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"Emerging Multinationals in Russia"

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Emerging Multinationals in Russia

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Abstract

Recent developments in FDI show that more and more emerging economies are involved in exporting foreign capital. Transnational corporations (TNCs) are no longer a unique phenomenon of developed countries. The present paper analyzes the activity of Russian TNCs. While looking at both the inward and outward FDI structure, we try to understand preconditions for the emergence and development of Russian TNCs, their formation process, evolution and motivation. Transnationalization process in Russia explicitly shows the domestic economic and business structure in Russia. Among the specific features of TNCs we identified the following ones: inclination towards natural resources, energy and metallurgy sectors; strong interrelation with the state; path-dependency in formation of TNCs and its impact on motivation for transnationalization (Soviet legacy); specific character of relations with CIS countries. Moreover, we indicated specific features related to the macro-economic structure of the Russian economy, namely the specific route for capital inflow and outflow and its strong relation with foreign liabilities structure, existence of offshore-type TNCs without clear property rights and industrial structure, usage of offshore schemes for tax evasion and as sources for transferring of the governmental aid in conditions of crisis. The paper points out to the necessity of revision of TNCs (MNCs) theory in emerging economies and sheds light on existence of the so-called Russian type emerging TNCs.

Keywords: transnational corporations, FDI, strategy, emerging economies, offshore
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Introduction

On entering into 2000s Russia, as one of the so-called BRICs countries or new emerging market economies, is positioned as a new source of growth in the world economy. Showing high economic growth in 2000s, BRICs are often mentioned not only as countries-recipients of the foreign capital (FDI), but also as its exporters. On the one hand, Russia continues dragging huge amount of oil and gas money into its domestic economy, which can be substantiated by the fact that in the beginning of 2012 it has raised financing from abroad by accumulating foreign debts up to 500 billion dollars. But on the other hand, the capital outflow remains very high. The international balance of payments in 2011 shows that trade surplus was amounted to 196.9 billion dollars (profits from export of gas and oil were 341.8 billion), while the capital account was in 76.1 billion deficit with the capital outflow of 143.6 billion dollars (FDI and portfolio investment amounted to 71 billion dollars) outstanding the capital inflow of 67.5 billion dollars (mainly FDI – 55.1 billion dollars) by 2 times. In the above-mentioned statistics, about 33.3 billion dollars were outflowed in the form of doubtful operations, and if added with 8.7 billion dollars of net errors and omissions, the total amount of "informal" capital outflow will be amounted to 42.0 billion (http://www.cbr.ru, 14 April 2014)[2]. This trend has no changes since the economic transition in 1992.

Providing the influence of the researches on Soviet Union, international economic relations of Russia tend to be investigated from the geopolitical point of view. Nevertheless, despite the existence or non-existence of political influence from the government, and as long as the scale of the above-mentioned FDI and portfolio investments is the direct result of the decision-making in Russian companies, the increasing capital export tendency shows the necessity of reconsidering the case of Russia within the existing frames of transnational (multinational) corporation theory and international economics that only put TNCs from advanced economies into the subject of their research. Russia, having huge territory, rich natural recourses, big population, represents some interest as a big potential market and at the same time indicates some new specific features of multinational companies. Sauvant, Maschek and Mc Allister, eds. (2010) argue that TNCs from emerging economies have become very important global players, IfM and Capgemini (2008) claim that emerging multinationals have the potential to change the structure of global industries. Liuhto (2005) investigated motivation of Russia's foreign direct investment.

The reality, however, goes further. According to the UNCTAD data (2011), after the world economic crisis "the recovery of FDI inflows in 2010 is expected to be stronger than in developed ones. As a result, the shift in foreign investment inflows towards developing and transition economies is expected to accelerate. This shift was already apparent during 2007-2009. …Developing and transition economies now absorb half of FDI, …(while at the same time, they) further strengthened their global position as emerging sources of FDI in 2009, increasing their share to 25 per cent compared to 19 per cent in 2008 (UNCTAD, 2010, pp.3-6). In 2011 FDI recovered and emerging economies (emerging multinationals) replaced TNCs from developed countries and became the driving force of foreign investments (UNCTAD, 2011)[3].

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[2] In 2012 and 2013, doubtful operations outflow recorded 38.8 and 26.1, and net errors and omissions outflow were 10.4 and 11.9, and the total informal capital outflow were amounted 49.2 and 38.0 (billion dollars, http://www.cbr.ru, 14 April 2014).

[3] Panibratov (2012) comprehensively analyzed Russian multinationals and discussed the relationship between Russian multinationals and the Russian government.

Russian companies are often understood as "business oligarchs" (political entrepreneurs, zaibatsu groups), therefore from this point of view it would not be an exaggeration to notify that TNCs long before existed in Russia. It is unlikely that companies that existed in the Soviet Union times disappeared together with the collapse of the Soviet system. In fact, the biggest Russian company "Gazprom" still grounds on its assets acquired in the Soviet times and develops its business network not only on the post-Soviet arena, but also worldwide. Besides, some other Russian companies emerge and expand their businesses, such as "Kaspersky lab[4]" (*Nikkei Business*, 19 September 2011).

The present paper shed light on issues of Russian TNCs and their management strategies as new phenomena in the post-system transformation society. The TNCs theory was traditionally developed on the assumption of capital surplus in advanced (developed) economies, but the case of Russia is slightly different and can provide some new evidence in the development of the theoretical assumptions.

1. Foreign investment in Russia

According to the UN report, new emerging economies have increased their scale of both inflow and outflow foreign investments. China, Hong Kong and Russia are gradually raising their presence together with traditionally strong developed countries. Needless to say, that Russia has a special position in this list. Table 1 below shows trends in export and import of capital by major economies. In general the import of capital exceeds its export, but the case of Russia is a reverse one. In other words, Russia from the beginning of market transition increased the capital outflow, but not the inflow of foreign investments. The same trend is verified in other transition market economies, such as Croatia and Ukraine (UNCTAD, http://unctadstat.unctad.org, 14 February 2012).

Table 1 – Import and export of capital by major economies in 2002 – 2008 (billion dollars)

	Capital export	Capital import
World; total	40753	45030
Developed countries	35584	39115
Emerging market economies	4159	5484
BRIC	1409	2212
Russia	565	481
China	636	1017
India	34	303
Brazil	132	305

Source: Bulatov, 2011, p.67.

The general trend of foreign investment also certifies Russia's specific growth of investment. According to Rosstat data (Table 2), foreign investment both inward and outward has increased since 2000s, particularly after the global economic crisis of

[4] Kaspersky lab was established in 1997 in Russia as a venture of international software development by Eugene Kaspersky and Alexey De-Monderik, and now it has its own some establishments in 29 countries including Japan and others.

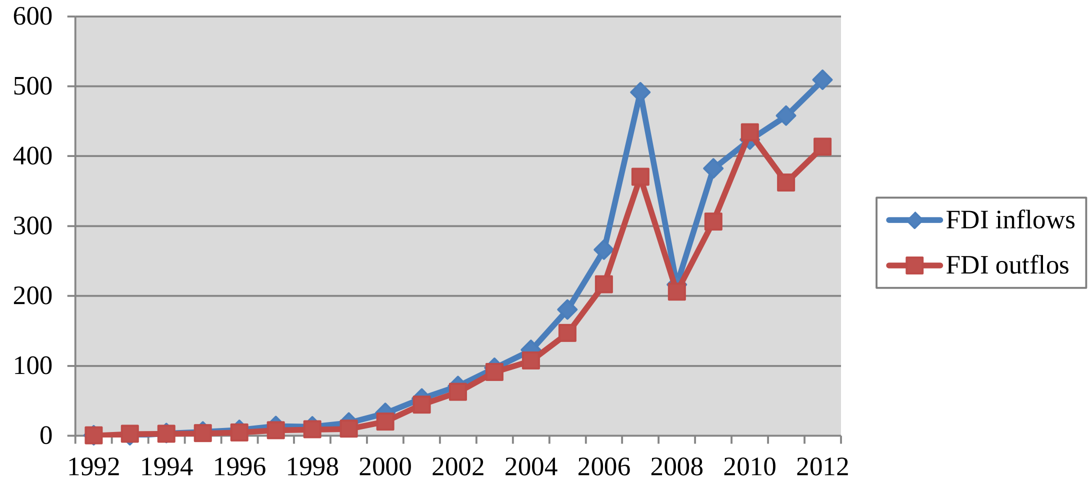
2008. While during the economic growth, inward has been larger than outward, after the crisis, outward looks large. During 2000-2013, Russia accepted 10.2 billion dollars net investment import. In short, foreign investment sensitively responds to business situation. In inward investment, FDI has decreased its share, and in outward FDI has increased its share, and in both investment credit and other investment have held an absolute share. Russia's foreign investment has enhanced its share. The above vestment structure indicates credits and repayments have played an important role of capital transfer that the foreign investment in both directions can be regarded as a result of artificial debts and credits of Russian companies (Kheyfets, 2013a, p.92).

Table 2 – Foreign Investment inward and outward (million dollars, %)

	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Inward total	2983	10958	14258	19780	29699	40509	53651	55109	120941	103769	81927	114746	190643	154570	170180
FDI	2020 (67.7)	4429 (40.4)	3980 (27.9)	4002 (20.2)	6781 (22.8)	9420 (23.3)	13072 (24.4)	13678 (24.8)	27797 (23.0)	27027 (26.0)	15906 (19.4)	13810 (12.1)	18415 (9.7)	18666 (12.1)	26118 (15.4)
Payment in capital	1455 (48.8)	1060 (9.7)	1271 (8.9)	1713 (8.6)	2243 (7.5)	7307 (18.0)	10360 (19.3)	8769 (15.9)	14794 (12.2)	15883 (15.3)	7997 (9.8)	7700 (6.7)	9080 (4.8)	9248 (6.0)	9976 (5.9)
Credit	341 (11.4)	2738 (25.0)	2117 (14.8)	1300 (6.6)	2106 (7.1)	1695 (4.2)	2165 (4.0)	3987 (7.1)	11664 (9.7)	9781 (9.4)	6440 (7.8)	4610 (4.1)	7495 (3.9)	7671 (5.0)	14581 (8.6)
Portfolio investment	39 (1.3)	145 (1.3)	451 (3.2)	472 (2.4)	401 (1.4)	333 (0.8)	453 (0.8)	3182 (5.8)	4194 (3.5)	1415 (1.4)	882 (1.1)	1076 (0.9)	805 (0.4)	1816 (1.2)	1092 (0.6)
Other investment	924 (31.0)	6384 (58.3)	9827 (68.9)	15306 (77.4)	22517 (75.8)	30756 (75.9)	40126 (74.8)	38249 (69.4)	88950 (73.5)	75327 (72.6)	65139 (79.5)	99860 (87.0)	171423 (89.9)	134088 (86.7)	142970 (84.0)
Outward total	226	15154	16841	19891	23264	33773	31128	51978	74630	114284	82895	96222	151673	149908	201640
FDI	20 (8.6)	382 (2.5)	495 (2.9)	303 (1.5)	283 (1.2)	2064 (6.1)	558 (1.8)	3208 (6.2)	9179 (12.3)	21818 (19.1)	17454 (21.1)	10271 (10.7)	19040 (12.6)	17426 (11.6)	76265 (37.8)
Payment in capital	15 (6.3)	301 (2.0)	332 (2.0)	134 (0.7)	103 (0.5)	1868 (5.5)	371 (1.2)	3050 (5.9)	8972 (12.0)	15379 (13.5)	6977 (8.4)	3005 (3.1)	7730 (5.1)	8128 (5.4)	65344 (32.4)
Credit	-	-	-	-	31 (0.1)	137 (0.4)	107 (0.3)	4 (0.0)	133 (0.2)	6088 (5.3)	10463 (12.7)	6964 (7.3)	11248 (7.4)	9292 (6.2)	10876 (5.4)
Portfolio investment	0.1 (0.0)	31 (0.2)	70 (0.4)	-	4 (0.0)	76 (0.2)	406 (1.3)	798 (1.5)	2276 (3.0)	532 (0.5)	2434 (2.9)	795 (0.8)	11113 (7.3)	6967 (4.7)	4266 (2.1)
Other investment	206 (91..4)	14741 (97.3)	16276 (96.7)	19588 (98.5)	22977 (98.8)	31633 (93.7)	30164 (96.9)	47972 (92.3)	63175 (84.7)	91934 (80.4)	63007 (76.0)	85156 (88.5)	121520 (80.1)	125515 (83.7)	121109 (60.1)
Net flow	2757	-4196	-2583	-111	6435	6736	22523	3131	46311	-10515	-958	18524	-38970	-4662	-31460

Note: Net flow = Inward - Outward
Source: WWW.gks.ru, 16 April 2014.

