

RUSSIAN FOREIGN POLICY AND OUTWARD FOREIGN DIRECT INVESTMENTS: COOPERATION, SUBORDINATION, OR DISENGAGEMENT?

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DECLARATION

I hereby declare that this dissertation contains no materials accepted for any other degrees, in any other institutions. The dissertation contains no materials previously written and/or published by any other person, except where appropriate acknowledgement is made in the form of bibliographical reference.

Sanja Tepavcevic
September 16, 2013

ABSTRACT

This dissertation contributes to the literature on Russian foreign policy and the literature on Russian outward foreign direct investments by investigating the relationships between the two in instances of outward foreign investments of Russian transnational corporations. The research focuses on forms and mechanisms of cooperation between Russian state institutions and Russian companies abroad. As the central republic of world's former military superpower and its direct successor in international organizations, one of the world's largest oil and gas exporters, and territorially the world's largest country, Russia has usually been perceived as an imperial expansionist. The assertive foreign policy rhetoric of its political leadership has contributed to these perceptions. As a result, outward foreign direct investments of Russian companies, especially those of energy-exporting companies, have been perceived as agents channeling Russian national interests abroad. They have also been portrayed as such by most of the literature on Russian foreign policy and by the largely fragmented literature on Russian outward foreign direct investments. However, empirical observation has shown that there have been a significant number of mismatches between rhetoric about the activities of Russian companies abroad and their actual action. Therefore, the dissertation addresses two general and one specific question: What is the relation between Russian foreign policy and foreign direct investments? To what extent, if at all, is Russian foreign policy important in Russian outward foreign direct investments? Under what conditions and in which forms do Russian state institutions and Russian companies abroad cooperate with each other?

While a few scholars have recognized business interests as motives that drive Russian outward investments, other non-political motives for Russian FDI have largely been neglected in the literature. The dissertation relies on an extensive dataset consisting of official documents and

more than seventy interviews. The core is forty interviews with representatives of Russian state institutions (ministries, embassies, and trade and commercial representative offices abroad) and representatives of Russian transnational corporations and small-and-medium enterprises in Germany, Hungary, and Bosnia-Herzegovina. Qualitative content analysis is used in the analysis of the data.

Results demonstrate that although business interests serve as the most frequent drivers of Russian outward foreign direct investments and are quite frequently mixed with individual profit-seeking interests of Russian private companies' owners and managers of state-owned companies, the latter usually portray them as Russian national interests. Therefore, in contrast to the widely shared view in the literature on Russian foreign policy, state institutions abroad usually serve the business interests of Russian companies, and not vice versa. Most importantly, the results show that cooperation between Russian state institutions and Russian companies abroad depends on a combination of economic factors – four characteristics of the host market (size, sophistication, regulations of foreign direct investments, and competition by other foreign investors) and social factors (reactions to Russian investments in host country). The more complex the host market (including reactions to Russian foreign direct investments), the more Russian companies aim to intensify cooperation with Russian state institutions in a host country in instances of foreign direct investments.

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OVERVIEW OF THE DISSERTATION

This dissertation explores the relationship between Russian state and Russian companies through the prism of Russian foreign policy and outward foreign direct investments (OFDI) from Russia. Therefore, *the cooperation between Russian transnational companies and corporation (TNCs) and Russian state institutions abroad* represents the dependent variable. By asking the question *to what extent, if at all, is Russian foreign policy important for Russian OFDI*, this dissertation aims to contribute specifically to four strands of literature:

- Russian domestic politics (particularly state-business relations);
- Reasons and modes of outward FDI from Russia (with focus on Europe);
- Russian foreign policy (with focus on particular European countries), and;
- Acceptance of OFDI from Russia in Europe (with focus on particular European countries).

The dissertation also provides a theoretical contribution to broader international political economy literature by tackling the following conceptual questions:

- What is the role of foreign policy in foreign investments?
- What institutional capacities are needed to enable the state to serve the interests of business?
- To what extent, if at all, can a weak state serve the interests of business?
- How do sectors influence the relationship between firms and state institutions abroad?
- How does institutional setting of a host country influence firms' foreign activities and the relationship between firms and state institutions abroad?

These conceptual questions are addressed in three stages, each of which makes up one part of the dissertation. The first stage provides theoretical framework and the context of analysis. It consists of Introductory chapter (Chapter 1) and Conceptual chapter (Chapter 2). Chapter 1 introduces the relevance of the topic in detail. It shows that many scholars still perceive Russia mostly as a smaller version of the USSR, and that, for this reason, the frequent mismatch between Russian foreign policy rhetoric about the activities of Russian companies abroad and their actual actions come rather as a surprise. The research questions asked here are therefore:

- *What causes the difference between official Russian foreign policy and the actions of Russian companies abroad?, and;*
- *To what extent is foreign policy important in Russian OFDI?*

Chapter 1 situates these questions in the literature, and derives two competing and two complementing hypotheses to them: while first strand of literature asserts that *Russian OFDI are driven mostly by pure business interests*, the second argues the opposite, that *Russian companies are usually merely the agents of the Russian state*. The authors of the third strand of literature suggest that *Russia, in fact, has no clear foreign policy strategy, and therefore business cannot use it as a guideline to its foreign activities*. Finally, the works that generate the fourth strand of literature represent the view that *acceptance of Russian OFDI mostly depends on particular host country's domestic politics*. These hypotheses suggest that there are four independent variables, i.e. factors that influence the relationship between Russian foreign policy and OFDI of Russian companies, namely:

- Business interests of Russian companies;
- Russian state (i.e. national) interests;

- Perceptions of Russia in host countries;
- The reaction of the host country on Russian investments.

Chapter 1 also outlines the official documents that serve as primary sources for research and the criteria in choosing the target groups of persons for interviewing as the main method to answer the research questions. It also justifies that - due to their different power and geographic positions in Europe and the level of economic and institutional development - Germany, Hungary, and Bosnia-Herzegovina prove suitable cases for the analysis of the dependent variable. Germany is a regional economic power and the core state of the old EU; Hungary is a small politically and economically peripheral country and relatively new EU member with capable institutions; and Bosnia-Herzegovina is politically and economically completely peripheral small non-EU country with imported and incapable institutions.

Chapter 2 sets the context for the analysis of the dependent variable by elaborating transformation of Russia from core Soviet republic, one of two of the world's largest political and military superpowers, to modern Russia, increasingly internationally recognized as energy-superpower. The chapter shows that this transformation was shaped by the interaction between state and business, influenced by two internal and two external factors. The two internal factors were economic weakness and the consequent collapse of the political system, while the two major external factors were globalization-related issues: rapid internationalization and integration of the world economy, and increasing security threats. The chapter analyzes Russia's transformation on two levels: macro, i.e. the state level, and micro, i.e. the company level. The chapter reveals that during the last two decades the business interests of large companies and the individual profit-seeking interests of Russian political elites and companies' management have shaped politics and state institutions in Russia. Thus, Chapter 2 not only confirms the economic

hypothesis proposed by the first strand of literature on Russian foreign policy-OFDI relationship, but it also sheds light on a third type of interests that shapes motivation for foreign direct investment of Russian companies, namely individual profit-seeking interests of Russian political elites and top managers of Russian companies.

The second part of the dissertation shows how the domestic affairs affect the relations between Russian state institutions and Russian companies abroad. This part consists of three empirical chapters (Chapter 3, 4, and 5) that represent illustrative parallel-case studies on Russian foreign policy-TNCs relationship in Germany, Hungary, and Bosnia and Herzegovina, respectively. Each of these chapters is structured around the same questions: *How has Russia's internal transformation affected its relations with the host country, and how, in turn, have these relations affected the relationship between Russian state institutions and Russian transnational corporations (TNCs) in these countries?* In addressing these issues, each empirical chapter first provides a short overview of the relations between Russia and the particular country during the post-Soviet period. Then, each chapter provides a section on reasons for and modes of Russian TNCs' expansion to each of the analyzed countries by asking *what were the motives and modes of Russian companies' expansion to host country?* Third, each chapter offers a section in which the perceptions of Russia and Russian business are analyzed in particular host country. These sections pose the question of *how Russia as a state and Russian companies as business units are perceived in host country*. Further sections of the three empirical chapters analyze the impact of these perceptions on the attitudes towards foreign direct investments from Russia in a host country. The examination of dependent variable in each host country provides a different answer to the research questions. In all three countries Russian state institutions serve the interests of Russian companies, when they are involved in FDI processes; however, with different degrees of

success, which mostly depends on the level of economic development and institutional setting of the host country (defined as a combination of four host market's characteristics, namely: market size, sophistication of market, regulations of FDI, and competition by other foreign investors). For instance, Russian business in Germany is becoming mature faster than in other two countries. The most striking example of this maturity is the attempt to improve the image of Russian state by engaging the state representative institutions in the association of Russian business in Germany; similar associations exist neither in Hungary, nor in Bosnia-Herzegovina. Yet cross-border mergers and acquisitions (M&As) represent dominant mode for foreign expansion of Russian companies, while Greenfield investment projects are still very rare.

The last part of this dissertation consists of Comparative chapter (Chapter 6) and Concluding chapter (Chapter 7). Chapter 6 compares the findings from the three empirical chapters, i.e. the political, economic and social factors that influenced cooperation between Russian state institutions abroad and Russian companies in instances of outward foreign direct investments. The findings show that although political and social factors to some extent shape the trajectories of Russian FDI, the decisive factor for the cooperation between Russian state institutions and Russian TNCs is the economic factor, i.e. the level of economic safety and institutional development of the host country: the higher these levels, the more attractive and simultaneously the more difficult it is for investments from Russia to enter their markets, and thus, the higher the cooperation between Russian state institutions and Russian TNCs. Therefore, out of the analyzed countries, the level of cooperation between Russian state institutions and Russian companies is the highest in Germany, and the lowest in Bosnia-Herzegovina.

The potential contribution of the present dissertation to the existing literature is fourfold. First, it explains that the interests that shape motives of Russian companies and corporations for

foreign direct investment and their cooperation with Russian state institutions abroad in instances of FDI are neither only state's interests nor purely companies' business interests, but much more complex and diverse, often closely related to individual profit-seeking interests of Russian companies' top managers and Russian political elites. Second, the dissertation shows that the interests that shape motivations of Russian companies' FDI depend both on host countries and regions, and on the period when FDI occurs. The third potential contribution is that the interests that change motivations over time are to specific the case (the company and the host country) and the sector (that the company represents). Finally, the dissertation's main contribution is the understanding of the impact that the combination of host market's characteristics and host country's reactions to Russian FDI has on cooperation between Russian state institutions and Russian companies' motives. The present dissertation, therefore, represents a constructivist account rather than an overwhelming theory about the relationship between Russian foreign policy and Russian companies' FDI.

Part 1:Setting the Stage

Chapter 1:Russian Foreign Policy and Outward Foreign Direct Investments: Theories and Empirical Observations

Summary

This chapter introduces the relevance of the topic in detail. It shows that many scholars still perceive Russia mostly as a smaller version of the USSR, and that, for this reason, the frequent mismatch between Russian foreign policy rhetoric about the activities of Russian companies abroad and their actual actions comes rather as a surprise. The chapter asks what causes the difference between official Russian foreign policy and the actions of Russian companies abroad, and to what extent foreign policy is important in Russian OFDI. The chapter situates these questions in the literature, and derives four hypotheses concerning them. Finally, this chapter explains the research criteria, justifies case selection and provides an account of the limitations of the present dissertation.

Introduction

Foreign direct investment (FDI) from transitional economies is a relatively new phenomenon. Among them, Russia is the largest and, as a former world superpower, a politically important country. In addition, Russia is one of the top energy exporters, and, thus, for the first time in its history one of major global economic players (Stent, 2008). Although after the turbulent 1990s its GDP rapidly grew from \$200 million in 1999 to 1.7 trillion in 2008, Russia remains lower-middle income country (Aslund and Kuchins, 2009; Kalotay and Sulstarova, 2008). Simultaneously, it is a resource intensive economy and one of the largest capital exporters: after Hong Kong it is the largest outward investor within transitional economies, and seventeenth on the world scale investor-countries (Kuznetsov, 2007). While from 2001 to 2005 Russian outward foreign direct investments (OFDI) averaged USD 7 billion a year on a balance-

of-payments basis, over the next three-year period, 2006–2008, this average jumped to USD 34 billion (Panibratov and Kalotay, 2009). This shows that Russian FDI is an important issue to examine.

The Soviet ideological imperialism includes both Soviet foreign policy and economics, including ‘red multinationals’, Soviet transnational corporations (TNCs), to serve the propaganda of the communist party: Liuhto (2001) points out that foreign operations of the Soviet firms were not motivated by business logic alone, but rather by the political goals of the USSR. As famous Soviet and Russian astronaut and former Vice-President of Russian Alpha Bank, Alexei Leonov argued, this included USSR’s free economic aid to Third World countries during the Cold War in exchange for their political and ideological loyalty (Leonov A., personal conversation, December 3 2003). Thus, even after almost twenty years of gaining the status of market economy, Russia is perceived as an extremely politicized society with neo-imperial foreign attitude in most regions of the world. Consequently, Russian TNCs are still mostly perceived as the agents of Russian political influence, especially those that are mainly state-owned. As a confirmation of such views, Vahtra and Liuhto (2004) argue that the political goals for these TNCs are “often superior to business rationality” (p.94).

The Russian economy relies primarily on energy sources, making it the most important sector. Most of the state-owned Russian multinationals are oil and gas companies. Furthermore, these companies are the most important energy suppliers for the greatest part of the European continent. This creates an economic interdependence: most European countries’ economies are dependent on Russian energy supplies, while the Russian economy is to a large extent dependent on revenues from these supplies (Casier, 2006). Therefore, Russian energy companies invest in these countries in order to facilitate energy exports.

Although these countries are to different extents dependent on Russian energy, and have different attitudes towards Russian TNCs' investments, most of them are concerned by the possibility of Russia's political interference through FDI. Most Central and Eastern European (CEE) countries, such as the Baltic States consider Russian FDI as a threat to the state's security (Abdelal, 2005). Others, such as most of the Balkans countries accept Russian FDI, seeing it as economic benefits, pointing to the importance of the relation between foreign policy and FDI. This relation has attracted the attention of American and European scholars for some time now (Gilpin, 1975; Hirschman, 1980; Mankoff, 2008; Wenger et al, 2006; Perovic et al, 2009). Yet, due to the relative novelty of the phenomenon, there is no study that systematically examines the relation between Russian state interests and Russian TNCs' activities abroad. In order to fill this gap in the literature, the present dissertation examines cooperation between Russian TNCs and Russian state institutions abroad.

For this dissertation, the Russia's Foreign Policy Concept represents one of fundamental sources for analyzing Russia's foreign policy. In the Concept, different European countries present different degrees of political and economic importance for Russia. In spite of generally perceived image of Russian energy TNCs as the agents channeling Russian state's interests (a part of Russia's broader international image as the society that traditionally supports autocracy, as concisely explained by Donaldson and Noguee, 2005, p.20) their actions do not necessarily match with those priorities presented in the Concept and by Russian officials. This mismatch between official foreign policy towards certain countries and the activities of Russian companies in these countries seems puzzling, and therefore, serves as the starting point for this dissertation: as in many cases political leaders represent the top management of state-owned companies, one

would rather expect Russian state-owned TNCs to act in accordance with Russian foreign policy priorities.

