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PREFACE

The first part of the paper explains the main issues of the development of Russian economy with the focus on the internationalization of industries and the rise of Russian MNEs. The special focus is made on the outward FDI from Russia. The role of western MNEs in the internationalization of Russian economy, and the emergence of Russian MNEs are discussed in the chapter.

The second part presents the main approaches of Russian MNEs to the foreign markets entry and post entry strategy development on the basis of the company cases within particular industry. Each chapter contains the brief explanation of the industry (main players – internationally and in Russia, methods of competition, product and customers) and two cases, first is with the focus on the entry solution, and the second is more about post entry operation models. Brief intersection with the theory of the entry modes and investment strategies will be given in each chapter within the description of the Russian MNEs operations. The choice of industries illustrates the internationalization dynamics of Russian economy. The choice of case companies will help better explain the selection of the Russian MNEs strategies and orientations.

The third part contains ‘special’ issues of the genesis of Russian MNEs. One is about companies that are global by nature (being set to connect trade to West or being established in the global e-industry). Second is about the strong focus / supporting asset of the international strategy (marketing/brand in one case and government involvement in another case).

The main findings are generalized in the conclusion with the stress on the focus of outward FDI, policy context, and forms of entry and presence in foreign markets by various Russian enterprises.

INTRODUCTION

Over a historically brief period, Russia has become a major outward investing country on the global stage. Russia's registered OFDI stock increased from US$2 billion in 1993 to US$203 billion in 2008, making it the second largest among emerging economies, behind Hong Kong (China) only (USD 776 billion in 2008). Russian MNEs hold more FDI assets than Brazil (USD 162 billion), China (USD 148 billion) and India (USD 62 billion) (annex table 1).

A number of Russian firms, like Gazprom, Lukoil, Rusal, Severstal, have already attained a global status. Other firms, such as Alfa Bank, Sitronics, Wimm-Bill-Dann, Yandex, are actively reaching the status of MNEs.

Despite Russian firms that expand internationally represent various industries, and diverse in terms of motivations and strategies, they do share at least two key attributes. One is their storming onto the global stage through the exploration of their natural-resource based capabilities. Another is their strong link with the home country government and the growing role of the Russian State in the rise of Russian multinationals.

With regard to the geographical distribution of acquisitions abroad, data show that Russian firms have generally targeted developed country firms, especially in Europe and North America, despite the fact that the expansion of Russian MNEs sometimes began in other member states of the CIS.

OFDI from Russia is both “exodus” and “expansion” in terms of the role of both home-country factors that encourage firms to invest abroad and the attractiveness of foreign locations for Russian firms. Exodus was strong in early 1990s (at the beginning of the transition), followed by less escape in the mid-1990s; the crisis of 1998 prompted a rise in capital escape, and then normalization again; the crisis of 2008 increased the motivation of exodus once again.

The study of Russian multinationals should be started with three questions: 1) how do they internationalize, and why; 2) what competitive advantages do they leverage as they internationalize; 3) how is the rise of Russian MNEs affecting global industry dynamics.

1 RUSSIA: ADJUSTMENT TO INTERNATIONALIZATION

1.1 Earlier Studies on Emerging Multinationals and Russian MNEs

While the theory of firm internationalization has been built to explain the motivations and strategies of firms from developed countries (mostly European and U.S.), expanding to developing markets, there have been several attempts to test the applicability of the established concepts to explain internationalization of companies from less developed markets. Outward FDI and emerging economies' MNEs were investigated in the early pioneering studies of Heenan and Keegan (1979), Lall (1983), Lecraw (1983) and Wells (1983), and in more recent works of Benito and Narula (2007), Globerman and Shapiro (2006), Goldstein and Shaw (2007), Luo and Tung (2007).

Besides, various international organizations (Economist, OECD, UNCTAD, World Bank) have also paid considerable attention in the last decade to the internationalization of firms from emerging economies. World Investment Reports, EIU Country reports, UNCTAD papers, publications of Columbia University and Maastricht University represent various types and extents of the interest to the EMNE phenomenon.

While MNEs from developed economies concentrate on advanced technology and marketing skills to differentiate their products (Wells, 1983), and see their competitive advantage in having a large variety of assets, as well as in integrating operations across national boundaries (Bartlett and Ghoshal 1989), EMNEs have been considered to rely mostly on maturing technologies, originally developed in the Western countries. The competitive advantage of these EMNEs appears, in most cases, to stem from the application of appropriate managerial skills in less developed country environments (Elenkov 1995).

According Luo and Tung (2007), emerging MNEs use international expansion as a springboard to: 1) compensate for their competitive disadvantages; 2) overcome their latecomer disadvantage; 3) counter-attack global rivals' major foothold in their home country market; 4) bypass stringent trade barriers; 5) alleviate domestic institutional constraints; 6) secure preferential treatment offered by emerging market governments; 7) exploit their competitive advantages in other emerging or developing markets.

FDI flows towards less developed countries have not always resulted in the long-term growth outcomes one would expect (Lipsey 2002; Tsang and Yip, 2007). Russia, together with many other transition economies, faces the fundamental problem that it has few alternatives to the outside injections of capital, knowledge and network resources that FDI provides. Countries in transition in many respects appear to be closer to developing than developed economies when it comes to their particular experiences with hosting FDI (Jensen 2004).

At the same time, it is questionable whether local firms in transition countries benefit much from the technological change introduced by foreign investors as is usually true for developed host countries (Lipsey 2002; Blomström et al. 2001). Both pioneers and current EMNEs gain from their *natural-resource vertical integrator* status hailing either from a country richly endowed with natural resources or one with a large domestic appetite for natural resources, with examples of Russian Gazprom and Lukoil, or Brazilian Vale (Ramamurti 2008).

The mainstream research in the field of EMNEs has focused on the amount of outward FDI. Moreover, FDI outflows from emerging economies have been often taken as a proxy of activities of emerging multinationals (Filippov 2008). Such approach should be challenged since the particular business motives and corporate strategies are neglected if studying Russian MNEs primarily from the perspective of their OFDI.

Despite the interest, novelty and even provocative character of the topic of emerging multinationals, the focus of most studies has been on Chinese, Indian, and Brazilian MNEs, overlooking their Russian counterparts. While a range of studies on Russian MNEs was developed since end of 1990s (Bulatov, 1998, 2001; Crane et al., 2005; Filatotchev et al., 2007a; Heinrich, 2003, 2006; Kalotay, 2004, 2005, 2008; Kets de Vries et al., 2004; Vahtra and Liuhto, 2006) the research in this field remains scarce.

Outward FDI from Russia started to grow in the second half of the 20th century; nevertheless, it stayed at a very low level. At the end of the 1983, Soviet firms had about 320 affiliates in foreign countries (Liuhto and Vahtra 2007), which is a really small figure for an economy that big. These companies were often registered as joint ventures and were mostly situated in Council for Mutual Economic Assistance (CMEA) countries; there were about 115 affiliates in OECD and 30 in developing countries. In 1990, the Soviet FDI stock abroad amounted to less than $1 bln.

The prototypes of multinationals existed already in the times of the USSR. In Russia as well as in China, most of the leading EMNEs had roots going back to the Communist days, long before they were partially or wholly privatized (Ramamurti 2008). In his study of foreign operations of soviet firms (which all were state-owned), Geoffrey Hamilton (1986) referred to these companies as “red multinationals”. His observation showed that in most cases these companies carried out only marketing and sales operations. Few of “red multinationals” showed signs of developing as Western multinationals had done (Hamilton 1986; McMillan 1987).

The USSR usually exercised strict control upon these companies, and they were usually majority-owned by their Soviet parents (Vahtra 2006). A majority of these firms were involved in supporting Russian exports abroad (raw resources marketing, infrastructure support – banking, insurance, etc.). These companies conducted their activities very intensively, selling more than a half of 50% of Soviet products abroad.

One important issue from the previous study was made by one of pioneers in the field Detelin Elenkov, who highlighted and investigated the importance of the military sector in the context of the internationalization of the Russian economy. He explained the depression of the non-military sector due to the irrational bureaucracy, corruption and inefficiency in that sector. A key characteristic of the Soviet civilian sector was a system of financing organizations rather than projects, which created a tendency of budget allocation according to the size of organizations, while technological feasibility and potential economic results of individual projects were of secondary importance. Besides, the non-military sector was also technologically obsolete, due to the lack of strong technical staff, close linkages with advanced R&D institutes and modern equipment (Elenkov 1995). Though, the strong Russian military industry was nurtured at the expense of the largely neglected civilian sector.

The crash of the Soviet Union brought about disruptions in previous economic activities. The restauration from the shock and adaptation to new conditions took almost 10 years for Russian companies. During this period, they were mostly involved in restructurization and consolidation of assets inside the country; after having gained enough power, they started to look onto foreign markets. Several studies documented the process of transformation of these former state-owned enterprises (Filatotchev et al 2007b; King et al 1995).

A wave of the FDI from Russian economy started to grow much faster at the end of the 1990s. "Until 2000, Gazprom and Lukoil accounted for around 90% of Russian assets abroad". (The Russians Are Coming 2006). On the eve of the 21st century, other companies started to catch up. The main share of OFDI took form of cross-border mergers and acquisitions, greenfield investments being present but in much smaller forms, which reflects preference of Russian investors to go for quick returns and lack of the from-the-bottom experience.

Kuznetsov (2010) points out a special type of MNEs. These are companies with foreign capital participation. Thanks to these inward investments, Russian companies can reinforce their own investment activities.

Kalotay (2005) suggests that the oligarchical structure of Russian economy may have something to do with increasing level of FDI flows. He points out that the investing pattern that Russia follows is more alike the countries at the higher stages of development, and is not alike other BRIC countries, to which Russia is often compared. The paradox is that it is the hostility of the home country business environment, on the one hand, and the home government incentives expected, on the other hand, that stimulates the Russian capital to go abroad (Panibratov and Kalotay 2009).

1.2 Internationalization of Russian Economy

In this chapter we will try to explain how the Russian economy adjusted to globalization of markets, and how Russian enterprises responded and adjusted to change and evolutionary forces and processes in external and internal environment, and what factors affected the adjustment process.

Despite Russia accounts for the largest outward FDI among BRIC countries, Russian multinationals have been largely overshadowed by the emergence of Indian and Chinese MNEs and not sufficiently addressed in the literature.

Trying to understand if the "BRIC" group of countries still exists, which was considered recently as four economies that are particularly important and promising and whose rise may transform the world economy (Wilson et al., 2004, cited from Sauvant 2005), and whether Russia is still a part of this group in terms of general trends and value of economic performance and OFDI, one should consider the differences between the individual countries. As the resistance of Brazilian, Chinese and Indian MNEs to the downturn of 2008–2009 can more easily be taken for granted than that of Russian multinationals, the latter are faced with the more challenging environment – both global and domestic. Nevertheless, almost all emerging MNEs tend to evolve from regional multinationals to global multinationals (Rugman and Verbeke, 2008; Sethi, 2009).

Nowadays emerging markets show the greatest activity in the field of internationalization, like Russian market which is considered by most potential entrants as a huge opportunity. The methods of entry and models of operations of Western and American MNEs in the Russian market can provide domestic players with starting solutions toward internationalization.

The Russian economy has experienced a lot of turmoil during the past two decades. After economic stagnation in the 1980s, the Soviet economic system collapsed between 1989 and 91. The next decade, Russia's GDP decreased with 44 percent. However, the informal sector found a great stimulation by the fall of the communist regime and therefore the real GDP decline must have been less extensive as noted. From 1999 on, the situation improved as Russia's economy grew rapidly with an average of 7 percent a year and in the past decade Russia has proven to be one of the big, emerging markets. On top of that, amongst the BRIC countries, the purchasing power was highest in Russia.

