).

Despite the state's consolidation attempt around AvtoVAZ, it seems evident that foreign automobile producers will not invade the Russian automobile market via imports alone but particularly via increasing production inside Russia. The Russian State cannot stop the foreign invasion, unless it changes the rules of the game, i.e. restricts foreign ownership in the industry, which does not seem a likely alternative, at least under the current presidency.

The consolidation process of the Russian automobile industry is reminiscent of that of aviation. In the beginning of 2006, Putin urged the creation of national champion in this industry (TD, 2006f), and the merger of the main Russian agents, such as Ilyushin, Irkut, MiG, Sukhoi, Tupolev and Yakovlev (Crotty, 2006). The state became the majority owner of the aviation construction holding, the United Aircraft Construction Corporation (TD, 2006k). Foreign participation in Russian aviation is to remain modest, and it will be restricted to civil and transport aviation (Kremlin, 2006).

The consolidation in the Russian automobile and aviation construction industries has heated up discussion on the motives of state-led integration (BOF, 2006d). Some argue that the state aims at regaining control over these industries in order to improve their competitiveness, i.e. the state tries to secure the jobs that these industries provide²². Others argue that strengthening military drive in the economy (or the militarization of the oligarchy²³) and desire to control all the key industries are the hidden motive behind re-nationalization. Should the latter scenario occur, the military sensitivity of these industries will increase considerably in the future.

²² More competitive foreign companies would obviously be a better guarantee to save jobs in the industry in the longer run rather than an artificial and costly saving attempt by the state.

²³ Kryshankovskaya and White (2003) found that a quarter of Putin-era political elites have received a military education, compared with 7 % of the Yeltsin elite in place ten years earlier. On the other hand, Riviera and Riviera (2006, 141) argue that "even during the presidency of former KGB Lieutenant Colonel Putin, the Russian elite is considerably more bourgeois than militocratic."

Telecommunications: Russia's fixed lines are controlled by state-controlled Svyazinvest. This holding possesses controlling stakes in the seven regional telecoms and in Rostelcom, a monopoly of long-distance in Russia and international calls (AC, 2006j). The Russian Government has discussed for several years about the privatization of Svyazinvest (TD, 2006d).

In the beginning of December 2006, Russia's Economics Ministry informed about its aim at reorganizing the company by consolidating Rostelecom and the seven regional telecoms into Svyazinvest itself, which could then be listed (AC, 2006j). However, a few weeks later the Telecommunications Ministry rejected the plan (TD, 2006s).

If Svyazinvest is fully privatized one day, it seems that this move is not done in order to genuinely privatize the industry, but in order to raise private capital for the further modernization of the sector, while keeping control in state hands, either via direct ownership or via a Kremlin loyalist²⁴.

Mobile telecommunications has practically been almost completely privatized. Russia's mobile communication is dominated by three actors: MTS, VimpelCom and Megafon. Together these three main telecoms held some 85 per cent of the Russian mobile telecommunication market at the end of 2006 (AC, 2006h).

The main owner in MTS is a Russian company, Sistema, with majority ownership. VimpelCom is led by the Russian Alfa Group (33 %) and Norwegian Telenor (27 %). Megafon, a Swedish-Finnish Telia-Sonera is the main owner with over 40 per cent, but the Russian Alfa Group has strong interest in increasing its ownership stake from the current one (25 %).

Deutsche Telekom's departure from MTS and Alfa Group's aggressive or even hostile ownership policy in Vimpelcom and Megafon have intensified the speculation on the future position of foreign firms in Russian telecommunications (TD, 2006c). Even if Gref's statement (RIA, 2006c) - *"The Russian Government has forgotten all about*

²⁴ It needs to be remembered that Sistema already owns a 25 %-stake in Svyazinvest (TD, 2006t). It is not easy to conclude how close Vladimir Evtushenkov, the Chairman of the Sistema Board, is with the Kremlin (Independent, 2006).

telecommunications, thank God, so it's one of our most briskly developing sectors. If the government undertakes to regulate the telecommunications and mobile communications sector, we will have no mobile phones [left]." – is encouraging, one may only hope that this statement will remain valid after the election of the new president and the formation of a new government in 2008.

Slow privatization of fixed lines and the aggressive behavior of the Russian mobile corporation close to the Kremlin²⁵ indicate that the state has not abandoned its interest in controlling the telecommunications business. This is understandable since the telecommunications is an important tool for the army, the police and the security services. Significant further delays in the privatization of the fixed line operator²⁶ and the intensified indirect state support for the Kremlin-friendly Alfa Group would signify that this industry continues climbing higher in the security ladders, and makes it more risky for foreign investors.

Electronic media: Putin (2005) declares that the state must *"ensure that national television fully takes into account Russian civil society's most relevant needs and protects its interests. We need to establish guarantees that will ensure that television and radio broadcasting are as objective as possible, free from the influence of any particular group, and that they reflect the whole spectrum of public and political forces in the country."*

Despite the noble goals referred to above, Russia's free electronic media has considerably stagnated in this decade. Even if state control over Russia's printed media is not as strong as one could assume from the Western news²⁷, the country's electronic media, particularly the national TV channels, has been taken over by the state or corporations close to the Kremlin (Koltsova, 2006)²⁸. Although there are over 2000 radio stations and online media grows rapidly (EJC, 2006), they play a much more modest role in opinion formulation than does television, as over 80 per cent of the Russians consider the national TV channels as the most important news source (Compiler, 2006a).

²⁵ Alfa Group's main owner Mikhail Fridman is believed to have close connections with the Kremlin.

²⁶ Currently, it seems that the privatization of Svyazinvest is delayed, at least until the presidential elections of 2008 (TD, 2006s).

²⁷ Interesting takeovers are also taking place in the printed media, for a closer look see Compiler (2006b).

²⁸ The first national channel – Public Russian Television (ORT) is the largest TV channel in the country with 140 million viewers. TV channel Russia is the second national channel with some 50 million viewers. NTV used to be the only private Russian TV channel with the status of a national channel, but after the hostile take-over by Gazprom, there are no longer any independent national channels in Russia (EJC, 2006).

While the use of the Internet in Russia lags behind the developed world, there is wide availability of political information both from domestic events and foreign ones on the Web, and its popularity, particularly amongst the younger generation, widens. In 2005, the number of Internet users in Russia exceeded 20 million, whereas in the beginning of the millennium it was just over two million (PPE, 2006)²⁹.