Figure 1 – Inward and outward investments in Russia (billion dollars)



Note: stock, nominal value, and calculated by nominal exchange rate.

Source: UNCTAD, http://unctad.org/en/pages/DIAE/World%20Investment%20Report/WIR-Series.aspx, 14 April 2014.

Figure 1 shows dynamics in inward and outward FDI of Russia (stock). After the system transformation, outward FDI considerably decreased, and then after the financial crisis of 1998 both inward and outward investments showed signs of gradual recovery. In 2000s the growth dynamics intensifies, reaching its peak in 2007. In 2008 due to the world economic crisis, both export and import of FDI decreased, but recovered within quite a short period of time, though the peak of 2007 was not overcome. Inward and outward FDI show similar trends and almost balance with each other. The UNCTAD statistics shows similar trends to that of the Central Bank of Russia (CBR).

Statistics on Russian foreign investment is collected by both Rosstat and CBR and provides a more clear understanding of foreign capital dynamics in Russia, but there are discrepancies in numbers among the two agencies. Rosstat collects data on investments by juridical and physical entities (non-financial) aiming acquisition of more than 10 % shares of companies (establishment of control) and does not include so-called re-investments. CBR applies different methodology that includes investment of all economic subjects. Reinvestments that in fact correspond to 60 – 70 % of foreign investments are calculated, that partially explains the gap between the statistical data[5] (Table 3). Both statistical data shows the remarkable increase in inward FDI attracted by high economic growth rates in 2000s and their drastic drop during the world economic crisis. Inward FDI are bigger than outward FDI, but when considered together with portfolio and other investments, the foreign capital outflow is obvious (foreign assets are larger than foreign liabilities). Other investments such as trade credits, loans, foreign currency and deposits, overdue obligations amount to 68 % in export of capital and 62 % in its import accordingly (Bulatov, 2011, p. 69)[6]. Countries-recipients of Russian capital are not overwhelmingly represented by CIS, but also include some other foreign countries, so-called “distant foreign countries”. World economic crisis caused a considerable decrease especially in outward FDI (almost half of the pre-crisis level) to these destinations (other foreign countries in particular). Negative trends caused by the crisis did not recover in the beginning of 2011 to the pre-crisis level (column of FDI total, Table 4). The stock market also experienced negative trends due to the world economic crisis, as the result the price evaluation fluctuated.

In Russia there are also investments with intermediation of foreign business, therefore outward FDI are statistically underestimated. The following phenomena also influence on the situation with outward FDI: 1) in 1990s foreign companies acquired assets in post-Soviet countries, among those assets some belonged to Russian companies; 2) there is a possibility that many companies from the former Soviet Union countries having strong authority used non-market prices for assets purchasing in the process of privatization, and later transferred them to foreign companies hiding their final owners (acquirers); 3) many Russian companies, such as Lukoil, Evraz, Mechel[7], established foreign juridical entities for organizing foreign business

[5] Kheyfets, 2011, p.141. The definition by Rosstat is based on its official site. Concerning reinvestements, Pappe, Galukhina (2009, p.117) estimated 45-50 per cent of the total inward FDI of Russia in 2006-2007. UNCTAD estimated almost same value with CBR. Kuznetsov (2011) estimated outward FDI stock as 100 billion dollars in 2009, and this volume is among Rosstat and CBR.

[6] Table 2 indicates high share of other investment in export and import.

[7] Mechel, founded in 2003, includes four segments: mining, steel, ferroalloy and power , and is comprised of over 30 production enterprises (http://www.cost.ro, 23 March 2012).

transactions and later invested abroad through these subsidiaries (child-company) or subsidiaries of subsidiaries (grandchild-company); 4) private companies were restructured by transferring of foreign assets to holding companies in counties of the former Soviet Union in 2000s[8].

As the result, in the beginning of 2011 the geographical distribution of investments was as follows: Netherlands – 24.8 %, Cyprus – 23.9 %, Switzerland – 9.5 %, British Virgin Islands – 6.8 %, Great Britain – 3.9 %, Austria – 1.7 %, Luxemburg – 1.6 %[9]. Countries offering possibilities of offshore business[10] establishment dominate in the distribution structure of foreign investments[11]. In case of Kazakhstan the share of the above-mentioned countries in inward FDI (stock) is 37.6 %, while the Netherlands hold 56.7 % in outward FDI (stock), followed by Great Britain, the British Virgin Islands, the weight of Russia is low (1.4 % in inward FDI). In case of Ukraine, Cyprus has occupied 92.3 % of total stock of FDI outward at the end of 2010 (Kvashnin and Kuznetsov, 2013, pp.49-50).

Table 5 represents main destinations of Russian FDI and provides evidence for the above-mentioned assumption about attractiveness of offshore business (high % of Cyprus and the British Virgin Islands). Moreover, according to the 2011 data of the CBR, countries of origin of inward FDI to Russia are Cyprus (179.2 billion dollars, 36.3 %), Bermuda's (52.6 billion dollars, 10.7 %), the British Virgin Islands (51.0 billion dollars, 10.3 %), the Netherlands (40.2 billion dollars, 8.1 %), the Bahamas (24.6 billion dollars, 5.0 %) – all representing offshore regions. While it is difficult to identify major investment destinations from offshore countries, by looking at the dynamics of inward and outward investments of Russia and former Soviet Union countries, it is possible to depict the mutual investment scheme: Russia – Offshore countries – former countries of the Soviet Union, and therefore assume that the real statistic for Russian inward and outward FDI is actually considerably higher (Kheyfets, 2011, p. 141-142).

According to UNCTAD (2013, p.65), "a large part of FDI in the Russian Federation is accounted for by "round-tripping". … a distinctive feature of FDI patterns in the Russian Federation is the phenomenon of "round-tripping", implied by a very high correlation of inward and outward investment flows between the country and financial hubs such as Cyprus and the British Virgin Islands. … Together they account for about 60 per cent of both inward and outward FDI stock." Moreover, round-tripping cannot be restricted to only FDI, and Russian companies flexibly utilize credits and debts. As Table 2 clarifies, credits have dominant position both in inward and in outward foreign investment. "Many Russian companies export their capital and later they return their money in the form of credits and debts (round-tripping capital)" (Kheyfets, 2013a, p.92). Therefore, a part of foreign investments

[8] See Kheyfets, 2011, pp.141-142. Almost 70-90 per cent of the Russian private companies belong to the foreign holding companies.
[9] In the beginning of 2014 (total investments) , Netherlands – 13.2 %, British Virgin Islands – 33.9 %, Cyprus – 18.7 %, Great Britain – 5.2 %, Austria – 3.6 %, and Luxemburg – 4.0 % (http://www.gks.ru, 14 April 2014).
[10] Kuznetsov A.V. names pseudo-foreign companies (round trip FDI) (Kuznetsov, 2011, p.3). Offshore is defined as "a country or jurisdiction that provides financial services to nonresidents on a scale that is incommensurate with the size and the financing of its domestic economy" (Zorome, 2007, p.7). Offshore and tax haven are closely related. "Although the terms are often used interchangeably, it is misleading and sometimes contradictory to assume that an offshore financial center is necessarily as a tax haven" (Andrew and Alex, 2014, p.2).
[11] According to BOFIT Weekly, 7, 17 February 2012, 80 per cent of inward and outward FDI in Russia were invested to tax heaven regions.

inward and outward may be regarded as intra-firm financing. Even though FDI from abroad has decreased in 2000s, companies have converted it into credits. The conversion suggests a decrease of taxation, shrinking risks of exchange rate, and flexible corporate strategy. Offshore business will be considered later in this paper.

Table 3 – Russian FDI (stock) (beginning of year, billion dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
FDI outward														
CBR	20.1	44.2	62.4	90.9	107.3	146.7	216.5	370.2	205.5	302.2	366.0	361.8	406.3	
Rosstat	na	na	na	na	na	3.5	6.1	13.9	32.1	44.6	56.8	70.0	73.9	126.1
FDI inward														
CBR	32.2	52.9	70.9	96.7	122.3	180.2	265.9	491.1	215.8	377.4	489.0	454.9	496.4	
Rosstat	na	na	na	na	na	49.8	67.9	103.1	122.4	109.0	116.2	139.2	135.4	126.1

Note: Rosstat regards more than 10 per cent investment to stocks and statutory capital as FDI, while CBR includes reinvestment.

Source: CBR, http://www.cbr.ru, 14 April 2014; Rosstat, http://www.gks.ru/sbscripts/cbsd/dbinet.cgi, 14 February 2012, http://www.gks.ru, 20 May 2014.

Table 4 – Russian foreign assets and outward FDI (stock) by regions (beginning of year, billion dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total assets	248.8	259.5	288.5	336.8	406.6	516.3	731.3	1092.2	1010.7	1089.5	1171.0	1241.4
Distant foreign	238.0	249.3	277.9	324.7	392.4	497.3	708.6	1057.5	976.9	1055.3	1131.5	1191.0
CIS states	10.8	10.2	10.6	12.1	14.2	18.9	22.7	34.7	33.8	34.2	39.4	50.4
FDI total	20.1	44.2	62.4	90.9	107.3	146.7	216.5	370.1	205.5	302.5	366.3	362.1
Distant foreign	18.6	42.2	60.0	87.8	103.0	141.4	209.4	355.1	193.6	287.5	350.5	346.8
CIS states	1.5	2.0	2.3	3.1	4.3	5.3	7.0	15.0	12.0	15.0	15.8	15.3

Source: CBR, http://www.cbr.ru, 14 April 2014.

Table 5 – TOP-10 countries in outward FDI (beginning of year, billion dollars, stock %)

	2010	2011	2012	2013
Cyprus	119.7 (39.6)	153.9 (41.7)	125.4 (34.7)	151.8 (37.4)
Netherland	24.6 (8.1)	39.7 (10.8)	56.9 (15.7)	64.6 (15.9)
The British Virgin Islands	33.3 (11.0)	38.8 (10.5)	46.0 (12.7)	46.6 (11.5)
Bermuda	2.2 (0.7)	11.0 (3.0)	3.6 (1.0)	3.6 (0.9)
Luxemburg	14.8 (4.9)	12.0 (3.3)	12.1 (3.3)	9.1 (2.2)
Great Britain	10.3 (3.4)	10.3 (2.8)	10.1 (2.8)	10.0 (2.5)
USA	10.5 (3.5)	9.8 (2.7)	9.1 (2.5)	10.7 (2.6)
Switzerland	7.7 (2.5)	9.3 (2.5)	12.0 (3.3)	12.0 (3.0)
Germany	7.4 (2.4)	6.7 (1.8)	6.3 (1.7)	9.1 (2.2)
Belarus	5.7 (1.9)	5.7 (1.5)	4.7 (1.3)	3.8 (0.9)
Gibraltar	11.6 (3.8)	5.7 (1.5)	5.7 (1.6)	0.1 (0.0)

Source: CBR, http://www.cbr.ru, 14 April 2014.