The examples of this mismatch between Russian TNCs' activities abroad and foreign policy priorities proposed by the existing literature are presented in Section 1 of the present chapter. Section 2 provides the research question, theoretical framework, and hypotheses, which are followed by the discussion of independent variables, dependent variable and their operationalization. Section 3 provides the discussion on case selection. Concluding Section 4 draws attention to the methods of analysis and limitations of the dissertation's findings.

1.1.Examples of mismatch between Russian TNCs' activities abroad and foreign policy priorities

The three cases of dispute over gas prices between largest Russian state-owned TNC Gazprom and Ukraine and Belarus in 2006, 2007 and 2009 provide striking examples of discordance between Russian foreign policy priorities and Gazprom's actions abroad. According to the Foreign Policy Concept (2000; 2008) for Russia, Ukraine is the most important country within the most important region – the Commonwealth of Independent States (CIS). As for the priorities in the same region, development of Russian-Belarusian Union is also of high importance. Relations with the European Union (EU) are the second on the list of regional priorities in the same concept: still, as a consequence of the aforementioned disputes, many of EU member states were periodically left without gas supplies.

Hence, Gazprom's material gains from the increasing gas prices seemed more important than Russian state interest in maintaining good relations with these neighbouring countries as well as with the EU. In this consideration, Mankoff (2008) defines Russian state interests as the interests of Kremlin, while 'Kremlin, Inc.' for him is the interests of state-owned energy TNCs. Following this logic, he declares that Kremlin, Inc. "was wrong-footed by the Ukrainian gas

crisis precisely because it failed to assess the situation from the perspective of Russia's interests as a state and an actor in the international system" (Mankoff, 2008, p.48).

A further example confirms Mankoff's statement. South and East Europe (SEE) is the third of the regional priorities for Russian foreign policy. Within this region, six countries of the Western Balkans remain non-EU members (Serbia, Bosnia and Herzegovina, Montenegro, Macedonia, Albania and Kosovo). Russia's internal political and economic turbulences of 1990s and consequent weakness in international arena prevented Russian authorities from proactive involvement in resolving the post-Yugoslav conflicts (see Chapters 2 and 5). As a consequence, Russia largely lost its political influence in the region. Nevertheless, in the Russian official discourse, Serbia presents special importance for Russia in the region: in Russian Foreign Policy Concept 2000 territorial integrity of FR Yugoslavia was third on the list of regional priorities, while in Russian Foreign Policy Concept 2008, South and East Europe is third on the list of regional priorities. At the same time, Serbia remains the only country outside of CIS that has Free Trade Agreement with Russia.

A number of scholars point out that Russia tries to regain its influence in the Balkans by using 'soft' power, including investment activities of its TNCs (Bardos, 2008; Ponomareva, 2008; Popova, 2008; Reljic, 2009). As examples of such activities, Bardos (2008) comments on the purchasing of several large enterprises in the region by Russian companies: the purchase of the biggest metal plant – Kombinat Aluminijuma Podgorica (KAP) in Montenegro by Russian oligarch Oleg Deripaska's metal company RusAl; LUKoil's purchase of Serbian oil company Beopetrol in 2005; the acquisition of all companies in oil sector in the Serb entity of Bosnia and Herzegovina by Russian state-owned Zarubezhneft in 2007; and finally, the most significant investment by Russian companies in the region has been Gazprom's acquisition of 51% shares in

Serbian Petrol Industry Company – NIS. The latter acquisition took place without official tender for the company's sale: according to Reljic (2009), this was the way how Serbian authorities thank Russia for its support in the UN on the Kosovo issue. This acquisition also provides Gazprom with an opportunity "to control approximately one quarter of Serbia's state budget" (Reljic, 2009, p.29).

In Russian officials' discourse, these acquisitions by Russian companies in Western Balkans were presented domestically as the success of Russian 'soft' power in the region vis-à-vis, for instance, USA's and NATO's 'hard' (military) power in the region, with reference to NATO military action during the Kosovo crisis in 1999. Russian high officials, including former President Dmitri Medvedev, underlined the importance of historical and cultural ties between Russia and Serbia in economic cooperation, attaching the purchase of NIS as an element of moral and economic support to Serbia in its Kosovo territorial issue, in which Russia backed Serbia in the United Nations Organization (UN) over the last decade. In addition to officials' discourse, there is a widespread opinion in Russia that the war in former Yugoslavia in general has a very special meaning for Russia. As Russian *Gazeta* reported, Alexei Grazhdankin, former deputy head of Yuri Levada Center in 2007, argued that Russians' attitude to the United States was largely negative at the beginning of 2000s, when the public reacted promptly to Washington's moves, becoming more critical during the bombing of Yugoslavia in 1999 (*Gazeta*, 2007).

However, Russian investments in Balkan countries compared with financial activities of Russian companies in other regions do not confirm this declared importance of the region for Russia. The data shows that Russian firms have generally targeted developed countries, especially in Europe and North America (UNCTAD, Panibratov and Kalotay, 2009). The share

of Serbia in these total amounts of Russian FDI in 2007-2009 shows that in 2007 Serbia received \$44 million, which is only 0.1% of total Russian FDI in the same year; in 2008 Russia invested \$11 million (0.0%) in Serbia, while in three quarters of 2009 this amount increased to \$534 million, or 1.6% of total. Although, according to the Central Bank of Russia (CBR) statistics, Russian FDI in Serbia in 2009 increased significantly in comparison to previous years, the whole amount concerns exactly the purchasing of NIS. Nevertheless, this acquisition by Gazprom made Russia the second country investor to Serbia by amount (National Bank of Serbia, 2009). As this investment is one event, and not a process of penetration, it therefore shows the discordance between Russian foreign policy goals, among other countries, in Serbia and the activities taken by Russian state-owned companies. These empirical observations lead us to two broad research questions about the relationship between Russian foreign policy and FDI activities of Russian TNCs. The next section formulates these questions and situates them in the literature.

1.2. Research questions, Theoretical Framework and Hypotheses

In light of the above analysis, in the present dissertation I concentrate on the following questions: **To what extent is foreign policy important in Russian OFDI? What causes the difference between Russian foreign policy discourse and the actions of Russian state-owned companies abroad?**

1.2.1. Theoretical Framework and Hypotheses

The mismatch between official goals of Russian foreign policy reflected in foreign policy discourse about certain countries and the activities of Russian state-owned TNCs in these countries raises the question about the motives for Russian OFDI. According to a number of authors, these motives of internationalization vary depending on the type and size of TNC as well as on FDI location (Liuhto, 2005; Vahtra, 2008; Poussenkova 2009; Kalotay 2005). First I

discuss economic motivations for internationalization and analyze them in the context of Russian TNCs. Then I analyze the literature that proposes politics- and culture-based explanations for Russia's TNCs' internationalization.

One strand of literature about Russian OFDI concentrates on economic motives (Kuznetsov 2007a; Kuznetsov, 2010; Filippov, 2008; Vahtra, 2008; Kalotay and Sulstarova, 2008; Panibratov and Kalotay, 2009). This strand mainly disregards Russian political interests as the motive for investing abroad. In these terms, Filippov (2008) argues:

Firstly, resource-seeking motive refers to investment seeking to acquire factors of production or natural resources. [...] Secondly, market-seeking motive refers to investments which aim at either entering new markets or maintaining existing ones. [...] Thirdly, efficiency-seeking investment has as its goal to increase a firm's efficiency by exploiting the benefits of economies of scale and scope, or common ownership. [...] With the growing importance of the technology, innovation and know-how for the competitiveness of a modern company, there is a trend to focus on acquisition of technology and R&D-intensive units (both companies and research institutes) as a form of asset-seeking FDI (p.12).

Following this logic of motivations for FDI in terms of geographical allocation, Russian TNCs in energy sector seem to aim to control upstream natural resources in the CIS and developing countries, while in high-income countries they aim at controlling downstream markets (Kalotay and Sulstarova, 2008, p.1). Furthermore, many ex-socialist countries fear the Russian government is using its energy companies as foreign policy tools. According to Kalotay and Sulstarova (2008), in some cases those fears have been grounded. On the one hand, according to them the outward expansion of Russian firms has become less motivated by politics as non-energy-related companies have begun their internationalization. On the other hand, Russian energy companies' motivations for expansion in Europe still can be explained by purely economic reasons. As Johnson (2004) argues,

the overall EU-Russia energy relation can be explained through a framework of mutual interest and dependency: that is, the EU is becoming increasingly, but not totally,

dependent on Russian energy supplies, [...] and Russia is becoming increasingly, but not totally dependent on European markets (p.451).

While some of Russian investment has returned home, most of it remains abroad, largely in the EU and the United States (Liuhto et al., 2006). This trend finds one explanation in analysis of domestic factors as a driving force for Russian companies to invest abroad (Vahtra, 2008). In early 1990's, due to turbulences of transition, Russian companies invested abroad because of scarce domestic investment opportunities and "weak ownership protection" (Vahtra, 2008, p.34). Therefore, investing abroad was the mean both to keep their capital safe and to increase profits.

The majority of scholars agree that the division between large state-owned and small-and-medium enterprises (SME) in their motivations to invest abroad is also crucial for analysis. The state companies, mainly natural resources based, invest abroad in order to improve their global market positions, hence they have a certain support from the government. Simultaneously, usually non-natural resource based SMEs mainly seek niche markets outside the country. However, domestic market size and growth potential encourage Russian SMEs to invest and operate at home rather than abroad. Moreover, Vahtra (2008) argues that Russian government does not welcome capital outflow from the country and has no clear OFDI strategy yet. Therefore, the hypothesis proposed by this strand of literature is that *Russian TNCs investing abroad are rational, profit-seeking actors. As a result, their investment strategies do not follow the official foreign policy rhetoric*. Thus, there is discordance between Russian official foreign policy discourse and activities of Russian companies abroad. In these terms, Kalotay (2005) argues that even with recent political changes only limited increase in the influence of the state can be expected, and consequently Russian TNCs will only marginally change the mode of their international expansion. Still, Kalotay does not exclude the possibility that Russian TNCs in the near future will reflect more foreign policy, i.e. political considerations.

In contrast to the first, the second strand of literature analyzes Russian OFDI rather through geo-political lenses – as the tool of Russian foreign policy (Liuhto and Vaahtra, 2004; Kuzio, 2005; Nygren, 2007; Liuhto, 2008; Orban, 2008; Orttung, 2009; Closson, 2009; Poussenkova, 2010). They agree that Russian energy companies are the tool of international influence of Russian state. For example, Orttung (2009) points out that small group of people who control the levers of the Russian state are in position to distribute energy sector rents to make sure the various political actors remain loyal to them. Poussenkova (2010) points out that oil and gas companies in any country are closely connected with the government, and that Russia as a petro-state is not an exception.

Furthermore, two studies about the relations between Russia and other former Soviet states highlight the importance of their political attitude towards Russia in the formation of the prices of Russian gas and oil, and energy supplies in general, for Russia's 'near abroad' (Nygren, 2007; Kuzio, 2005). As the most striking example in this context, these authors examine Ukraine and its political and economic relations with Russia. Considering the increase of Russian FDI to Ukraine during Kuchma's presidency, they argue that these investments created a new Ukrainian economic dependence on Russia, which has also had political consequences in the form of Russia's interference in Ukrainian domestic politics - an example being the Orange Revolution (Kuzio, 2005). In these terms, Vaahtra and Liuhto (2004) characterize the natural resource based state-owned companies as *patriots*, who are less concerned by business than by political goals. In similar fashion, Orban (2008) examines Russian energy policy and investments in three out of four Visegrad group countries: Slovakia, Poland and Hungary: "Russia's energy-centered foreign policy is not limited to the states of the former Soviet Union and is clearly designed to increase

its leverage in key geostrategic theatres and over U.S. allies, and to achieve far-reaching foreign policy goal” (2008, p.177).

This strand of literature thus proposes the hypothesis that *Russian energy and other transnational companies’ decisions do reflect Russian foreign policy ideas proposed by the state’s high officials*. Still, in more general terms Poussenkova argues that internationalization efforts of Russian energy companies have both political and commercial considerations, which sometimes complement and sometimes contradict each other (2010).

The third strand of literature deals with the interrelation between Russian political elites and business and its role in creation of the country’s international reputation (Perovic et al. 2006; Wenger et al. 2009). The general assumption is that on different levels *the line between state and business is blurred*, and in circumstances in which this is less the case, *business interests prevail over state interests*. This indicates the weakness of the Russian state in general and vis-à-vis Russian business (Ahrend and Thompson, 2005; Mankoff, 2008). As energy is the most important sector of Russian economy and the business elites represent mainly this sector, the Russian government builds its image of Great Power through energy means, using foreign policy efforts in supporting energy companies’ international projects (Orttung, 2006).

This image of a Great Power reflects Russia’s business deals abroad and concerns domestic and foreign policy ideologies and their spread within Russian political and business elites. Through a constructivist lens, Tsygankov (2005) analyzes the shifts in foreign and economic policies and their coincidence with the ideational change over time. The first idea about Russia’s place in the world system after the USSR’s dissolution, ‘Little Russia’, was proposed by the former Minister of Foreign Affairs (MFA), Andrei Kozyrev. The second image, post-imperial space, was the vision of Russia under another MFA, Evgeny Primakov. The third,

the pragmatic state image, has been a projection by second Russian President Vladimir Putin. In his later study of Russia's soft power in foreign policy, Tsygankov (2006) analyzes both the impact of history on Russia's new identity (or the attempts to construct it), and the role of three Russian main schools of thought and their impact on foreign and economic policies of Russia. According to Tsygankov, these schools are Westernizers, Stabilizers, and Imperialists. Westernizers pushed the idea of 'Little Russia' and its place within Western European civilization. Stabilizers coincide with Tsygankov's earlier (2005) category of 'Pragmatic state' – the middle variant. The final Imperialist school coincides with an idea from the previous study of Russian domination in post-Soviet space. Similarly to Tsygankov, studying the recent relations between Russia and USA, Mankoff divides Russian political elite into four ideological camps (two of them coincide with those mentioned by Tsygankov): Ethnic Nationalists, Neo-Imperialists, Centrists (those that are Stabilizers for Tsygankov), and Westernizers. For all of these camps, state identity plays the most important role in policy choices.

Contributing to the debate, Feklyunina (2008) underlines that the negative character of Russia's image in the West was recognized as “one of the major security threats for the country” (p.605). She analyzes the core elements of powerful public relations campaign that was launched to improve the general image of Russia and outlines three current projections of Russia's identity: 'Russia as a great power', which originates from the roles of Russian Empire and Soviet Union; 'Russia as an energy superpower', which refers to a need for economic modernization, and; 'Russia as 'not an empire'', derived from Western criticism of Russia for having imperial ambitions.