The study of Elenkov (1995) helps to understand roots of internationalization of Russian economy in the context of the networking of Russian and Western companies in the military sector. Making joint ventures with Russian aerospace companies, Western firms had access to state-of-the-art technology, a large number of new customers, as well as to the services of a relatively inexpensive and highly skilled work force. Forming strategic alliances with Russian companies, Western firms were able to significantly reduce the total cost of creating new models. By concluding co-production agreements with the Russians, Western companies can greatly lower their procurement and production expenses and even accelerate the development of full-scale manufacturing of new products. By entering into co-marketing and cross-licensing agreements with Russian firms, Western companies considerably increased their revenues (Elenkov 1995).

The Russian aerospace MNEs (which were factually first multinationals based in Russia) were competing at a world-class level due to manufacturing high-performance products, expanding aggressively in foreign markets, and operating at a profit (Elenkov 1995). They have also introduced a new dimension of competition in their industry which was characterized by aggressive R&D development, effective implementation of new technology to produce advanced aircrafts and related products and consistency in keeping the total cost down. All these features are still of dramatic importance for most of Russian MNEs in various sectors.

Inward FDI of Western MNEs in Russia was mainly based on the following models: foreign company invests money and seeks transparent projects; foreign investor enters Russian market with its own project and management and organizes network with local firms; international company searches for optimal entry mode to enter Russian market. Besides, Western companies prefer to use the service of the familiar partners while deciding to establish manufacturing facility in Russia.

MNEs that entered to the Russian market at the beginning of transition processes in the national economy are now the leaders in their industries. All the risks and difficulties which these firms have faced during the initial stages have been overcome and nowadays these companies are profitable.

Those MNEs which reached considerable competitiveness working in Russia conducted purposeful and consecutive marketing activity. At the heart of the chosen entry strategies to the Russian market were: orientation to high quality of production and services; the effective marketing policy adapted for Russia; local partnerships (Panibratov 2009).

International springboard perspective, provided by Luo and Tung (2007), generalizes several strategies, undertaken by emerging MNEs:

- cumulative benefits from inward investment before undertaking outward FDI;

- leapfrog trajectory; and

- coopetition with global players.

Taking a look at the recent phenomenon of Russian multinationals we will easily find traces of these features in their internationalization paths. The companies of emerging economies countries should explore new foreign markets to insure themselves from political and economic risks in the countries of origin and to increase profitability. These companies could have an advantage over Western competitors applying new approaches in marketing, HRM, manufacturing technologies and developing unique projects.

1.3 Previous Research on Outward FDI from Russia: Motives and Destinations Perspective

Russian MNEs international FDI activities have been examined by Filatotchev (2007b), Kalotay (2001, 2005, 2005, 2008), Kuznetsov (2010), Liutho (2001, 2005) Liutho and Jumpponen (2003), Sauvant (2005) and Vahtra and Liutho (2005). The subject of most research (despite broadly analyzed) was the interest of Russian companies to diversify their holdings through international investment, the object – more or less constant range of companies in a couple of industries (predominantly oil and gas, metallurgy, and telecom).

Outward FDI from Russia are often seen as similar to system escape, when firms driving outward FDI are investing abroad due to the negative characteristics of the Russian business environment. Despite this phenomenon was discussed toward MNEs based in developed economies, where institutional barriers in the home country express avoidance by firms of political constraints with escape through international investment (Witt and Lewin 2007, Boddewyn and Brewer 1994), it also applicable to the case of Russian firms with free cash flow and retained earnings find investing abroad to provide a higher rate of expected returns (Kalotay 2001).

Nevertheless, the impact of inward FDI as of more economical than political factor to the Russian MNEs outward investment activity is out of question. The look (aforementioned in the previous chapters) on the interdependence of inward FDI and outward FDI may be interesting if compare Russia as a part of CIS region with other BRIC economies (Brazil, India and China) in the context of South and Central Americas, South Asia and East Asia regions consequently.

Starting from a relatively low base, the strong FDI inflows into Russia 2006-2008 shows that the stock of inward FDI became comparable to or even higher than in the other BRIC countries. According Economist Intelligence Unit (2010), by 2009 the share of the estimated inward FDI stock in GDP in Russia was similar to the shares in Brazil and China, traditionally high FDI recipient countries. Russia also had the highest FDI stock per head among the BRICs (Economist Intelligence Unit 2010)

As outward FDI from Russia reached $52 billion in 2008, the dominance of Russia in the CIS region became noticeable; only India dominated in the South Asia region in a comparable extent (annex table 2).

The recent data on outward FDI is even more impressive. OFDI flows reached US$10.3bn in the first quarter of 2010, according to the Russian Central Bank (annex table 3). They amounted to US$46.1bn in 2009. At the same time, over one-half of outward FDI by non-banking corporations went to offshore (Cyprus, the Netherlands, Gibraltar, Luxembourg, Switzerland, and the British Virgin Islands) what makes this part of foreign investments a pseudo-FDI. This may illustrate the reverse to the “capital flight” related to “system-escape” motives, which decreased sharply after 1999 but bounced back during the global crisis.

The motives of Russian outward investment vary significantly. It is not surprising that the most typical motives of Russian investors MNEs are the search for markets and resources. Besides, some investments are of the strategic-assets-seeking character, and are rarely efficiency-seeking. Sometimes, OFDI from Russia are driven as well by image-building motives or domestic political risks prevention considerations (IMEMO-VCC 2009)

Illustrations of various FDI aims can be seen in top Russian outward deals (annex table 4). For example, Norilsk Nickel and Evraz Group have been trying to broaden their resource bases, while Lukoil and Alfa Group have been trying to strengthen their geographical positions in foreign markets, and Basic Element trying to acquire modern foreign technologies for use in Russia.

Despite some Russian MNEs have affiliates almost all over the world, the effects of the historical and cultural ties as well as physical proximity are evident in the geographical distribution of Russian outward investments. This may serve as another explanation of the focus of Russian OFDI on the CIS region.

The perception of other continents by Russian investors is chaotic. The Latin America is seen as a far-away underdeveloped region, with institutional barriers such as the lack of bilateral double taxation and investment treaties. African countries are the *terra incognita* for Russian companies. As to India and China – these two are more understandable by Russian companies and so attract more investments from Russia.

The scale and the sectoral distribution of Russian investors are in most cases explained with the longevity of the companies' presence in the economy. Successors of Soviet multinationals can be seen side by side with companies which began their internationalization only in the past few years.

Russian companies in the oil & gas and metallurgy sectors control the majority of country's foreign assets. These industries represent the areas of Russian specialization in the world economy. However, many other Russian industries have also begun investing abroad. Companies in machinery, electricity supply, food, transport, telecommunication, electrical equipment are also to be found amongst the top Russian investors abroad.

Although nowadays it is mainly the classic MNEs that dominate among leading Russian multinationals, some companies with significant foreign assets do have features of other types. There are companies which exploit transnational economic ties within the old Soviet area − Inter RAO UES and Gasprom. The steel firms Severstal and Rusal prefer to invest in the most developed markets but nobody knows exactly whether they have assets-seeking strategies and intend to transfer new technologies into their Russian enterprises, or whether their investment is only a new form of capital escape.

Fluctuation of the geographical priorities of Russian multinationals is also very interesting (annex table 5). According Kuznetsov (2010), these firms evolve from intra-regional multinationals (which operate within the CIS area) or bi-regional multinationals (the CIS plus the European Union) to global multinationals.

The appearance of non-European countries among the most important destinations of Russian OFDI (for instance, Canada, India, Italy, the United Arab Emirates, and the USA) shows the progress of Russian companies' internationalization process which is discussed in the next chapter.

The post entry strategies of Russian multinationals are often vary from entry decisions. The explanation of the initial entry decision and the operational strategy will be given in the following chapter.

2 ENTRY AND POST ENTRY DECISIONS: EVIDENCE FROM INDUSTRIES

2.1 Exporting from Russia: Oil and Gas industry

International companies in oil and gas retain significant influence over the global energy sector, and they collectively represent some of the largest reserves holders, extractors, and petrochemical manufacturers operating today. Perhaps more importantly is that despite certain oil companies are looking to internationalize their operations either to spread risk or to respond to market factors, the majority of them are the technology, intellectual-property, and project-management powerhouses of the whole industry.

A drop of over $100 per barrel in oil prices in the late 2000s to around $32 per barrel prompted many national oil companies, which depend on oil for most of their revenue, to cut spending, delay and cancel oil and gas projects. Major national oil companies, having a planned capex of over $261 billion during 2009, are expected to spend approximately $540 billion in oil and gas investments over the next five years and to invest to make their operations more integrated and also expand internationally.

Russian oil and gas companies are typically large, integrated players that benefit from their scales of operations. The presence of such incumbents intensifies the rivalry. Due to the fact that oil and gas operations are highly energy and labor intensive fix costs are also high and market is hard to exit as leaving would require significant divestments of assets specific to the business.

Russia is a major world oil producer, sometimes producing even more than Saudi Arabia. Russia's output rebounded during the early 2000s, but the effects of high government taxation and a mature field base threaten an overall decline in production. Russia has proven oil reserves of 60 billion barrels, most of which are located in Western Siberia, between the Ural Mountains and the Central Siberian Plateau.

Russia's production growth depends on the availability of viable export routes for the country's crude oil. During 2007, Russia exported almost 4.4 million bbl/d of crude oil, and over 2 million bbl/d of oil products. Roughly 1.3 million bbl/d were exported via the Druzhba pipeline to Belarus, Ukraine, Germany, Poland, and other destinations in Central and Eastern Europe (including Hungary, Slovakia, and the Czech Republic), around 1.3 million bbl/d via the new flagship Primorsk port near St. Petersburg, and around 900,000 bbl/d via the Black Sea.

Two subchapters will deliver the cases of Gasprom and Lukoil. Two aspects of these cases are: 1) the export as the entry decision and as the operational mode, and 2) the role of the State as of the owner and as of 'just' stakeholder.

Gazprom is the largest Russian company and one of the world's leading energy companies with around 18% of global gas production. The Gazprom Group is also the world's leader in natural gas reserves. Its major business lines are the exploration, production, transportation, storage, processing and marketing of hydrocarbons as well as the generation and marketing of heat and electric power.

Since the technological specifics of natural gas transport and distribution require significant investment in export infrastructure, Gazprom was forced to begin its expansion abroad in the early 1990s. Currently the Group's main foreign assets are concentrated in Germany, Ukraine, Poland, Belarus, the Baltic States and some other European countries. Gazprom has organized several greenfield projects with its European partners, as well as tried to buy companies in highly profitable distribution segments also its state connections have often aroused resistance. In the 2000s, Gazprom started investing abroad in gas exploration and production, beginning with Central Asia and moving on to Vietnam, Latin America and some Arab countries. A significant impulse in this business was an exchange of assets with the German firm BASF (Gazprom received 49% of the famous Wintershall AG). Gazprom also controls an electric power station in Lithuania (since 2003) and has built a new power-generating unit in Armenia.

Gazprom uses a wide range of modes when entering a new market. Though licensing and franchising is not typical in this industry, we can see examples of exporting, turn key projects joint ventures and wholly owned subsidiaries. Nevertheless the main mode when entering European or Asian area is *exporting*, which has a quite low risk, though it is strongly influenced by the international agreements between governments.

Gazprom's internationalization process is a really complex topic. Though it is considered to be a private company, the influence of the government in power has strong effects in the operation of the company. As we could see in the history, this company was transformed from a ministry, its chairman was prime minister and this position is at the mercy of the all-time president. For example, in December 2008, the Board of Gazprom Neft and Serbia's Energy Ministry signed an agreement for a 51% acquisition of Naftna Industrija Srbije in Moscow. This was in line with the governmental agreement on cooperation in the oil and gas industry and the memorandum of agreement of Gazprom Neft's 51% acquisition of Naftna Industrija Srbije, which was signed in January 2008.