Oates (2006, 29-37) analyzes the Russian media as follows: *"Russia technically has a diverse system of media ownership for its major media outlets, but realistically there is no central media outlet that can challenge the Kremlin's monopoly on power and information. In this way, the Russian media have in a broad sense come full circle back to the media environment of the Soviet period. ... As a result of the high-profile arrest, subsequent exile and further legal pursuit of the two major media oligarchs, other media owners and investors are now very aware of their vulnerability. By setting this example, the Putin administration has made it clear it will selectively apply the tax code and other laws to silence and even shut down media outlets that consistently oppose the presidential line. Thus, Russia retains mixed ownership of media outlets, from tiny regional newspapers to vast national television channels, but there is now virtually complete state control."*

To summarize the analysis on Russia's electronic media, one should stress that the electronic media is not as much strategic with regard to national security as it is for political hegemony, and hence, it is not a major surprise, that *"during the past year Gazprom has been on something of a media-buying spree, and most observers say that this latest acquisition [Komsomolskaya Pravda], if the deal goes through, is another sign that the Kremlin wants to exert more control over Russia's media landscape before the presidential elections scheduled for 2008"* (BEE, 2006f, 10).

The electronic media can be classified as belonging to either the security sensitive sector or even to the top sensitive sector. The more political leverage a media outlet possesses, the more risky it becomes for any investor, be it a domestic or foreign one.

²⁹ In addition to analyzing the position of Russia's media, one should analyze in further studies the activities of the news agencies, such as Interfax, Itar-Tass and RIA Novosti, which produce the majority of the raw material for the analysis shown in the media.

Top sensitive sector

Electrical energy: The holding called RAO UES forms the backbone of the Russian electricity sector. The companies belonging to this group generate approximately 70 per cent of all the electricity produced in Russia. As the corporation uses a great amount of natural gas in its electricity production it is highly dependent on Gazprom's deliveries³⁰. RAO UES is to be divided in 2007 into regional electricity generating companies with an official goal to enhance competition in the field (TD, 2006o).

In addition to RAO UES, state-owned Rosatom is a major player in energy production, as it controls the nuclear power stations in Russia. At the moment, nuclear energy generates around 16-17 per cent of Russia's total electricity production, and its share is to increase up to 22 per cent by 2015 (BOF, 2006f; TD, 2006e).

Through breaking RAO UES currently led by former vice-prime minister Chubais, one of the key figures of the liberal opposition, and by the strengthening the position of state-run Rosatom, the government either consciously or unconsciously tightens the Kremlin's grip over the electricity sector. Furthermore, Taraskin, Director at the Ministry for Industry and Energy, has stated that there is a proposal to include the electricity sector, particularly wholesale generating companies, in the law on strategic industries (Interfax, 2006).

As the electricity energy sector is a high voltage issue, its security sensitivity may soar in the future. Therefore, it is of the utmost importance to track into whose hands the privatized energy assets from RAO UES will fall. Here, it is necessary to remind oneself that privatization in Russia does not necessarily mean that the state would not retain indirect control over them via loyal functionaries, and hence, two arrows pointing both up and down have been drawn in the strategic governance matrix depending on the results of the privatization of RAO UES.

Logistical infrastructure: Putin's (2004) address to the nation indicates as follows: "*the state must control the development of the country's infrastructure for a long time to come* –

³⁰ Presently two-thirds of Russia's electricity is based on thermal generation, with nearly two-thirds of that provided by natural gas (BOF, 2006g).

I am convinced of this. Still, private investment will also make an important contribution to creating a branched transport infrastructure of high quality and reliability.”

Russia's transportation strategy until 2020 is also ambiguous in terms of its strategic governance. On the one hand, the strategy stresses a need to increase competition, privatization and de-monopolization in the country's logistics. On the other hand, it explicitly emphasizes the strategic importance of the transportation system to national defense and national security, and hence, underlines the importance of directly controlling its future development (e.g. Transport Strategy, 2005).

I personally believe that the maritime terminals and airports, the main railway network and the inter-city road system, the major telecommunication links, and the pipelines in particular belong to the top sensitive sector, while the logistical services can be positioned to the consumption-based non-sensitive sector. However, even the currently non-sensitive logistical services may jump into the top sensitive sector, if the military-orientated policies gain further weight in Russia.

For a foreign investor, Russian logistics offers both high growth potential but also high risks. The Russian State allows foreign firms to operate in the soft sides of the logistical sector, i.e. logistical services and the non-sensitive parts of the logistical infrastructure, including road construction. On the other hand, the state's interest in controlling the strategic infrastructure, such as pipelines, has grown even further.

I argue that the hydrocarbon pipes are strategically even more important for the Kremlin than are the hydrocarbon reserves per se. As the majority of the oil transport is conducted through pipes, the Russian State practically controls, with these pipelines, the private oil majors. In addition to domestic control, the pipelines have gained weight in Russia's foreign policy. The pipelines do not only build bridges between Russia and its customer countries, but they also build dependency with unpredictable consequences, if the siloviki-type of economic policy gains more foothold after Putin's presidency.

Strategic metals: The strategic policies are clearly observable in strategic metals, such as aluminum, titanium and some other strategic metals. It seems that the state wants to take

over the leading industries involved in exploiting strategic metals and consolidate them under one or several holdings.

The state's interest in aluminum is understandable, since Russia ranks as the world's third largest producer of aluminum after China and the USA, and she exports three quarters of her total production abroad (Liuhto & Jumpponen, 2003).

In the beginning of 2006, the aluminum sector was controlled by Russian Aluminum (RusAl) and the Siberian-Urals Aluminum Company (SUAL), which represented almost 90 per cent of the country's total aluminum production. At the end of 2006, Russia's aluminum industry experienced a considerable consolidation, when RusAl and SUAL merged with Swiss-based Glencore. The conglomerate is the globe's largest producer, and it is controlled by Kremlin-friendly Deripaska (AC, 2006e; BEE, 2006e; BOF, 2006e; Moscow Times, 2006b). The merger will likely make competition in the Russian aluminum products market almost impossible for outside companies (Fuss, 2006).

If the state has resumed its control over the aluminum industry via a Kremlin-loyalist, control over titanium production was taken through an acquisition. In 2006, VSMPO-Avisma dropped into the hands of Rosoboronexport (AC, 2006d; Moscow Times, 2006a). The Kremlin's interest in this company is not only due to the fact that VSMPO-Avisma is the leading titanium producer in the globe³¹. Perhaps, the major reason for the acquisition is the creation of a national champion in special metals around this company. Now, the Russian State is well positioned to proceed with its strategy of creating a specialty metals holding. One may anticipate acquisition with an aim at consolidating several companies involved in the production of titanium and molybdenum alloys, including some in Kazakhstan and Ukraine (TD, 2006j).