In case of Russia there is also illegal capital outflow. So-called “one day companies” are a typical example of this fact and they are considered to be a bribe method that makes capital export possible. Amendments to the Russian Criminal Code are being deliberately discussed, a common understanding towards the necessity of a more strict criminal responsibility on infringement of laws on legal entities establishment or actual establishment of juridical entities pursuing illegal goals, has been reached. Regulations in this sphere are difficult due to limits in potential and authorization of the inspecting agencies, but there is still a possibility to bring discipline to the market (*Ekspert*, No.43, October, 31st-November, 6th 2011, *Sliyaniya i Poglasheniya*, No. 12, 2011, p.5-6).

Regarding interrelations among investment destination countries and their industrial structure, in case of CIS oil, metal and mobile phone industries are the most prominent ones: Lukoil investments in Nelson Resources (Kazakhstan); Evraz – Privat, GOK chemical factories, Dnepropetrovsky metallurgic plant in Ukraine; MTS – UMS (Ukraine), Uzdunorbita (Uzbekistan), Barash Communication Technologies (Turkmenistan); VimpelCom – Ukranina Radio Systems, KaR-Tel (Kazakhstan), ArmenTel (Armenia), Uzmacom, Buztel (Uzbekistan). Among other foreign countries major destinations were European countries and the USA, where companies such as Severstal, Evraz Holdings, Norilsky Nickel and others primarily invested into financial sectors (Pappe, Galukhina, 2009, p.122).

Russian outward FDI became prominent in 1990s and emerged in in the Soviet Union times, and at present include some illegal components as well. In 2000s the FDI outflow increased, driven by major industries of Russia; main recipient-countries are developed and offshore economies. This dynamics is common for some other emerging economies; the real impact of outward FDI is higher than shown by the official statistics of these countries.

2. Formation and evolution of Russian TNCs

Foreign investments is a concept from the point of view of international movement of capital, while at the level of enterprises the concept showing the capital movement is TNCs. TNC is a company that has a wide network of manufacturing subsidiaries abroad and the level of its formation is measured by UNCTAD with the help of Transnationality Index (TNI). This index is a compound one and contains data on the share of foreign assets in total assets, sales abroad as a proportion of total sales, employment abroad as a percentage from total employment within the company[12]. Transnationality index for Russia proves to be very high: in 2004 - 2006 TOP 25 Russian multinationals provided employment to 130 000 people abroad, their foreign sales amounted to 200 billion dollars; foreign assets amounted to 600 billion dollars. At this point TNI of Russian multinationals was comparable to that of Brazil. However, Russian TNCs are not only limited to big companies. Companies with total assets amounted to approximately 500 million dollars showed interest in expansion of their businesses, as the result in 2007 buy-outs by Russian multinationals exceeded purchases of foreign investors acquiring Russian domestic companies (*Vedomosti*, 11 December 2007), and this trend is increasing[13].

There is no fair and reliable statistic showing the actual number of Russian TNCs. Moscow International Business Association obtained data on 350 projects of 137 Russian companies owning assets in 64 countries, and concluded that due to the fact that even many lower companies of the 2d and 3d class acquire foreign assets, the total factual number of the TNCs might be 3 – 4 times higher (Kheyfets, 2007, p.52).

[12] In 2005, TNI in Russian top 25 TNCs was 25 per cent, and it was relatively low compared with 57 per cent in the world top 25. Taking account the low productivity of Russian TNCs in foreign countries, the gap may be regarded higher.
[13] As of end of 2008, top 20 Russian TNCs had 118 billion foreign assets and 190 thousand employment (Kuznetsov A.V., http://opec.ru, 13 February 2012).

According to the estimation of Kheyfets, the number of TNCs, excluding the net offshore business structures, engaged in financial activities is amounted to 5000 – 10 000 and majority of them are located in neighboring to Russia CIS countries[14].

Deloitte (2008) classifies Russian major TNCs into 3 following groups. 6 global players (oil and gas sector – Lukoil, Gazprom; metallurgy sector – Severstal, Rusal, Norilsk Nickel, Evraz) represent the first class of the largest TNCs. This group competes internationally and influences considerably on both the global economy and host countries, and is represented by companies with vertical integration structure in traditionally competitive sectors of Russian economy, namely oil and gas industry and metallurgy. The second class (group) is composed of multinational investors such as Alrosa (diamonds) and others (10 companies in total). This group's international strategy is not as much clear as for the first one, their businesses abroad are relatively small, but have a very strong growth potential. For example, Alrosa is the global player in extracting of diamonds and their realization. Three major companies in metallurgy, namely Novolipetsk Steel Complex, Magnitogorsk Iron&Steel Complex and Mechel, are also included in this group. Besides, there are TMK (steel pipes), combined machine manufacturing plants, MTS Telecom, VimpelCom, Sitronics. The third class (group) is represented by investors aiming investment deals in former Soviet Union countries. Companies belonging to the third group strategically concentrate on markets of the former Soviet Union countries and are diverse both in size and industrial representation. CIS is the major strategic region, where companies exercise their comparative location advantages. Level of internationalization of companies belonging to the group is considerably high after successful M&A deals. Companies like Wimm-Bill-Dann (food industry), Nutritek Group (food industry), Transmash Holdings (railway equipment manufacturing), GAZ (automobile industry), Rosselmash (agricultural equipment manufacturing), Tractor Concern (agricultural machinery), Chelyabensk Steel Complex (steel pipes), Euroset (retail business), X5 (retail business), Vester and others can be listed in this group.

Skolkovo (2008) research group also conducted an investigation on Russian companies and obtained the following results: 1) as of end of 2007 total foreign assets of TOP 25 companies amounted to 90 billion dollars, total foreign sales were 220 billion dollars (including export), number of employed – 140 000 people. Foreign assets increased in 2004 - 2007 by 4 times, number of employed – by 3 times, TNI increased from 28.5 % to 35 %; 2) foreign assets are mostly concentrated in Europe (52 %), though there is a gradual shift towards North America, USA, Australia; 3) diversification of business: food industry, software, engineering, though major industries are energy or natural resource-related; 4) among TOP 25 companies 11 were listed on foreign stock markets; 5) participation of foreigners in board of directors was 28 %, in TOP management – less than 10 %. Moreover, IMEMO (2011) showed that even in conditions of economic crisis TOP 20 TNCs increased their foreign assets and kept employment abroad at the level of 200 000 people. High economic growth of 2000s is undoubtedly the driving force of transnationalization. However, despite the political friction, concentration towards European markets is still preserved (Kuznetsov, ed. 2010)[15].

Transnationalization is understood as the process of company's expansion through internationalization of business, diversification of geographical and business structure,

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[14] Kheyfets, 2007, p.52. The number of TNCs was as follows: 1900 in Kazakhstan, 590 in Armenia, 390 in Moldova, 200 in Mongol, and 190 in Gergia.

[15] Russian TNCs held 49% of foreign assets in Europe, 23% in CIS countries, and 17% in North America, in 2008.

therefore formation of big companies and TNCs is interrelated[16]. Below let's introduce two approaches investigating TNCs from this point of view[17].

Chernikov, Chernikova (2008) propose the definition of gigantic companies as major world players, naming transnationalization, oligopolistic structure, joint-stock form of juridical representation, strategic alliances, diversified economic relations, inclination towards R&A as their main characteristics. Russian companies are represented by vertically integrated business groups such as Gazprom, Rosneft, Lukoil and Surgutneftegaz, by natural resources companies (i.g Alrosa), metallurgy or non-metallurgy companies (Norilsk Nickel, Rusal), aviation and space companies (Joint Aviation Company), and also by some financial structures (Sberbank, VTB, Gazprom Bank, AlfaBank). General level of diversification is relatively low and the presence of government is very high. The government is particularly strong in state enterprises of transport and infrastructure sectors such as Russian Railways and Transneft; natural resources and energy sectors; national defense; financial sector. There are also examples or public-private partnership (PPP).

Pappe, Galukhina (2009) introduce the concept of *integrated business groups*. This concept reflects all companies from different industries; relations between those can be hard or soft, official or unofficial, transparent or opaque for a particular observer. When compared internationally, this type resembles a bit Korean "Chebol", but is different in terms of authority and family relations. Integrated business groups are divided into two types: *asset-based type* and *management-based type*. Asset-based type evolved from 1993 and is represented by such core organizations as large banks and large industrial corporations, organizations in the sphere of finance, logistics and administration established in accordance with the specialization principle. Management-based type is based on gradual formation of tight relations between companies and usage of bankruptcy mechanism (from 1990s). Transnationalization was first observed in second part of 1990s, and expanded in 2000s primarily into former Soviet Union countries and Eastern Europe. Moreover, integrated business groups can be classified as follows: 1) top league which includes two sub-groups such as veterans (Gazprom, Lukoil, Severstal, InterRos, Oneksim Group, Ural Metallurgic Company, Bazovy Element (Bazel), Lenovo, Alfa Group, Sistema,) and new comers (Novolipetsk Steel Complex, Tatneft, Ural iron&steel, Usmanov-Anisimov-Skoch[18], Evraz, Millhouse, MDM Group, State corporation "Rostechnologiya") ; 2) first league specializing in the real sector (Abyzov Group, Chigirinsk and Kesaev, Aliyans, TMK-Sinal, ChTPZ, TAIF, Mezhprombank Joint Industrial Corporation, Promsvyzbank, Promsvyzhbank Capital, shareholders of the CBR, Evolutsiya, Russian Standard, Guta, RESO, Khachyaturov, industrial investors, State Reserve Corporation) represented by 32 companies having high proportion of foreign assets. Both of the approaches introduced conclude that Russian large business groups experienced transnationalization based on domestic structure of the economy, competitive advantages and forms of enterprises. In 2000s the scale of transnationalization intensified.

Relying on the above-mentioned researches, it is possible to make a representative list of Russian TNCs (Table 6). Evolution of Russian TNCs can be followed on the basis of industrial competitiveness and mostly in the state-owned industrial sectors.

[16] The industrial organization approach, from C.P.Kindleberger, emphasized monopoly-advantage as big TNCs. S.H.Hymer considered corporations as substitute to the market (Ueda, 2006).
[17] As for big business in Russia, see Mizobata 2008.
[18] Metalloinvest, Norilsk Nickel and others.

The following peculiarities of Russian TNCs can be mentioned (Katolay, 2010, pp.121-125).

Firstly, mostly large enterprises expand their business abroad proving the theory of ownership advantages[19]. This explicitly reflects the privatization process in Russia. In both voucher privatization process in 1992-94 and shares-for-loans privatization process in 1995-97 participation of foreign capital was restricted, as the result the structure of large enterprises was preserved. Moreover, concentration of ownership rights and preservation of monopolistic position facilitated the formation process of large enterprises. Russian privatization was quite different in nature when compared to the transfer of property to foreigners in Central and Eastern Europe.

Secondly, transnationalization process in Russia is inclined towards natural resources, energy, metallurgy and steel industries, and this fact partially explains the vertically integrated type of the formed large companies. Particularly, Gazprom, Lukoil, Norilsk Nickel are top companies in holding of foreign shares, TOP 25 companies hold 60 % of foreign shares (Skolkovo, 2008, Kuznestov, 2010a).

Thirdly, despite the high economic growth and raising profitability until 2008, foreign expansion processes of companies were not homogeneous. All the sectors necessarily could not succeed in transnationalization.

Fourthly, government participation in TNCs and its impact is very strong. State-owned enterprise Gazprom, VEB are leading investors in foreign markets (Filippov, 2011, p.12). At the same time, still the government impact is less than in China. This fact shows that transnationalization is closely related to the government strategy. At least Russian TNCs represent specific features of large domestic enterprises.

Fifthly, M&A is used as a method of transnationalization; M&A cases considerably increased by 2008[20].