All of these images serve certain goals. The great power image is the most salient domestically, and it is reflected in former First Deputy Chief of Staff of the President of Russia,

Vladislav Surkov's definition of 'Sovereign democracy' as "a society's political life where the political powers, their authorities and decisions are decided and controlled by a diverse Russian nation for the purpose of reaching material welfare, freedom and fairness by all citizens, social groups and nationalities, by the people that formed it" (Surkov, 2006). This image also includes both Tsarist and Soviet symbols of Russia's greatness, adding to this picture the images of 'big pipeline' and 'big business' that marked Putin's two presidential terms (Deak, 2009, p.33). Consequently, the energy superpower image serves to show Russia to the West as 'reliable business partner', but also as the state ready to defend its interests. Analysts show that these images, existing parallel to each other, in fact send controversial messages to the West. In addition, they can be the result of duality of Russian economy and society proposed by Kalotay as an explanation for 'Russian paradox' (2005). This unresolved identity crisis may be seen as one of the main problems of Russian foreign policy, while it also creates problems for Russian business, whose representatives are interested in improving the attitudes to Russia in the West. This leads to the third hypothesis, namely that *there is no clear Russian foreign policy strategy, but only one replete with internal conflicts. Therefore, businesses cannot use foreign policy as guideline even if they would be prepared for it.*

The final strand of literature about Russian TNCs' internationalization examines the reception of Russian investments in host countries. On the one hand, Russia's historical legacy from the Soviet time and its perception in post-Socialist Europe makes many of these countries hostile to Russian TNCs' investments (Abdelal, 2005; Eichler, 2005; Closson 2009; Kuznetsov 2007a; Orttung 2009, Orban 2008). Simultaneously, a group of post-Socialist countries, particularly Yugoslavia's successor-states did not join any of military and ideological blocks in the Cold War-Europe, but had balanced foreign policy towards them. Therefore, these states do

not share the same fears of Russian OFDI as the most of their Central European counterparts. On the other hand, the hostility to Russian investments in all other European countries originates in perception of Russian business culture, created through all the following historical periods: Tsarist, Soviet, and Post-Soviet transitional Russia. Particularly, this business culture accepts bribery as an instrument of business, which is in strong contradiction with Western and more general European business values, such as business competitiveness and transparency (Zashev, 2006; Panibratov and Kalotay, 2009).

Therefore, Western Balkans' Europeanization agenda - the goal to join the European Union - also makes some countries of this region if not hostile then at least sceptical about the penetration of the Russian TNCs in their markets through FDI. On the other hand, the difficulties in fulfilling the political and economic conditions needed to join the EU coerced some countries of the region to envision economic gains through cooperation with Russia. Therefore, there is no constant and clear support for Russian investments in the region; although, there is no clear hostility either. This poses the fourth hypothesis, namely, that *in absence of clear support/resistance to Russian investments in host countries, acceptance emerges through the ideological conflict*.

In sum, the discussion above proposes four hypotheses about the relationship between Russian OFDI and foreign policy. The first and second strands of literature propose the two seemingly rival hypotheses.

A1: *Russian TNCs investing abroad are rational, profit-seeking actors. As a result, their investment strategies do not follow the official foreign policy rhetoric.*

A2: *Russian energy and other transnational companies' decisions do reflect Russian foreign policy ideas.*

The theoretical (Chapter 2) and the empirical analyses proposed in this dissertation (Chapters 3, 4, and 5) reveal that, in fact, there is a large extent of complementarity between these two hypotheses. The third and fourth strands of literature propose two complementing hypotheses:

H3: *There is no clear Russian foreign policy strategy, but only one replete with internal conflicts. Therefore, businesses cannot use foreign policy as guidelines.*

H4: *In absence of clear support/resistance to Russian investments in host countries, acceptance emerges through the ideological conflict.*

Based on these hypotheses, the following section presents discussion of variables and their operationalization and describes the research design of the dissertation.

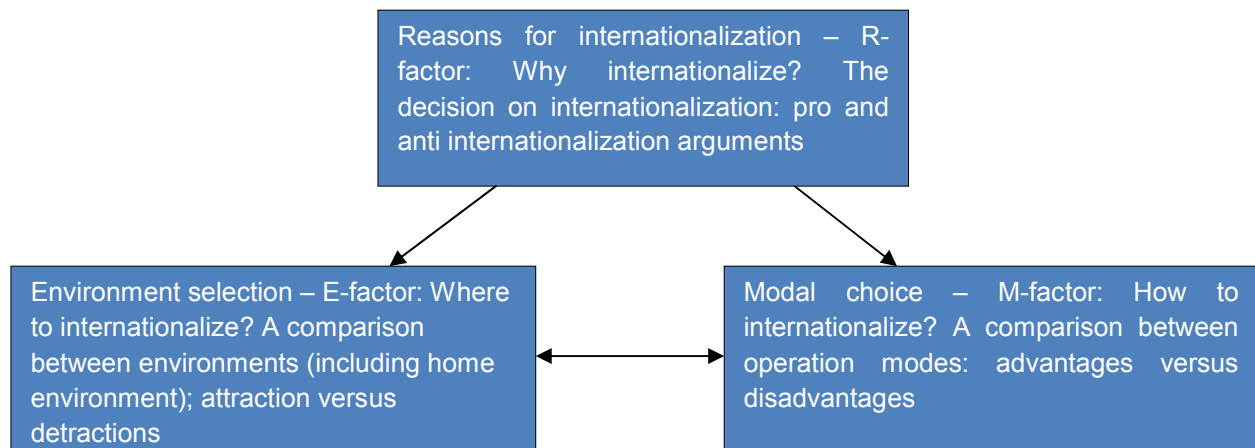
1.3.Research Design

1.3.1.Variables and their Operationalization

From theoretical framework and hypotheses presented above four independent variables can be derived. These are:

IV1 - Business interests of Russian companies: Information on this variable has been collected through interviews with the representatives of Russian transnational companies, trade chambers, and business associations about the motivations and modes of companies' expansion abroad. Their answers were operationalized through Liuhto's (2001) REM-model, in which *factor-R* presents the reason for internationalization, where internal and external motives determine the balance between the pro- and anti-internationalization arguments (2001, p.17). *Factor-E* presents the environment selection and stands for the choice of business environments (2001, p.18). *Factor-M* refers to modal choice that determines the ways how a firm implements its internationalization.

Figure 1.1: REM-model



Source: Liuhto (2001)

IV2 - Russian state (i.e. national) interests: Information on this independent variable has been collected through interviews with Russian state officials both in Russia and abroad, mostly representatives of Russian ministries, and through the analysis of the Russian foreign policy official documents, and leaders' speeches. Collected information has been considered as the normative and then compared with actual Russian foreign policy and relations with particular host countries.

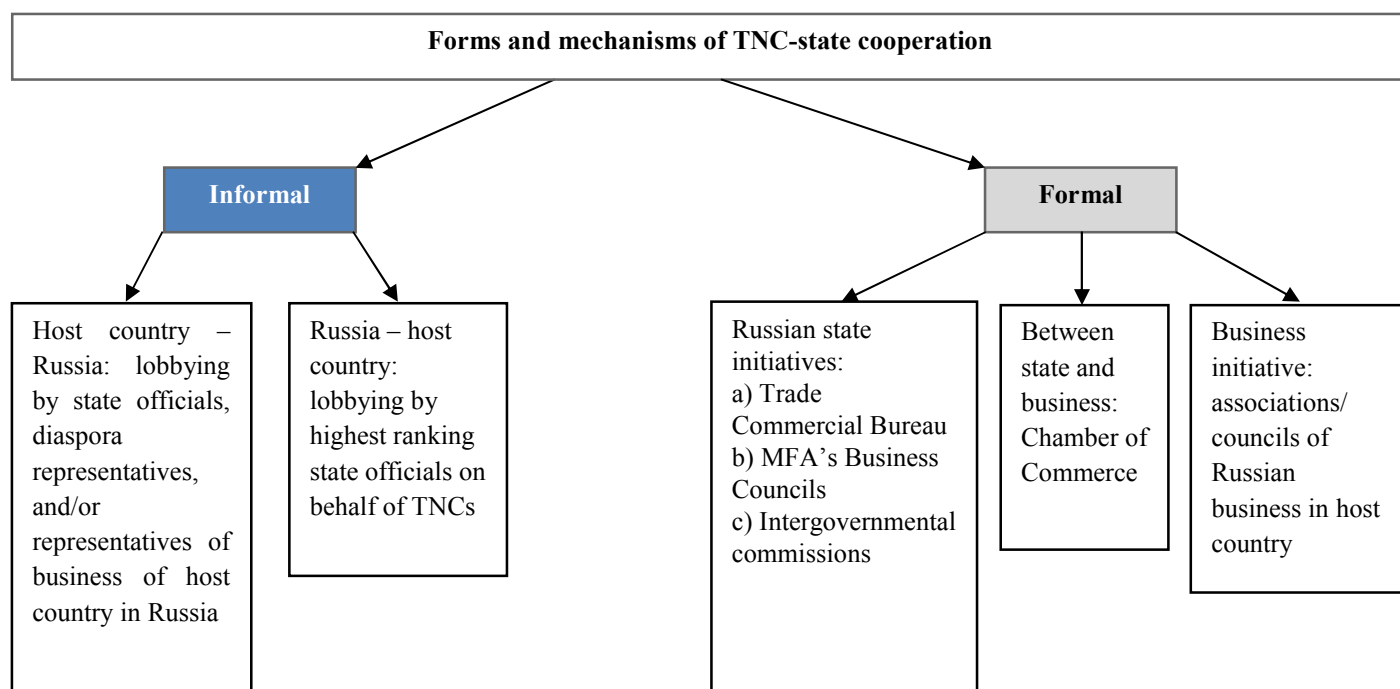
IV3 - Perceptions of Russia in host countries: Information on this independent variable has been collected through interviews with the representatives of business communities in host countries, opinion polls, and host countries' official documents, and leaders' speeches concerning relations with Russia. Information has been operationalized on three levels: state (political elites), general public, and business.

IV4 - The reaction of the host country on Russian FDI: Similar to IV3, operationalization of this variable has relied on interviews with the representatives of business communities in host countries, opinion polls, and host countries' official documents, and leaders'

speeches about instances of FDI of Russian companies in their respective countries. This variable has also been operationalized on the levels of state (political elites), general public, and business.

Consequently, **dependent variable (DV) is Cooperation between Russian companies and state institutions abroad**. Figure 1.2. presents all forms and mechanisms of Russian TNC-state cooperation abroad that the present research has revealed.

Figure 1.2: Forms and mechanisms of cooperation between Russian TNCs and state institutions abroad



As shown in Figure 1.2, these forms and mechanisms exist on different levels, starting from company level to the highest state level. As also becomes evident from Figure 1, cooperation operates in formal/institutional and informal/personal forms. Based on these insights, I measure dependent variable in the following way:

- TNC-state cooperation is *high* when cooperation exists on all levels and in all forms represented in Figure 1.2;

- TNC-state cooperation can be defined as *medium* when cooperation exists on certain but not all levels and forms represented in Figure 1.2;
- TNC-state cooperation can be defined as *low* when cooperation is limited to one level and form represented in Figure 1.2.

1.3.2. Case selection

Based on their historical relations with Russia and the level of economic development, three groups of European countries (excluding the former Soviet republics) are identified:

- Western European countries, old EU member states;
- former Soviet satellites, new members of the EU;
- former socialist non-EU and non-CIS members.

The second criterion in the case selection is the degree of the government's political hostility to Russia. Using these criteria, the following countries have been selected:

- **Germany** is a regional economic power and a core state of the old EU with strong institutions and both Russia's important partner and one of its most significant adversaries;
- **Hungary** is a medium-size politically and economically peripheral country and a relatively new EU member with capable institutions, where hostility to Russia depends on what political force is in power; and
- **Bosnia-Herzegovina** is a small non-EU country politically and it is economically peripheral, with internationally imported institutions, internally divided into two ethnic entities, where, due to mutual animosity to each other, one of them – Republic of Srpska - is traditionally allied with Russia, and the other – Bosnia-Herzegovina Federation - is

rather hostile to Russia. Therefore, the analysis of Russian investments in Bosnia-Herzegovina provides results for two rather than one state.

The final section of this chapter provides a detailed description of the methodology and limitations of the dissertation.

1.4.Methods of analysis and the dissertation's limitations

This dissertation was executed in four distinct research phases. The first phase was a preparatory one, dedicated to tracing the emergence of the relationship between Russian state and business, documenting how it has affected creation and implementation of Russian foreign policy over the last two decades, and uncovering the reasons of the mismatch between interests of Russian companies and Russia's national interests. The second phase tackled the main research question, and it was dedicated to mapping the views of Russian officials regarding the cooperation between Russian state institutions and Russian companies in instances of FDI, their perceptions of specific challenges for their positions, as well as their experience in this cooperation. The third phase also tackled the main research question, but in contrast to the second phase, it was dedicated to mapping the views of the representatives of Russian companies and Russian economic institutions (such as trade chambers) abroad regarding the cooperation between Russian state institutions and Russian companies in instances of FDI, and their experiences and perceptions of specific challenges in conducting FDI abroad. The final, fourth phase was dedicated to mapping the views of business communities in host countries regarding Russia and FDI activities of Russian companies, and their experiences and perceptions of specific challenges in cooperation with Russian investors.

The dissertation used qualitative research methods relying on a combination of interviews and document analysis. The respondents interviewed in the second, third, and fourth phases of

the research differed significantly, as do their experiences and views. For the second phase a panel of knowledgeable informants (Weiss, 2004) was used, specifically twenty three Russian state officials, who represented various state institutions on various levels. This group of informants was chosen because they are the only ones with first-hand information on the state institutions' internal policy decision-making regarding relations with Russian companies abroad. Most interviewees belonged to the ministries' departments for international cooperation. They came from four Russian ministries (Ministry of Foreign Relations, Ministry of Economic Development, Ministry of Energy, and Ministry of Communication and Mass Media) and from two Parliament's committees (Committee for External Relations, and Committee for Legal Questions).

For the third phase of research, a maximum variation sample was used, specifically thirty representatives of various Russian companies and trade chambers in Germany, Hungary, and Bosnia-Herzegovina. The respondents interviewed in this phase largely vary from each other in their experiences and views of cooperation with Russian state institutions abroad, in dependence on sector, size and ownership structure of the company that they represented, but also on the host country and time period when they acquired their experiences. Finally, for the fourth phase of research also a maximum variation sample was used, composed by twenty various representatives of host countries' business communities, from economic and legal experts to employees of host countries' companies that were involved in processes of Russian companies' FDI in their respective countries. Specifically, this sample was used here to reflect heterogeneous perceptions of host countries' business communities, which poses challenges of both economic and social nature for Russian companies abroad.