The state interest in Norilsk Nickel is obvious, as the company has significant reserves of strategic metals. Besides vast reservoirs, the company is a global seller in many metals. Its global market share is around 60 per cent of palladium, 20 per cent of platinum, 20 per cent of nickel, 10 per cent of cobalt, and three per cent of copper (Liuhto & Jumpponen, 2003). All in all, Norilsk Nickel is Russia's leading metal giant, and hence, it is highly likely

³¹ VSMPO-Avisma produces around a third of the world's titanium sponge.

that strategic policies with decisive measures will reach the company sooner rather than later. The early signs of the state acquiring Norilsk Nickel were already experienced at the beginning of 2006, when the state wanted to acquire a significant stake in the company via Alrosa, a state-owned diamond company (Finanz, 2006; Kommersant, 2006).

Russia is responsible for approximately six per cent of global steel production. The country's steel production is heavily concentrated. The four largest corporations – Evraz, Severstal, Magnitogorsk and Novolipetsk – account for over three quarters of the Russian output. Despite the fact that Russia's steel production is heavily concentrated already at the moment, it seems obvious that the state-orchestrated consolidation waits around the corner (Liuhto & Jumpponen, 2003; AC 2006c/f).

“There is considerable speculation that the former owner of Sibneft, Roman Abramovich, is acting as the Kremlin's stalking horse in building a national steel champion by seeking to take over steel company Evraz, with a view to building it up and then perhaps seeking a merger with one of the other major Russian steel enterprises – Severstal, Novolipetsk or Magnitogorsk” (BEE, 2006c). Some of the Russian steel majors have already started to internationalize their ownership structure through initial public offerings (IPOs) abroad, perhaps with an aim to avoid being swallowed by the national steel champion.

Oil and gas industry: Russia has substantial oil and natural gas reserves. According to British Petroleum (2006), Russia possesses around six per cent of the globe's oil reserves and over a quarter of the natural gas reservoirs³². Furthermore, Russia is, with her 12 per cent-stake, the second largest producer of oil and the largest producer of natural gas, representing over a fifth of the global gas production. As Russia consumes only a minor part of the hydrocarbons it produces, the country has become the leading exporter of natural gas and the second largest exporter of oil after Saudi Arabia (CIA, 2006; EIA, 2006).

The oil and natural gas business ranks as the most sensitive industry out of all the Russian businesses, as it is the principal source of the country's budget income and export

³² Because the information on Russia's hydrocarbon reserves is classified, one cannot verify British Petroleum's figures. Some experts argue that Russia's oil reserves are at least 1.5-2 times larger than those indicated by British Petroleum. However, this does not necessarily mean that their utilization would be economically feasible, unless the world market price of oil would significantly grow.

earnings. Energy accounts for two-thirds of Russian export earnings, nearly 40 per cent of the public sector revenues, and approximately a quarter of the total production (Sutela, 2006).

Although around 100 companies produce oil in Russia, oil production is in the hands of five vertically-integrated majors (Liuheto, 2002), namely Lukoil, TNK-BP, state-owned Rosneft, Surgutneftegaz, and state-controlled Gazprom. These five corporations were responsible for 80 per cent of Russia's crude oil production in 2006 (TD, 2006n).

After the acquisition of Yuganskneftegaz by Rosneft and the acquisition of Sibneft by Gazprom, state-led companies currently represent at least a third of all Russian oil production. Presumably, the state's share will grow significantly in the future.

It is not a completely excluded scenario that the state reintegrates all the state-owned oil units under one holding. Certain steps in that direction have already been taken between Rosneft and Gazprom (TD, 2006m/p).

Lukoil's CEO Alekperov has stated that the Russian oil and gas consolidation will continue. He predicts that in the future, consolidation of the current 11 oil majors, including Gazprom, will result in the existence of just five large oil and gas companies. His comments suggest that three Russian oil majors will be merged into larger units (TD, 2006n).

In addition to the strong position of the state in oil production, the state also controls oil pipeline companies. It has been speculated that during this decade, the state might integrate its two pipeline companies, Transneft and Transnefteproduct, under the same holding, and hence, strengthen this holding's position, both in the domestic market and abroad. Here, one should keep in mind that the rapid unification of these units is everything but likely (TD, 2006p).

If Russia's oil industry was privatized in the 1990s, the natural gas business has practically remained in the state's close possession since the break-up of the USSR. The sector is dominated by Gazprom, which produces over 80 per cent of the natural gas, controls the

gas pipeline, and has an export monopoly over gas. The artificially low price³³ of natural gas inside Russia has not motivated private producers to increase their gas production³⁴.

Gazprom is perhaps the most strategic corporation in Russia. This company alone generates several percentage points of the Russian GDP. Moreover, it contributes significantly to the state budget and supplies Russian industry and households with inexpensive natural gas. Therefore, it is understandable, why the government has kept its control over Gazprom. Even if the Russian State sells a larger part of Gazprom to private owners, including foreigners, one should not consider that such ownership liberalization would mean that the state would be abandoning its control over it.

Investing in the Russian oil and gas business has become a form of Russian roulette for foreigners. The revenues are high but the risks of political intervention are even higher. At the moment, it seems that the state allows foreign investors to benefit financially from the development of the oil and gas industry but is extremely reluctant to give control to foreign companies, i.e. Western capital and know-how is accepted but control is not given in return.

The current development trend indicates that the Russian State intends to increase control over oil magnates, and reduce the possibility of any oligarch becoming a high-profile political player in Russia. Perhaps, the Yukos affair and color revolutions around Russia have pushed the Russian leadership to rather extreme measures to control the oil and gas business, as it is the most strategic sector of the economy and perhaps the most important financial source of their political campaigns (Balzer, 2005).

Economically sensitive sector

Non-strategic natural resources: Non-strategic metals, land³⁵ and forests³⁶ are economically sensitive in Russia, since giant economic values surround them. Land and

³³ The natural gas price in Russia is some USD 40-55 per 1000 cubic meters of gas depending on the customer, while Russia sells natural gas to Western Europe with prices around USD 200-250 (BOF, 2006g). The difference cannot only be explained by higher transport costs but by massive scale subsidizing to Russian industry. As superficially low gas prices lead to as inefficient use of this natural resource, the Russian State loses tens of billions of dollars annually. The Russian Government plans to raise the domestic gas price to USD 100 by 2011 (AC, 2006i).