Table 6– Large TNCs (2007/2008)

Name of TNC	Sector	Name of TNC	Sector
State owned TNC		Private TNC: 10-50 % owned by foreign	
Gazprom	Oil and gas	Lukoil	Oil and gas
Gazpromneft	Oil and gas	TNK-BP	Oil and gas
Rosneft Oil	Oil and gas	VimpelCom	Oil and gas
Alrosa	Metals/mining		
Inter RAO	Electricity		
Sovcomflot	Tranportation		
Sverbank	Banking		
VTB bank	Banking		
Private TNC :wholly owned by domestic			
Novatech	Oil and gas	Eurochem	Agrichemicals
Tatneft	Oil and gas	Acron	Agrichemicals
Evraz	Steel	GAZ Auto	Automotive
Severstal	Steel	OMZ	Engineering
Novoliprtsk Steel (NLMK)	Steel	X5 Retail Group	Retail
Industrial Metals	Holding	PriSCo	Transportation

[19] According to Skolkovo (2008, p.15), while the Russian TNCs were very small compared with the global biggest, they have rapidly grown.
[20] See Ernst & Young (2009) and *Sliyaniya i Pogolosheniya.*

Holding Management			
OJS Koks	Steel	FESCO	Transportation
TMK	Steel	Sistema	Holding
ChTPZ	Steel	Mobile TeleSystems	Telecom
Mechel	Steel	Sitoronics	Other service
MMC Norilsk Nickel	Metals/mining	Mirax	Other service
Rusal	Metals/mining	Ritsin Entertainment	Other service

Source: Kalotay, 2010, pp.122-123.

We confirm the actual situation with transnationalization on the example of Gazprom[21] (Table 7). Gazprom has 244 companies in 48 countries (regions), as well as some licenses for mining areas in India, Algeria, Venezuela, Libya, Uzbekistan, Kyrgyz Republic, Tajikistan, plus there are foreign expansions of its subsidiaries or affiliated companies[22]. Literally, the transnationalization level is very high. The government holds majority of shares in Gazprom, but its shares are also listed on foreign security markets, foreign ownership is also present. The business of Gazprom is very diversified representing upper-stream and downstream of gas and oil industries, media, finance, engineering. About 21% of companies are registered in offshore regions[23].

Table 7 clearly certifies characteristics of the Russian transnationalization. Gazprom group has extended its own network both in the whole regions of Russia and in the whole world. Particularly, the former Soviet countries and East European countries, the EU area, and the offshore or the special economic regions such as the Netherlands and Switzerland have occupied the main part of the global network. Gazprom is not always active in Asia. The business expansion into Europe, transportation network, resource exploitation and development, the government-business relations, and the financial network determines the Gazprom's transnationalization strategy.

Moreover, expansion is based on diversification and stratification. On the one hand, Gazprom has diversified its sectorial structure. Even though the group regards gas and its associated business as the main, Gazprom has advanced into various sectors: oil, energy, construction, transportation, media, engineering services and finance, and

[21] Concerning the strategy of Gazprom, in particular the European market strategy, see Anderson (2008), Koszalin (2008). 50.002% of shares are owned by the Russian government.

[22] 2013Consolidated Financial Report of Gazprom defines a subsidiary company as follows: a subsidiary (daughter) company means companies controlled by Group by holding control, holding rights to get incomes and influencing investment. Subsidiary companies are integrated into a single consolidated financial accounting. A joint activity is based on the agreement of partners and Group has its right by its own holdings. In joint ventures, partners have their own control, and Group also has right to join it. An associated company is the case that Group has some influence on it without a status of a subsidiary company or a joint venture. The share of Group determines a degree of influence on it. 2013 Consolidated Financial Report gives us the flowing data: 106 subsidiary companies and 25 associated companies and joint ventures, 16 and 20 of which respectively locate in foreign countries. According to 2013 Annual Financial Report, Gazprom has 64 100% owned subsidiary companies and 20 subsidiary companies , 4 and 6 of which are foreign registration; Gazprom has 24 large affiliated companies and 20 of them are foreign.

[23] Companies in the following countries: Bermuda, The British Cayman, Cyprus, Gibraltar, Luxembourg, Switzerland, and The British Virgin Islands.

others. On the other hand, Gazprom has stratified its structure, and not only direct control but also indirect control through the control-affiliated (parent-daughter) relation has effectively affected the Group structure. Gazprom neft, Gazprombank, Gazprom-Media and Energy Company complement the affiliated relation and the foreign influential companies such as ZGG, WIEE, Wingas, W&G and others play a role of an important means of global expansion. The offshore companies in Cyprus, Bermuda and others also stand in the similar position.

***Table 7 – Foreign Subsidiaries of Gazprom* (2013)**

Country/ region	Name	Holding: %	Business activity
Algeria	Gazprom Algeria S.P.A.	100	Sales
Armenia	Gazprom Armenia (ArmRosgasprom)*	80	Transportation/sales
	Exploration and services of ArmRosgasprom	100	NA
	Transgaz	100	NA
	Butan	100	NA
	Trasgazstroi	100	NA
	Avtogaz	100	NA
	Armavirsky Gazmash	100	NA
	Areximbank	Gazprombank	Banking
Austria	GWH Gashandel GmbH**	50 ZGG	Gas sales
	Arosgas Holding AG	100	Marketing
	Centrex Europe Energy & Gas	100 Gazprombank	Gas development
	Sibneft Oil Trade GmbH	100 Gazprom neft	Gas sales
	South Stream Austria**	50	Transportation
	Gas-und Warenhandelsgesellschaft	50	Gas sales
	ZGG-Zarubezhgasneftechim Trading	100	Gas sales
	Gazprom neft trading GmbH*	100	Oil sales
	ZMB Gasspeicher Holding	100	Gas storage
Belarus	Belgazprombank**	49.66	Banking
	Gazprom neft-Belnefteprodukt	100 Gazprom neft	Sales
	Gazprom Transgaz Belarus (Beltransgaz)*	100	transportation
	Brestgazapprat	51	Gas range
	Gazprom Transgaz Zapad*	100	Transportation/sales
	Spetskomplektimpex	100	NA
Bermuda	Sakhalin Energy Investment**	50	Oil-well drilling and gas
Brazil	Gazprom Brazil Exploration & Production of Oil	100	Exploration
Bulgaria	Topenergdzhi	100	Transportation/sales
	Overgas	50	Gas sales
	Overgas Inc AD**	50	Gas sales
	South Stream Bulgaria*	50	Transportation
	DEXIA Bulgaria EOOD	5 WIEE	Gas sales
The British Cayman	ZGG Cayman Holding	100	Investment
	ZGG Cayman Ltd	100	Investment
Cyprus	Ecofran Marketing Consulting & .	Gazprom-Media	NA
	Gazfin Cyprus	100	NA
	Rosingaz	100	NA
	Rotassa Holdings	100	Investment

	Atlas Alpha Services	100	NA
	KANGOL ENTERISES	100	NA
	EHRENBERG HOLDING	100	Investment
	Dexford Holdings	100	Investment
	VISINI HOLDINGS	100	Investment
	GRAFETA HOLDINGS	100	Investment
	GASEXCO Gas Exploration	NA	Gas investigation
	CARALINE TRADING	100	Trading
	SIBENERGy (Cyprus) limited	100	NA
	Greatham Overseas	NA	NA
	Gazprom Cyprus Ltd	100	Gas sales
	Private Company Ld by Shares GPBI	NA	NA
	Leadville Investment	100	Investment
	MF Media Finance	NA	Investment
	Odex Exploration	20	Oil investigation
	NTV World	NA	Media
	Siritia Ventures	NA	Investment
	Ferenko Investment Ltd	100	Investment
	SZ Ryzinoil Holdings	100	Investment
	GPB Financial Services	100 Gazprombank	Financial Services
Czech republic	Gas-Invest S.A.	37.5	Investment
	Vemex s.r.o.*	50	Gas sales
	Cheteng Engineering	Khimmash	Engineering
Estonia	Eesti Gaas AS	37.02	Transportation/sales
Finland	Gazum Oy**	25	Gas sales
	North Transgas Oy	100	Pipeline construction
France	FRAGAZ	50	Gas sales
	Sofrasi	30	Representative office
	Gazprom Marketing and Trading France	100	Sales
Germany	Agrogaz GmbH	100	Via ZGG
	Gazprom Marketing and trading Germania	100	Sales
	W & G Beteiligungs GmbH**	50	Gas sales
	OPAL Gastrasport**	W & G	Network operator
	CASCADE**	100 Wingas	Transportation
	Centrex Beteiligungs GmbH	38	Sales and investment
	Gazprom Germania (ZGG)**	100	Gas sales
	Ditgaz	49	NA
	VNG-Verbundnetz Gaz AG	10.52 ZGG	Transportation
	Wingas GmbH	50	Transportation/sales
	Wintershall AG**	50	Oil-well drilling/ gas sales (Libya)
	Wintershall Erdgaz Handelshaus**	50	Gas sales
	ZMB Mobil	100	Automobile technology
	HTB Europe	NA	Media
	Gazprom Libyen Verwaltungs	100	Investment
	ZMB-Zarubezhgaz Management und gungs GmbH	100	Gas sales
	Erste Gazprom Projektgasellschaft	100	NA
	Zweite Gazprom Projektgasellschaft	100	NA
Gibraltar	Bleakend Holdings Ld	NA	Media
Greece	Prometheus Gas**	50	Marketing/construction

	South Stream Greece**	50	Transportation
Hungary	Panrusgaz	40	Transportation/sales
	Borsodchem**	25	Petrochemical
	DKG-EAST	38.1	Oil/gas equipment
	Gazkomplekt KFT	NA	NA
	South Stream Hungary**	50	Transportation
	NTV Hungary Commercial Ltd	NA	Media
	Pannon Naftagas	100	NA
Ireland	GPB Finance Plc	40	Transportation/sales
Israel	NTV Global Network (Israel)	NA	NA
Italy	Volta SpA	49	Pipeline construction
	Promgas SpA	100 ZGG	Gas sales
	Gazpromnest Lubricants Italy	100	NA
Kazakhstan	KazRosGaz**	50	Gas processing/sales
Kyrgyzstan	Gazprom neft Asia	100 Gazprom neft	Sales
	Gazpromneft Aero Kyrgystan	100	NA
	Kyrgyzgas	75	Gas
	Munai-Myrza	100	NA
	Alliance Oil Asia	100	NA
Latvia	Latvijas Gaze**	34	Transportation/sales
	Rizhsky Farfor	100	NA
Liechtenstein	IDF Anlagegesellschaft	50 Siritia Ventures	Investment
Lithuania	Amber Grid (Lietuvos Dujos)**	37.06	Transportation/sales
	Lietuvos Dujos**	37.06	Transportation/sales
	Kaunas thermal power plant*	99.5	Power generation/sales
	Rizhskiy Farfor	NA	NA
	Stella Vitae**	30	Oil and gas transportation/sales
Luxembourg	GPB International SA	100 Gazprombank	Credit
	Gazprom Neft International SA	100	NA
Mexico	Gazprom Market and Trading Mexico	100	Sales
Moldova	Moldovagaz**	50	Transportation/sales
	Kishineu-gaz	100	NA
	Yaloven-gaz	100	NA
	Belts'-gaz	100	NA
	Eginets-gaz	100	NA
	Foresht'-gaz	100	NA
	Orkhei-gaz	100	NA
	Chimishliya-gaz	100	NA
	Shtephan Bode-gaz	100	NA
	Gagauz-gaz	100	NA
	Kakhul-gaz	100	NA
	Tarakuriya-gaz	100	NA
	Ungen'-gaz	100	NA
	Moldovatransgas	100	NA
	Gazsnabsbyt	100	NA
	Flakera Albastre	100	NA
	Trasavtogaz	100	NA
Montenegro	AZORIA O ZONE	100	NA
Netherland	Brochan B.V.	NA	NA