Currently the state has the controlling share of the company. So it is not a surprise if we state that a movement taken by Gazprom is always strongly connected to the goals of the Russians government strategy. Due to these circumstances, the company instead of focusing on the profitability, has to indulge the needs of the government; being compared to the size of the company, the internationalization process is in a very early stage. Otherwise, if we look at Gazprom from the point of view that it has to serve continuously hundreds of millions of consumers and thousands of key B2B customers, we should rather consider this company as common good, such as health care and not as a globally competitive company. Anyway, they have to implement changes in answer to the problems the company faces.

To summarize we present the main internationalization results of Gazprom in the exhibit 1.

Exhibit 1. Internationalization of Gazprom

Internationalization started	Early 1990s
Main assets abroad	Germany, Ukraine, Poland, Belarus, the Baltic States and some other European countries.
Foreign destinations	In the 2000s investments in Central Asia and move on to Vietnam, Latin America and some Arab countries
Entry modes	Exporting (as the main mode), turn key projects, joint ventures and wholly owned subsidiaries
Major deals and projects	An exchange of assets with the German firm BASF (Gazprom received 49% of the famous Wintershall AG)
Expansion approach	Greenfield projects with European partners; acquisition of companies in highly profitable distribution segments
Role of the state	Both formal and non-formal participation of the state in the company; the strategy is always strongly connected to the goals of the Russians government

Lukoil is the largest Russian private oil company. The main activities of the company are the exploration and production of oil & gas, the production of petroleum products and petrochemicals, and the marketing of these outputs. Lukoil has around 1.1% of global oil reserves and 2.3% of global production.

Lukoil began its investment expansion abroad in the middle of the 1990s. Lukoil has acquired participating interests in the exploration of oil & gas fields or oil production in Azerbaijan (several projects since 1994), Egypt and Kazakhstan (several projects since 1995), Iraq (1997), Colombia (2002), Iran (2003), Saudi Arabia and Uzbekistan (2004), Venezuela (2005), Ivory Coast (2006) and Ghana (2007). In 1998, Lukoil started its expansion in global refinery business with the acquisition of Petrotel in Romania. Then the company acquired and modernized refineries in Bulgaria and Ukraine (1999). Since 2008, Lukoil has owned two refineries in Italy. It also has petrochemical plants abroad (in Ukrainian Kalush and Bulgarian Burgas, as well as small plants in Belarus and Finland). Nearly 70% of Lukoil's 6,700 petroleum stations are located in 24 foreign countries, mainly in the United States (1,524 at the end of 2008), Turkey (777), Finland (456), Romania (319), Ukraine (285), Bulgaria (209), Serbia (184), Belgium (157), Lithuania (120) and Poland (106).

Compared to its Russian competitors Lukoil has a more market-oriented and profit-seeking approach. As a result, its internationalization process is more motivated by economic and strategic reasons than by Russia's political interests, even though sometimes these factors overlap.

Lukoil holds a historical position in Russia of the leaders in the field of oil production. Thanks to the bankruptcy of main rival Yukos, Lukoil managed to affirm its strong leading position in its home market. This allowed the company to start some years ago its internationalization process.

Lukoil's core market remains Russia and to some extent oil-producer CIS countries despite recent significant moves abroad. The internationalization level of Lukoil's can still be considered as low if we compared it to international oil majors (Total, Shell). Looking at Lukoil's situation this is easily understandable: the company enjoys strong leading position in its home market with significant though depleting oil and gas reserves. However, it is true that if the company does not manage to expand its current oilfield basis in Russia by investing in new regions such as Far East, Lukoil will have to pick up the pace of its internationalization process and focus on securing new oil fields.

Regarding the refining, marketing and distribution segment, Lukoil is likely to keep on internationalizing by cheap retail acquisitions or franchising and by strategic partnership such as the joint-venture in Sicily.

It is interesting to notice that Lukoil's most profitable activities (production and exploration) are the less internationalized while the less profitable (marketing, refinery) are already highly internationalized. This means that internationalization is not, in the oil and gas industry, an absolute requirement for high profit margins.

The main internationalization results of Lukoil are presented in the exhibit 2.

Exhibit 2. Internationalization of Lukoil

Internationalization started	The middle of 1990s
Main assets abroad	Nearly 70% of Lukoil's 6,700 petroleum stations are located in 24 foreign countries, mainly in the United States (1,524 at the end of 2008), Turkey (777), Finland (456), Romania (319), Ukraine (285), Bulgaria (209), Serbia (184), Belgium (157), Lithuania (120) and Poland (106)
Foreign destinations	Azerbaijan (since 1994), Egypt and Kazakhstan (since 1995), Iraq (1997), Colombia (2002), Iran (2003), Saudi Arabia and Uzbekistan (2004), Venezuela (2005), Ivory Coast (2006) and Ghana (2007)
Entry modes	Acquisitions
Major deals and projects	The acquisition of Petrotel in Romania in 1998, acquisition and modernization of refineries in Bulgaria and Ukraine (1999). Since 2008, Lukoil has owned two refineries in Italy. It also has petrochemical plants abroad (in Ukrainian Kalush and Bulgarian Burgas, as well as small plants in Belarus and Finland)
Expansion approach	Market-oriented and profit-seeking approach; cheap retail acquisitions or franchising, strategic partnerships such as the joint venture in Sicily
Role of the state	Significant as in all energy businesses but not so high as in case of Gazprom or Rosneft

2.2 Establishing Partnerships: High Tech Sector

The new economic reality has created the prompt climate for the budding **Russian high tech sector**: its particular strength — a well-educated, growing middle class. When looking at the average GDP growth, the increase of the disposable income is supporting consumer spending which is mostly used to buy consumer goods. The Russian software market generated total revenues of $4.5 bn in 2008, representing a CAGR of 18.6 per cent for the period 2004-2008. Moreover, the Russian digital economy indicators (PC, internet, broadband penetration rates) have been steadily growing positively.

The most lucrative business for the Russian software market in 2008 was home use application software sales, generating total revenues of $1.1 billion, equivalent to 23.6 percent of the market's overall value. The software market performance is anticipated to grow further with a CAGR of 22.3 percent for the five-year period 2008-2013, which is expected to drive the market to a value of $12.3 billion by the end of 2013.

Services, financial services and industrials are the segments that concentrated the larger number of the total demand for which the software industry has been developing sophisticated solutions. Taking in consideration the extreme volatile industry in Russia which requires urgently IT systems to remain competitive, Russia is not completely developed in its IT-segment. The IT demand exploded and even exceeded the supply in some segments of the IT-market.

Many foreign enterprises have established operations in Russia, demanding the same quality of services as in their other, often developed Western, markets. This provided incentives for the local IT enterprises to improve their operations to become potential service providers for these foreign firms. Approximately 65 percent of the overall IT-turnover corresponds to the sale of hardware, 22 percent to IT-services and 13 percent to software. There is a huge growth potential. Remarkable is that the market share of software in Russia is lower than in other western countries. Some sectors like banking and finance, telecommunication, big industrial companies and the state (E-Government) already invest in the improvement of their IT-system whereas numerous other branches and small and medium-sized companies develop pent-up demand.

Russia has an opportunity of becoming an international outsourcing hub for the high tech sector, having a number of reasons for foreign businesses to consider Russia as an option rather than India or China. The main success factor of the Russian service industry is primarily determined by a high level of staff education which provides for better manpower at relative low cost. The ability to deal with non-standard issues proves the ability to manage high-end, complex projects. Another factor has been the growing returns in finding cheaper resources for routine software development. Russia has proven to have a huge investment potential, with growing sales and a forecasted CAGR of 20.4 percent for the period of 2007-2011 while IT spending reaching 37 billion dollars in 2011.

The major factor that affected the Russian software industry in 2008 was the global financial crisis. The crisis led to some problems in the industry, primarily being the global decline in the IT market which caused difficulties in the overall demand. In 2008 exports of software and software development services decreased drastically (from 52% to 21%). The export target of 3 billion dollars, set by the Russian IT union Russoft was not attained, its volume only reaching the level of 2.65 billion dollars.

The disadvantage has turned into an advantage as independence from external sources of financing enabled high tech firms (especially IT companies) to preserve stability in these difficult times. In addition, there were some exceptions among software export businesses as certain companies actually managed to grow during the toughest months by exporting software products into new markets. It is most likely that it was the crisis that prompted businesses to proactively promote their solutions in new countries. Nevertheless, there has emerged a leading group of frontrunners in the IT service industry that expanded the range of their services and has in such entered the elite of IT service providers which is successfully coping with competition on the global market. At the same time, these providers have proven to occupy a niche that major service providers were not able to offer in the Russian IT industry.

Kaspersky Lab is a Russian computer security company, founded in 1997 in Moscow. The company is the market leader in the development in anti-virus software. The company works in the software industry, where it specializes in computer security. Kaspersky offers anti-spyware, anti-spam, and anti-intrusion products. Its most famous and most important product is Kaspersky Anti-Virus, which is well praised within the industry as well as by the customer. The product has won several awards over the years and has been ranked first in anti-virus software multiple times.

By the mid 2000s Kaspersky Lab had grown into an international company, employing over 1500 computer specialists. The company is present all around the globe, in more than 100 countries. Headquarters are in Moscow and the company has regional offices in Europe (Netherlands, Germany, France, UK, Poland, Romania, Sweden), Asia (Japan, China, South Korea) and United States.

Growth the software industry is mostly attained through operational performance improvements and excellence and technological innovations. In times of crisis, as the financial downturn of 2009 has hit, the incentives for cost reduction through operational fine-tuning and cuts on the R&D budget remained high. Nevertheless, while the majority of businesses in the software industry grow through mergers and acquisitions, Kaspersky follows a path of organic development. As Kaspersky aims for global growth, the main strategy remains to be new enterprise-oriented solutions, regional expansion and increased partners.

Since internet is worldwide, the company operating in this area automatically establishes its worldwide presence. In order to better serve its customers, Kaspersky established relationships with distributors in other countries, starting its international expansion with an export.

The next step was engaging in partnerships in order to conquer the U.S. market. In 2001, Kaspersky Lab announced a partnership with Itamigo, a developer of internet security services. This enabled the company to launch the first Kaspersky anti-virus products to the customers in the U.S. market. Exploring partnerships has the advantage of low costs and a shared risk. This is important for a young company which is not yet fully established in the market and deals with low capital.

The European market was entered via the launch of European retail sales in 2001. The company made use of local retail and distribution networks in order to provide its products to the European market. These developments were followed by opening regional offices in European countries. In 2003 a regional office in Beijing, China was opened which was the beginning of its exploration of the less developed markets. After the company established its presence in the East, it continued to expand into the African market.

Kaspersky Lab has established multiple strategic partnerships with the top of the software industry. Among its strategic partners were Microsoft, Intel, IBM, Novell, Check Point and Linux Solutions. For Microsoft, Kapersky Lab was a so called Gold Certified Security Solutions Partner. Furthermore, the two companies were working on several joint projects. Regarding its partnership with Intel, Kaspersky Lab has optimized its systems for Intel products.

Internationalization results of Kaspersky Lab are presented in the exhibit 3.

Exhibit 3. Internationalization of Kaspersky Lab

Internationalization started	2001
Foreign destinations / Main assets abroad	Regional offices in Europe (Netherlands, Germany, France, UK, Poland, Romania, Sweden), Asia (Japan, China, South Korea) and United States
Entry modes	Starting with an export to establish relationships with distributors in other countries. Establishment of multiple strategic partnerships with the top of the software industry
Major deals and projects	The launch of European retail sales and partnership with Itamigo (a US developer of internet security services) in 2001. Strategic partnerships with Microsoft, Intel, IBM, Novell, Check Point and Linux Solutions. In 2003 a regional office in Beijing, China was opened. After the company established its presence in the East, it continued to expand into the African market
Expansion approach	Opening regional offices in European countries
Role of the state	Low

Sitronics is one of the largest national players in the high tech industry. Established in 2002, the company was set up as a scientific center, directed at microelectronics and telecommunications equipment and software. In 2004, the company established a business line related to IT-services. The company gained stakes in several companies, among which the largest IT company in Ukraine (Kvazar-Mirco). Now, Sitronics says to be the largest high-tech company in Eastern Europe operating in the field of telecommunications solutions, information technologies, system integration and consulting, and the development and manufacture of microelectronics products.