³⁴ At the end of 2006, there are signs that some Russian oil majors, such as Lukoil, might plan to increase their natural gas production via closer co-operation with Gazprom (TD, 2006r).

forest ownership seems to be a highly political question in the country, and therefore, their privatization has been partial at best.

To underline the conclusion above, Putin stated in October 2006 that he would not sign a law allowing the transfer of forests to private ownership (TD, 2006i)³⁷. The decision not to privatize forests may infer that Russia is worried about foreign ownership of the Russian forests, and particularly higher competitiveness from foreign forestry firms. As large economic values surround non-strategic natural resources, it is possible that the Kremlin directly and indirectly supports Russian firms over foreign ones in the future.

Banking and insurance: The Russian banking system continued its integration in 2006. By November 2006, Russia had 1203 active credit organizations licensed to carry out banking operations (of which 1156 were banks), down from 1253 (1205) at the start of the year (EIU, 2006b). Despite the beginning of the consolidation, it is easy to conclude that Russia has too many non-competitive banks. Many of these banks were established in the 1990s to serve one corporation or a small number of clients.

Even if the amount of banks is large in Russia, Russian banking is concentrated, and state banks dominate the sector. The state controls around 20 banks via federal/regional authorities or state enterprises. These state banks hold 70 per cent of the population's deposits and 40 per cent of loans to the economy. The three major state banks are Sberbank, Vneshtorgbank (VTB) and Gazprombank, which together own some 40 per cent of the assets in the banking sector (Pollisinski, 2006).

According to proposals put forward by Russia's Finance Ministry, the state will reduce its presence in banking. The ministry proposes to start with the partial privatization of VTB, by reducing the state's stake in the bank from 99 to 51 per cent. The proposal also includes a reduction of the state's share in Sberbank from 67 to 51 per cent within the next seven years. However, before the proposal would become effective it should be signed by Putin (EIU, 2006b).

³⁵ Land, and particularly the fresh water it contains, could become a strategic issue, if the global fresh water situation worsens.

³⁶ Russia possesses a fifth of the globe's forests.

³⁷ Despite fact that the private forest ownership is not allowed, it needs to be remembered that the long-term leasing of forests becomes possible with the new Forest Code, which enters into force in the beginning of 2007 (Compiler, 2006c).

Russia's entry in the WTO puts high pressure on the country's banking, and thus, Putin has stressed the need to further consolidate the banking system via creating large financial conglomerates. Some analysts have a rather reserved attitude on the state-based mergers. Some experts (TD, 2006l, 7) have stated as follows: *"The concern is that the creation of financial conglomerates will be based on state banks such as VTB and Russian Development Bank, rather than improving the competitive environment for commercial banks by reducing the dominance of the state banks."*

In the beginning of 2006, approximately 40 wholly-owned foreign banks and some 90 banks with foreign ownership operated in Russia (Satrom & Zhdanov, 2006). A historical quota has restricted foreign capital participation in the Russian banking sector, and therefore, only 12 per cent of Russia's banking assets are in foreign hands (EBRD, 2006)³⁸. Despite their approaching WTO membership, the Russian Government wants to reserve the right to limit foreign ownership to 50 per cent of the total assets of the country's banking system (BOF, 2006h).

All in all, it can be expected that a major merger wave will wash over Russian banking in the forthcoming years³⁹. Most probably, state banks, such as Sberbank (the population's savings), Vneshtorgbank (external affairs), Gazprombank (the raw material sector) and the Development Bank (strategic national projects) will star in the future transformation of the country's banking sector. The most probable scenario is the creation of national banking champions with the state's majority ownership. Also some genuinely private banks, among them a handful of foreign players, will gain a significant foothold in the Russian financial market. However, the state-led consolidation will be forceful.

Russia's insurance sector was occupied by more than 2000 firms at the end of the 1990s. Thereafter, the number of the insurance firms has decreased considerably. Despite a large number of players in the insurance business, the field is relatively concentrated. In 2004, the five largest insurers, Rosgosstrakh, the Capital Insurance Company, Ingosstrakh,

³⁸ In comparison, the foreign share of the banking market was in Estonia 99 %, in Finland 68 %, in Germany 10 %, and in Sweden 9 % (European Central Bank, for reference see SK, 2006).

³⁹ As an early warning of the approaching merger wave in the banking system, Minister Gref stated in December 2006 as follows: *"We plan to create the bank by pooling three big banks – Vneshekonombank, Russian Development Bank and Export-Import Bank"* (IT, 2006).

RESO-Garantia, and the National Insurance Group, accounted for a fifth of all the premiums⁴⁰.

Foreign access to the Russian insurance market has been restricted. The Russian insurance industry is subject to a 25 per cent-limit on participation by foreign entities in the aggregate capital of the Russian insurance companies (Satrom & Zhdanov, 2006). After Russia's WTO membership will be realized, the quota for foreign participation will increase to 50 per cent. This limit will not be reached any time soon since the foreign share in the charter capitals of Russian insurance companies at the beginning of 2006 amounted to less than five per cent (Apostille, 2006).

Even if the amount of foreign ownership in the Russian insurance business is modest, it is likely to grow after the WTO membership, and hence, foreign insurers will bring to the Russian market much needed competition and dynamism. However, one should not predict a revolutionary turnaround, either for the better or for the worse, i.e. a gradual reform seems the most likely outcome in the Russian insurance business (Medvedkov, 2006; Rubin, 2006).

⁴⁰ In the middle of 2006, SOGAZ, Rosgosstrakh, Ingostrakh, Maks and Capital were the five leading insurers in Russia (Expert, 2006).

5 A summary of the strategic policies in Russia

The invisible implementation of the strategic policies started soon after Putin was elected as president in the year 2000. However, these strategic policies did not receive much public attention until April 2005, when President Putin gave his annual address to the state. Thereafter, many observers have wondered which sectors, which natural resource sites, and perhaps which individual companies will be excluded, either partially or completely, from the foreign investments. At the end of 2006, the situation is still without its final answer, as the corresponding laws have not been passed yet, but evidently they will be signed during 2007.

Since one cannot understand Russia's strategic agenda only by reading the relevant laws, one should search for the underlying rationale behind the strategic thinking from elsewhere. One way to go beyond the official façade is to analyze Russia's key industries in terms of their importance for national security and economic security. Using these two dimensions, the Russian economy can be divided into four sectors: 1) The militarily sensitive sector; 2) The economically sensitive sector; 3) The top sensitive sector; and 4) The non-sensitive sector.