On a more general note, being a qualitative project, this dissertation cannot claim overwhelming evidence and representativeness in the same terms as a statistical analysis would. However, as noted above, the three groups of interviewees were selected in such a way as to allow for findings to be extrapolated if not to all instances of Russian companies' FDI, then to a significant number of it. Furthermore, what may be lost in terms of representativeness is gained through the depth and richness of data. This dissertation presents not only a fine-grained account of cooperation between Russian state institutions and Russian companies abroad, but also an in-depth and nuanced report of the ways Russian politics and economy function in late twentieth and early twenty-first century.

All interviews had a semi-structured format and were conducted following pre-set interview guides. The questions were organized in three groups: a) the relations between the company/subsidiary and the Russian state institutions in host country; b) Russian-host country relations on the company level and their impact on Russia's image in host countries; and c) the impact of Russian-host countries' political relations and Russia's image on Russian business in host countries. It is important to use this thematic differentiation as a methodological instrument in this dissertation because respondents are more comfortable with commenting on fictional situations than with answering direct questions about their own beliefs, and experience (Finch, 1987; Renold, 2002).

The series of interviews and personal conversations were conducted between June 2010 and April 2013. The interviews were conducted in one of four forms – a) formal interviews or b) personal conversation during in-person meetings; c) telephone interviews, and c) answers in written form sent by e-mail (referred as the online interviews in the empirical chapters). About a half of respondents (forty-five) were willing to answer only informally (in the form of a personal

conversation), while I was taking notes. Other respondents agreed either to electronically recorded interviews during an in-person meeting (twenty respondents), or they answered by e-mail. Another fifteen respondents preferred to talk by phone, and these answers were electronically recorded. Qualitative content analysis defined by Holsti (1969) as a technique for making inferences by objectively and systematically identifying specified characteristics of messages, has been used in the analysis of the data.

Before moving on, it is important to consider the difficulties connected to the empirical ethics of research. Ethics is a sensitive and loaded subject, which poses above-average problems in terms of access. Simply put, it is challenging to enlist people in a research project which could potentially be detrimental not only to themselves, but also to the organization where they work. This is a straightforward self-protection issue on the participants' side, which requires that the researcher establishes firmly his/her credibility and trustworthiness. Research ethics is also a critical question here, because the data produced in this kind of dissertation can, if treated incorrectly, bring harm to the participants. Two additional measures were taken to address these problems: first, most interviews are confidential and names were replaced by approximate positions that the respondents hold; and second, participants were recruited on a purely voluntary basis. The state officials, the representatives of Russian companies, and the experts that represented host countries' business communities were contacted using online staff directory and telephone and Skype calls, while other participants were recruited through personal contacts, and using recommendations from ethics experts and the snowballing technique. The access was generally satisfactory (seventy of hundred approached).

Issues of validity are also made more severe by research ethics considerations, as opposed to less thorny subjects. While there is no possibility of actually verifying veracity, some

preventive measures were taken. First, the voluntary and confidential nature of the interviews created conditions for participants to approach this situation in an open way, and second, the ambiguous nature of the thematic differentiation among the groups of questions as methodological instrument meant that there was no right or wrong answer per se, but different yet equally justifiable interpretations. This left respondents some neutral space to genuinely consider and express their positions. The Appendix of the present dissertation provides the list of interviews and personal conversations, and also an extract of one online interview to show it as an example (other materials are available on request).

Having provided this introduction to the topic and scope of the present dissertation, in the next chapter I trace the historical roots of the dependent variable, i.e. cooperation between Russian state institutions and Russian companies abroad.

Chapter 2: The Relationship between Russian Foreign Policy and FDI of Russian TNCs: From Yeltsin to Putin 2.0

Summary

This chapter sets the context for the analysis of the dependent variable by elaborating transformation of Russia from core Soviet republic to modern Russia, increasingly internationally recognized as energy-superpower. The chapter shows that this transformation was shaped by the interaction between state and business, influenced by two internal and two external factors. The two internal factors were economic weakness and the consequent collapse of the political system, while the two major external factors were globalization-related issues: rapid internationalization and integration of the world economy, and increasing security threats. The chapter analyzes Russia's transformation on two levels: macro, i.e. the state level, and micro, i.e. the company level. The chapter concludes that during the last two decades, the interests of large companies and individual interests of their management, as well as individual interests of Russian political elites have shaped politics and state institutions in Russia.

Introduction

What is the relationship between Russian foreign policy and the strategies of Russian TNCs? To what extent does the Russian state interact with TNCs in foreign policy decisions? What is the role of Russian officials' 'great power' rhetoric in foreign policy? This chapter aims to address these issues in the context of Russia's post-Soviet transformation and offers perspectives on the relationship between Russian foreign policy and investment policies of Russian TNCs.

Since the same people represent the high-ranking state officials and the members of boards of directors in some state-owned TNCs - thus having the power to decide about outward foreign direct investments (OFDI) from Russia and define Russian foreign policy goals - the

mismatch between OFDI activities of Russian companies and claimed goals of Russian foreign policy is puzzling. Existing literature proposes two competing hypotheses about the motives of Russian OFDI. The first suggests that the business interests of certain interest groups prevail over national interests (Kalotay, 2006; Kuznetsov, 2007a; Kuznetsov, 2007b; Oliker *et al.*, 2009), while the second suggests the opposite (Vahtra and Liuhto, 2004; Perovic *et al.*, 2006; Liuhto, 2008; Perovic *et al.*, 2009). The results of the analysis in this chapter support the first hypothesis: specifically, the findings show that Russian transnational corporations (TNCs) usually act as rational profit-seeking actors, which do not follow official foreign policy. Moreover, the chapter shows that the Russian state has gradually weakened vis-à-vis Russian large companies, which has resulted in its considerable economic dependence on large business.

While there are numerous analyses of the Russian post-Soviet transition (Gustafson, 1999; Schleifer and Treisman, 2001; Shevtsova, 2005; Shevtsova 2007; Treisman, 2011), none provides discussion on the impact of Russia's internal transformations on the creation of Russian TNCs and their investment activities abroad. Simultaneously, a number of scholars analyze foreign expansion of Russian TNCs from purely economic perspective. By bringing together the arguments from the literature about Russian post-Soviet transformation, foreign policy, and outward investments, this chapter aims to bridge this gap. Opinion polls, official documents, and speeches of high-ranking officials serve as the primary sources.

The chapter proceeds as follows. Section 1 sets the conceptual framework for studying the relationship between Russian national interests and activities of Russian TNCs abroad. Section 2 traces the development of the three Russian TNCs of different types, proposed by Vahtra and Liuhto (2004). Different subsections are devoted to the analysis of the change of Presidents in post-Soviet Russia.

2.1.The Relationship between Russian Foreign Policy and Foreign Investments Policies of Russian TNCs

Examining certain foreign policy decisions, experts on Russian investment expansion abroad focus on TNCs' expansion motives and analyze the effects of expansion on TNCs (Bulatov, 1997; Liuhto, 2001; Kalotay, 2006; Kuznetsov, 2007a; Olikier *et al.*, 2009; Kuznetsov, 2010). Simultaneously, political scientists and scholars of International Relations concentrate on the role of TNCs in domestic and foreign policy, and they usually see them as the instruments of foreign policy (Vahtra and Liuhto, 2004; Tsygankov, 2006; Liuhto, 2008; Perovic, Orttung and Wenger, 2009). These two groups propose two hypotheses:

1. If Russian TNCs, by their foreign investment activities, aim to serve only their business interests, then their policies and actions would be in accordance with their business goals, and not necessarily with national interests.
2. If Russian TNCs, by their foreign investment activities, aim to serve Russian national interests in the first place, then their policies and actions would be in accordance with national interests.

The assumption that Russian TNC by their investment policies serve Russian national interests abroad includes two elements. The first is Russia's Soviet – or superpower – legacy, which consists of at least four factors. First, with exception of a shadow economy, the Soviet state fully controlled the economy. According to Gustafson, powerful officials of the rank of “deputy prime minister or above, each representing a potential economic lobby group, did battle for hard-currency allocations” (p.27). Second, the Soviet authorities established the representative offices and branches of the Soviet companies abroad to conduct the aforementioned deals. Thus, these companies became Soviet TNCs. Third, the number of these

representative offices and branches was small in comparison with capitalist states. According to Liuhto (2001), by the dissolution of the USSR only about 400 Soviet owned firms were registered abroad and “foreign operations of the Soviet firms were not motivated by business logic alone, but also by the political goals of the USSR” (p.9). Finally, as Liuhto demonstrates, headquarters of the Soviet TNCs were mostly located in the Russian Republic of the USSR. Therefore, Russian companies inherited the Soviet business units abroad.

The second element of the assumption is Russia’s post-Soviet official politics. During both the 1990s and increasingly since the early 2000s, Russian political elites wanted to see Russia as ‘a great power’. Simultaneously, many representatives of these elites were personally involved in Russian TNCs’ businesses. Four major documents – the Constitution, the National Security Concept, the Foreign Policy Concept, and the Energy Strategy - represent the most important principles of the elite’s official politics. These documents underwent some changes over twenty years: importantly, Russia’s status as a great power, democracy, and economic development remain central to all of them. For instance, since the passage of the new constitution in 1993, political elites have created Russia’s Foreign Policy Concept and updated it three times: in 2000, in 2008, and in February 2013. The main principle of the Concept in 1993 was to establish new, equitable and mutually advantageous partnership relations between Russia and the rest of the world. The 2000 Concept aimed to protect the interests of the individual and the society and, within that framework, “ ... to achieve firm and prestigious positions in the world community, most fully consistent with the interests of the Russian Federation as a great power, as one of the most influential centers of the modern world” (The Foreign Policy Concept, 2000). These principles of foreign policy comprise economic and security interests with broader interests of society.

The 2008 Concept adds the creation of

favorable external conditions for the modernization of Russia, transformation of its economy along innovation lines, ... rule of law and democratic institutions, ... and, as a consequence, ensuring competitiveness of the country in a globalizing world (The Foreign Policy Concept, 2008).

This principle highlights the increasing importance of economic interests in Russian foreign policy. It also hints at the possible role of Russian TNCs in reaching economic goals abroad. Moreover, Energy Strategy also reflects great power aspirations of Russian political elite, beginning with the claim that

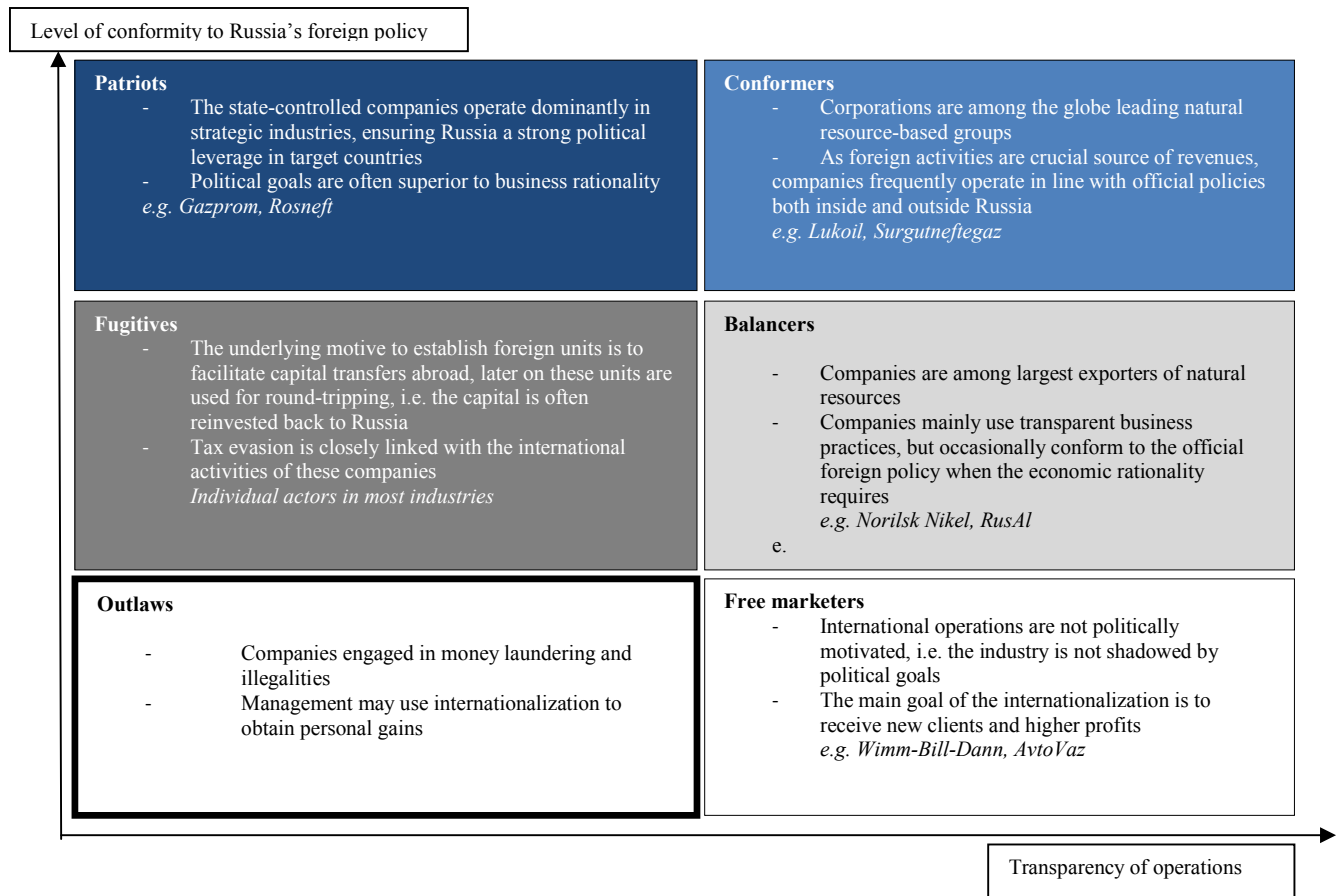
the objective of the energy policy of Russia is to maximize the effective use of natural energy resources and the potential of the energy sector to sustain economic growth, improve the quality of life of the population and promote strengthening of foreign economic positions of the country (Energy Strategy by 2030, p.10).

All of these objectives – and especially the last one - are in line with Tsygankov's (2006) argument that post-Soviet Russia (in particular, during Putin's presidency) largely inherited imperial aspirations from the USSR. According to Tsygankov, Russia's post-Soviet government merely changed its foreign policy strategy from taking by soft power, or as he puts it "by banks" rather than "by tanks". Therefore, one can assume that by investing abroad, Russian TNCs serve Russia's broader national interests, including the economic ones. In official documents, Russian national interests are defined as "the aggregate of the internal and external needs of the state in ensuring the protection and stable development of the individual, society and the state" (National Security Strategy to 2020, 2009). This *aggregate of Russia's internal and external needs* is precisely the perspective from which I evaluate both foreign policy and the activities of Russian TNCs abroad. The next section classifies them in relation to their motives and directions of expansion.