The company is a key partner for the states and governmental bodies in the field of infrastructural transformations in the Russian Federation and CIS countries. Sitronics succeeded in implementing strategy of public private partnership, taking part in scientific research backed up by government.

The company has subsidiaries in over 30 countries and employs over 10,000 people. Sitronics was ranked as a top 3 Russian IT-company. Major national competitors are Luxoft, Argussoft and BCC. International competitors are Microsoft, IBM and SAP AG.

Having over 3,500 clients around the globe, the company exports to over 60 countries in Western and Eastern Europe, Middle East, North America, North Africa and Central and South-East Asia. Manufacturing is done in Russia, Greece, Czech Republic, Romania and China. The major enterprises of Sitronics are located in Prague and Athens for Telecommunications Solutions, in Kiev for IT, and in Zelenograd and Moscow for Microelectronics Solutions.

Sitronics focuses on telecommunication, information technology and microelectronics markets in Russia, CIS, Greece, Eastern Europe, Middle East and South-East Africa (markets with the highest growth rates). The company participates in the range of the joint projects in the telecommunications area with large international companies – with Ericsson (3G network designs) and Cisco Systems (network solutions for fixed and mobile communications).

The expansion strategy of Sitronics is based on strong partnerships with key global and regional players. Sitronics has developed strategic alliances with Cisco Systems, STMicroelectronics, Infineon and Giesecke&Devrient in relation to most important products and services. Sitronics has vendor relationships with Siemens, Ericsson, Motorola, Oracle, Intel, Sun Microsystems and Microsoft. Key customers are both local companies (MTS, Comstar-UTS and MTT), and international firms (OTE, Cosmote, Vodafone, Ericsson, Arcelor Mittal and TCL).

Sitronics uses strategic partnerships and joint venture modes in order to get inside new attractive markets, enjoying the benefits of the concepts such as established networks and lower risks. One recent strategic partnership was established with Nokia Siemens Networks, a global enabler of communications services. Within the framework of this partnership, the agreement was signed, according which Sitronics Microelecrtonics (subsidiary of Sitronics) became the official global supplier of analogue power management electronic components for Nokia Siemens Networks products.

The most important international results of Sitronics are presented in the exhibit 4.

Exhibit 4. Internationalization of Sitronics

Internationalization started	Mid 2000s
Foreign destinations	Telecommunication, IT and microelectronics markets in CIS, Greece, Eastern Europe, Middle East and South-East Africa. The major enterprises are located in Prague and Athens for Telecommunications Solutions, in Kiev for IT
Main assets abroad	Subsidiaries in over 30 countries
Entry modes	Strategic partnerships and joint ventures
Major deals and projects	Strategic partnership with Nokia Siemens Networks. Joint projects in the telecommunications area with Ericsson (3G network designs) and Cisco Systems (network solutions for fixed and mobile communications). Strategic alliances with Cisco Systems, STMicroelectronics, Infineon and Giesecke&Devrient in relation to most important products and services. Vendor relationships with Siemens, Ericsson, Motorola, Oracle, Intel, Sun Microsystems and Microsoft.
Expansion approach	Exporting to over 60 countries in Western and Eastern Europe, Middle East, North America, North Africa and Central and South-East Asia. Manufacturing in Russia, Greece, Czech Republic, Romania and China. Key customers are both local companies (MTS, Comstar-UTS and MTT), and international (OTE, Cosmote, Vodafone, Ericsson, Arcelor Mittal and TCL)
Role of the state	Average

2.3 Opening Subsidiaries: Banking Sector

The biggest banks in the industrial world have evidently become complex financial organizations that offer a wide variety of services to international markets and control billions of dollars in cash and assets. Supported by the latest technology, banks are working to identify new business niches, to develop customized services, to implement innovative strategies and to capture new market opportunities.

Banks offer five product categories: credit, securities, asset management, financial services and insurance. Also, five client types can be distinguished that banks can target: governmental clients (nation states, supranational institutions), corporate clients, institutional clients (other banks, asset managers and insurers), retail clients and private clients. The banks which entered new market have actively serviced and targeted a wide range of clients and products. The deregulation of the world financial sector led to an increasing convergence between the activities of investment and commercial banks over the past decade.

The Russian banking landscape was highly fragmented in the end of 2000s. There has been a rapid increase in banking and financial sector services in Russia during 2000–2008. More than 1,200 banks operated in the country in 2009, and even the largest privately owned banks held maximum of 4 per cent of the market. In turn, state owned banks being considered as more reliable and secure, held about 50 per cent of the market, despite perceived to be somewhat inert and overly bureaucratic.

In 2008, the share of the top 200 banks in terms of asset volume reached 93.9% of total banking sector assets, and the share of the top five banks was 46.2% as of January 1, 2009. The proportion of the market held by the top 10 banks has remained more or less constant for several years, with the big state-owned banks (Sberbank, VTB and Gazprombank) having dominant positions. The proportion of the market controlled by foreign banks was less than 10%. Despite significant increase since 2006 it remains relatively low by comparison with other emerging markets (the average in Central and Eastern Europe is closer to 70%).

Technologies in Russian banking sector were somewhat simplistic, with corporate loans usually extended against collateral rather than against forecast cash flows. Fee-based products played a negligible role, rendering many Russian banks overly dependent on interest and trading income. Also, most banks were organized by region rather than by business segment, which sometimes led to an insufficient focus on the customer.

Gaps as described above provide substantial opportunities for big foreign banks whose funding, brand reputation, product expertise, customer service skills, and risk management experience are often superior to those of their Russian counterparts. The latter find it easier to start international expansion with opening subsidiaries in the neighboring CIS countries. The cases of Alfa bank and VTB present the subsidiaries as the vehicle of entry and of operations' expansion consequently.

Alfa-Bank is the part of Alfa Group – the Russian largest privately owned financial-industrial conglomerate, with interests in oil and gas, commercial and investment banking, asset management, insurance, retail trade, telecommunications, media, water supply and water disposal, as well as other industrial-trade and special-cases investments.

The corporate and retail client base of the bank has grown considerably during the last several years — by September 1, 2009 Alfa-Bank Russia served over 55,000 corporate and 3.6 million retail customers, while the branch network has been extended to 341 offices across Russia and abroad, including a subsidiary bank in the Netherlands and financial subsidiaries in the United States and the UK.

Alfa-Bank has more than 200 branches in Russia and the CIS, and subsidiaries in Kazakhstan, the Netherlands, and the United States. The company's CIS branch network services corporate and retail clients in commercial and investment banking.

The bank typically makes investments if can have the majority of the shares or an equal control or significant influence under. As the company typically holds controlling stakes in the companies in which it invests, any planned exit strategy is tenuous. Foreign investors provide the bank with not only capital, but also the expertise which is needed to successfully develop and realize the bank's investment projects.

Alfa Bank has expanded its commercial operations in Ukraine and, on a smaller scale, in Kazakhstan. Currently, Alfa Bank has a subsidiary bank in Kiev, with three branches in Kiev, including its head office, and three regional branches in Ukraine. Alfa Group takes a more conservative approach to Kazakhstan, where it currently has one subsidiary in Almaty with branches in Astana, Karaganda and Ust-Kamenogorsk.

The international results of Alfa Bank can be viewed through the exhibit 5.

Exhibit 5. Internationalization of Alfa Bank

Internationalization started	Mid 1990s
Foreign destinations	Mainly CIS
Main assets abroad	Branches in the CIS, subsidiaries in Kazakhstan, the Netherlands, the UK, and the United States
Entry modes	Investments if can have the majority of the shares or an equal control or significant influence under. Typically holds controlling stakes in the companies in which it invests
Major deals and projects	A subsidiary bank in Kiev, with three branches in Kiev, including its head office, and three regional branches in Ukraine. Focus on Kazakhstan (one subsidiary in Almaty with branches in Astana, Karaganda and Ust-Kamenogorsk)
Expansion approach	Expansion in Ukraine and in Kazakhstan. Opening branches and subsidiaries. Quite a conservative approach to expansion
Role of the state	Relatively low

The **VTB Group** has developed over the past two decades into a universal financial and banking institution with a leading position in Russia and a constantly expanding presence in the CIS, Western Europe, Africa and Asia, both through organic growth and a series of strategic acquisitions.

VTB holds a secure second place in Russia in terms of assets, capital, funding base, corporate and retail lending, with authorized capital Rub bn.104.6 (around 3.6 bn. US dollars). As of October 01, 2009, VTB's equity reached RUB 583.8 bn., and its assets — RUB 2,696.5 bn. (around 93 US dollars). According to 2008 results, the VTB was placed the 70th among the world's largest banks.

As of October 01, 2009, the bank's corporate loan portfolio exceeded RUB 1,541 billion. Loans to construction, metallurgy, machine building and trade enterprises as well as fuel and energy complex account for the largest part of VTB portfolio.

VTB has two subsidiary banks in Russia, a number of financial companies (VTB Leasing, VTB Insurance, VTB Capital, etc.), subsidiary banks in Ukraine, Armenia, Georgia, Belarus and Azerbaijan, as well as six banks in Western Europe (Great Britain, France, Austria, Germany, Cyprus and Switzerland), a subsidiary bank in Angola and a financial company in Namibia. VTB Bank also has representative offices in Italy, Kazakhstan, Kyrgyz Republic and China. VTB Capital plc (United Kingdom) operates a subsidiary in Singapore.

In general the presence of Russian banks abroad is rather limited, in comparison to their foreign counterparts. It can be explained with the fact that Russian banks tend to go abroad mainly to service the investment projects of Russian companies, that are mainly exporters. This principle is especially true for the CIS region, where the presence of VTB is the most active in the countries that have larger trade turnover with Russia. Furthermore, the economic reforms made in those countries also become a particularly important factor for the internationalization of Russian banks in CIS countries.

VTB, being a state owned bank, has got some of its banking assets abroad with the help of the government. For example, 85% of Donau - Bank in Vienna, originally controlled by Central Bank of Russia, were transferred to the VTB bank. While implementing its strategic plan to develop the banking network abroad, VTB founded Russian Commercial Bank in Zurich (Switzerland) and established Russian Commercial Bank in Limassol (Cyprus).

Later on, VTB became a shareholder of East-West United Bank (Luxembourg) and Ost-West Handelsbank (Frankfurt-am-Main), and increased its participation in Donau-Bank (Vienna). The planned acquisitions of European banks by VTB can have important implications for foreign direct investment into Russia that is why VTB expansion plans in Europe are usually supported by the government. At the same time, VTB continues to consolidate its Western Europe subsidiaries.

VTB was the first Russian bank to obtain a license to carry out banking activities in India and China and to open its branches in these two countries. Besides, taking an active part in developing trade and economic relations between Russia and China, the Bank started servicing bank cards of UnionPay, Chinese national processing company.

We summarized the internationalization results of VTB in the exhibit 6.

Exhibit 6. Internationalization of VTB

Internationalization started	Since 2005
Foreign destinations	CIS, Western Europe, and also Angola, Singapore, and Namibia. Interest to Italy and China
Main assets abroad	Subsidiary banks in Ukraine, Armenia, Georgia, Belarus and Azerbaijan; banks in Great Britain, France, Austria, Germany, Cyprus and Switzerland, also two banks in Angola and Singapore, and a financial company in Namibia. Representative offices in Italy, Kazakhstan, Kyrgyz Republic and China
Entry modes	Establishing subsidiaries
Major deals and projects	The first Russian bank to obtain a license to carry out banking activities and to open its branches in India and China. Servicing UnionPay bank cards, Chinese processing company. 85% of Donau - Bank in Vienna, originally controlled by Central Bank of Russia, were transferred to the VTB bank. While implementing its strategic plan to develop the banking network abroad, VTB founded Russian Commercial Bank in Zurich (Switzerland) and established Russian Commercial Bank in Limassol (Cyprus)
Expansion approach	Expanding presence in the CIS, Western Europe, Africa and Asia, both through organic growth and a series of strategic acquisitions. Most active in the countries that have larger trade turnover with Russia
Role of the state	A state owned bank. Expansion plans in Europe are usually supported by the government. Has got some of its banking assets abroad with the help of the government

2.4 FDI from Russia: Metallurgy Sector

In the beginning of 21st century, the metallurgy went through some truly golden years, as the prices of almost all natural resources grew at a rapid pace. Construction, especially in developing countries, boomed and the capacity of the industry could barely satisfy the demand, even though the metal prices were at all time highs. As the world economy has faced a drastic slowdown since 2007, also the highly cyclical metallurgy sector has had to accustom its operations to the decreased demand in the western countries.