The militarily sensitive sector is highly strategic for Russia's national security, just as the economically sensitive sector is highly strategic for the country's economic functioning. The top sensitive sector stands for those industries which are highly strategic for both national and economic security. On the contrary, the sensitive sector has lower strategic importance in both of these dimensions.

The top sensitive sector is formed mainly by those industries, which are either explicitly named in the subsoil law or they are otherwise on the Kremlin's watch list. The defense industry automatically belongs to the military sensitive sector, but also some civilian industries, such as telecommunications, have certain characteristics which lift them into the military sensitive sector. Banking and insurance are the backbone of the economy but as they are not highly sensitive in terms of military security, they can be regarded as

belonging to the economically sensitive zone. Consumption-related industries are the core of the non-sensitive area.

Should the strategic policies strengthen in Russia, the following analysis conducted by the OECD (2006b, 6) is easy to agree with: *“The expansion of state ownership overall must be regarded as a step back. The Russian state’s track record as an owner of industrial and financial companies is poor. The corporate governance of many state-controlled companies is problematic and state interference in the operations of such companies often distorts the development of the companies themselves and the markets they operate. The expansion of state ownership in important sectors will probably contribute to more rent-seeking, less efficiency and slower growth. The trend towards greater state ownership should be reversed in order to improve performance and reduce opportunities for corruption and rent-seeking. At the same time, more needs to be done to strengthen the corporate governance of those companies that remain in state ownership, especially as regards transparency, and to provide for a clearer separation between the state’s roles as owner and regulator in those sectors in which it fulfils both roles.”*

The position of foreign companies in the four sectors of the strategic governance matrix differs a lot. The sensitive sector contains an extremely high political risk for foreign firms. Correspondingly, foreign investments in the non-sensitive zone do not face any direct political interference, though administrative abuse may still be frequent, i.e. foreign operations in the non-sensitive sector face only a business risk with non-federally-orchestrated administrative harassment. In the militarily and economically sensitive areas, a foreign firm faces varying levels of political risk depending on the lobbying power of the Russian competitor.

Should the strategic policies strengthen, it would probably lead to a weakening position of foreign firms in industries outside the non-sensitive sector, and a lowering of foreign investments in the sensitive industries. However, the faster FDI growth in the non-sensitive industries compensates for the lowering FDI in the sensitive zone, and therefore, the overall FDI inflow continues its growth, at least in medium term⁴¹.

⁴¹ As an example of the growing foreign capital inflow, foreign investment in Russia grew by over 30 % in the first nine months of 2006 compared with the respective period a year earlier (BOF, 2006i).

As the majority of Finnish companies operate outside the top sensitive sector, perhaps with the exception of Fortum, the overall risk of Russia's 'strategic governance revolution' to the Finnish economy is still acceptable. Though most of the Finnish companies are out of immediate political risk, one should keep in mind that the future of Finnish investment in the industries, such as telecommunications, strategically-sensitive logistics, banking and insurance, and forestry, may possess an unpredictable political risk.

To end, it should not be forgotten that a sufficient amount of control leads optimally to stability, predictability and economic growth. However, an over-controlled economy leads to immobility and accumulating societal tension. Should the latter alternative occur in Russia, this would turn the country's economic strategy into economic tragedy.

The economic tragedy looms if the strategic policies will spread in an uncontrollable manner. Russia's possible WTO accession in 2007 may aid in holding down the uncontrollable spreading of the strategic policies, but it does not give a full guarantee for foreign investors against unpredictable changes in the Russian strategic governance in the future (Åslund, 2006).

References

- AC (2006a) *Avtoprom consolidation: in the fast line*, Aton Capital, February 1, www.aton.ru.
- AC (2006b) *Ministries sign off on new bill requiring Kremlin approval for foreign investment in strategic sectors*, Aton Capital, March 2, www.aton.ru.
- AC (2006c) *Evrast Group - Millhouse affiliate acquires 41% stake*, Aton Capital, June 20, www.aton.ru.
- AC (2006d) *Rosoboronexport stake acquisition reportedly underway*, Aton Capital, June 28, www.aton.ru.
- AC (2006e) *Metals sector – Rusal to buy Sual, creating leading global aluminium company*, Aton Capital, August 30, www.aton.ru.
- AC (2006f) *Evrast Group – Millhouse sees Evrast as platform for the Russian steel industry consolidation*, Aton Capital, September 8, www.aton.ru.
- AC (2006g) *Wal-Mart seeks to enter Russia through Ramstore*, Aton Capital, October 18, www.aton.ru.
- AC (2006h) *Cellular statistics for October show deceleration, MTS beats Vimpelcom*, Aton Capital, November 14, www.aton.ru.
- AC (2006i) *Government raises gas price by 15%, sees \$100mcm price by 2011*, Aton Capital, December 1, www.aton.ru.
- AC (2006j) *State may consolidate Rostelecom and fixed lines telcos into Svyazinvest*, Aton Capital, December 4, www.aton.ru.
- AC (2006k) *Reports weak 2Q06 results; acquires majority control over Sakhalin-2 project for \$7.45bn*, Aton Capital, December 22, www.aton.ru.
- Alexander Gas & Oil (2005) *Trutnev names Russia's strategic deposits, Alexander's Gas & Oil Connections: News & Trends: CIS/Russia Vol. 10/Issue 21*, www.gasandoil.com.
- Apostille (2006) *Foreign quota in insurance companies to increase after WTO entry*, www.apostille.us
- Balzer H. (2006) *The Putin Thesis and Russian Energy Policy, Post-Soviet Affairs*, 21/3, pp. 210-225.
- BEE (2006a) *A rising trajectory: Foreign direct investment into Russia will continue to grow rapidly despite regulatory uncertainty*, *Business Eastern Europe*, June 5.
- BEE (2006b) *Industry forecast: Steady growth*, *Business Eastern Europe*, September 11.
- BEE (2006c) *A state aluminium champion*, *Business Eastern Europe*, September 4.
- BEE (2006d) *Foreign oil projects – an endangered species?*, *Business Eastern Europe*, September 25.
- BEE (2006e) *Rusal goes global*, *Business Eastern Europe*, October 9.
- BEE (2006f) *Russia*, *Business Eastern Europe*, November 27.
- BOF (2006a) *BOFIT Russia Review*, March 17, www.bof.fi/bofit.
- BOF (2006b) *BOFIT Russia Review*, June 20, www.bof.fi/bofit.
- BOF (2006c) *BOFIT Russia Review*, August 28, www.bof.fi/bofit.