2.1.1. Classification of Russian TNCs

The aim of this section is to set the framework for analyzing Russian TNCs' motives for investment abroad. Taking motive for expansion, the extent of geographical expansion and the organizational structure as criteria, Bulatov (1997) outlines four general types of TNCs: 1) ethnocentric TNCs focused on domestic market, 2) polycentric TNCs that treat both domestic and external markets as equally important, 3) region-centric TNCs oriented to whole regions, and 4) geocentric TNCs that are decentralized and globalized companies. Bulatov also argues that the effects of foreign direct investments (FDI) exports are different if analyzed on micro- and macro-levels, where the former are effects of foreign investments on TNCs themselves, and the latter are the effects of foreign investment on the country-FDI-exporter. This division will serve as the main tool for testing the hypotheses: on the micro level, I analyze the interests of TNCs themselves, while on the macro level I analyze Russian national interests through the prism of ideas reflected in official foreign policy. I measure both levels against actual foreign policy. As a tool for testing hypothesis 1, Liuhto (2001) proposes REM-model, where R stands for reason for internationalization, E for the choice of environment for internationalization, and M for mode of internationalization (as presented in Figure 1.1 in Chapter1). Bulatov (1997), and Vahtra and Liuhto (2004) contribute to the analysis of the hypothesis 2. The latter divide TNCs into six types based on TNCs' level of conformity with foreign policy and transparency of operations (see Figure 2.1).

Figure 2.1: Typology of Russian TNCs based on the internationalization pattern



Source: Vahtra and Liuhto (2004)

As Figure 2.1 shows, Vahtra and Liuhto perceive that largest state-owned energy TNCs (left upper corner), such as Gazprom and Rosneft, often act as the agents of national interests, i.e. as 'Patriots'. In the opposite corner are the TNCs classified as 'Free marketers' that act according to business logic. Thus, they argue that different types of companies by their activities can confirm both hypotheses: for instance, according to them, due to close relation to political elite, state-owned TNCs act as the agents of national interests. Simultaneously, those TNCs without such strong connections - such as Wimm-Bill-Dann, or Avto Vaz – usually act as 'Free marketers'. This is another assumption that this chapter aims to test by tracing the development of certain TNCs since their emergence.

To test the hypotheses generated in the previous section, first I pick one company from each of three levels of Vahtra and Liuhto's classification of Russian TNCs: Gazprom from 'Patriots', RusAl from 'Balancers', and WimmBillDann from 'Free marketers' (see the Figure 2.1 above). On the one hand, the common feature of all these TNCs is that oligarchic groups – to various degrees related to Kremlin – control them. On the other hand, these TNCs represent different industries: gas and oil extracting, metal processing, and food and beverages manufacturing. Second, I trace R-factor – reasons or motives for investing abroad – for these TNC-cases parallel to tracing Russian foreign policy, to test their conformity with the latter. In the course of the analysis, I bring evidence that questions this typology. For instance, if the TNC is classified as a 'Patriot' – as Vahtra and Liuhto characterize Gazprom – then it is logical to expect it to serve the aggregate of national interests abroad, including both economic and political dimensions. If the TNC is a 'Balancer', then it is logical to expect it to balance at least between its purely commercial and state's broader national interests. Finally, a 'Free marketer' should follow purely market logic. Third, as Kuznetsov (2007) argues, important factor in classification of Russian TNCs is the time of their emergence (see Kuznetsov, 2007, pp.174-206). Moreover, TNCs can change their size and forms over time, thus I trace their development over 20 years. Fourth, I evaluate the reasons for foreign investments on both levels, i.e. the TNC's motives for investment abroad, based on REM-model, and official Russian foreign policy. Finally, I evaluate them against foreign policy actions.

Before starting the test of the two competing hypotheses, it is also important to point out their weaknesses. The first is that political and economic reasons for investing abroad – especially in Russian case – can overlap to some extent. For instance, TNCs' commercial gains can coincide with the economic interests of the state as whole. In the context of structural power,

Strange (1993) convincingly point out that it is very difficult to draw a clear distinction between political and economic power. This means that the political and economic hypotheses are not necessarily competing. To avoid confusion during testing, I analytically disaggregate national interests – as pointed out in Security Strategy to 2020 - to their economic, security, and democratic elements. As another helpful tool, I use the third and fourth groups of the authors' explanations proposed, which serve as complementing hypotheses.

3. There is no clear Russian foreign policy strategy, but only one replete with internal conflicts. Therefore, businesses cannot use foreign policy as guidelines (Feklyunina, 2008; Tsygankov, 2005; Ahrend and Tompson, 2005; Mankoff, 2008).

4. In absence of clear support/resistance to Russian investments in host countries, acceptance emerges through the ideological conflict (Abdelal, 2005; Eichler, 2005; Closson 2009; Kuznetsov 2007; Orttung 2009, Orban 2008).

The next section traces the process of emergence and development of the three abovementioned Russian TNCs, and their relation to domestic and foreign policies.

2.2. Russian Foreign Policy and Foreign Investments of Russian TNCs

This section achieves two tasks. First, it traces the outward investment experiences of three Russian TNCs in order to show initial motives for their foreign expansion. This analysis takes place in Micro Level subsections. Second, the section evaluates these motives by tracing Russian post-Soviet domestic and foreign policies.

2.2.1. Yeltsin's Presidency

Micro Level

As Liuhto (2001) notes, *Gazprom* was a TNC even before it was founded in 1989: the Soviet Ministry of Gas Industry donated to it the majority of the Russian gas reserves and pipelines in Russia, and all foreign customers, and foreign branches in the countries of the Eastern bloc. Therefore, as Gustafson (1999) notes, after the dissolution of the USSR “Gazprom remained supplier of gas for both homes and factories whether consumers paid or not” (p.54). Due to this economic weakness of domestic market, Gazprom has been export-oriented company. By the early 1990s, long-term trade relations provided foundation for Gazprom joint ventures with leading European energy companies. In search of new markets and larger revenues, Gazprom's post-Soviet internationalization to Western Europe and Asia followed the pipeline structure and represented a new step in Gazprom's internationalization. Thus, the dissolution of the USSR largely pushed Gazprom's investment expansion in Europe. Moreover, in 1992 Yeltsin appointed Gazprom head, Viktor Chernomyrdin as prime minister, helping Gazprom influence both domestic and foreign policy decisions.

Nevertheless, as Gustafson (1999) argues, in the mid-1990s Gazprom began to apply its entrepreneurial energy to domestic market, too: “Gazprom created an aggressive collections agency (called Mezhhregiongaz), which cuts out middlemen, duns solvent customers, and takes over large debtors through debt-for-equity swaps” (p. 55).

With the increasing demand in gas supplies, Gazprom began to widen its export geography. In 1997, the government concluded an agreement for the Russian natural gas supply to Turkey along the Black Sea bed, which served foundation for the Blue Stream pipeline in collaboration with Italian ENI. The same year, Gazprom and Anglo-Dutch RD Shell agreed to establish jointly held development company (Liuhto, 2001).

Second company analyzed here, *RusAl* is a successor of the Soviet aluminum industry, albeit not the direct one. In the early 1990s Russian aluminum industry became the target of organized crime, thus, the company was in trouble. Due to the collapse of the Soviet Union and radical economic reforms, domestic aluminum consumption decreased by about 80%, thus “the only way for the Russian aluminum industry to tackle the crisis was to shift its focus towards the export markets” (RusAl, 2012).

In 1998, the combined assets of Sibirsky Aluminum, owned by Oleg Deripaska, and Millhouse Capital controlled by Roman Abramovich, formed RusAl as vertically integrated company. Therefore, apart from the strong production basis, RusAl possessed the sales-chain from the very beginning. As stated on the company’s website, in the late 1990s Russian government’s policies resulted in gradual decline of organized crime. This helped stabilize production and plan sales and exports steadily.

In contrast to Gazprom and RusAl, *Wimm-Bill-Dann* does not have any Soviet predecessors. It was founded in 1992 and became the first Russian company to make packaged juice products in bright, multi-colored packaging. At the time, Russian consumers had little trust in domestic products. Therefore, the company chose a ‘non-Russian’ name. During the 1990s, the management of Wimm-Bill-Dann was preoccupied with launching the new brands and products, and only in 1998 regional expansion started inside Russia, only becoming TNC in the early 2000s.

Hence, in 1990s the business interests of the three companies varied. Due to the prevalence of foreign sales and investment activities, Gazprom’s business interests required good relations mainly with European countries and less with former Soviet republics. The interests of RusAl’s predecessors simultaneously included stabilization of the domestic market, and – due to

orientation on exports – good relations with the West. Finally, Wimm-Bill-Dann's business was domestically oriented: the company struggled with foreign competitors for Russian customers. Thus, during the 1990s all three companies – especially Gazprom – were preoccupied with market and profit seeking, which confirms hypothesis 1 on the micro level. To what extent were these goals related to domestic and foreign policies, is the question analyzed in the next section.

Macro Level

The internal economic crisis produced conflicts among Soviet political elites and pushed Yeltsin and the leaders of Ukraine and Belarus in December 1991 to sign the *Belovezhskaya* agreement. This ended the USSR and heralded to the Commonwealth of Independent States (CIS). In the early post-Soviet period, Yeltsin received support for economic reforms from large political spectrum, from liberals – who formed his cabinet – to conservatives, who prevailed in the parliament. He linked his endorsement of these reforms to a nationalist struggle for Russian sovereignty. However, due to lack of finance, the Russian post-Soviet authorities were not able to conduct reforms without support from abroad. This pushed them towards pro-Western foreign policy rhetoric and created a situation where the main actors on domestic political scene and - consequently foreign policy decision-makers - were the Ministry of Finance under Yegor Gaidar, and the Ministry of Foreign Affairs under Andrei Kozyrev.

However, trying to preserve their gains from earlier reforms, former *nomenklatura* and the parliament opposed the liberal reformers. Each conflicting group defined national interests in accordance to its own interests. As Shackleina (1997) argues, for liberals the idea of state was obsolete and irrelevant, thus they were preoccupied with the processes of globalization and were against cooperation with other post-Soviet republics. Conservatives – including army and

military industrials - promoted idea of reintegration with Russia's dominant role (summarized in Table 2.1).

Table 2.1: Support and opposition to Yeltsin in 1990-1992 and their visions of foreign policy

Support: liberal politicians, former nomenklatura (the vice-president Alexander Rutskoi, the head of the Supreme Soviet Ruslan Hasbulatov, new entrepreneurs, Presidential aide Gennadii Burbulis, MFA Andrei Kozyrev, the mayors of Moscow and St. Petersburg, Gavril Popov and Anatoly Sobchak)	Opposition: conservative politicians, military structures (the leadership of the Soviet army, the Ministry of Defense, the Ministry of Internal Affairs, KGB officers united forces into the State Committee for Emergency (GKCHP))
Foreign Policy Course: Russia as the part of Europe, 'Little Russia'; disengagement from the CIS	Foreign Policy Course: Russia as the center of the CIS, regional power

Therefore, according to Jonson (1994), the major characteristic of Yeltsin's policy was gravitation towards the West and "the effort to be rid of the old role of global superpower" (p.176). Simultaneously, conservatives were in favor of imperial traditions such as a strong state apparatus and great power aspirations, believing that Russia could not assimilate Western political and economic experiences. Nevertheless, liberals dominated foreign policy in the early 1990s. Thus, due to ideological conflicts within early Russian political elite, Russia in the early 1990s did not have clearly defined national interests; however, liberal ideas remained dominant. Consequently, the latter coincided with the business interests that Gazprom and predecessors of RusAl had abroad.

One result of internal confrontations of early 1990s was the new Constitution, making Russia a Presidential Republic. It put 'power' ministries and the Ministry of Foreign Affairs under direct presidential control, while the government - prime-minister and cabinet – determined the budget and monetary policy with the parliament's approval. By retaining Chernomyrdin as prime minister, Yeltsin gave him control over government decisions. This also meant Yeltsin was acquiescing in continuing credits to powerful industrial and agrarian lobbies, whose backing he wanted. Support for Yeltsin came also from the centrists, who represented industrialists' interests. In turn, the new parliament created conditions for moderate pace of

economic reforms. Simultaneously, this new constellation of Russian political elite signaled the shift to more economic-oriented domestic, and – as the extension of the latter - foreign policy.

Thus, according to Treisman (2011), Yeltsin pursued privatization by loans-for-shares scheme, which turned over to private hands the twelve largest state-owned companies at nominal prices. This lasted throughout 1996, when, as Gustafson (1999) argues, the new financial-industrial groups were handed over the last giant companies in energy and telecommunications. Foreign policy of the mid-1990s inevitably mired these domestic developments. In this constellation, liberal politicians shared the same Atlanticist perspective with the financial-industrial groups on foreign policy due to interests of the former to democratize Russia, and of the latter to expand their business to the West in search of safe havens and possibilities to increase their capital. By absorbing and reflecting elements of, as opposite ideas from Atlanticism to Eurasianism, foreign policy over this period appeared schizophrenic (see Table 2.2).

Table 2.2: Political groups' visions of foreign policy in the period between 1993 and 1995

Political group	Liberal democrats	Moderate conservatives (Centrists)	Radical conservatives (Nationalists and communists)
Foreign policy vision	Blurred state's interests, isolationism from the CIS, closer ties with the West (Atlanticism)	Eurasianism without isolationism – close economic ties with the CIS; getting the best from both worlds (the CIS and the West)	Eurasianism with isolationism – subordination of the CIS to Russia, isolationism from the West

The parliamentary elections in December 1995 negatively affected democratic-liberal bloc; nevertheless, Yeltsin won the presidential elections in 1996. As a result, many heads of newly privatized companies joined his second government: for instance, head of the largest electric energy producer RAO UES, Anatoliy Chubais first served as the head of Presidential Administration, and later as the Deputy Head of the Government. Another result was moderate

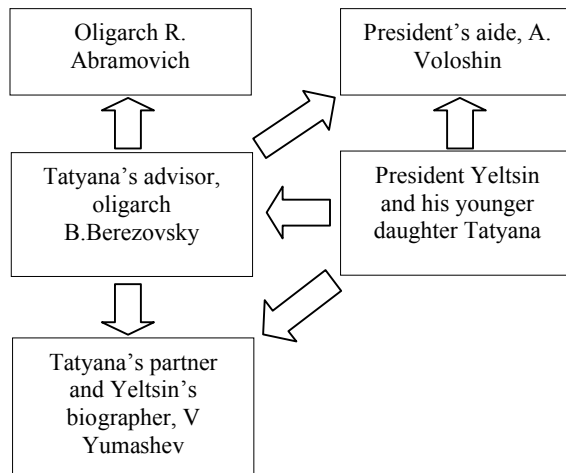
conservatism that prevailed in Russia's domestic and foreign policies: to avoid further confrontations between various political forces, Yeltsin replaced Kozyrev with the former head of Committee of National Security, (in Russian *Komitet Natsional'noi Bezopasnosti* (KGB)), Yevgeny Primakov as the new minister of foreign affairs.