	Blue Stream Pipeline Company BV**	50	Transportation/construction
	Gazinvest Finance B.V.	NA	Investment
	Gazprom Finance B.V.*	0.0056	Investment consultant
	Gazprom EP International B.V.*	100	Investment/asset management
	Gazprom EP International Services	100	Services
	Gazprom EP International investment	100	Investment
	Gazprom Holding Cooperative*	99.9997	Investment
	Gazprom Netherland	100	Investment/Asset management
	Gazprom Sakhalin Holding B.V.*	97.01	Sakhalin II
	Gazprom Gerosgaz Holding*	100	Investment
	Gazprom Gerosgaz Management		
	NTV Plus B.V.	NA	Media
	NTV-HTB Holding and Finance	NA	Media
	PeterGaz B.V.**	51	Construction
	Salym Petroleum Development	50	Oil sales
	Sib Finance	NA	Investment
	West East Pipeline Project investment	100	Construction/investment
	GPB Grobal Resources	100 Gazprombank	Holding
	Gazprom International Training BV	100	NA
	Gazprom International Projects BV	100	NA
	Gazprom Libya BV	100	NA
	Gazprom Latin America BV	100	Sales
	Gazprom Neft Badra BV	100	NA
	Gazprom Neft North Africa BV	100	NA
	Gazprom Neft Equatorial BV	100	NA
	Intertrust (Netherlands)	100	NA
	Gazprom Neft Middle East	100	NA
	Moscow NPZ Holdings	100	NA
	Gazprom Neft Business Service	100	NA
	Mees Pierson Intertrust bv	100	NA
Nigeria	Nigaz	50	Oil and gas
	Geodata Technical Services	100	Services
	Gazprom Nigeria Oil and Gas	100	NA
Poland	EuRoPol Gaz**	48	Transportation
	Gas Trading	18.4	Gas sales
Romania	WIEE Romania SRL	50	Gas distribution
	WIROM Gas S.A.	26	Gas sales
Serbia	YugoRosGaz**	50	Transportation/sales
	South Stream Serbia*	51	Transportation
	South Stream limited company Novi Sad	100	NA
	Serbia Petroleum Industry	51	Oil mining/processing
	Progress Gas trading	25-50	Gas sales
	Russia-Serbian Trading Corporation	25.05 ZGG	Gas trading
	Underground Gas Storage Facility Banatski Dvor LLC	100	Storage
	O Zone	100	NA
	NIS-Svetlost d.o.o. Bujanovac	100	NA
	Jubos d.o.o. Bor	100	NA

	Yadran-Naftagas doo Banya Luka	100	NA
	Naftagas-Technical Services doo Zrenyanin	100	NA
	Naftagas-Neft Services doo Novi Sad	100	NA
	Naftagas-Transport doo Novi Sad	100	NA
	Science-Technological Center NIS Naftagas doo Novi Sad	100	NA
Singapore	Gazprom Marketing and Trading Singapore	100	Sales
Slovakia	Slovrusgaz	50	Transportation/sales
	Vemex Energo	100	NA
Slovenia	Tagdem	7.6	Gas sales
	South Stream Slovenia**	50	Transportation
Spain	GP Exploration y Produccion	100	Gas
Switzerland	Nord Stream AG**	51	Pipeline design/Blue Stream
	South Stream AG**	50	Transportation
	Shtokuman development AG*	75	Gas field development
	RosUkrEnergo**	50	Transportation/Sales
	Gazprom (Switzerland) AG**	100 Gazprombank	Syndication/Finance
	WIEE**	50	Gas sales
	Baltic LNG AG	80	Liquid gas
	Gas Project Development Central Asia AG**	50	Gas mining
	Sibur-Europe	100	Investment
	Gazprombank Switzerland	Gazprombank	Banking
	Gazprom Schweiz AG*	100ZGG	Gas sales
	IMUK AG	100 Gazprom Schweiz	Real estate
	Gas Marketing and Trading Switzerland	100	Gas trading
Turkey	Bosphorus Gaz Corporation**	70.99 ZGG	Gas sales
	Turusgaz**	45	Gas sales
	ZMB GasDepo	100	NA
	Progress Gastrading	100	Gas sales
Ukraine	Institute YuzhNIIgiprogaz	40	R&D
	Gazprom Sbyt Ukraine	100	Gas sales
	International gas transmission consortium	50	Transportation
	Gaztransit	40.22	Transportation
	Gazpromneft Lubrikants Ukraine	100	NA
UK	Gazprom UK*	100	Project Finance
	Gazprom Marketing and Trading**	100 ZGG	Gas sales
	Gazprom Marketing and Trading Retail	100	Sales
	Gazprom Global LNG*	100	LNG Project
	Gazprom International UK	100	NA
	Siberian Energy Ltd*	78	Development of carbon resources
	Hydro Wingas	25	Gas sales
	Interconnector*	10	Transportation
	Sibur International	100	Petrochemical
	WINGAS Storage UK	33	Underground storage
	Gazprom Mex (UK)	100	NA
	Perspektiva	100	NA
USA	Gazprom Marketing and Trading USA	100	Sales
Uzbekistan	Gissarneftgaz	5 ZGG	Gas exploration/ trading

	Volgouralnipigaz-Asia	100	NA
	Usturt-Zaruvezhneftegaz	100	NA
	Operational company Zaruvezhneftegaz GPZ Central Asia	100	NA
Venezuela	Gazprom Latin America Servicios	100	Services
	UrdanetaGazprom	100	NA
The British Virgin Islands	Benton Solutions	NA	NA
	Media Financial Limited	NA	Finance
	Nagelfar Trade & Invest	NA	NA
	NTV Media International	NA	Media
	Sib Oil Trade	100	Oil sales
	Richard Enterprise S.A.	100	Investment
	Johns Resource Ltd	100	Investment
	Dolbi Internal Holdings Ltd	100	Investment
	HITCHENS GLOBAL SA	100	NA
Vietnam	Vietgazprom	50	Investigation/development
	JV Gazprom Viet	5	NA

Note: NA: not available. * means a subsidiary company in 2013 Annual Financial Report and 2013 Consolidated Financial Report of Open Joint-Stock Company, Gazprom. ** means a subordinating company or an affiliated in 2013 Annual Financial Report and 2013 Consolidated Financial Report. OPAl means Black Sea Pipeline.
Source: 2008-2011 Annual Financial Report , http://www.gazprom.ru, 23 January 2011;2012-2013 Annual Financial Report and Consolidated Financial Report, http://www.gazprom.ru, 14 April 2014; List of Affiliated, 31 March 2013, http://www.gazprom.ru. 23 May 2014; Koszalin, 2008, pp.12-14.

The global economic crisis in 2008 - 2009 hit the Russian economy and its outward FDI dynamics[24]. Slump in stock prices proves this fact. In order to attract investment into Russia and solve the debt problem, sales of foreign assets were implemented, in particularly foreign assets of non-related (sideline) businesses were under disposal by sale[25]. Besides, some new trends appeared. M&A cases abroad were mostly implemented by state-owned enterprises (Gazprom, Rosatom, Sberbank, VEB), the cases of private companies drastically decreased. Companies capable to make investments were limited to those having free capital (Surgutneftegaz), companies who managed to attract long-term financing without serious debt problems (Lukoil, Mechel) and companies that received government support (Gazprom). Moreover, assets-exchange transactions decreased; cases in which foreign assets became liabilities grew in number, concession contract investments replaced FDI, as the result transactions with offshore businesses holding assets in Russia increased (Kheyfets, 2010c, pp.6-11). Nevertheless, foreign assets of Russian companies recovered shortly, and transnationalization process didn't decline, but rather expanded. For example, Lukoil expanded its network in Europe, while Gazprom acquired gas-storage and refinery facilities "Heidach"[26]. Metallurgic sector was hit the most; Severstal and Evraz reduced their foreign assets, even though their main assets are located in Europe. In steel and iron industry only Mechel managed to increase foreign assets. E+ (company controlled by O. Deripaska) singed the Joint Development

[24] See Mizobata 2011.
[25] For example, Oleg Deripaska sold 25% shares of Strabag in Austria as collateral of financing from German Bank.
[26] The Russian companies are very active in acquisition of petrochemical factories. Lukoil gained in Italy, the Netherland, Bulgaria, Romania, and Rosneft bought them in Germany. Surugutneftegaz had factories in Hungary, Slovakia, Italy, Gazpromneft had them in Serbia, and Zarubezhneft also had them in Serbia. Gazprom is under the acquisition process of the Czech company from Italian company Eni (*RBK daily*, 16 March 2011).

Memorandum with the government of Montenegro and acquired KAP, Severstal (SNA) reopened the plant in the USA, UC Rusal showed satisfactory performing results after closing the factories in Jamaica and others. In the sphere of telecommunications the expansion was quite strong, therefore Europe is positioned as the priority center for diversified Russian FDI (Kuznetsov, 2010b, Kuznetsov, ed. 2010, p.27-28, IMEMO, 2009, pp. 41-42).

3. Management strategies of TNCs and reasons for internationalization

In the theory on TNCs the major concern is strategy and motivation for transnationalization. Among motivations for transnationalization there are such goals as secure of a market scale, acquisition of labour force on profitable conditions, overcoming of trade frictions; as for the companies strategies, development of new markets, secure of natural resources, acquisition of strategic technologies and assets, establishment of a global system can be mentioned (Okumura, 2006, p. 16-22). Moreover, traditionally multinational corporations theory focuses on companies' advantages when expending business abroad. PUSH and PULL factors directly define the nature of relations among host and home countries. Below we consider the case of Russia in relation to this PUSH and PULL.

As for the PUSH reasons, they changed in the process of market transition. At the beginning of transition they mostly were driven by escape strategies from the risk of system transformation, due to low level of transparency and high uncertainty of the legal system in Russia and in some cases aimed to establish safe business networks abroad. Expansions of the natural resources' base on the international market, tax evasion are also added to this group (Katolay, 2010, pp. 125-126). In Putin times political risk evasion among the PUSH factors explained the motivation of many TNCs that tried to escape claims from the third parties, caused as the result of domestic restrictions on business in the natural resource sector, intensification of domestic competition, reduction of state dependency, hostile M&A and others (Kheyfets, 2007, p. 53). As for the PULL reasons of foreign expansion, these include those reasons directly related to decision-making process of TNCs. The first group of reasons includes development of the markets in advanced and emerging economies, example of the downstream of oil and gas sectors, pipelines is a very typical one here. Besides new markets for realization of products, PULL reasons might include search for strategic assets, expansion of the material base (upper stream of gas and oil sectors), evasion of tariff and non-tariff barriers, diversification of business, formation of a global image of the company, acquisition of slightly devaluated assets and others (Kheyfets, 2007, p. 52-53).

Pappe and Galukhina (2009, p.123) among the major reasons for foreign expansion such as entry into new sales markets, formation of the technological chain (both on upper and low sides), formation of a global player image focus on the two following points: maximum possible modernization through transfer of production, management and financial technologies and symbolic acquisition of natural resources as a protection mechanism from political risks.

In case of Russia there exist specific features of transnationalization based on political and economic structure formed in the process of system transformation. Firstly, many companies were turned into TNCs at the time of system transformation, because they were considered as a legacy of the Soviet network for domestic division of labour[27]. Economic relations of the former Soviet Union countries were affected here by historical conditions predetermined by the original institutional system and development of ex-Soviet enterprises and ex-Soviet economies.

The legal framework for the Russian outward FDI was settled by a Decree of the Soviet Cabinet of Ministers dated by 18 May 1989 "On development of economic activity of Soviet organizations abroad" and by law of the Russian Republic dated by 26 June 1991 "On investment activity in the Russian Republic". Owning to these two acts, juridical and physical entities got access to investment activities abroad. The order of the CBR in 2001 recognized investment licensing in CIS following by a liberalization of capital transactions in July 2006. Simultaneously the legal base for foreign investments in CIS countries was formed, and Agreement on investment protection of 1997 and bilateral investment agreements between the CIS countries facilitated the growth of Russian outward foreign investments. Besides, many international, transnational financial industrial groups (FIG) emerged, as the result many ex-Soviet TNCs were formed artificially (Libman, Kheyfets, 2006, p. 149-155)[28].