-
- BOF (2006d) *Aircraft builders consolidate into new giant*, BOFIT Weekly, September 1, www.bof.fi/bofit.
- BOF (2006e) *Three-way merger in aluminium sector underway*, BOFIT Weekly, September 1, www.bof.fi/bofit.
- BOF (2006f) *Government accepts proposal on nuclear industry development*, BOFIT Weekly, October 20, www.bof.fi/bofit.
- BOF (2006g) *BOFIT Russia Review*, October 10, www.bof.fi/bofit.
- BOF (2006h) *Cabinet suggests easing rules on foreign ownership of shares in Russian banks*, BOFIT Weekly, September 29, www.bof.fi/bofit.
- BOF (2006i) *Russian investment abroad matches flows into Russia*, BOFIT Weekly, December 8, www.bof.fi/bofit.
- BOF (2006j) *Russia wants out of production-sharing deals*, BOFIT Weekly, December 22, www.bof.fi/bofit.
- British Petroleum (2006) *Statistical review of world energy 2006*, www.bp.com.
- CIA (2006) *CIA World Factbook*, www.cia.gov/cia/publications/factbook.
- Colton T. (2002) *Oligarchs I Have Known*, Comparative Economics Luncheon Seminar, February 12, University of Harvard.
- Compiler (2006a) *Televisiolla yhä tärkeämpi mediarooli Venäjällä*, Idänkaupan vientipalvelut 10/2006, www.compiler.fi.
- Compiler (2006b) *Rambler, Kommersant ja Pravda sai uusia omistajia*, Idänkaupan vientipalvelut 11/2006, www.compiler.fi.
- Compiler (2006c) *Venäjän metsälain soveltamisessa alkuhankaluuksia*, Idänkaupan vientipalvelut 12/2006, www.compiler.fi.
- Crotty I. (2006) *The Stereotypical Champion*, www.russiaprofile.org.
- Deryabina M. (2006) *Russian state resumes intervention in the economy*, www.bilkent.edu.tr.
- DID (2005) *Putin Proposes 22% Increase for Official FY 2006 Russian Defense Budget*, Defence Industry Daily, August 22, www.defenseindustrydaily.com.
- DID (2006) *The USA FY 2007 Defense Budget: Proposal*, Defence Industry Daily, February 8, www.defenseindustrydaily.com.
- EBRD (2006) *Transition report 2006*, European Bank for Reconstruction and Development, London.
- EIA (2006) *Top World Oil Net Exporters 2005*, Energy Information Agency, www.eia.doe.gov.
- EIU (2006a) *Russia: Country Report*, June 2006, Economist Intelligence Unit, www.eiu.com.
- EIU (2006b) *Russia: Country Report*, December 2006, Economist Intelligence Unit, www.eiu.com.
- EJC (2006) *The Russian Media Landscape*, European Journalism Centre, www.ejc.nl.
- Expert (2006) *Kompanii – lidery rossiiskogo strahovogo rynka po vzosam (s utsetom vzhodyashego perestrahovaniya), 1-e polugodie 2006 g*, www.raexpert.ru.
- Finanz (2006) *Russia's Norisk Nickel denies merger plans with Alrosa*, June 27, www.finanznachrichten.de.
- Fuss A. (2006) *Smelting the Last Champion*, www.russiaprofile.org.
- IEP (2005) *The new Russian subsoil law and its implications on oil & gas upstream business and foreign investment*, Institute of Energy Policy, www.energypolicy.ru.

-
- Independent (2006) *The A-Z of Oligarchs*, May 26, <http://news.independent.co.uk>.
- Interfax (2006) *Govt again postpones law restricting foreigners*, March 7, www.interfax.com.
- IT (2006) *Three major Russian banks to merge – Gref*, Itar-Tass, December 4, www.itar-tass.com.
- Jack A. (2004) *Inside Putin's Russia: Can There Be Reform Without Democracy?*, Oxford University Press, New York.
- Koltsova O. (2006) *News Media and Power in Russia*, Routledge, London.
- Kommersant (2004) *Chemical Industry 2000-2004*, www.kommersant.com.
- Kommersant (2006) *The Jeweled Nickel*, January 19, www.kommersant.com.
- Korchagina V. (2006) In a Siberian Wasteland, Russian Oligarch Roman Abramovich Recreates a City of Flying Dogs, *The St. Petersburg Times*, September 5, www.sptimes.ru.
- Kremlin (2004) *Peretsen strategitseskyh predpriyaty*, www.kremlin.ru.
- Kremlin (2006) *Beginning of Meeting on Developing the Aircraft Manufacturing Industry*, www.kremlin.ru.
- Kryshantovskaya O. & White S. (2003) Putin's Militocracy, *Post-Soviet Affairs*, 19/4, pp. 289-306.
- Lanes A. (2005) *Opinion: Government approves new subsoil use law*, www.prime-tass.com.
- Liuhto K. (2002) *Russian Oil and Gas - A Source of Integration*, Lappeenranta University of Technology.
- Liuhto K. & Jumpponen J. (2003) *The Russian Eagle has landed abroad – Evidence concerning the foreign operations of Russia's 100 biggest exporters and banks*, Lappeenranta University of Technology.
- Medvedkov M. (2006) *There are no sectors 'for change' in the WTO negotiations*, www.insur-info.ru.
- Moscow News (2006) *Vladimir Putin's State-of-the-Nation Address*, May 11, www.mosnews.com.
- Moscow Times (2005) *State Managers Take Over AvtoVAZ*, December 23, www.themoscowtimes.com.
- Moscow Times (2006a) *Chemezov Says State Set to Take Over Titanium Makers*, July 19, www.themoscowtimes.com.
- Moscow Times (2006b) *RusAl Seen as Next BHP Billiton*, August 31, www.themoscowtimes.com.
- Oates S. (2006) *Television, Democracy and Elections in Russia*, Routledge, London.
- OECD (2006a) *OECD Investment Policy Reviews – Russian Federation – Enhancing Policy Transparency*, Organisation for Economic Co-Operation and Development, Paris.
- OECD (2006b) *Policy Brief – Economic Survey of the Russian Federation, 2006*, Organisation for Economic Co-Operation and Development, Paris, www.oecd.org.
- OECD (2006c) *Expanding State Ownership in the Russian Federation*, Organisation for Economic Co-Operation and Development, Paris, www.oecd.org.
- PEI (2006) *Food Industry Value Chains in Leningrad Oblast and Krasnodar Krai*, Pan-European Institute, www.tse.fi/pei/pub.
- Pollinski K. (2006) *Russian Banking System*, Kroon & Economy 1/2006, Bank of Estonia.
- PPE (2006) *Russian market review: Internet users in Russia*, <http://ppe.ru>.
- Putin V. (2004) *Annual Address to the Federal Assembly of the Russian Federation*, www.kremlin.ru.