However, the financial crash of August 1998 revealed the fragility of Yeltsin's political system. To survive the crisis, he sacrificed Chernomyrdin to appoint Primakov this time as prime minister; in turn, the government led by Primakov began to rely on the parliament. Since 1996, Primakov also had considerable influence on foreign policy: with his appointments in the government, notions about state interests abroad became part of foreign policy rhetoric and deeds. This included Russia's ideational 'return' to the CIS; for the defense industry, this increased opportunities to create more interstate financial-industrial groups and TNCs operating within the CIS. Apart from military-industry and - according to Levada Center polls (2007) - 53% of Russian population, Primakov received support from the Russian new capitalist class: for instance, one of most influential oligarchs of Yeltsin's epoch, Boris Berezovsky revived the notion of Eurasia due to renewed business interests in the CIS. At this point, oligarchs, who owned TNC started influencing Russian foreign policy to suit their own economic interests. Consequently, Primakov defined Russia's foreign relations in more economic terms: Eichler's (2005) evidence shows that in 1998 Primakov suggested prioritizing economic issues in foreign relations by supporting Russian business abroad. This was the first step in Russia's foreign policy turn from geopolitics to geoeconomics.

However, in certain foreign policies, such as wars in the Balkans, where Russian foreign policy was opposed to that of the West (for more details see Chapter 5), Primakov acted in accordance with broader public opinion, rather than in interests of the new capitalist class. This

was why in May 1999 Yeltsin dismissed him as prime minister. In August the same year, as Shevtsova (2005) notes, the Bank of New York was implicated in the alleged laundering of \$4.2 billion from Russia, and Russian government officials - including the most influential ruling elite, known as the Family - allegedly played a role in that money laundering (see Figure 2.2).

Figure 2.2: The members of Yeltsin's 'Family' and their roles in decision-making



This international scandal forced the Family to ensure their survival inside Russia: they urgently needed a strong leader who could defend their individual interests. They believed that the successor should be someone who controlled the army or another power structure: this is why after frequent changes in the position of Prime Minister Vladimir Putin became the successor. Thus, by the end of Yeltsin's presidency, Russia gradually became the hostage of material interests of political and business elites, confirming the prevalence of economic interests in Russian TNCs' foreign investment decisions, and confirming hypothesis 1 against hypothesis 2.

2.2.2. Putin's First Presidency

Micro Level

In the early 2000s, *Gazprom* actively strengthened positions abroad by using equity investments (Liuhto, 2001). *Gazprom* purchased stakes in both Western and Eastern European countries, including the Baltic States. In 2000, the company owned 31% stake in Estonian gas

firm, and 46% shares of Latvijas Gaze. Moreover, as Saprykin (2004) demonstrates, one opportunity the CIS provided to Gazprom was investment expansion in Central Asian states' gas sector. In 2002, the company started to invest in the resource-extracting sector in Uzbekistan and Turkmenistan, and signed long-term agreements for gas delivery from these countries with state-owned companies Uzbekneftegaz and Turkmengaz. Consecutively, Gazprom and Kazakh KazMunaiGaz set up the joint venture KazRosGaz for all gas deals, from extracting to transportation and sales on domestic and foreign markets. Thus, since 2000 Gazprom continued its foreign expansion and increased influence on foreign policy decision-making.

In 2000, *RusAl* started investment expansion with finishing its production chain as the main goal. First, the company expanded to the CIS, purchasing 70% stakes of Nikolaevsk alumina refinery, and Armenal foil-factory in Armenia. Separately, it purchased the alumina refinery Oradea in Romania; however, high energy prices decreased profits, and the refinery closed in 2001 (Helmer, 2001). In 2002, *RusAl* took over the management of bauxite plant and alumina refinery in Guinea. In 2005 the company's global expansion reached its peak: *RusAl* acquired 20% of QAL in Australia, 56.2% of Eurallumina refinery in Sardinia (Italy), and completed the purchase of a cathode plant in China's Shanxi Province. Thus, the vector of foreign policy became increasingly important for *RusAl*. According to Belkovsky (2007), the owners' close personal relations with Vladimir Putin made their involvement possible in foreign policy according to *RusAl* needs.

Wimm-Bill-Dann started international expansion in the CIS in 2000, acquiring factories in Ukraine and Central Asia. In 2001, the company created OJCS holding in order to manage the group's plants and implement its strategy. In 2002, *Wimm-Bill-Dann* received British Retailer Consortium (BRC) certification - recognized by all retail chains across the EU - and started to

sell its products in the EU, Canada, and the USA. The same year it became the first Russian food company to list its shares on the New York Stock Exchange.

As this evidence suggests, during Putin's first presidency - in accordance with hypothesis 1 - large TNCs continued to follow their business interests in their activities abroad. At the same time, - contrary to hypothesis 2 – they increasingly continued to use their close connections with the Russian leadership, and, as a result, Russian foreign policy gradually became an instrument in reaching these interests abroad.

Macro Level

In March 2000, Putin became the president of Russia. Several factors explain the rapid growth of his popularity – according to Levada Center opinion polls, 79% in early 2000 - among Russians. First, Putin's accession coincided with increasing feelings of insecurity in large parts of society. The second factor was the lack of alternative candidates; Primakov was not even a nominee for presidential candidate, as he was 'too' upright, thus not acceptable for the Family. Third, as Shevtsova (2005) demonstrates, Putin was not affiliated with any of existing parties: a well-structured society would consider this a disadvantage, but not Russia. Paradoxically, the fact that Yeltsin himself proposed Putin as his successor and that he was not a member of the opposition was important for many Russians. Finally, in contrast to most previous Russian and Soviet rulers, Putin was a relatively young and healthy athlete and a well-educated urban individual from Saint Petersburg (Shevtsova, 2005).

Above all, as Stent (2008) argues, Putin tried to demonstrate that he could respond to demands of almost all-Russian diverse society. First, he granted the former president and his family full immunity from prosecution; thus expressing his loyalty to the de facto ruling clique. Second, Putin brought back centralization of the authority or top-down 'power vertical', which –

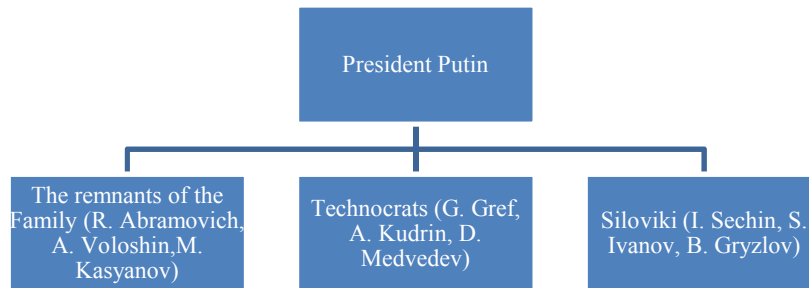
at least in the view of the majority Russians - strengthened the Russian state; this also guaranteed him support from nationalists and neocommunists. Third, Putin restored some of the symbols of the USSR, such as national anthem, albeit with revised lyrics: this resonated well with the majority of Russia's population and moderate conservative politicians; at the same time, liberal politicians criticized it. Simultaneously, he remained critical about the Soviet policies. Fourth, considering the requests of nationalists, Putin restored Tsarist Russia's symbols, such as the two-headed eagle as the state emblem, and the importance of Orthodox Church that marked Russia's uniqueness as a great power. In sum, his new national idea was to "reconcile white and red Russians by the political exploitation of nostalgia" (Stent, 2008, p.1091). Hence, the Communist party remained the only relatively influential opposition (see Table 2.3).

Table 2.3: Support and opposition to Putin in 2000-2002

Support: 79% of population, moderate conservatives and nationalists, the Family and oligarchy, loyal liberals	Opposition: Communists, non-loyal liberal politicians, who by the time created minority political force
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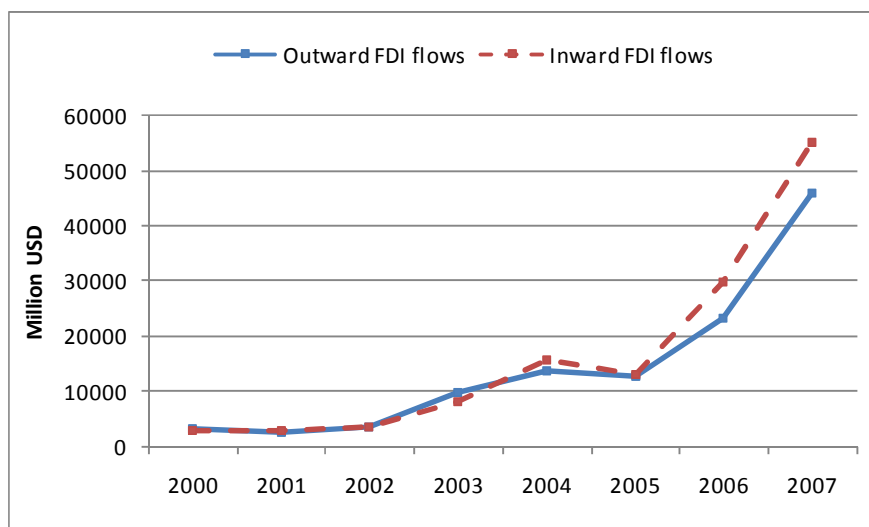
Shevtsova (2001) argues that the new authorities became more dependent on security structures: Putin's Chechen war increased the influence of power structures and their remnants – *siloviki* - on decision-making in the 2000s. Other informal political-economic groups – technocrats and remnants of the Family - were also influential policy-makers throughout Putin's presidency (see Figure 2.3).

Figure 2.3: Influential groups in decision-making during Putin's presidency



The tension and cooperation among these groups was a highlight of Putin's first two terms in office: he appeared as a stabilizing factor among them. These internal changes affected Russian foreign policy in three ways. The first was a new international political agenda that disassociated Russia from anti-reform and an anti-Western agenda, linking national identity with the economic goal of Russia's integration into the global capitalist economy. The 2000 Foreign Policy Concept declared that one of the main tasks of foreign policy should be projecting a positive image of Russia abroad, particularly in the West. Thus, one of Putin's first significant steps in foreign policy was his support to the anti-terrorist coalition led by the US after the 9/11 terrorist attack: due to traumatic experience with terrorist attacks, Russians sympathized with Americans in their fears. This changed Russia's international image positively, and as a result, friendly relations with the West opened the doors to Russian companies abroad, but also to major bank loans and foreign direct investments in both directions (see Figure 2.4 below).

Figure 2.4: Russia's FDI inward and outward flows in the period of Putin's first presidency (in \$ million)

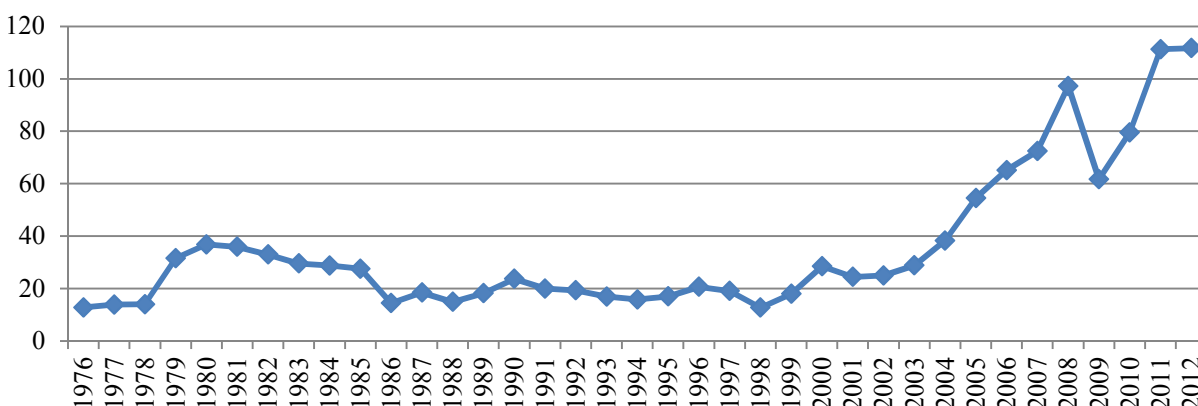


Source: UNCTAD 2010

As Figure 2.4 shows, during Putin's first presidency Russia's inward and outward FDI grew simultaneously, and between 2005 and 2007 inward FDI slightly exceeded Russian outward investments, which indicates Russia's integration to the world economy. This was another step for Russia from the traditional geopolitical approach in foreign policy to geoeconomics.

Second, Putin brought about a significant shift in foreign policy toward Europe. The 2000 Foreign Policy Concept suggests that this was the consequence of the Bush administration's foreign policy, which recognized Russia as 'no longer an enemy', and not a very important global player (Shevtsova, 2005). Ironically, it appeared that Russia could be important for the USA only if it was dangerous. More importantly, this disengagement meant a cut in US' assistance to Russia. Thus, with the EU, Putin's course focused on closer economic ties. Increasing world energy prices paralleled and underpinned the importance of the EU for Russia as largest energy export market (see Figure 2.5).

Figure 2.5: Crude oil prices (Brent) in the period between 1976 and 2012 (horizontally) in \$ per barrel (vertically)



Source: British Petroleum, 2013

The Russian leadership also officially reactivated relations with Cuba and Vietnam, simultaneously closing navy bases in these countries, which indicates factual withdraw from the geopolitical approach in foreign policy. These moves indicate sacrificing the broader national interests in security in favor of economic interests of the state and especially business interests of TNCs. Similar disaggregation of national interests in Russian foreign policy occurred in other countries. For instance, while the Concept highlights the considerable importance of defending the interests of Russians abroad and in particular in the Baltic States, according to Belkovsky (2007), discrimination against the Russian minority in Latvia in 2002-2004 did not result in concrete sanctions because they could negatively affect Gazprom's investments in this country. Similarly, Russia pursued active contacts with China and Iran. With the latter, Russia signed an agreement on arms shipment and Russia's help in the construction of a nuclear power plant in Buscher. Tarock (1997) recognizes in this agreement Iran's and Russia's geopolitical ambitions to counterbalance American hegemony. Nevertheless, as Saivetz (2003) demonstrates, Russian-Iranian relations were based on mutual economic interests: Iran was buying Russian arms, which helped to keep the Russian military-industrial complex and atomic energy sector alive. This example clearly demonstrates the trade-offs between Russia's state interests in national security

and its economic interests: while benefiting from certain economic gains, the Russian leadership helped Iran to increase its nuclear and military power, which in turn presents a threat for Russia's national security. Precisely Russia's agreement on arms shipment and helping the construction of nuclear power plant in Iran contradicts one of the major points of the Russian Foreign Policy Concept's (2000; 2008; and 2013) considering Russia's international security, namely "[t]o form a good-neighbor belt along the perimeter of Russia's borders, to promote elimination of the existing and prevent the emergence of potential hotbeds of tension and conflicts in regions adjacent to the Russian Federation" (Russian Foreign Policy Concept, 2000). Overall, foreign policy during Putin's first presidential term was more-or-less on a pro-Western course at least vis-à-vis the EU. Russia's new engagement with the world was largely dictated by pragmatism and commercialization of foreign policy, which stayed mostly 'pro US' until the war in Iraq in 2003. These examples show that foreign economic activities of even Russian state-owned companies do not necessarily follow official Russian foreign policy.