Moreover, "in the Soviet Union times Russian large state enterprises exercised role of vertically integrated transnational organizations that practically controlled storage chains through state satellite networks…. As the result of withdrawal from the system based on COMECON trade agreements and final collapse of the Soviet system, the major problem for Russian companies in the beginning of transition became how to search for new distribution markets and how to restore distribution chains by a more effective use of excessive production capacities" (Rusal, 2006, p.21). The following factors stipulated the motivation of entry into CIS region: geographical proximity and common infrastructural objects; economic cooperation agreements in CIS and succession of ex-Soviet assets; cultural proximity, similarities in cultural traditions, language, legal framework, individual connections (informal network); natural recourses-biased industrial structure of the economy; common features of competitive environment; geographical advantages for transition; access to natural resources; strengthening of domestic competition; political context; relatively soft rule for business in CIS countries (Kheyfets, Libman, 2008, p.40-47).

Concentration of FDI investment of CIS countries into adjoining countries and the border areas also certifies the geographical factor. Azerbaijan invests in Turkey and Greece. One fifth Russian companies with Ukrainian capital locates in Belgord oblast, border administrative region between Russia and Ukraine. Three fifths of companies with Kazakhstan investors and one sixth companies with Belarus investors also locate in the border areas (Kvashnin, Kuzunetsov, 2013, pp.49-50). Needless to say that there are as well cooperative relations between many CIS countries that considerably

[27] The following companies started their foreign business in the Soviet era and continued in the Russian transition: Zarubezhtsvetometo, Zarubezhnet, Atomstroiexport and others (Libman, Keyfets, 2006, p.40). Moscow-Narodny Bank (VTB Europe) was a subsidiary bank of the Foreign Trade bank. This bank was established in 1912, and was nationalized in the Soviet period. Banque Commerciale pour l'Europe du Nord (Eurobank) was also acquired in 1925, and became a subsidiary of VTB (Kuznetsov, 2007b, p.21).

[28] Although establishment of FIGs was not effective, FIGs included many firms in Russia and other CIS countries. In 6th March 1998, CIS countries signed transnational corporations agreement, and Russia signed bilateral agreement on the basic principles of FIGs establishment with Belarus, Kyrgyz republic, Tajikistan, Ukraine and Uzbekistan.

strengthen the economic ties[29]. It is obvious that transaction costs for Russian TNCs are cheaper in CIS than in developed countries, therefore the gravity model proves to be effective. In natural resources, energy, metallurgy sectors the Soviet legacy is still playing an important role. In addition, there is intra-industrial division of labour in CIS[30]. Therefore, Russian companies and banks hold monopolistic positions in natural recourses, energy, telecommunication, finance, commerce, light industries, food, construction and construction materials, advertising sectors.

Table 8 – Dynamics of companies with foreign capital participation in Russia (end of the year, number)

	2001	2003	2005	2007	2008	2009	2010	2011	2012
Cyprus	1051	1576	2043	3250	3915	4545	4625	5390	5096
Germany	1322	1298	1332	1454	1505	1597	1487	1406	1556
The British Virgin Islands	na	590	880	1123	1219	1312	1292	1621	1222
China	966	1499	1403	1577	1352	1045	1210	1466	1149
Ukraine	416	612	839	1170	1032	1104	1138	1364	1458
Belarus	350	465	720	1212	1496	848	797	894	1726
Kazakhstan	143	128	205	368	386	416	447	505	469
Uzbekistan	120	109	135	159	166	200	229	261	236

Note: Top four countries of Distant Foreign countries and top four countries of CIS.
Source: Rosstat, *Russian statistical annals*, 2002, 2004, 2006, 2008-2013, M.

In case of CIS countries, investment relations represent mutual penetration schemes[31]: not only Russian companies entry into the CIS markets, but also CIS multinationals invest into the Russian market. In case of Kazakhstan, there is an investment agreement on the high governmental level that proves to be effective not only for oil business (Kheyfets, Libman, 2008, p. 55). Table 8 shows dynamics of companies with foreign participation in CIS and some other economies. Not only offshore business actively penetrates into the Russian market, but there is also growing tendency of expanding CIS business in Russia. This fact provides evidence for the existence of the mutual penetration schemes.

However, investment within the CIS countries is varied. Kazakhstan companies invest in Russia in banking, construction and food industry. In contrast to the case of Russia, Kazakhstan investment in Kyrgyzstan and Tajikistan was based on the inter-government agreement. In addition, while Kazakhstan and Ukraine regard offshore countries as an important partner, Azerbaijan disregards offshore regions and neighboring Georgia and Turkey have occupied an important position (Kvashnin, Kuzunetsov, 2013, pp.50-52) .

Furthermore, secondly, economic relations in countries of the former Soviet Union mean that political relations between the companies and governmental strategies affect business. For example, Belorussian State Assets Committee signed the sale agreement of 50 % of shares (250 000 dollars) of Beltransgas in 2007, and at present commonly performs obligations and realizes investment projects concerning gas and electricity supply to European countries (Chernikov, Chernikova, 2008, p. 37). New

[29] For example, as of the end of 2001, Moscow city and Orenburg oblast had agreements with 62 administration districts of CIS region, and Rostov oblast agreed with 56 districts, and Tyumen oblast has agreements with 35 districts, and joint ventures were established.
[30] The Ukrainian aircraft industry purchased 70% of finished goods, and 95% of raw materials from Russia. Around 100 companies in Russia joined cooperation of aircraft industry. (Kheyfets, Libman, 2008, p.69)
[31] Kuznetsov (2012) suggest the success of top-to-bottom integration by the multi-directional nature of most CIS investment links.

investments in natural resources development in Africa are also related to government strategies. Moreover, in conditions of world economic crisis Eurasia Economic Community developed common plan of actions to cope with the difficulties and established anti-crisis fund. Starting from 2010 a customs union between Russia, Kazakhstan, Belarus came into effect, proving the facilitation of economic relations[32]. In other words, transnationalization of business closely follows the consistency of such decisions with the state policy.

Finally, internationalization of business of Russian companies was due to the fact that Russian domestic capital cycle is strongly correlated with the international finance. Foreign economy functions as an organic basic structural element of the domestic economy and strongly depends on it. This situation is called “parallel economy”, when motivation of transnationalization can be explained by reduction of risk and costs on the domestic market, synergy effect of staying at the domestic market (Kheyfets, 2007). Parallel economy while bringing positive economic affects, such as expansion of export and gradual adaptation to the international standards of business, results in concentration and international transfer of companies’ profits though the mechanism of price transfer.

Russian TNCs had to respond to the globalization process after the collapse of the Soviet Union and were deliberately affected by the Soviet legacy and system transformation reforms (privatization reforms in particular) and evolved in the situation of strong path-dependency. Below we present the classification of Russian TNCs (Table 9, Kuznetsov, 2007a, pp. 174-206, Kuznetsov, 2007b, p. 19).

1. Soviet legacy type TNCs
2. Classic TNCs (companies established from scratch in perestroika times and in the process of marketization reforms)
3. TNCs formed as the result of “civilized divorce” of the Soviet Union
4. Pseudo-TNCs (e.g., large shipping companies established for “legal capital flight” or diversification of economic activities)

Motivation and strategies of Russian TNCs are market-oriented, natural resource-oriented and new assets-oriented and are strongly affected by the state, initial conditions and the quality of transition reforms.

Table 9 – Types of Russian TNCs

Type	Sub-type	Best examples	Sectors
Successors of Soviet enterprises abroad	Transformed giants under the state control	VTB (Vneshtorgbank) Zarubezhneft	Banking Oil and gas
	Fragments of “red” TNCs under the state control	Mongolrostsvetmet Tento (Technointorg)	Mining Foreign trade
	Privatized Soviet TNCs	INGO (Ingosstrach) Sojuzvneshtrans	Insurance Transportation
“Classic” TNC	Private and state-owned firms formed on the base	Lukoil Rusal Evraz	Oil and gas Non-ferrous metals

[32] See Kheyfets 2009.

	of famous Soviet plants and internationalized in the 1990s ("classic" TNCs of developed countries) New (usually private)firms – children of liberal reforms ("classic" TNCs of developing countries	OMZ Sitronics Conversbank Eldorado Gloria Jeans	Steel Engineering Engineering Banking Trade Sewing
TNCs arisen due to the "civilized" divorce of former Soviet republics	Private and stet-owned networks of plants or service companies Private Russian firms internationalized due to foreign strategic investors	UES of Russia Severstaltrans Tractor Plants MTS VimpelCom TNK-BP	Electricity Transportation Engineering Telecommunications Telecommunications Oil and gas
Pseudo-TNCs	Private and state-owned shipping companies with legal "capital flight" Firms for round-tripping FDI and "capital flight"	Sovkomflot Novoship Prisco Various small companies in Cyprus	Transportation Transportation Transportation Business services

Source: Kuznetsov, 2007a, p.19.

4. Offshore-type TNCs

The major difference between Russian type TNCs and TNCs from developed economies is that many Russian companies have established their businesses in offshore regions. Kuznetsov (2007a) views this offshore-based TNCs as pseudo-TNCs, but these establishments are neither indeed illegal nor different from the transnationalization process, but rather characterize the Russian process of transnationalization. By establishing businesses in offshore areas[33], companies get preferential regimes on taxation in exchange for a one-year license, register their businesses in simplified conditions, relatively do not disclose information on their businesses and owners and transfer capital on the international capital market more

[33]Offshore Financial Centre is defined as jurisdictions that provide commercial and corporate financial services to non-resident corporations. This definition is different from the IMF a tax haven as a place (Andrew and Alex, 2008).

effectively (Kheyfets, 2008, Corporate Management Services, http://cmshk, accessed 27 June 2011).

Offshore is not a new challenge for Russian companies and banks. Countries corresponding to the category of offshore regions, like Cyprus[34] in particular have been used since the Soviet Union times. Gosbank's affiliates – financial companies were registered in Jersey Islands[35]. However, after the collapse of the Soviet Union offshore became escape destinations for the Russian capital. The following can be mentioned as the motivation for the capital flight: optimization of taxes[36]; assets property (due to the complex property structure the final owners are concealed)[37]; asset structuration (assets concentration); asset management (a complex multistage structure is being used); minimization of tax payment together with the name concealment of transaction parties; formation of offshore transactions[38]; access to international investments and expansion of business abroad; listing of securities on foreign securities markets; re-investments into Russia; settlement of accounts. "Russian commodity-based shell companies established in Cyprus send funds to their legal affiliates engaged in oil, mineral and metals exports, often for the purpose of tax minimization. For example, the second largest Russian steel company, Evraz, is owned by offshore companies in Cyprus in which Russian investors have key interests. The fourth largest Russian steel company, NLMK, is also controlled by Fletcher Group Holding from Cyprus (85.5 per cent), which belongs to another Russian investor" (UNCTAD, 2013, p.65). Therefore, offshore causes distrust of the economic policy and brigns about the crisis from abroad (Kheyfets, 2013b).

In the early stage of transition due to the lack of stability, concealment of capital became the primary problem and tax evasion was a secondary one. In the late 1990s Russian residents established 50 000 – 60 000 offshore companies, and by 2000s this number reached 100 000[39]. Moreover, powerful companies such as Gazprom, Lukoil, Surgutneftegas also were engaged in offshore business from the beginning. As of 2006 TOP 25 companies had 360 foreign subsidiaries, from which 156 (25%) were located in offshore regions, the tendency to register companies in the British Virgin Islands, Isle of Man was strong, offshore schemes are used when investing into Asia

[34] The dual evasion of tax agreement between Russia and Cyprus was agreed in 1982, and the revised one was concluded in December 1998. The agreement was OECD principles and while Russia's corporation tax was 20%, Cyprus's tax rate was 10%. From the beginning of 2008, the Russian tax code determined Cyprus in the black list of the Ministry of Finance, Russia, and dividend tax rate, when the Russian companies receive from the Cyprus companies, has become 9% without any preferential treatments. In addition, transfer pricing was also determined (Levashenko, 2011).