Some of the metallurgy companies have diversified their operations more vertically, so they can own stakes in mining companies, or they might produce some construction materials, but for all the companies, the production and refining of metals remains the core of their business.

Due to the high capital- and investment requirements and high competition, the entry barriers to enter the markets are very high. Also the scale advantages of big companies make it difficult for small companies to enter the markets for both ferrous and non-ferrous metals.

The largest metallurgy player in the world is the Arcelor Mittal, which produces almost three times more steel than its closest competitor Nippon Steel does. Arcelor Mittal is even in the worlds scale a huge producer, since in 2008 it accounted for almost 8% of worlds steel production. The other top 10 producers account for only some 2-3 % of worlds total output. The largest Russian steel producer is Severstal, which produced some 17.3 million tons of crude steel in 2008. Other major Russian steel producers are Evraz, Magnitogorsk and Novolipetsk, all of which belong to the top 25 producers of the world.

Russian steel companies tend more and more to operate internationally and in the most of the cases they choose acquisitions as a mode of entry. There are no monopolistic players, but those which were enumerated previously possess the biggest share of the market. Only four companies (Severstal, Evraz, Novilipezk, Magnitogorsk) produced 75% of the whole steel production volume in Russia in 2007.

Russia’s steel industry is characterized by an extremely high degree of concentration: nine metallurgical companies account for nearly 90% of the country’s steel output, while the remaining two dozen account for the rest.

The aluminum market will be also considered in this chapter as one of the largest world companies and Russian MNE – Rusal – operates on it. There is a striking geographical differentiation on this market. Asia-Pacific region can be named as the most lucrative region, generating 48.5% of the global aluminum market's aggregate value. Europe accounts for 25.3% of the global aluminum market, while America owns 26.2%. The main factor of differentiation is the availability of bauxites. There are only seven bauxite-rich areas: Western and Central Africa (mostly, Guinea), South America

(Brazil, Venezuela, and Suriname), the Caribbean (Jamaica), Oceania and Southern Asia (Australia, India), China, the Mediterranean (Greece, Turkey) and the Urals (Russia).

There is a strong tendency towards integration in the metals and mining industry and in the aluminum industry as well. Cross-border mergers and acquisitions have been taking place for several years. Usually the attention during these mergers is focused on technological improvements and creation of the new products. Also through integration, companies tend to strengthen their position, lower production costs, and expand towards new markets.

The aluminum industry is highly concentrated and is represented by a limited number of large, multinational players offering similar products and services. As a result it becomes very hard and even impossible for smaller and weaker companies to enter the market. Also exit barriers are high, because many of the major tangible assets are highly specific to their industry, and thus harder to divest. And of course it requires a high concentration of the capital and know-how to enter it. In this situation, players are strongly motivated to remain in the industry even when conditions are difficult as we can see it during the crisis.

One of the most striking examples of high consolidation in the Russian industry is the fact that today there is only one big company in the industry – UC Rusal. Before the merger of two companies in 2007, there were two main rivals in the Russian aluminum industry – Sual (about 25% of the market) and Rusal (75% of the market). In 2006 SUAL was in the list of 10 biggest aluminum companies. Its primary specialization was bauxite production, while Rusal strategic direction for future development was primary aluminum.

Severstal is the largest Russian vertically-integrated company and is placed among the top 15 in the world in steel production. In addition to steel and rolled metal, Severstal also produces coal and non-ferrous metal products. The company was founded in 1993 on the basis of the privatization of the largest Soviet steel mills working since 1955.

Severstal began its investment expansion outside Russia in the early 2000s, starting with the key market of the United States in 2004. Its foreign affiliates produce mostly steel and rolled metal. Severstal has been trying to broaden its activities in the mid 2000s through foreign enterprises in the coal industry and the non-ferrous metal industry. The company placed its production facilities in the US, Italy, France, the UK, Poland, Ukraine, Kazakhstan and also Liberia, Burkina Faso and some other countries.

Internationalization of Severstal has begun in 2003 when the company acquired Rouge Steel, an integrated steel-making facility based in Michigan, USA, for $360 million. This company was later renamed in Severstal Dearborn. This acquisition was successful and lead to further expansion of Severstal. Severstal followed an aggressive internationalization strategy and has planned to acquire several steel producers in the CIS countries, Europe and North America. In 2006 the company had acquired the Lucchini Group, bankrupt steel producer with integrated steel-making facilities based in Italy and France. In 2007 Severstal acquired Celtic Resources, a gold mining company with a number of assets in Kazakhstan, to broaden the division of Severstal Resources. Since 2008 international expansion of Severstal turned to be aggressive. Only in 2008 Severstal acquired seven enterprises: Sparrows Point based in Maryland, USA; African Iron Ore Group Ltd (AIOG) in western Africa; PBS Coals, a coking coal producer based in Pennsylvania, USA; Balazhal, an East Kazakhstan-based gold mining company; Esmark Incorporated based in West Virginia, later renamed Severstal Wheeling; WCI based in Ohio, USA, later renamed Severstal Warren; 53% stake in High River Gold, the owner of a number of plants and Buryatia and Amur Region and a gold mine in Burkina Faso (Africa).

One of the exceptions from massive acquisition strategy implemented by Severstal was a launch of SeverCorr mini-mill in Mississippi, USA, and later renamed Severstal Columbus.

Among few M&A failures in the history of internationalization of Severstal an attempt to merge with Arcelor was. This deal could lead to the creation of the biggest enterprise in world steel industry. Arcelor was involved soon in another more profitable agreement with Mittal Steel company.

The strategy of acquisition of low performing enterprises in the strategic western markets (like US and EU) provided Severstal with the opportunity to increase the capacity and gain market access through local production and distribution outlets. The internationalization strategy of Severstal thus contradicts that of many other Russian

MNCs which have started their expansion from the neighboring CIS markets. Instead, Severstal followed an aggressive expansion strategy in developed markets through acquisitions.

The main international achievements of Severstal are in the exhibit 7.

Rusal is the largest world producer of aluminum (11% of world production) and alumina (13%). The company has approximately 75,000 employees. A set of foreign metal enterprises was developed in the early 2000s through the acquisition of assets in Armenia, Guinea, Rumania and Ukraine. Later foreign projects included enterprises in transport machinery (the UK and Canada) and construction (Austria and Switzerland). Its expansion of 2006-2007 was interrupted by the world crisis, as a result of which the conglomerate turned down several acquisition prospects.

The company operates in 19 countries, possessing enterprises in Australia, Guyana, Mongolia, Nigeria, Sweden, Jamaica, and some other countries. The company primarily operates in Russia, the US, China, Japan and Singapore. The automotive, construction and packaging industries are key consumers of Rusal's products.

Except aluminum and alumina businesses Rusal also comprises such assets as bauxite and nepheline ore mines, cathouse business for production of alloys, foil mills and production of packaging materials as well as power-generating assets. Generally six business divisions can be divided: aluminum, alumina, packaging, raw materials, energy, and engineering and construction.

One of the priority destinations for Rusal is Guinea, where the company is represented by three production facilities, acquiring them in the period of 2001-2006.

Rusal use the M&A for foreign expansion usually, however, the company avoids a hostile deals, trying to make agreements and compromises with the partners. Except M&As, Rusal also exploit licensing as in the case of Compagnie des Bauxites de Kindia. And of course export is definitely important for Rusal, accounting some 80% of the whole company's output.

The main international results of Rusal are presented in the exhibit 8.

Exhibit 7. Internationalization of Severstal

Internationalization started	2003
Foreign destinations / Main assets abroad	Production facilities in the US, Italy, France, the UK, Poland, Ukraine, Kazakhstan and also Liberia, Burkina Faso and some other countries
Entry modes	Acquisitions
Major deals and projects	Acquisition in 2003 of Rouge Steel, an integrated steel-making facility based in Michigan, USA, for $360 million (was later renamed in Severstal Dearborn). Acquisition in 2006 of the Lucchini Group, bankrupt steel producer with integrated steel-making facilities based in Italy and France. Acquisition in 2007 of Celtic Resources, a gold mining company with a number of assets in Kazakhstan, to broaden the division of Severstal Resources. Acquisition of seven enterprises in 2008: Sparrows Point based in Maryland, USA; African Iron Ore Group Ltd (AIOG) in western Africa; PBS Coals, a coking coal producer based in Pennsylvania, USA; Balazhal, an East Kazakhstan-based gold mining company; Esmark Incorporated based in West Virginia, later renamed Severstal Wheeling; WCI based in Ohio, USA, later renamed Severstal Warren; 53% stake in High River Gold, the owner of a number of plants and Buryatia and Amur Region and a gold mine in Burkina Faso (Africa)
Expansion approach	An aggressive acquisitions strategy in the CIS countries, Europe and North America. Since 2008 international expansion of Severstal turned to be even more aggressive. The strategy of acquisition of low performing enterprises in the strategic western markets (like US and EU) provided Severstal with the opportunity to increase the capacity and gain market access through local production and distribution outlets. The internationalization strategy of Severstal thus contradicts that of many other Russian MNCs which have started their expansion from the neighboring CIS markets. Instead, Severstal followed an aggressive expansion strategy in developed markets through acquisitions. One of the exceptions from massive acquisition strategy implemented by Severstal was a launch of SeverCorr mini-mill in Mississippi, USA, and later renamed Severstal Columbus
Role of the state	Relatively low vs an average role in the whole sector

Exhibit 8. Internationalization of Rusal

Internationalization started	Early 2000s
Foreign destinations / Main assets abroad	Primarily operates in the US, China, Japan and Singapore. Enterprises in 19 countries (incl. Australia, Guyana, Mongolia, Nigeria, Sweden, Jamaica).
Entry modes	Acquisitions of assets in Armenia, Guinea, Rumania and Ukraine. Entry into related sectors enterprises in transport machinery (the UK and Canada) and construction (Austria and Switzerland).
Major deals and projects	Guinea is the priority destinations, where Rusal is represented by three production facilities, acquiring them within 2001-2006
Expansion approach	Rusal uses the M&A for foreign expansion usually; however, the company avoids hostile deals, trying to make agreements and compromises with the partners. Rusal also exploit licensing. Export remains important, accounting for some 80% of the company's output
Role of the state	Average to high, taking into account positive attitude of the government to Rusal owners

2.5 Mergers and Acquisitions: Telecom Industry

The telecommunication services industry consists of fixed line telecom services and alternative carriers. Growth rates in the industry dipped in 2003 but have since returned to a state of buoyancy as the telecommunication needs of the emerging economies boosted revenues. The global diversified telecommunication services industry generated total revenues of $808.5 billion in 2006, this representing a CAGR of 5.1% for the five-year period spanning 2002-2006.

In recent years the markets of the developed world have been driven by broadband subscriptions, within the US alone there were over 40 million households and firms subscribed to a broadband connection. The Asia-Pacific market was increasing in importance due to the rapidly expanding economics of the NICs, China and India. Asia Pacific had the second largest market, with combined revenues of approximately $250 billion.

The established players in the global diversified telecommunications industry included Verizon, AT&T, Sprint Nextel, Bell South Corp and Qwest Communications; together they accounted for more than 20% of the industry's overall revenues. Two factors have affected profitability within the telecom sector in the 2000s: the global economic downturn since 2001 and industry over-investment in broadband technology.