Azarova (2006) suggests that, if in 2000 Putin represented a vague hope for better life, in 2004, he proved to be a successful stabilizer and reformer for the majority of Russians: in 2003, about 80% of Russians supported his work, and about 70% believed that he led Russia out of economic crisis. In fact, high world oil prices recovered the Russian economy and modestly increased the living standards for most of Russians. If GDP per capita in 1995 was about \$6500, by 2003 it rose to about \$9700 (World Bank, 2011). Moreover, along with the Ministry of Finance led by Alexei Kudrin, and the Ministry of Economic Development led by German Gref, the focus on energy in foreign relations made the Ministry of Energy and Industry major players in foreign policy decisions.

The important domestic change of Putin's second term was his initiative launched to replace the election of regional governors with a system whereby the President proposes them, and regional legislatures approve or disapprove. Simultaneously, the state takeover of private TNC Yukos and the prosecution of its CEO Mikhail Khodorkovsky, negatively affected Russia and Putin's image internationally. To achieve approval from the foreign partners, the former chief of Putin's administration, Vladislav Surkov articulated the concept of sovereign democracy, according to which "the West has no right to dictate how Russian democracy should develop" (Surkov, 2006). The main factor that can explain this drastic change in tone towards foreign partners was Russia's rapid economic growth fuelled by high world oil prices, which put the end to the need for Western financial aid.

Therefore, Putin's economic policies during his second term confuse the picture when evaluating the activities of Russian TNCs abroad. For instance, Putin emphasized that he and his team were purposely working to decrease inequality within the society and reduce dependence on energy exports. However, when in 2007, the Kremlin created massive state corporations to achieve development of nanotechnology and stimulating high-tech exports, Putin assigned his close associates to their top management. Most of these new oligarchs had a power structure background, thus Treisman (2011) marked them as 'silovarchs'. The promise to decrease dependence on energy fared no better as the Russian economy remained hugely dependent on energy exports (Hanson, 2009). Moreover, Gazprom became Putin's personal obsession: he memorized the details of the company's accounts, pricing rules and pipeline routes. The agreement of former German Chancellor Gerhard Schroeder to serve on Gazprom pipeline subsidiary was also the result of Putin's personal initiative (for more details see Chapter 3). Therefore, similarly to domestic policy, foreign policy became mostly an instrument in the hands

of Russian growing corporations and their bosses. For instance, although the 2000 Foreign Policy Concept claims Ukraine as Russia's regional number one priority, the disputes over prices for gas with Ukraine and Belarus became highlight of Putin's second term foreign policy toward the CIS, and continued during Medvedev's presidency.

Still, many in the West saw Gazprom's gas cuts to Ukraine as Russia's attempt to expand its geopolitical influence, and punish Ukrainian authorities for their pro-Western views and Orange Revolution. In fact, as Mankoff (2008) shows, the main reason behind gas cuts was a straightforward business attempt to increase Gazprom's profits, and to persuade neighboring gas-transit countries to sell Gazprom their pipelines and distribution networks. The last also explains doubling the gas prices for Belarus, despite its political fealty to Russia. As Belkovsky (2007) in his satirical work "The Empire of Vladimir Putin" argues, there was no geopolitics in Putin's foreign policy. Instead, "the second Russian President ... is quite simple and typical entrepreneur ... All his decisions and actions are in the line with logic of big business, which is all motivated by profit-seeking alone" (p.170). In sum, during Putin's first presidency, the state became dependent absolutely on large – albeit state-owned - TNCs and their bosses, who needed the successor to follow the business logic.

2.2.3. Medvedev's Presidency

Micro Level

By the end of 2000s, *Gazprom* had diversified its core business activities. Furthermore, Gazprom delivered liquid natural gas (LNG) cargos to the USA, the UK, Japan, Korea, India, and Mexico. Gazprom also reached the new level of relations with foreign partners by using mutually beneficial cooperation such as the contracts with Italian ENI for the implementation of the South Stream, German Wintershell, Ruhrgas, Nederlandse Gasunie, and GDF SUEZ for the

implementation of the North Stream. Moreover, in its traditional export markets, Gazprom gained access to final consumers. It seeks absolute commercialization of gas supplies on both the CIS and domestic markets. Finally, to secure stable revenues and potential exports to China and decrease dependence on the European markets, Gazprom executes the Development Program for an integrated gas production, transportation and supply system in Eastern Siberia and the Far East (Gazprom, 2012).

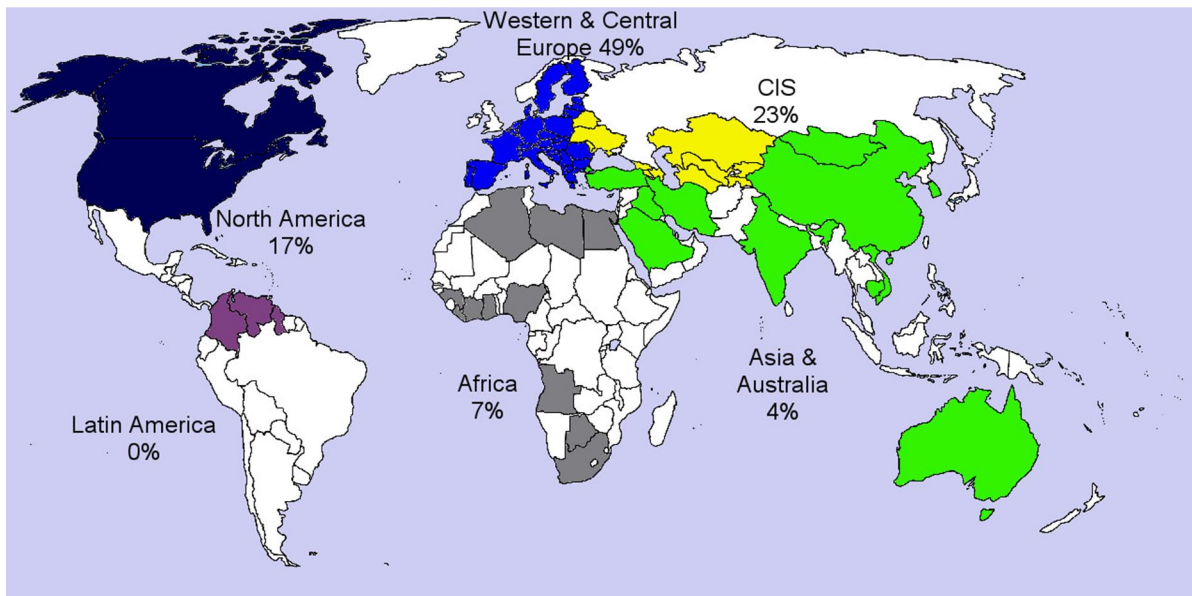
The global recession hit *RusAl* hard. Demand and price for aluminum plunged to historic lows, adversely affecting the company's financial performance and creating tension in relationships with lenders. The measures aimed at streamlining production and cutting costs allowed the company to overcome the crisis with minimal losses. As stated at RusAl's website, in 2009 the support of the Russian and global financial communities helped RusAl to restructure its debts. With the new decade, it entered a new phase of development, having listed its shares on the world's largest stock exchanges.

Since the 2005, *Wimm-Bill-Dann* has concentrated on increasing its product line and launching the new brands first in domestic market, then abroad. In 2010, US PepsiCo acquired 66% of Wimm-Bill-Dann shares. By the end of 2011, PepsiCo completed acquisition and became 100% owner of outstanding ordinary shares of Wimm-Bill-Dann (Prescott, 2011).

So far, as this evidence indicates, the state's support to Russian companies directly depends on the TNCs' connection with the ruling elites. The evidence also suggests that in some instances, such as the abovementioned Development Program for an integrated gas production, transportation and supply system in Eastern Siberia and the Far East, this business strategy coincides with the state's economic interests in diversification of export routes. Still, the latter fact – along with the geographical distribution of FDI of Russian twenty largest TNCs - speaks in

favour of the economic rationality hypothesis on both micro and macro levels (see the Figure 2.6 below).

Figure 2.6: Geographical distribution of foreign assets of Russian TNCs in 2008



Source: IMEMO-VCC Survey of Russian multinationals in Kuznetsov (2010)

Macro Level

In the beginning of his presidency, former CEO of Gazprom and the former prime minister, Dmitry Medvedev, had Putin's trust, and shared his two goals in his own presidential agenda: modernization of the Russian economy, and anti-corruption. What, in contrast to Putin, he did not have was reliable support within the state apparatus. Still, he required all high-ranking officials to submit annual declarations of their income and wealth, and criticized the forcible takeovers of private companies. This is why some Western leaders perceived him as a liberal. However, the use of force in the conflict with Georgia over South Ossetia, which marked Medvedev's early foreign policy, proved the opposite: "As President of the Russian Federation it is my duty to protect the lives and dignity of Russian citizens wherever they may be" (Medvedev, 2008).

The Russian popular reaction to the military intervention was broadly positive, while reactions in the West were negative. However, international criticism ceased simultaneously with the onset of the global financial crisis for two reasons: first, the country still had considerable military power; second, it remained an energy power. Moreover, Barack Obama's new administration launched, as US' administration titled it, US' 'reset' in relations with Russia.

Nevertheless, the wave of the global financial crisis did not pass Russia by. Reaching a peak in the spring 2008, the gradual fall of crude oil prices bet against the rouble. Premier Putin accused the US government of irresponsible policies. Responding to the crisis, Russian government used about \$40 billion to help the major banks to avoid collapse. As Treisman (2011) points out, in September 2009 the government lent about \$50 billion to companies that struggled to survive. In Treisman's interpretation, the Kremlin put up money for bailouts, fearing that foreigners might gain control over the largest corporations. Yet the Soviet veteran car producer AvtoVaz received about \$806 million (in 2010 Putin offered 50% shares instead of 25% owned by Renault), while RusAl received \$4.5 billion: the fact that the leadership of AvtoVaz is not as close to Putin as the owner of RusAl explains this significant difference in state's financial support to the two companies.

Moreover, the Kremlin implemented high tariffs on car imports, which provoked riots in Vladivostok, the commercial center of Russia's Far East, where the economy was boosted largely by imports of used Japanese cars and sales in Russia. These events in Vladivostok were a trigger to the first bottom-up anti-government movement in post-Soviet Russia. Several protest internet forums emerged all across Russia to share ideas of best ways in opposing the government. In turn, bloggers started the battle against corruption, by researching the legal documents of state owned companies and their deals, and downloading all findings in their

online blogs. Russian society that over the last twenty years has been suspicious about political opposition slowly started to participate in this protest. The leadership seemed to recognize the extent of their dependence on economic growth. As the response to rising social dissatisfaction, Medvedev pointed out the importance of greater privatization of state assets at the federal and regional levels. The main goals of the reform have been to give more independence to TNCs from all sectors and to encourage foreign investments in Russia. As a result, the state officials stayed in their positions only in Gazprom as strategically the most important state-owned company; this revealed Medvedev's political weakness in the Putin-created system of power. Finally, in the area of foreign policy Medvedev succeeded in the creation of the Eurasian custom union between Russia, Belarus and Kazakhstan. Considering their similar political and social constellations, the main beneficiaries of these developments will be the elites of these countries. Therefore, despite Medvedev's at least verbal attempts to separate the state from business, under his rule state and consequently foreign policy remained dependent on large TNCs. In sum, despite Medvedev's at least semblance attempts to introduce liberal-like policies in Russian economy and to make more transparent Russian government, he proved to be too weak a political figure in Putin-created system of power. This became clear only on September 24, 2011 when Putin and Medvedev together announced Putin's return to Kremlin.

2.2.4. Putin's Second Presidency

Micro level

One of *Gazprom's* major achievements over the last three years has been the launch of gas supplies to the EU through the Nord Stream gas pipeline. The first string of 27.5 billion cubic meters was commissioned on November 8, 2011. Gazprom also tends to diversify its international commercial activities by implementing a phased strategy of expanding its presence

in the liquid natural gas (LNG) market. The first Russian LNG plant was launched in Sakhalin in February 2009. LNG spot sales totaled 6.3 million tons or 9.2 billion cubic meters between 2005 and 2011. Moreover, development of gas resources in Yamal peninsula, Arctic Sea, Eastern Siberia and Russian Far East are currently among Gazprom's top business priorities. Finally, according to the assignment by the Russian government, known as Eastern Gas Program, Gazprom coordinates the execution of this program for an integrated gas production, transportation and supply system in Eastern Siberia and the Far East, taking into account potential gas export to China and other Asia-Pacific countries (Gazprom, 2013).

In contrast to Gazprom, global economic downturn reshaped *RusAl's* business priorities. As stated at RusAl's website, 2012 became another challenge for the global aluminum industry, as a 15.7% drop in aluminum prices put a large share of aluminum facilities on the brink of profitability. To minimize these external factors, RusAl's management decided to focus on achieving long-term efficiency, controlling its costs and developing strategic projects. The company adopted a long-term program for a phased replacement of inefficient facilities producing primary aluminum with sophisticated capacities, which are much better positioned to have a lower cost of production. As part of the program, the RusAl's management plans to shut down about 300,000 tones of primary aluminum capacity. Overall, as global economic crisis continues, both Gazprom and RusAl adopt new business priorities and strategies both in their domestic and foreign activities.

Macro level

Global economic crisis that heavily hit Russia was one important reason why Putin's return to the Kremlin, announced on September 24, 2011, has brought a series of large public protests to the streets of Moscow and other large Russian cities, which have prove to be largest

protests in Russia since 1991. Another more important reason was increasing Russian popular dissatisfaction with Russian long-standing political leadership's domestic policies and, according to Krastev and Holmes (2012), strong feelings among urban and well-educated Russians that their country has no future. The first among these large protests took place in December 2011 to dispute the officially celebrated victory of the United Russia party in Parliamentary elections. Significantly, the majority of protesters have been the representatives of Russia's urban middle class that have been offended by Putin's decision to become a president once again. As Krastev and Holmes (2012) point out, Putin's 'managed democracy' was not only a regime without a choice, but rather "a play without a publicly convincing plot" (p.41).

The protests continued during 2012. Facing the opposition from the most urban and mobile part of the Russian society, Putin turned for support to the more rural and provincial Russians, and pitted them against the best-educated and modernizing segments of the Russian population, in contrast to 2000, when he rallied Russia against Chechen terrorists or 2004, when he rallied broader Russian society against the oligarchs. Krastev and Holmes (2012) justly recognized these events as the end of 'managed democracy': according to them, this was hybrid regime between democracy and authoritarianism, where repression was not the principal means, "by which Putin maintained himself in power" (p.33). The 'death' of 'managed democracy' and turn of Putin's regime towards clear-cut authoritarianism became evident on May 6, 2012, the day of Putin's last presidential inauguration. As the only non-state-controlled Russian internet-TV-channel *Dozhd* reported when, in a protest earlier approved by Moscow's authorities thousands of protesters flooded *Bolotnaya* square, the special military forces closed access to the square, which provoked clashes between the protesters and police. As a result, many protesters were arrested and sentenced for years in jail. Along with previously arrested punk band "Pussy

Riots” for their performance against Putin in the Christ The Savior Church in March 2012, and passing the new laws against sexual minorities’ rights, the trials against peaceful protesters of *Bolotnaya* square clearly displayed a shift from ‘managed democracy’, to repressive highly personalized authoritarianism.