[35] Cyprus had friendship relation with the Soviet Union, and had so many accountants and judicial scriveners speaking Russian, and provided business conditions advantageous to the Soviet Union. The financial transfer of the Soviet Communist Party to friendly nations utilized offshore-locating companies, and till the collapse of the Soviet Union, more than 100 billion dollars were transferred. (Kheyfets, 2008)

[36] The typical case is shipping companies, and they gained preferential treatments of tax-exempt from the registered countries. During 1992-2004, more than 90% ships of Russia were of foreign countries registry, and the same situation can be observed in aircraft (Ireland, Bermuda, France).

[37] The parent company of Alfa-group, CTF Holding Ltd. Is registered in offshore region, Gibraltar, and this parent company controlled 25% of oil exploitation rights via other offshore companies. Alfa bank was controlled by offshore company ABH Holding, which locates in the British Virgin Islands. The main shareholder of TNK-BP, TNK-International Ltd. locates in the Virgin Islands, using offshore linkage, it controlled more than 95% of TNK-BP Holding, The holding company of Renova is also registered in Bahamas. Offshore companies have increased their share in statutory capital.

[38] Gazprom organizes offshore traders for gas supplying to CIS countries. For example ITERA, its substitute Eural Trans Gas, RosUkrEnergo, Centrex Group Holding Ltd.

[39] 3.5-4% of the world offshore companies.

(Kheyfets, 2008). Russian offshore-based companies are sometimes used in international M&A cases as well.

As a result, most of oil, metal and grain are transacted through special offshore-type traders in Switzerland (Kheyfets, 2013b). Offshore-type TNCs fulfill the pivotal role of transnationalization and this fact does not necessarily indicate that foreign expansion of Russian companies is affected by the export of capital implemented by domestic companies. Particularly, large TNCs have utilized offshore affiliates as centers for profits concentration, and TNCs regard offshore as a component indispensable for the organizational structure (Kheyfets, 2013b, p.30).

The global economic crisis hit the public finance of the developed countries; offshore centers were put into the focus of anti-crisis policy[40]. In April 2009 G20 requested the transparency of transactions in offshore countries (jurisdictions) as a method to cope with the tax evasion. The OECD (Organisation for Economic Cooperation and Development) published a complete list of non-cooperative tax heavens as follows: the blacklist of 4 countries that have not committed to the internationally agreed tax standard (Costa Rica, Malaysia, the Philippines, Uruguay), the grey list of 38 counties that have committed to the internationally agreed tax standard, but have not yet substantially implemented (Tax havens such as Andorra, Anguilla, Antigua and Barbuda, Belize and others, and other financial centers such as Austria, Belgium, Brunei, Chile, Guatemala, Luxemburg, Singapore, Switzerland) and the white list of 42 countries that have substantially implemented the internationally agreed tax standard[41]. On 16 July 2009 a new list was announced, the blacklist countries were moved to the grey list, Belgium and Luxemburg were added to the white list (44 countries in total). The British Virgin Islands, the Cayman Islands, Singapore were also added to the white list leading towards further transparency of operations. As of 15 December, 2011, the grey list included three countries (Nauru, Niue and Guatemala), and others belonged to the white list[42], and as of May 2012 only one country (Nauru) appeared on the grey list for tax havens, and one (Guatemala) appeared on the grey list for financial centers (Gravelle, 2013, p.6). As far as offshore tax evasion may be regarded as a serious problem for jurisdictions all over the world, the OECD enhanced transparency in tax matters by the new global standard adopted in July 2014 (OECD, 2014).

In Russia anti-offshore policy is also being advanced[43]. In December 2009 the Ministry of Finance announced the companies using offshore schemes and the Government proclaimed more strict taxation measures. But these measure are not that easy to achieve. Up to 70-90 % of private companies organize business with partners registered in offshore regions; some state enterprises are also involved in large non-payment of taxes by using offshore trader schemes. For example, Sberbank have had affiliates in the Cayman Islands, the Bermudas, Switzerland and Luxemburg for cost

[40] For example, the US government gave the administrative pressure to Swiss banks for transparency, and used new rules regarding reporting requirements for US persons with foreign accounts. The UK adopted the new rules “General Anti-Avoidance Rules” (Kheyfets, 2013b, pp.33-34).

[41] A progress report on the Jurisdictions surveyed by the OECD global forum in implementing the internationally agreed tax standard, 2 April 2009. See OECD, Countering Offshore Tax Evasion, 28 September 2009. Russia is listed in the white list from the beginning.

[42] A progress report on the Jurisdictions surveyed by the OECD global forum in implementing the internationally agreed tax standard, 15 December 201l. See OECD, Offshore Voluntary Disclosure, September 2010, and November 2013.

[43] The government views on offshorization can be divided into two contradictory views: On the one hand the government opposes offshorization common to the global standard; on the other hand the government permits offshorization as necessary condition for the Russia companies.

minimization and the international financial operations (*Profile*, No.1, 2014, p.23). According to estimations, Russian companies tend to exclude 2/5 – 4/5 of profits subject to taxation. The member of the Russian Audit Chamber (S.V. Stepashin) stated that during the crisis 200 billion rubles out of 5 trillion rubles of the governmental aid to the banking sector were transferred by banks to the accounts in offshore establishments. As of 2010 42 countries were included in Offshore Zone List by the Russian Ministry of Finance, 16 of them belonging to the white list of the OECD. The amendments to SIDN (Agreement on dual evasion of taxes, total 75 in Russia) are also actual problems[44] (Kheyfets, 2010a).

The policy that had the most impact on offshore in 2011 was the reform of transfer pricing. From 2012 a new transfer price tax system was introduced. Offshores were added into the new system and it was stipulated that when having transactions with foreign subsidiaries the possession of shares directly and indirectly should be not more than 25%. Relations with foreign subsidiaries are the core part of the new transfer tax system. In addition, Russian government facilitates the intervention into offshore transactions and more actively collects the data on capital flight and its re-investment (*RBK daily*, 20 December, 2011). Internalization caused by the introduction of a new transfer pricing mechanism as one of the motivation for transnationalization is subject to change in the process of policy towards offshore regions.

Offshorization of the Russian economy, however, is hard to change in the short term[45]. The Cyprus financial crisis in 2013 has certified the serious Russian offshorization. Cyprus has had a strong linkage with Russia and Russia had 14.4 thousand companies in Cyprus, which occupied 34.1 % of the total Russian foreign affiliates. Independently the levels of income tax, affiliates have been utilized as intermediate holdings between Russian domestic companies and tax-exempt juridical persons[46]. It is natural that the Russian capital has flowed into the Cypriot financial sector. Due to the crisis, the direct loss for Russian owners in Cyprus reached more than Euro 3 billion. As a result, direct loss of legal tax minimization in Cyprus can be considered as more than $ 50 billion, and the real loss of the Russian budget may be estimated in $ 60-70 billion (Kheyfets, 2013b, pp.36-37). The Cyprus crisis does not bring about the fundamental changes in the Russian capital flow. The round-tripping type of capital flow has been kept, as Cyprus has kept evasion of tax agreement with Russia (*Vedomosti*, 8 April 2014,).

Under the crisis, the Russian government has enhanced de-offshorization policy. The government regulated three countries with dual evasion of tax agreements (Cyprus, Luxemburg and Switzerland): restrictions on preferential dividend tax, abolition of preferential real estate tax and others (Kheyfets, 2013b). Following the OECD standard, the Ministry of Finance in Russia has accepted the similar concepts with the OECD, and has enhanced the control to the foreign affiliates. The Ministry of Finance has made public the offshore black list (41 jurisdictions) and enhanced information exchange with offshore countries. The tax code also has been requested

[44] The dividend tax of corporations registered in Cyprus is 5%, and this rate has a gap with the Russian domestic one by 15%. In addition, license and interest tax also have gaps.

[45] As far as transaction with offshore has been based on the legal institutions, the measures regulating informal transactions have little effects. In addition, offshore companies have used both private sector and public sector (*Profile*, No.1, 2014, pp.22-23).

[46] From 2013, Latvia has substituted the role of Cyprus. Particularly, when the Kazakh capital participated, the foreign affiliates have advantage, as between Kazakh and Latvia there is no evasion of tax agreements (Bakulina, 2013, p.18).

amendments in order to avoid the tax planning by offshore (*RBK daily,* 10 April 2014). The Ministry of Finance and FNS (tax office) consider the transfer of dividends, interests and intellectual property rights to offshore through the intermediators as questionable (*RBK daily,* 22 April 2014). The Russian Audit Chamber monitored large scale state purchase (more than 1 billion rubles), and state order to one-day company is regarded as questionable (the Upper House, *RBK daily,* 10 April 2014).

The new anti-offshore law has been under the adoption. The Ministry of Finance has proposed the new law[47] on "controlling foreign companies" which requested the Russian owners of foreign affiliates to pay profit tax. This law determines the foreign affiliates when the Russian or the Russian company has more than 10% of the capital. The Ministry can impose a tax on the foreign companies in the black list[48] countries. The policy of the Ministry of Finance has a contradiction with the business society which requests efficient utilization of offshore. The business society regards this amendment as "liberal tax code under the bad tax administration" (*RBK daily*, 30 May 2014) and has requested the standard level 50%[49].

Even though the government does not have a common view on de-offshorization[50], the Russian government cannot ignore the economic influence of offshorization in the Russian economy. The new standard suggests not only harmonization of the offshore regulation to the global society but also the stronger hand to TNCs. The crisis impact from offshore becomes stronger, and the state budget has become more serious, offshore-type TNC cannot be free from the state regulation and the global regulation.

5. Reconsidering TNCs from emerging economies and impact of globalization

Behavior and strategies of Russian TNCs fully explain the variation of capital transfer within the Russian economy. Continuous capital flight[51] has been examined in many researches from the macro - economic point of view, and it was substantiated that capital flight shows not the existence of rational players in international finance, but rather pessimism of Russian people towards their national economy (Uegaki, 2008). However, most of the researches from the point of view of international finance focused on investigating one side of the problem – capital transfer from Russia to abroad or vice versa, though admitting relation between these two processes and showing that capital transfer is unlikely connected with international development of business of the main players. When relations between globalization and international capital transfer are analyzed at the companies' level, it is clear that Russian

[47] The law passed the first reading on 18 March, and second reading on 19 May and third reading on 30 May 2014.

[48] The Ministry of Finance has requested enlargement of the list.

[49] The stance of the Ministry of Finance is very severe as it requests more than 1%. A Chamber of Commerce rejected the law and the business society "Business Russia" raised 25% as their counterproposal (*RBK daily*, 7 May 2014). The Ministry of Economy has a view of the gradual implementation which is common with RSPP.

[50] The Ministry of Economy considered Crimea as a substitute for Cyprus by designing the preferential institutions (*Vedomosti*, 21 April 2014).

[51] It corresponds to net increase of foreign currency in the domestic circulation, accrued export price, errors and missing (Uegaki, 2008). Hanson (2007, p.873) considered it as accrued export price plus errors and missing. Bulatov (2011) named capital flight as illegal capital export, and it occupied 59% of the total capital export in Russia and, it became 475 in 2010. This value was estimated 265-285 billion dollars during 1986-1995 by Ministry of Finance Russia, and was estimated 800 billion – 1 trillion dollars in 1990s by the League of the Russian Banks (Kheyfets, 2007, p.51).

companies, regardless of their ownership structure and departmental attributes, have built a worldwide transnational network, including the one in offshore countries, and are actively participating in the international movement of capital simultaneously with the implementation of the system transformation reforms. Capital evasion and its re-investment (return) might be also included into the TNCs network as one of the features of capital transfer. In other words, foreign expansion of Russian companies is pursuing not only natural resources or access to new markets, but also might be explained by internalization leading to the reduction of transaction costs from operating on the Russian market - which is a direct proof of the growing transnationalization process. Therefore, capital flight can be viewed as the direct result of the behavior of Russian TNCs.