Three large and powerful international alliances of national telecom operators, namely Unisource/WorldPartners, Global One and Concert Communications, were initiated in the middle of 1990s to service international telecom connections and new international need of multinationals.

Nowadays the share of these big players is really huge in the global market. The high share can be explained by the individual member corporations of these alliances that include some of the biggest providers of international connections at the time like AT&T, Deutsche Telekom and France Telecom and therefore doesn’t primarily stem from new customer acquisitions made by the alliances themselves.

The Russian telecommunications and technology sector has recorded extremely buoyant growth in recent years, with penetration of mobile telephones, personal computers (PCs) and the Internet all expanding rapidly. This growth has been fuelled by initially low penetration levels, combined with strong growth in economic indicators, including real disposable incomes.

Few industries have reflected the consumer boom and growing middle class experienced by Russia in the pre-crisis years as much as telecoms. Total telecom sector revenue amounted to US$42.6bn in 2008—up from just over US$27bn in 2006. The mobile market accounted for 57% of the market, or US$24.2bn, and the fixed-line market accounted for the remaining 43%, or US$18.4bn. The share of the fixed-line segment in the total telecoms market has fallen in recent years, owing to relatively slower growth than in mobile telephony.

Mobile telephony has experienced explosive growth in Russia in 2000s, and the market was the fourth-largest in the world in 2008-2009, after China, India and the US. It has been one of the most attractive sectors for Russian and foreign investors.

MTS is the largest mobile communications services company in Russia. The company began its foreign expansion in 2002 establishing a subsidiary in Belarus. Nowadays MTS has subsidiaries in five CIS countries – in Belarus, Ukraine (since 2003), Uzbekistan (2004), Turkmenistan (2005) and Armenia (2007). In 2007, MTS started its mobile telephone business in India, where it took over Shyam Telelink.

MTS started its internationalization in several neighboring CIS countries. The main reasons for choosing these target markets were related to historical and cultural traditions, common infrastructure network inherited from the Soviet era, and relatively similar business practices. In addition to that one should take under consideration the geographical proximity, which clearly favored international expansion. Meanwhile, several target markets of the company (like Uzbekistan) are located relatively far from main Russian economic centers.

Despite all the difficulties, political relations between and within CIS countries tend to develop positively. Integration within the CIS seems to be a priority political target for Russia. Considering the significant role of the state in the mobile communications sector, this political issue favors co-operation, helps Russian companies to enter new markets. This plays especially important role in cases of Belarus, Uzbekistan and Turkmenistan. Moreover, internationalization via expansion to CIS countries fits the 'follow your consumer' strategy of the company. Many Russian firms being MTS corporate clients have already entered markets of CIS countries and actively develop economic co-operation in this area. Human migration within the CIS is also an important reason, as it formed an initial basis as well as incentive for internationalization by enhancing co-operation between mobile operators from Russia and other CIS countries (supplying international roaming services).

The internationalization of MTS can be viewed through the exhibit 9.

Exhibit 9. Internationalization of MTS

Internationalization started	In 2002 with establishing a subsidiary in Belarus
Foreign destinations	CIS countries and India
Main assets abroad	Subsidiaries in Belarus, Ukraine (since 2003), Uzbekistan (2004), Turkmenistan (2005) and Armenia (2007).
Entry modes	Acquisitions of market leaders; the only exception is the joint-venture in Belarus
Major deals and projects	In 2007, MTS started its mobile telephone business in India, where it took over Shyam Telelink
Expansion approach	The 'follow your consumer' strategy. Russian firms being MTS corporate clients have already entered CIS markets and actively develop economic co-operation in this area
Role of the state	The political factor favored co-operation, and helped to enter new markets, being especially important in cases of Belarus, Uzbekistan and Turkmenistan

VimpelCom is the leading Russian company in the field of mobile communications, with over a quarter of the national market. VimpelCom Group provides voice and data services through a range of mobile, fixed and broadband technologies under the Beeline brand.

International expansion of the company began with the acquisition of large stakes by Norwegian Telenor (in 1998) and Russian Alfa-Group in 2001. Currently, VimpelCom has 30% and 44% of shares respectively. Companies of the VimpelCom Group operats in Kazakhstan (since 2004, with 43% of the national market), Ukraine and Tajikistan (since 2005), Uzbekistan, Georgia and Armenia (since 2006), and Vietnam and Cambodia (since 2008).

In the internationalization process of VimpelCom, acquisitions always played the most important role. First it acquired the Kazakhstan mobile operator Kar-Tel in 2004.

In the end of 2000s the outlook of the company turned to Asia where it strived to build mobile networks: in 2008 it established a joint venture GTEL-Mobile in Vietnam in which it gained a 40% stake, and acquired a 90% stake in Sotelco in Cambodia.

In Russia, the market penetration was already at 136% level, and the average revenue per user can be raised hardly. On the contrary, the market penetration in Cambodia and Vietnam with the total population of 100 million people amounted just to 55%.

Apart from that, the company had also focused its resources on the CIS countries where the mobile coverage was still at a relatively low level and that could represent the right space for the future expansion.

As the mobile markets have already been tapped by Russian operators in most of the CIS countries and Russian mobile operators have started expanding into the domestic fixed-line and broadband markets, this area could become the busiest in the M&A arena in the CIS in the near future. This might, however, be true only for those countries with high population densities, whereas in countries with low densities operators will prefer to develop the next generation of mobile services, which will allow them to offer high-speed mobile broadband.

Exhibit 10 presents the main international results of VimpelCom

Exhibit 10. Internationalization of VimpelCom

Internationalization started	In 1998 with the acquisition of the 30% stake of Norwegian Telenor
Foreign destinations / Main assets abroad	Operates in Kazakhstan (since 2004, with 43% of the national market), Ukraine and Tajikistan (since 2005), Uzbekistan, Georgia and Armenia (since 2006), and Vietnam and Cambodia (since 2008)
Entry modes	Mainly acquisitions, but also IJV and licensing
Major deals and projects	Focus on Asia with the strive to build mobile networks: in 2008 it established a joint venture GTEL-Mobile in Vietnam in which it gained a 40% stake, and acquired a 90% stake in Sotelco in Cambodia. Investment in Laos was made in 2009
Expansion approach	Intentions to go global in a various forms not only to CIS countries but even further to Asia and Europe
Role of the state	Despite the telecommunication industry is highly regulated by the Russian government, VimpelCom has less support but also less interference in its business

3 BOUNDARIES AND PROSPECTS OF RUSSIAN MNES

3.1 Born for Global Business

This chapter will explain the process of rise of Russian companies that were established as international by nature. In one case this is the distributor of the largest state monopoly in the power generation sector which was finally transformed into the MNC. The second firm is global ‘from scratch’ as this is the internet company engaged in the search system and context advertisement businesses.

The electricity sector was under the process of dramatic changes in the mid 2000s in Russia. The idea of reforming has evolved directly from the answer to some very simple and evident questions: who pays, how much, to whom and for what? Today there is a number of regional energy companies and large federal power stations, as well as the intersystem of electrical grids. The State owns a controlling stake in most companies, regulating all the activities of the energy entities and determining the prices of its services and production.

The contemporary economic system in the electricity sector does not satisfy the needs of any of its participants. The average consumer is unhappy with the fact that every year they have to pay more and more for electricity, but even this does not guarantee a safe and stable energy supply. Looking for whose fault this is inevitably leads to blaming a regional energy company, who in turn point to regional authorities and their energy commissions for setting unrealistic tariffs to keep favor with the electorate. The authorities for their part tend to blame the regional energy system, pointing out that it always asks for too much money and spends it irrationally. This may sound somewhat odd, but both parties are in fact correct. It is true that the tariff, set by the regional energy commission, does not cover all the expenses of the regional energy companies, many of which lack the funds to keep the system in a working state. However, it is also true that regional energy systems are not motivated to reduce their costs.

What can change the situation in the electricity sector and improve performance of the local companies is the internationalization of supply. The electricity from Russia is historically distributed internationally and can promote the development of the industry as well.

Inter RAO UES was established as a power distributor of the RAO UES Group in 1997. RAO UES (Unified Energy System of Russia) is a power holding company engaged in the generation, dispatching, transmission, and retailing of electricity and heat. RAO UES primarily operates in Russia and employs about 470,000 people. After the reorganization of the company, the original RAO UES seized to exist, and several smaller electricity companies were formed. Inter RAO UES succeed a considerable part of original company's assets and get a notable market share.

In 2001, Inter RAO UES started projects of trading with non-Russian electric power in foreign markets. In 2002, it began exporting of electric power from Russia as well as generating power in Russia. In 2003, 40% of the company’s shares were sold to another Russian energy company Rosenergoatom. As a result, Inter RAO UES became a unified export and import operator of two of the largest producers of electric power in the country.

Inter RAO UES started active purchasing of electric power assets abroad with expansion in Georgia and Armenia in 2003. In 2004, its subsidiary trading company became one of the major business entities in Finland. In 2005, Inter RAO UES acquired control over power stations in Moldova and Kazakhstan, began building a power station in Tajikistan and started operate in Turkey. In 2007, the company took over a distributor of electricity in Lithuania.

In the end of 2000s Inter RAO UES headed a group of more than 20 companies based in 14 countries. By acquiring foreign assets, the company consolidated its position in the electric power markets in Europe, the South Caucasus, the Far East and Central Asia.

The main export destinations in 2008 were Finland, Belarus and Kazakhstan: they accounted for more than 73% of all company exports (51.2%, 11.6% and 10.7%, respectively). Electric power was also supplied to Azerbaijan, Georgia, Ukraine, Latvia, Lithuania, Mongolia and Norway.

In 2008 the overall imports of electric power under Inter RAO UES contracts totaled 3.05 billion kWh, which was 2.57 billion kWh less than in 2007. The main sources of electricity imports in 2008 were energy systems of Kazakhstan, Georgia and

Azerbaijan, which together accounted for 96.1% of imports (70.9%, 14.2% and 11% of imports, respectively).

In 2009 Inter RAO UES joined a $1 bn. investment pool with the Russian state owned VTB bank, and Kuwait's Alghanim & Sons to invest in electricity projects in Russia, the CIS and Arab countries. It was also bidding in partnership with Rosatom for a contract to build a nuclear power plant in Turkey.

Competition is very strong in the area of energy sales: some distributors work in every region, others specialize in one of the consumer groups. They compete by lowering the price of their services and offering more profitable and convenient conditions of energy supply.

The reform of the electricity sector signifies an immense change in the Russian mentality. The success of the reform will mainly depend on the clear understanding of the idea that energy is not a social good but a good that has to be paid for, and that electricity is a sector of the national economy that requires a pragmatic attitude and not political intrigues.

Exhibit 11 contains the main international results of Inter RAO UES

Exhibit 11. Internationalization of Inter RAO UES

Internationalization started	In 2001 with trading by electric power in foreign markets
Main assets abroad	Starting with the purchasing of electric power assets abroad focusing on Georgia and Armenia since 2003, the group has more than 20 companies in 14 countries
Foreign destinations	Finland, Belarus and Kazakhstan accounted for more than 73% of all company exports in 2008. Electric power was also supplied to Azerbaijan, Georgia, Ukraine, Latvia, Lithuania, Mongolia and Norway
Entry modes	Export, acquisitions, greenfield
Major deals and projects	Subsidiary trading company in Finland establishment in 2004. In 2005, acquisition of control over power stations in Moldova and Kazakhstan, began building a power station in Tajikistan and started operate in Turkey. In 2007, the company took over a distributor of electricity in Lithuania
Expansion approach	By acquiring foreign assets, the company consolidated its position in the electric power markets in Europe, the South Caucasus, the Far East and Central Asia
Role of the state	In 2009 Inter RAO UES joined a $1 bn. investment pool with the Russian state owned VTB bank, and Kuwait's Alghanim & Sons to invest in electricity projects in Russia, the CIS and Arab countries. It was also bidding in partnership with Rosatom for a contract to build a nuclear power plant in Turkey

The internet market in Russia was growing fast in the 2000s. In 2003, only 3% of the Russian population was accessing the web daily – in 2008 it was at the 10% mark.