-
- Putin V. (2005) *Annual Address to the Federal Assembly of the Russian Federation*, www.kremlin.ru.
- RIA (2005) *Urgent: Russian government submits draft law on subsoil to parliament*, RIA Novosti, June 18, <http://en.rian.ru>.
- RIA (2006a) *Putin highlights strategic forces in state of the nation*, RIA Novosti, May 10, <http://en.rian.ru>.
- RIA (2006b) *Putin says foreign investment welcome in infrastructure projects*, RIA Novosti, June 13, <http://en.rian.ru>.
- RIA (2006c) *Strategic-sector foreign investment law may be adopted in 2006*, RIA Novosti, June 14, <http://en.rian.ru>.
- RIA (2006d) *Russian PM approves 2007 privatization program-1*, RIA Novosti, August 30, <http://en.rian.ru>.
- RIA (2006e) *Ministry submits bill on FDI in Russia's strategic companies*, RIA Novosti, October 13, <http://en.rian.ru>.
- RIA (2006f) *Foreign car sales overtake domestic for first time ever*, RIA Novosti, October 17, <http://en.rian.ru>.
- Riviera S. W. & Riviera D. W. (2006) *The Russian Elite under Putin: Militocratic or Bourgeois*, *Post-Soviet Affairs*, 22/2, pp. 125-144.
- RL (2006) *Gazprom on valtaamassa SRV-Ohtan kehitysalueen Pietarissa*, *Rakennuslehti*, www.rakennuslehti.fi.
- RT (2006) *Tartu tilaisuuteen – kasva Venäjällä – Rakennusalan Venäjä-strategia*, *Rakennusteollisuus RT ry*, www.rakennusteollisuus.fi.
- Rubin I. (2006) *Insurance & WTO entry – making sense of it all*, www.prime-tass.com.
- Satrom R. & Zhdanov D. (2006) *Foreign Investment in Russia: Reform and Re-Regulation*, American Chamber of Commerce, www.amcham.ru.
- SK (2006) *Pankit karkaavat valvojalta*, *Suomen Kuvalehti* 51-52/2006, pp. 16-17.
- Sutela P. (2006) *Ei vain öljystä ja kaasusta*, *Kauppapolitiikka* 5-6/2006, p. 10.
- TD (2005) *Consumer Sector - report*, Troika Dialog, www.troika.ru.
- TD (2006a) *Bar lowered for 'strategic' oil and gas fields*, Troika Dialog, June 14, www.troika.ru.
- TD (2006b) *Natural Resources Ministry to add 70 fields to 'strategic' head count*, Troika Dialog, June 20, www.troika.ru.
- TD (2006c) *Alfa Group CEO meets with Putin*, Troika Dialog, August 11, www.troika.ru.
- TD (2006d) *Gref: Svyazinvest will not be sold at all*, Troika Dialog, August 16, www.troika.ru.
- TD (2006e) *Government approves nuclear industry development program*, Troika Dialog, October 5, www.troika.ru.
- TD (2006f) *Putin urges the creation of the UACC*, Troika Dialog, October 13, www.troika.ru.
- TD (2006g) *Pyaterochka acquires Metronom*, Troika Dialog, October 16, www.troika.ru.
- TD (2006h) *Glavmosstroi: initiation of coverage*, Troika Dialog, October 20, www.troika.ru.
- TD (2006i) *Putin answers questions from the public*, Troika Dialog, October 26, www.troika.ru.
- TD (2006j) *Rosoboronexport gains control over VSMPO-Avisma*, Troika Dialog, November 8, www.troika.ru.

-
- TD (2006k) *State to receive 90% of UACC*, Troika Dialog, November 10, www.troika.ru.
- TD (2006l) *Putin meets with State Council*, Troika Dialog, November 15, www.troika.ru.
- TD (2006m) *Gazprom and Rosneft may sign cooperation agreement*, Troika Dialog, November 16, www.troika.ru.
- TD (2006n) *Lukoil expects further consolidation of oil and gas sector*, Troika Dialog, November 20, www.troika.ru.
- TD (2006o) *Chubais planning 10-20 'genco' IPOs in 2007*, Troika Dialog, November 27, www.troika.ru.
- TD (2006p) *Government to consider merger of Transneft and Transnefteproduct*, Troika Dialog, December 14, www.troika.ru.
- TD (2006q) *Gazprom might delay payment for Sakhalin-2*, Troika Dialog, December 15, www.troika.ru.
- TD (2006r) *LUKoil ad Gazprom to set up JV this week*, Troika Dialog, December 18, www.troika.ru.
- TD (2006s) *Reiman rejects Svyazinvest restructuring a la Economics Ministry*, Troika Dialog, December 19, www.troika.ru.
- TD (2006t) *Sistema outlines view on key strategic issues*, Troika Dialog, December 22, www.troika.ru.
- Tompson W. (2005) Putting Yukos in Perspective, *Post-Soviet Affairs*, 21/2, pp. 159-181.
- Transport Strategy (2005) *The Transport Strategy of the Russian Federation till 2020*, www.government.ru.
- UN (2002) *World Investment Report 2002*, United Nations Conference on Trade and Development, New York and Geneva.
- UN (2006) *World Investment Report 2006*, United Nations Conference on Trade and Development, New York and Geneva.
- Vahtra P. & Liuhto K. (2004) *Expansion or Exodus – Foreign Operations of Russia's Largest Corporations*, Pan-European Institute, www.tse.fi/pei/e.
- Warfare (2006) www.warfare.ru.
- Åslund A. (2005a) *Comparative Oligarchy: Russia, Ukraine and the United States*, CASE – Center for Social and Economic Research, www.case.com.pl.
- Åslund A. (2005b) *The perils of Putin*, www.carnegie.ru.
- Åslund A. (2006) *Russia's WTO Accession*, www.iie.com.