When TNCs from emerging economies are analyzed from the point of view of international capital transfer which is one of the key process of globalization, it is obvious that transnationalization is not intra-firm international division of labour through the process of internalization, but it can be also view in the linkage with intra-firm (bank) international capital transfer within the company (bank) group. What is the implication of this linkage?

Firstly, capital transfer is not one-sided; it is formed in both towards Russian market and abroad (double-sided movement). As the result the balance between inward and outward FDI as well as between in-out and out-in M&A is somehow reached. Kheyfets (2008) calls these kinds of relations between outward and inward FDI, as well as the linkage between national and foreign economy a “parallel economy” and provides a typical example of Gazprom’s acquisition of Sibneft. The case of Gazprom is a good sample when a domestic M&A transaction is implemented in the strong linkage with international finance. 80% of capital inflow into the Russian economy in 2008 was FDI (84 billion dollars), 36% of which were acquired investments from foreign companies with common shareholders (Kheyfets, 2010b).

If the nature of the above-mentioned relations is true, it is important to reconsider the structure of the foreign debt. During the crisis, the government directly rescued companies who fell into debt (bad loans) problems. This kind of bailout measures should be highly valued in developed countries. However, but in Russian context this direct support has a different meaning. In other words, direct state assistance is a response towards the situation when shares of strategic enterprises put into mortgage, were subject to transfer to foreigners according to the conditions stipulated by foreign banks in loan agreements. The nature of this capital is not just pure liabilities. In 2007 raise in liabilities of non-financial sector amounted to 93 billion dollars, from which 70 billion were related to offshore businesses or direct loans from the parent companies. In 2008 the foreign liabilities of non-financial sector was 53.6 billion dollars (Cyprus – 14 billion, UK – 7 billion, Luxemburg – 4 billion, the British Virgin Islands – 2 billion) (Kheyfets, 2010b). In fact, foreign liabilities (debts) are loans or mutual financing from subsidiaries (parent companies), i.g. intra-firm financing, and aid towards these companies should be viewed both as direct foreign transfer of state capital and bailout plans for companies. In other words, internalization lies more in capital management structure rather than production process or technology transfer.

Thirdly, global linkage between the companies shows the result of reorganization of company ties since the Soviet Union times and can be found not only in CIS region, but also in Eastern Europe. In short, TNCs can be claimed responsible for spontaneous reorganization of international division of labour in enterprises and banks due to the fact that there are similarities on the institutional level in capitalization and privatization processes of their economies, as well as common features in historical, cultural background and business environment. In short, the geographical, cultural, institutional and economic distance play a significant role for the Russian transnationalization (Ghemawat, 2007).

TNCs being a global player expand their business abroad leaning on their comparative advantages. John H. Dunning proposed a comprehensive framework for theoretical research of TNCs activities. Dunning divided ownership advantages (tangible and intangible assets of the firm expanding business abroad), internalization advantages (advantages of intra - firm transactions over market transaction costs) and location advantages (market potential and access to the research base of the host country) (Asakawa, 2006; Dunning, 1998). In relation to this Rugman (2010) showed that TNCs from emerging economies are not attracted by classical firm-specific advantages (FSI) of TNCs from developed countries, due to the fact that TNCs from emerging economies lack advanced technology management or have underdeveloped manufacturing and technological standards, and suggested considering both FSI and advantages of the home country[52]. Moreover, TNCs are investigated from the point of view of institutional economics, as both host and home countries' institutions predetermine the behavior patterns of TNCs (Isobe, Makino, Christine, 2010). Some researches indicate the chaotic factor in management strategies of TNCs in emerging economies, due to low or under development of institutions, considerable gaps between success and failure, uncertainty and high potential of the market (Isobe, Makino, Christine, 2010, p.210). Something considered appropriate in host countries, might be interpreted differently in home country's conditions. Emerging TNCs in Russia, however, have a different connotation.

Firstly, Russian companies internationally expand their domestic institutions. Namely, non-transparent property ties and opaque corporate governance are transferred intact to offshore zones and become more complex and lack more transparency in terms of their ownership and administration. Influence of the state, monopolistic (oligopolistic) business structure and their expansion abroad grow faster than the expansion of manufacturing (technological) networks. This means effective work of home country's specific advantages of the economic system whose domestic structure proves to be competitive internationally together with the transnationalization process of companies that exercise their ownership and internationalization advantages. Offshore-type TNCs though suspending capital transfer can be viewed as an internationalization strategy of costs optimization in the whole business group by establishing, reorganization and liquidation of closed stock companies.

Secondly, the government actively participated in establishment of many TNCs even since the process of their assets formation, economic policy directly targets establishment and evolution process of TNCs. The influential role of the government is preserved at present. Capital export based on official agreements between the governments is a typical example. As far as Russian companies are inclined towards natural resource and infrastructure sectors, therefore state policy related to natural resources and energy sectors and foreign economic policy of towards former Soviet Union countries themselves become the motivation and method of transnationalization. In short not only home country (Russia) advantages but also the firm specific advantages (FSA:specific state and business relations aiming maximization of profits by establishing close economic relations) have been constantly affected.

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[52] It points cheap labour force, natural resources, and cheap money and others.

Thirdly, disadvantageous conditions of the home country facilitate the transnationalization process. In other words, this means formation of a stable organization structure through foreign subsidiaries for the purpose of avoiding non-transparency of economic system (property rights in particular), excess intervention of the government and tax burden from the government. Low development of domestic financial market also predetermines foreign expansion. Negative domestic environment and low level of institutional development raise transaction cost in home countries, while location advantages (offshore areas are a typical example) are conductive in reducing them.

Having encountered with the raise of Russian TNCs and increase of their international competitiveness[53], 58% of managers in TNCs from developed countries in 2006 expressed their negative opinion on the matter validating their decision by high political risks and confrontation. These estimates are quite different from those for TNCs from state-capitalism driven China or India where investors have leading positions. Regardless of their business experience in Russia, many of them claimed for the corporate governance reform, guaranteed transparency, higher business ethics and 76% demanded independence from the state (Rusal, 2006).

TNCs based in emerging economies pursue different motivation from that of the developed countries, and despite the fact that their development prospects are viewed with pessimism, it does not indicate that their motivation is unchanged. Transnationalization requires obeying of global rules, institutional changes precondition changes in motivation of the companies in developed countries. Transnationalization in any form strengthen relations with the world economy, but in conditions of the world economic crisis mitigation mechanisms of its impact on domestic economy should be considered, consequently leading to a reconsideration of motivation for transnationalization. Offshore-type also is under the process of transnationalization. Below there are some examples.

Import of global institutions in the sphere of corporate governance reform and CSR is growing. Russian associations of entrepreneurs and industrialists adopted the UN Global Compact and introduced Russian Business Social Charter and CSR National Forum. Moreover, after the global economic crisis, the problem of transparency of offshore zones was indicated internationally. Besides, transfer of Russian non-transparent institutions abroad was tackled as the problem. Transnationalization is also closely related with ratings on the international financial markets and evaluations by trust and rating agencies of the developed countries. This means that original FSA strongly dependent on relations with the government are not only restricted, disadvantageous home country’s business conditions also will be demanded to follow the global standards, though this might contain risk of reducing location advantages. In short, globalization and (ironically) the global crisis might be an obstacle for “inefficient” transnationalization aiming to reduce transaction costs on the domestic market and pursuing goals of tax evasion, complicated ownership relations and misuse of institutions. The WTO accession will undoubtedly decrease barriers in foreign economic activity and provide further favorable conditions for Russian companies’ foreign expansion, but at the same time it may increase transaction costs that are original for Russia and slow down the PUSH factors. Specific and original

[53] Respondents of 332 managers who had more than 500 million dollars income annually. In June 2006, questioner research was carried out by The Economist Intelligence Unit, and respondents indicate all the managers and managers with Russian business experiences. Respondents were given from Europe (42%), North America (32%), and Asia (21%). We must take account the period of questioner was before the economic growth.

process of transnationalization and its motivation allow us to conclude the there is a Russian-type (R-model) TNCs, but success of these emerging TNCs and their sustainability in the process of globalization are questionable. De-offshorization of the Russian economy can be regarded as a new trend for R-model TNCs.

Conclusion

TNCs from emerging economies are no doubt the focus of attention since 2000s. For many years the common understanding was that TNCs originate in developed countries, while developing countries were viewed as "hosts" for TNCs providing natural resources and market opportunities. However, with the raise of emerging economies in 2000s, especially economic growth in BRICs countries close-up towards the existence of TNCs based in emerging economies (UNCTAD, 2010, 2011) became noticeable. Modernization reforms in Russia have the potential to lead the further growth of emerging TNCs.

Russian FDI is the subject of many researches, while researches on Russian TNCs from the organization point of view lack in number. This paper examined the formation process, evolution and motivation of Russian TNCs. Transnationalization process in Russia explicitly shows the domestic economic and business structure in Russia. Among the specific features of TNCs we identified the following ones: inclination towards natural resources, energy and metallurgy sectors; strong interrelation with the state; path-dependency in formation of TNCs and its impact on motivation for transnationalization (Soviet legacy); specific character of relations with CIS countries (original relations of state and business[54]). Moreover, we indicated specific features related to the macro-economic structure of the Russian economy, namely the specific route for capital inflow and outflow and its strong relation with foreign liabilities structure, existence of offshore-type TNCs without clear property rights and industrial structure, usage of offshore schemes for tax evasion and as sources for transferring of the governmental aid (subsidies) in conditions of crisis. We found that, when viewed as intra-firm capital transfer transactions, access to new resources and market potential, acquisition of advanced technologies, diversification of the economy, core competence, market domination are driven by FSA (ownership, internalization, location advantages), while when investigated form the point of view of the Soviet inheritance, some home country's advantages can be depicted. In short, we conclude that Russian TNCs emerge in close correlation with the domestic structure of the economy. Offshore-type also suggests that Russian TNCs have been based not on the unclear position of offshore countries but on the R-firm organizations and networks.

Globalization inevitably influences on the formation and motivation of TNCs. Penetration of global rules challenges comparatively advantageous domestic structure of the economy and relationships between state and business and causes changes in them, there raises problem of their new "reproduction". The global economic crisis, EU crisis in particular, conceal many dangers for the domestic economy, due to the fact that many Russian TNCs are located in Europe and in European offshore countries. TNCs in fact cause more severe consequences of the crisis and facilitate its impact[55]. Until the productivity level in Russia remains 1/3 of that of the developed

[54] The strategic business capture under the tactical state caputure (Kheyfets, Libman, 2008, p.132).
[55] There are strong opinions that support the Russia's joining to relief the periphery countries of Europe (*RBK*, December 2011, pp.40-42).

countries (McKinsey Global Institute, 2009), Russian TNCs will continue to cut employment within Russia, but not abroad (Kuznetsov, 2011, p.8). However, layoffs provoke state intervention into TNCs business and therefore restructuring process is delayed.

Is it possible to explain the behavior of TNCs from emerging economies within the existing theoretical framework? There are some other factors explaining the motivation and behavior patterns of TNCs, such as structure of the home country's economy, besides the traditional ownership, internalization and location advantages. When same originalities are substantiated in case of China and India, the theory of transnational corporation needs to be broadened. In case that Russia preserves current features of its economic development in the medium term, specific features of TNCs and frictions caused by them will be maintained as well.

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