It was predicted in the end of 2000s that by the end of the century Russia will be the second largest Internet market in Europe (with Germany no.1), with more than 40 million Internet users. Russia was also predicted to have more than 40% of its population using the Web by 2012, up 70% from the 2007 level.

The majority of Internet users live in two largest cities of Russia (Moscow and St. Petersburg) which are where the most affluent Russians live and where 90% of government spending is plowed.

There are still a few hurdles Russia has to clear to become a really viable online economy. The first relates to delivery - freight services can be very unreliable. The Russian banking system is not as good as the West's yet and Internet users with credit cards aren't at the levels of the USA; but that is rapidly changing too.

Yandex is the leading internet engine and one of best known brands in Russia with more than 15 million visitors and users.

On Russian market Yandex is a pioneer in a context advertisement. After the launch of this product in 2004 it skyrocketed by its share in all advertisement sector. In 2005 revenue from advertisement services of Yandex was $100 million 80% out of which was revenue from context advertisement. Yandex's major competitor in this field remains Google which has tremendous worldwide experience and client base.

Yandex like any other Internet company is international from scratch - it is an advantage given from the nature of the Internet company itself. The only physical international asset of Yandex is its subsidiary company Yandex Labs that was founded in 2009 in the Silicon Valley in California but it is used for research and not to provide services in the USA.

Yandex's innovation on the market was an introduction of "pay per click" system, where a client pays per every entry to the website through Yandex search engine. In this case client is paying regardless of a fact if a visitor bought anything or not.

During 2009 two domains were opened: in Ukraine (yandex.ua) and in Kazakhstan (yandex.kz). Both domains are working on Russian language basis, but are geographically reoriented on Ukraine and Kazakhstan in keyword search processes.

Internet market of Belorussia and Poland were considered as next important targets of Yandex. Most of the population of Belarus speaks Russian and uses it in daily life (along with Byelorussian). As to the Poland, many obstacles are expected. The entire population of Poland uses predominantly only polish language, and very little of them know Russian language. Besides, the aversion to all Russia-related things is still noticeable in the country. Moreover, Yahoo and Google are very strong on this market. Both companies have their domains in Poland running in Polish language.

Western markets are highly attractive for internet companies as they can be easily entered without any significant spending on facilities or labor force. At the same time, they are extremely competitive for all host firms. Though, the meaning of entry barriers in the case of internet industry is changing comparing with the more ‘physical’ sectors. Despite Yandex managed to open its subsidiary in USA, it was only for a mere support of Russian domain in USA for Russian expatriates living there. Competition on a home market of Google is out of the question.

The internationalization of Yandex is presented in the exhibit 12.

Exhibit 12. Internationalization of Yandex

Internationalization started	International from scratch (1997) - it is an advantage given from the nature of the Internet company itself; formally first foreign subsidiary was found in 2009
Main assets abroad	The only international subsidiary Yandex Labs was founded in 2009 in the Silicon Valley in California which is used for research and not to provide services in the USA
Foreign destinations	Selected CIS countries’ mass customers
Entry modes	Domains opening as a virtual mode of entry
Major deals and projects	Domains opening in Ukraine and Kazakhstan; internet market of Belorussia and Poland as next targets
Expansion approach	Regional development in CIS countries
Role of the state	Uncertain as the government announces periodically the intent to interfere to the Internet sphere

3.2 Emphasis of International Strategies

This chapter will first discuss the international strategies’ emphasis and then describe the implications for Russian multinationals. The focus Russian MNEs make when entering and operating at the foreign markets is mostly in the marketing, aggressive investments, establishment relationships, involvement of government, etc. In this part the branding and government issues will be presented with the cases of the diary food company WBD and military firm Rosoboronexport.

The food industry in Russia is strongly competitive. There are many sectors of the market, which are specialized in different products. The competition of Russian and

International companies is evident in a few sectors of the food market, one of which is diary.

There are approximately 2 thousand dairy products manufacturers in Russia, and only 5 are really large. Two largest Russian companies are truly international, as they operate in the CIS markets, and they also explore capabilities to enter markets of Eastern Europe or Asia.

Despite the average rate of consumption is approximately 250 kg. per person annually (more than 22 bln. USD), the industry growth rate is moderate and the consumption of milk and dairy products is also growing at a moderate pace. Milk consumption per capita in 2008 was 250 kg, and in 2009 – up to 270 kg per person in a rational norm of 392 kg. Total consumption of packaged dairy products in Russia in 2006 amounted to 10.1 billion liters. Declining industry growth rate leads to increase in rate of competition, which, in context of internationalization, will make sense for Russian producers to go abroad, and will be an obstacle on the way of foreign MNC's to enter Russian market.

Russian producer **Wimm-Bill-Dann (WBD)** is a major player on the Russian dairy market, and one of the leading players on CIS market, and on the market of Baltic countries. WBD had created a unified production network in the regions of Russia and the CIS countries, becoming a national manufacturer in Russia. This group owns 37 manufacturing facilities.

WBD has several highly recognized brands on Russian dairy market as well as several well-known brands in other food industries. The core markets of WBD's products encompass a population of around 280 million people. These markets, including Russia, Ukraine, Belarus, and the countries of Central Asia, are extremely diverse, with dietary habits shaped by many different national traditions, environments, and differences in spending patterns.

At the same time, these markets have some important things in common. Each country had seen sustained economic growth in 2000s, and local consumer markets were being driven by rising household incomes and the emergence of a mainly urban middle class that was health-conscious and seek high-quality, healthy and nutritious food and beverage products.

The main competitors of WBD in Russia are: Russian company Unimilk and foreign producers Danone, Ehrmann, and Campina. In mid 2000s Danone's, Campina's, and Ehrmann's market share was up to 10% while WBD had a market share accounted for about 30%.

Company has a specified strategy – to produce dairy products directly in the region where they are consumed, supplying the Russian market with high quality dairy products at affordable prices. As an entry mode (as well as for further expansion) company used mainly brownfield strategy.

WBD started to expand to CIS with FDI in 2000, when it bought production facilities in Kiev (Gormolokozavod) and in Lithuania (Birzu Dairy Group). WBD mainly acquires smaller local firms in Russia and CIS countries. Joint ventures and partnerships with local producers aren't attractive to the company – they could very rare provide the company with any really useful technologies or knowledge. WDB makes focus on the excellent quality of its products in every country, so it has to invest significantly both in quality when it buys new production facilities abroad and in ads when launching the product.

One important treat of the Russian food market is customer's loyalty to already established brands. Russian products may be perceived of a low quality, even when the product itself actually has really high quality. That implied the development of the strategy based on the development of the series of brands for various markets by WBD.

In 2006 Danone made unsuccessful attempt to merge WDB. But it bought a significant equity stake and further increased it. Today Danone owns some 18% of WBD's shares.

For WBD an opportunity to continue international growth can be the development of the own brand via co-operation with a global firm. One could say the best way to enter Europe for WBD is to establish JV. The best partner in this case could be Danone, because: it has WBD's shares, so the company is interested in WBD success; it has established brands in Europe as well as networks and contacts; it has experience in doing business in Europe.

Increasing competition and growing pressure from retailers is changing the strategic priorities of Russian companies' development. Their main objectives switch to the establishment or development of own 'international' brands, the geographical embranchment of the marketing and sales promotion in retail networks. In many cases companies go through a stage of formation of the production base and move to the stage of building and improvement of marketing system; the strong and highly recognizable brand became a key factor in the formation of the value for company.

The internationalization of Wimm-Bill-Dann is presented in the exhibit 13.

Exhibit 13. Internationalization of Wimm-Bill-Dann

Internationalization started	In 2000 with the active investment to CIS countries
Main assets abroad	Facilities in Kiev and in Lithuania
Foreign destinations	CIS markets, including Ukraine, Belarus, the countries of Central Asia
Entry modes	Mainly brownfield strategy
Major deals and projects	In 2006 Danone unsuccessfully attempted to merge WDB. Danone owns some 18% of WBD's shares
Expansion approach	To produce dairy products directly in the region where they are consumed, supplying the Russian market with high quality dairy products at affordable prices. WBD acquires smaller local firms in CIS countries
Role of the state	An average in the industry where the government is not generally active

The military industry is without any doubts one of the most controversial areas. Especially when it comes to the power and influence of the military-industrial sphere with its incidence on weapons programs which are then criticized for cost overrun, delays and unsatisfactory performance. Also companies engaged in military industry are judged for their exports to less developed countries which lead to regional arms races, international debt and poverty and these companies are also famous for their bribery and corruption attributes.

Defense firms and industries have a long history which reflects new threats and technology. The major arms companies of the nineteenth century such as Armstrong, Gatling, Maxim, Krupp and Vickers (machine guns, armor, battleships) have been replaced by new firms, namely, Boeing, Lockheed Martin, EADS and BAE Systems (aerospace, missiles, elecrtonics).

In 2009 the global military market generated total revenues of $743.9 billion, representing a compound annual growth rate (CAGR) of 4.9 % for the period 2005-2009. In comparison the European market grew with CAGR of 5.7 % and Asia-Pacific market of 10.4 % which clearly demonstrate the growing potential of that market. However the Americas still account for 55.4 % of the global market's value, Europe generates a further 25.7 % and Asia with Pacific 18.9 %.

Russia's history had always strong dependence on defense industry. The Soviet Union acquired its status of super power by obtaining the atomic bomb in 1949, the hydrogen bomb two years later together with full-spectrum armed forces and possession of more than five million soldiers. Both historically and logically, the State has the significant stake in the internationalization of the national military sector.

Rosoboronexport is a state enterprise acting as the only Russian state intermediary agency for export and import of military and related products, technologies and services. Rosoboronexport accounts for more than 90% of Russia's annual arms sales. The company structure comprises more than 1,500 research institutes, design bureaus and manufacturing plants and has cooperated with more than 60 countries during its 50-year history. Rosoboronexport's central headquarter was located in Moscow, further it disposed of representative offices in 44 foreign countries and in 26 major industrial regions in Russia.

Rosoboronexport is supported by the Russian state with governmental guarantees for all its export operations. The company is the sole supplier of the whole range of armaments and military equipment nomenclature produced by Russian enterprises. The corporation is firmly positioned among world's leading arms exporters. In its role of the sole state arms trade agency, the company has unique opportunities to promote long-term beneficial partnerships with foreign customers and to sustain Russia's leading positions in the global arms market.

In 2009 the company management set up contracts regarding supply of arms at an amount of $ 15 billion, a significant increase compared to 2007 and 2008. At the beginning of 2010 value of all orders of the company were about $ 34 bill.

Nearly 80 percent of the export of Rosoboronexport was conducted with India and China, whereas in 2008 this habit changed to a more diversified export structure – Latin American countries, and countries in Africa and Asia have become new purchasers. The further developments have shown that it is necessary to enlarge product portfolio. Considering that the company has set up the IJV Rosoboronservice in India, which concentrated on aircraft industry; its main sales in 2008 took place in aviation sector, with 56 percent of whole sales force.

In 2006 Rosoboronexport got into the close trade relationship with Venezuela, it even became Venezuela's main arms supplier. The deal which was negotiated in 2006 was about $ 3 billion. The collaboration of Rosoboronexport with Iran and Venezuela caused bad impact on the US-Russian partnership, as the Bush administration imposed sanctions on Rosoboronexport. The business relation of Moscow and Teheran violated a U.S. law known as the Iran Nonproliferation Act of 2000, which is aimed at preventing the spread of weapons of mass destruction to Tehran.

Rosoboronexport, the Russian state corporation, has been acting in more than 60 countries over 50 years enlarging its product range constantly. Moreover it's annually sales stand at $ 34 billion and therefore exceeded the above mentioned benchmark of $ 100 million. The company did not focus only on export, but also explored sale subsidiaries in host countries and created binding contracts within supply chain.