Appendix 1. Major state acquisitions, 2004-2006

Company	Sector	Date	Mechanism
Guta Bank	Banking	August 2004	State-owned bank Vneshtorgbank purchases 85.8% stake with central bank support.
Mosenergo	Electric power	Summer-Autumn 2004	Gazprom raises its stake above "blocking" (25%+1) level.
Promstroibank St Petersburg	Banking	September 2004	Vneshtorgbank purchases a blocking (25%+1 share) stake.
Atomstroiekспорт	Nuclear construction	October 2004	Gazprom-controlled Gazprombank purchases 54% stake.
RAO UES	Electric power	Autumn 2004	Gazprom raises its stake to 10.5%
Tuapse oil refinery	Oil refining	December 2004	Rosneft purchases 40% from minority shareholders to take full control of the refinery.
Yuganskneftegaz	Oil and gas	December 2004	Rosneft purchases 76.8% stake from the firm OOO "Baikalfinansgrupp", the winner of a state-organised auction of Yuganskneftegaz shares to settle tax debts.
Tambeyneftegaz	Oil and gas	May 2005	Gazprombank purchases a 25% stake from Novatek.
Northgas	Oil and gas	June 2005	Gazprom regains control of independent gas producer Northgas, taking over a 51% stake following litigation.
<i>Izvestiya</i> (daily newspaper), <i>Chas pik</i> (weekly newspaper)	Media	June-September 2005	Gazprom-Media purchases control.
Gazprom	Oil and gas	July 2005	State-owned Rosneftegaz purchases 10.7% of Gazprom to raise state's direct stake in Gazprom above 50%.
Selkupneftegaz	Oil and gas	July 2005	Rosneft purchases 34% stake from independent gas producer Novatek.
Sibneft	Oil and gas	October 2005	State-owned gas monopoly OAO Gazprom buys 69.66% stake for \$13.1bn.
Verkhnechonskneftegaz	Oil and gas	October 2005	Rosneft purchases 25.9% stake from Interros Holding.
AvtoVAZ	Autos	October 2005	State arms export concern Rosoboroneksport takes control over 62% and installs new management.
OMZ	Machine-building	November 2005	Gazprom-controlled Gazprombank purchases a 75% stake.
Ulan Ude Aviation Plant, Moscow Helicopter Plant, Kazan Helicopter Plant, Kamov Holding, Rosvertol, Moscow Machine-building Plant "Vpered", OAO "SMPP"	Aviation	2005	State-owned defence company Oboronprom takes control of these enterprises in the course of forming a single, state-controlled helicopter holding via the consolidation of shares already held by the state, purchase of additional shares and share swaps.
Power Machines (<i>Silovye mashiny</i>)	Machine-building	December 2005	Electricity monopoly RAO UES purchases 22.4% stake, raising its stake above 25%, and acquires voting rights to another 30.4% until end-2007.
Udmurtneft	Oil	June 2006	Rosneft acquires a 51% stake from Sinopec after the latter buys 96.7% from TNK-BP for an estimated \$3.5bn.
Sibneftegaz	Gas	June 2006	Gazprombank purchases a 51% stake from Itera.
Novatek	Gas	June-July 2006	Gazprom purchases a 19.9% stake for a sum reportedly exceeding \$ 2bn.
VSMPO-Avisma	Titanium	September 2006	State arms export concern Rosoboroneksport purchases 41% stake for an undisclosed sum.

Note: The table excludes acquisition of foreign assets by state-owned companies.

Source: OECD from various sources.

Source: OECD, 2006c, 3.

Electronic publications of the Pan-European Institute
ISSN 1795-5076

Freely available at <http://www.tse.fi/pei/pub>

2007

3/2007

Lisitsyn, Nikita

Technological cooperation between Finland and Russia: Example of technology parks in St. Petersburg

2/2007

Avdasheva, Svetlana

Is optimal industrial policy possible for Russia? Implications from value chain concept

1/2007

Liuhto, Kari

Kaliningrad, an attractive location for EU investors

2006

11/2006

Lorentz, Harri

Food Supply Chains in Ukraine and Kazakhstan

10/2006

Hannula, Kaisa-Kerttu

Doing Business in Ukraine - Experiences of two Finnish Companies

9/2006

Uiboupin, Janek

Industrial Clusters and Regional Development in Ukraine: the Implications of Foreign Direct Investments and Trade

8/2006

Avdasheva, Svetlana

Russian Furniture Industry: Enterprises' Upgrading from the Value-Chain Theory Perspectives

7/2006

Food Industry Value Chains in Leningrad Oblast and Krasnodar Krai
(Finngrain – Vilja-alan yhteistyöryhmä)

6/2006

Zashev, Peter – Vahtra, Peter

Kazakhstan as a Business Opportunity – Industrial Clusters and Regional Development

5/2006

Keskitalo, Päivi

Internationalisation of Finnish Environmental Technology to Poland

4/2006

Heiskanen, Katja

Internationalisation of Finnish Small and Medium-sized Companies towards the New EU Member States in the Baltic Sea Region

3/2006

Zashev, Peter

Belarus as a Business Opportunity?

2/2006

Johansson, Linda

International Business Operations of Companies with Russian Involvement in Southwestern Finland

1/2006

Vahtra, Peeter

Expansion or Exodus? - Trends and Developments in Foreign Investments of Russia's Largest Industrial Enterprises

2005

10/2005

Hannula, Kaisa-Kerttu

Host Country Determinants and Investment Motives of Finnish FDI in the Publishing Sectors of Bulgaria and Romania

9/2005

Vahtra, Peeter

Russian Investments in the CIS - Scope, Motivations and Leverage

8/2005

Liuhto, Kari - Zashev, Peter - Heiskanen, Katja (ed.)

The Approaching EU Accession of Bulgaria and Romania - New Opportunities for EU Enterprises

7/2005

Liuhto, Kari (ed.)

Kaliningrad 2020: Its Future Competitiveness and Role in the Baltic Sea Economic Region

6/2005

Levando, Dmitry

Investigation into the Structure of Reasoning in Economics

5/2005

Vahtra, Peeter - Pirilä, Hannu - Hietanen, Satu

ICT-sektori Baltiassa ja Puolassa

4/2005

Zashev, Peter

Between the Co-competitors: Belarus, Moldova and Ukraine Economic Integration in a Bi-polar Europe

3/2005

Pirilä, Hannu

Baltian ja Puolan taloudet vuonna 2004 - EU-jäsenyyden ja nopean talouskasvun vuosi

2/2005

Liuhto, Kari - Vincze, Zsuzsanna (ed.)

Wider Europe

1/2005

Lisitsyn, Nikita E. - Sutyryn, Sergei F. - Trofimenko, Olga Y. - Vorobieva, Irina V.

Outward Internationalisation of Russian Leading Telecom Companies



pan - european institute

www.tse.fi/pei/pub