When they internationalize, military firms focus on three dimensions. First, having a foothold in a market which is multi-domestic (for political reasons), second acquiring technology, and third strengthening its positions in order to reduce competition, and therefore to increase its chances of getting new contracts.

The crisis has been a hard blow for the sector because of the delays before payment, due to the lack of liquidity of the states. However as the world's instability is growing the perspectives of growth for this sector are still high.

Exhibit 14 demonstrates the main international results of Rosoboronexport.

Exhibit 14. Internationalization of Rosoboronexport

Internationalization started	First exports in 1960s; active new stage in 2000s
Main assets abroad	The IJV Rosoboronservice in India, which concentrated on aircraft industry, with 56 percent of whole sales force
Foreign destinations	Offices in 44 countries. Nearly 80% of the company export was traditionally conducted with India and China
Entry modes	Exporting; sale subsidiaries; contracting
Major deals and projects	Trade with Venezuela with the deal of about $3 billion in 2006. The collaboration of Rosoboronexport with Iran
Expansion approach	Since 2008 a more diversified export structure with the focus on countries of Latin America, Africa and Asia. Focus not only on export, but also sale subsidiaries in host countries and binding contracts within supply chain
Role of the state	The state enterprise (the only Russian state agency for export and import of military and related products, technologies and services), accounting for more than 90% of Russia's annual arms sales. Governmental guarantees for all export operations

CONCLUSION

Future prospects for foreign investments from Russia remain highly promising despite the somewhat discouraging domestic policies.

Increasing international asset diversification provides Russian companies with capabilities to match the moves of their global competitors. Domestic economic growth, large human potential and closing ties with global economy are likely to continue to drive Russian business expansion abroad.

We tried to evaluate in brief the very general features of national economical sectors that may help to understand the paths of international expansion of Russian companies (exhibit 15).

Exhibit 15. General sectoral features of Russian multinationals

Sector	***Russian companies***
Oil and gas	The energy sector is traditionally not only economical, but also political force. Companies are typically large, integrated players that benefit from their scales of operations.
Electricity	Companies are established after the former ministries or state enterprises, and have the significant experience in the restructuring activities. Companies explore potential of both resource base and of the government support.
Metallurgy	Companies tend in more cases to use M&A as a mode of entry. Usually the attention is focused on technological improvements and creation of the new products. Also through integration, companies tend to strengthen their position, lower production costs, and expand towards new markets.
Banking	Russian banks tend to go abroad mainly to service the investment projects of Russian companies, that are mainly exporters. The economic reforms made in CIS become a particularly important factor for the internationalization of Russian banks in these countries.
Food	Only few largest Russian food companies are truly international, as they operate in the CIS markets, and also explore capabilities to enter markets of Eastern Europe or Asia. They are mainly both market seeking and recourse seeking.

Military	As Russia's history had always strong dependence on defense industry, all companies in the related activities are state owned or under the strict government control. Both historically and logically, the State has the significant stake in the internationalization of the national military sector.
IT and internet	Russian companies benefit abroad with the high level of staff education which provides for better manpower at relative low cost. Incentives for the local IT enterprises to improve their operations to become potential service providers for these foreign firms.
Telecom	The market in Russia was the fourth-largest in the world in 2008-2009, after China, India and the US. It has been one of the most attractive sectors for Russian and foreign investors. Hence, the development of local market stimulated further outward investments from Russia.

The general characteristics of the international expansion of Russian MNEs according their sectoral belonging, being presented in the exhibit 16, may be also of high interest for the further studies of the phenomenon of Russian multinationals.

Exhibit 16. Main findings of the study of international results of Russian MNEs

	Foreign destinations	**Entry modes**	**Expansion approach**	**Role of state**
Oil and gas	Mainly CIS, the Baltic States, Europe, and the USA. Rarely countries of Africa, Asia, Latin America and some Arab countries	Exporting (as the main mode), turn key projects, joint ventures and wholly owned subsidiaries. Acquisitions in trading business	Market-oriented and profit-seeking approach. Greenfield projects with European partners. Acquisition of companies in highly profitable distribution segments	Generally high state involvement, varying depending on the companies' historical and political routes
IT and Inter-net	Europe and Asia in anti-virus and PC solutions, CIS in searching engine	Exporting; strategic partnerships with the top of the software industry; "virtual" entry more than physical	Opening regional offices in European countries and CIS	The sector seems to be less dependent on the state than the rest of industries studies
Ban-king	Mainly CIS, but also selected countries of Western Europe, the UK and the US. Slow interest to the countries of Africa, to China, and Singapore	Subsidiary banks and representative offices through the establishment of control under foreign companies	A conservative approach to expansion through organic growth and a series of strategic acquisitions. Most active in the countries that actively trade with Russia	Highly supported when state owned, and relatively low if not

Metal-lurgy	The US, Australia, the UK, China, Japan and Singapore, countries of Europe, CIS, and Africa. Highly diversified presence over the world	Acquisitions with very few exception (like licensing or greenfield)	Aggressive acquisitions of low performing enterprises in the strategic countries of CIS, Europe and North America	May be various depending on the government relations with the owners and CEOs
Tele-com	CIS countries, Eastern Europe, Middle East, South-East Africa, and Asia (with the focus on India)	Acquisitions of market leaders and strategic partnerships; more rarely IJV and licensing	'Follow the customer' strategy. Expansion in various forms not only to CIS countries but even further to Asia and Europe. Manufacturing in the countries with the cheap labor force	The whole sector is under the attention of the government. Forms and extent of the interference may vary. Support helps in cases of expansion to CIS
Elec-tricity	Mainly CIS countries. Also Northern Europe and the Baltic states. Other destinations are less attractive	Export, acquisitions, greenfield	Acquisition of foreign assets, and the consolidation of the position in the electric power markets in foreign markets	Very high. Government support is provided in case of large contracts and projects
Food	CIS markets, and the countries of Central Asia	Mainly brownfield strategy	To manufacture directly in the region where the products are consumed. Acquisition of smaller local firms in CIS countries	The government is relatively passive toward the sector, and the interference is from low to medium
Mili-tary	Despite exporting to 44 countries, India and China accounts for the majority of sales. Regimes of few Latin America's countries are attractive in terms of the high demand	Exporting; sale subsidiaries; contracting	Quite a diversified export structure with the focus on Latin American countries, and countries in Africa and Asia	State participates and support with the governmental guarantees for export operations

The outward expansion of the national firms is essential for both the individual companies and the Russian economy as a whole. The companies must become more international in order to survive in the global competition. Correspondingly, the national economy requires a structural reform and improvement in competitiveness to transform Russia from the natural resource based country towards a modern service and innovation oriented economy. The outward expansion is perhaps the most efficient way to force companies to change their old patterns.

Current economic crisis challenges viability of various economic actors. Nevertheless, the global crisis has not been destructive for Russian multinationals. The profound approach to the analysis of the crisis impact with the focus on how the Russian companies might raise their sustainability during the periods of economic disturbances would require expansion of discussion beyond merchandise trade towards trade in services, FDI, labor mobility and other forms of international economic collaboration.

In future development of investment environment, further emphasis could be laid on facilitative and investment capacity building measures. In cooperation with the private sector, it would be possible to develop the management practices and to launch the structures necessary to facilitate OFDI. Providing information by bringing together the potential investors, financial institutions and government would serve as an important facilitative measure for Russian investors.

Increased expertise on managing cross border transactions and international investment are examples of the results of efficient public private cooperation in capacity building. Additional emphasis in OFDI promotion should be laid on transferring of best practice, by linking investors directly to relevant information on investment opportunities abroad.

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STATISTICAL ANNEXES

Table 1. Outward FDI stock of selected economies, various years (USD billion) [2]

Economy	1995	2000	2005	2007	2008
United States	1,363.8	2,694.0	3,638.0	5,228.0	3,071.2
Hong Kong, China	78.8	388.4	471.3	1,011.2	775.9
Russian Federation	3.3	20.1	146.7	370.2	202.8
Brazil	44.5	51.9	79.3	136.1	162.2
China	17.8	27.8	57.2	95.8	147.9
India	0.5	1.9	10.0	44.1	61.8

Source: UNCTAD's FDI/TNC database, http://stats.unctad.org/fdi/ and United States, *Survey of Current Business*, September 2009 and 2006.

Table 2. FDI flows, by region and economy, 2006-2008 (USD million) [3]

Region / Economy	FDI inflows			FDI outflows		
	2006	2007	2008	2006	2007	2008
World	**1,461,074**	**1,978,838**	**1,697,353**	**1,396,916**	**2,146,522**	**1,857,734**
Developed economies	**972,762**	**1,358,628**	**962,259**	**1,157,910**	**1,809,531**	**1,506,528**
European Union	590,305	842,311	503,453	697,193	1,192,141	837,033
USA	237,136	271,176	316,112	224,220	378,362	311,796
Developing economies	**433,764**	**529,344**	**620,733**	**215,282**	**285,486**	**292,710**
CIS	**44,657**	**78,074**	**103,481**	**23,328**	**50,125**	**57,862**
Russia	29,701	55,073	70,320	23,151	45,916	52,390
South and Central America	**69,014**	**105,996**	**121,418**	**45,101**	**26,266**	**37,255**
Brazil	18,822	34,585	45,058	28,202	7,067	20,457
East Asia	**131,769**	**150,353**	**186,982**	**82,301**	**111,176**	**136,156**
China	72,715	83,521	108,312	21,160	22,469	52,150
Hong Kong, China	45,054	54,365	63,003	44,979	61,119	59,920
South Asia	**27,758**	**33,982**	**50,669**	**14,871**	**17,758**	**18,182**
India	20,336	25,127	41,554	14,344	17,281	17,685
South-East Asia	**54,967**	**69,482**	**59,923**	**23,298**	**45,805**	**32,117**
Singapore	27,680	31,550	22,725	13,298	24,458	8,928

Based on: World Investment Report 2009

[2] Panibratov and Kalotay 2009

[3] World Investment Report 2009

Table 3. Foreign direct investment flows (US$bn)

	2009					2010
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	Year	1 Qtr
Inward	9.4	10.1	12.4	7.0	38.7	9.9
Outward	13.6	11.6	9.8	11.0	46.1	10.3

Source: *Russian Central Bank.*

Table 4. Ten largest M&A deals by Russian MNEs, 2005-2008 [4]

Year	Acquiring Russian company	Target company	Target industry	Target country	Shares acquired (%)	Estimated/ announced transaction value (USD mn)
2007	Norilsk Nickel	LionOre Mining	Gold ores	Canada	100	6,287
2008	Evraz Group	IPSCO – Canadian operations	Steel pipe and tubes	Canada	100	4,025
2007	Gazprom	Beltransgaz	Natural gas distribution	Belarus	50	2,500
2008	Evraz Group	Sukhaya Balka GOK	Iron ores	Ukraine	99	2,189
2008	Lukoil	ERG SpA – ISAB Refinery	Oil and natural gas	Italy	100	2,098
2007	Evraz Group	Oregon Steel Mills	Steel works	United States	90	2,088
2005	Lukoil	Nelson Resources	Gold ores	United Kingdom	100	2,000
2007	Basic Element	Bauholding Strabag	Industrial buildings	Austria	30	1,637
2005	Alfa Group	Turkcell	Telecommunication	Turkey	13	1,602
2007	Basic Element	Magna International	Motor vehicles	Canada	18	1,537

Source: UNCTAD, cross-border M&A database, http://stats.unctad.org/fdi/

Table 5. Russian OFDI to "western" and "eastern" economies (USD million)

Destination	2007	%	2008	%	2009	%
All the world	45,211	100	54,202	100	44,868	100
Non-CIS countries	41,967	92,82	51,789	95,55	41,760	93,07
CIS countries	3,244	7,18	2,413	4,45	3,109	6,93

Based on: Bank of Russia 2010

[4] Panibratov and Kalotay 2009

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