Moreover, the continuous struggles over power and economic resources in Russia between various Kremlin’s factions have become more visible since May 2012. As recent resignations of important political figures such as Defense Minister Anatoly Serdukov, and Vice Prime Minister Vladislav Surkov show, the autocratic tendencies of Putin’s regime, in fact, reveal deep and destructive fractures within his system of power. Overall, according to Krastev and Holmes (2012), Putin’s ‘managed democracy’ has rather been a regime that was ignoring and pacifying the people “while amassing unbelievable riches from the sale of Russia’s natural resources abroad. Incapacity-hiding, not capacity-building” was the basis for Putin’s statecraft (p.40).

On the basis of the analysis above, a similar argument holds for Putin’s foreign policy since March 2012. It is increasingly marked by strengthening the ties with the other CIS political leaders. Moreover, it is also paralleled with - in light of weakening, in Shevtsova’s (2012) words, “West’s tactical approval, or at least acceptance” of his increasingly authoritarian domestic policies – Putin’s tendency to pursue increasingly anti-Western foreign policy rhetoric. This anti-Western foreign policy rhetoric also includes Putin’s previous suggestion to withdraw FDI activities of Russian TNCs from the Western countries as much as possible. However, as the following chapters show, even the most recent activities of Russian TNCs abroad (and in particular in Europe) are based on economically and personally grounded motives; thus, even

Putin's absolute power in Russia can hardly be a reason to change their business priorities and strategies.

Conclusions

This chapter has revealed that due first to its economic and – in turn - institutional weakness, in the mid-1990s Russian state became the hostage of growing Russian TNCs and their owners, in both domestic and international domains. As was demonstrated, the state's economic weakness, inherited from the USSR, during Yeltsin's presidency created a system where the state serves the business interests of large TNCs and individual interests of their bosses. With top-down managed succession of power, this system gathered momentum during Putin's first presidency, and continued under Medvedev. The evidence mostly speaks in favor of hypothesis 1: it confirms that Russian TNCs follow mostly business logic in their investment projects abroad. As a result of increasing dependence on its large TNCs, in many instances the Russian state has adjusted its foreign policy to the narrower profit-seeking interests of big business, by disaggregating economic from political and security interests, and usually sacrificing the latter. In general, the results of the present analysis suggest that hypotheses 1 and 2 are not necessarily competing because, as Strange (1993) rightly points out, economic and political powers usually go hand in hand.

It is impossible to have economic power without the power to purchase, to command production, to mobilize capital. And it is impossible to have economic power without the sanction of political authority, without the legal and psychical security that can only be supplied by political authority (Strange, 1993, p.25).

Moreover, confirming Strange's (1993) argument that ideas and beliefs are equally important structures to political and economic structures of power, the results of the present analysis show that foreign policy rhetoric has been an instrument of manipulation to Russia's political leadership with Russian society. With various degrees of success over time, it served as

camouflage for the state's institutional weakness vis-à-vis large business and personalized power. However, as shown in the last section of the present chapter, under the economic pressures of global economic crisis social and political climate in Russia has radically changed, evoking mass civil protests against Putin's regime in large Russian cities since late 2011. These recent developments rather confirm hypothesis 1, namely that Russian TNCs, along with Russian political elites, have been the agents of their own business interests and of the individual profit-seeking interests of their bosses.

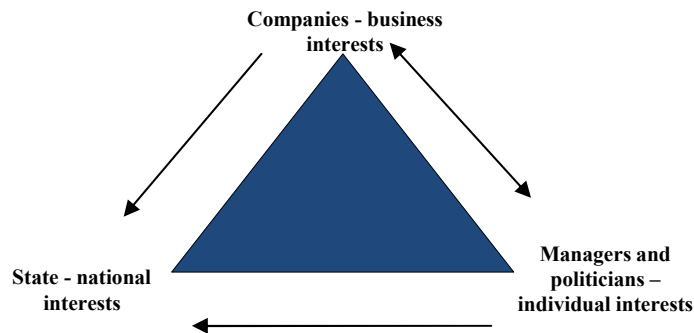
As this chapter revealed, very important driver for Russian companies' FDI expansion is business and individual profit-seeking interests of owners of private companies, and top-managers of state-owned TNCs. From this finding I generated the third competing hypothesis about the motives for Russian companies' FDI expansion, namely

A3: Top managers of Russian TNC use both companies' capacities and Russian state institutions to pursue their individual profit-seeking interests. Therefore, some foreign investment activities of Russian TNCs follow neither business logic nor Russian national interests.

I found that this hypothesis is supported by Kuznetsov (2010), who points out that some top-managers of a Russian TNC under state control abuse their position and pursue their own interests, simultaneously ignoring both Russian national interests as well as the economic objectives of the TNC. Therefore, one of the contributions of this dissertation is that, instead of being driven by either state or companies' interests, outward FDI of Russian TNCs can also be driven by individual profit-seeking interests. Overall analysis of the present chapter suggests that motives for Russian outward FDI usually represent various combinations of the interests of two types of collective actors, i.e. state and companies, and one type of individual actor, i.e.

politicians and managers. So far the analysis showed that, at least in post-Soviet Russia, the most usual relationships among these three types of actors and their interests in Russian outward FDI is as presented in Figure 2.7 below.

Figure 2.7: The relationship among three types of actors involved in Russian outward FDI and their interests



As Figure 2.7 shows, in Russia companies' business interests and individual profit-seeking interests of their managers and many Russian politicians are often interrelated and both are usually presented as state's interests, while state's interests rarely coincide with narrower companies' interests, and individual profit-seeking interests of their bosses and Russian political leadership. Thus, elites neglected the needs of the majority Russians (i.e. Russian national interests as the aggregate of state's political, social, and economic interests), while not entirely disregarding them: officials' rhetoric and use of symbols has been the direct – albeit the only – response to these needs. This, in turn, created fertile ground for the appearance, as Olson (2000) put it, of the “stationary bandit” in the face of Russian large TNCs and political leadership, claiming that what is good for Russian big business is good for Russia. However, not a monolith in its decision-making, this ‘bandit’ is increasingly authoritarian inside Russia. How and to what extent has this internal transformation of Russia influenced TNCs' FDI activities abroad? How and to what extent have Russian TNCs in their FDI activities cooperated with Russian state

institutions abroad? These questions are the subject of the next part of this dissertation, which reports and systematizes the results of the two years of fieldwork.

Part 2:Empirics

Chapter 3:Russian Foreign Policy and TNCs in Germany: Bringing the State Back?

Summary

This chapter explores the interaction between Russian companies and Russian state and economic institutions in Germany, focusing on their cooperation in the instances of FDI in the context of Russian-German relations. The analysis of official documents and interviews with Russian state officials and Russian and German business persons shows that the negative image of Russia and Russian business in Germany represents the main obstacle to Russian FDI. Thus, Russian TNCs that invest in Germany without visible political support are more successful in their FDI goals. At the same time, the chapter demonstrates that attempts to improve their image in Germany resulted in a closer cooperation between Russian TNCs and Russian state institutions in the form of the Council of Russian Entrepreneurs in Germany.

Introduction

What is clear so far is that over the last two decades the Russian state's economic weakness created a system where the state serves the interests of big business. As a result, the Russian state has adjusted its foreign policy rhetoric to the narrower interests of big business, in a similar manner to the US: as former General Motors' CEO Charles Erwin Wilson argued, what is good for General Motors is good for America. This business myth is less true for Russia: its use in fact increased the traditionally large distance between the non-monolithical Russian political-business elite and those of a diverse Russian society. As a result, the gap between interests of the former and those of the latter became ever wider. This gap raises a conceptually important question: to what extent, if at all, can a weak state serve the interests of business? One

of the aims of this chapter is to explore the Russian state's ability to serve the interests of Russian business abroad by exploring Russian outward FDI.

The second aim of this chapter is to reveal the effect of the gap between the interests of the non-monolithical Russian political-business elite and those of a diverse Russian society. In order to show this gap on Russian TNCs in the EU, it is reasonable to apply both top-down and bottom-up approaches. A top-down approach serves in analyzing the impact of political and economic relations between Russia and the EU member states on Russian FDI in the EU. The analysis includes the impact of Russia's state image in the EU on investment activities of Russian business in the EU. The bottom-up approach serves in analyzing how Russian business affects Russia's image in the EU. For instance, in the Russian Foreign Policy Concept (2008) the EU represents a second regional priority after the Commonwealth of Independent States (CIS). Simultaneously, it is the largest recipient of Russian FDI. Therefore, the EU is an important area for analyzing Russian foreign policy-TNCs relationship. The analysis is driven by the following questions: What is the nature of Russian foreign policy-TNCs relationship in the EU? To what extent do Russian state institutions in the EU cooperate with Russian TNCs? How effective is this cooperation?

Russia's historically very different relations with Western and Eastern EU members require separate analysis of Russian foreign policy-TNCs relationship in the old and the new member states. According to the Russian Foreign Policy Concept (2008), Germany represents the most important EU member state for Russia; therefore, it is the most interesting country in the EU for studying the Russian foreign policy-TNCs relationship. Among the new EU members, Hungary provides a counter example to Germany for studying Russian foreign policy-TNCs relationship: in the Russian Foreign Policy Concept (2008), the attention is devoted to

Central and Eastern Europe (CEE) as a region, but not to each country separately. Thus, the analysis of Russian foreign policy-TNCs relationship in Hungary will take place in the next chapter.

The present chapter focuses on Russian foreign policy-TNCs relationship in Germany. Today's Germany displays the legacies of both former ideological and economic – Capitalist and Communist – blocs. The differences between its eastern and western regions are still notable. Germany is also the world's third largest and Europe's leading economy, and Russia's largest trade partner in Europe (Russian Ministry of Foreign Affairs, 2011). The relations between Russia and Germany also shaped the political maps of Europe in the twentieth century. As Germany is a significant market to Russian TNCs, it is a good case for testing whether their FDI is being poured into Germany because of Russian foreign policy priorities.

As presented in the previous chapter, the existing literature proposes two competing hypotheses. The first suggests that in FDI decisions Russian TNCs' business interests prevails over Russian national interests (Liuhto, 2001; Kalotay, 2005). The second hypothesis suggests the opposite, namely, that in Russian TNCs' foreign investment decisions national interests prevail over their business goals (Perovic et al, 2006a; 2009b; Liuhto, 2008). The analysis in Chapter 2 revealed that foreign activities of Russian TNCs in some instances are channeled by individual profit-seeking interests of their managers and Russian political elites; this finding provides us with the third competing hypothesis, namely, managers of Russian TNC use both companies' capacities and Russian state institutions to pursue their individual profit-seeking goals. The evidence in this chapter will demonstrate the compatibility of these three hypotheses. It will show that *Russian foreign policy-TNCs relationship in Germany is a two-level economic story with political implications*. On the *macro level*, Russia's political elite lobbies the German

government for the interests of particular large TNCs. Their main reason for FDI expansion in Germany is direct access to European customers and gradual increasing of revenues. On the *micro level*, Russian small and medium companies expand to Germany without political support. They seek both a more favorable business climate than in Russia and access to developed European markets. Consequently, Russian TNCs in fact do not shape their investment decisions in accordance with stated Russian foreign policy. Rather, large TNCs themselves shape Russian foreign policy in order to further their own business interests, which results in political interventions hindering business deals. At the same time, political involvement of the Russian government in big business, driven by political leaders' individual interests, usually contributes to the negative image of Russia as a state. As a result, Russia's negative image has negative impact on Russian small and medium sized TNCs in Germany.

The chapter is organized as follows. In the first section I briefly provide the framework of the analysis in the three empirical chapters. In the second section I describe the specifics of the method of inference used in this chapter. Then I discuss where Russian-German relations were at the point when the Soviet Union collapsed to set the context for the analysis of Russian FDI in Germany. In section four I apply Liuhto's (2001) REM-model to analyze the motives and the modes of Russian investments in Germany. In the fifth section, I explore the German perceptions of Russia. Sixth section is devoted to the impact of these perceptions on the German attitudes towards Russian companies and their FDI in Germany. In the seventh section, I explore the forms and mechanisms of cooperation between Russian TNCs and Russian state institutions in Germany. Finally I draw conclusions concerning this cooperation.

3.1. Analytical framework for empirical chapters

This brief section provides the framework of analysis in the three following chapters. Based on the analysis from Chapter 2, this section first outlines the hypotheses examined in this part. Second, it presents analytical tools for analyzing three (out of four) independent variables, i.e. *motives for internationalization of Russian companies* in host countries, *perceptions of Russia abroad*, and *attitudes towards Russian FDI abroad*. Finally, based on the findings from fieldwork, this section describes the way in which model for the analysis of the dependent variable, i.e. *Russian TNCs-state cooperation abroad* is used in the three empirical chapters.

The combination of the existing literature on Russian foreign investments and the analysis from Chapter 2 of the present dissertation proposes three major hypotheses (A1, A2, and A3) about the motives for foreign expansion: Russian TNCs' business interests as the main motive (hypothesis A1), Russia's state interests as the main motive (A2), and individual interests of Russian TNCs' top managers and politicians as the main motive (A3). While the majority of scholars argue that Russian FDI serves Russian state and national interests (Vahtra and Liuhto, 2004; Liuhto, 2008; Orban, 2008; Perovic et al. 2009), a small but important group of authors dispute this claim (Oliker et al, 2009; Kuznetsov, 2007; Kuznetsov, 2010). For instance, where Liuhto (2008) argues that "[o]ne does not have to be a clairvoyant to forecast national interest of politically uniting, economically expanding and militarily strengthening Russia" (p.36), and where Vahtra and Liuhto (2004) mark as 'patriots' Russian state-owned energy giants, Kuznetsov (2010) opposes these views by pointing out that

[I]t is not uncommon that top-managers of a Russian TNC under State control abuse their position and pursue their own interests. Such managers ignore both Russian national interests as well as the economic objectives of the TNC. Thus, it is impossible to characterize all State-owned firms as patriots (p.90).

Moreover, Oliker et al. (2009) point out that most Russian state officials tend to represent Gazprom's interests as Russia's state interests in a way that what is good for Gazprom is good

for Russia; however, Oliker et al. argue that most large Russian energy TNCs act in their own business interests, which do not necessarily coincide with Russian national interests. As pointed out in the previous chapter, these insights propose two expectations about the drivers of Russian foreign investment expansion:

- If Russian TNCs, by their foreign investment activities, aim to serve only their own business interests, then their policies and actions would be in accordance with their business goals.
- If Russian TNCs, by their foreign investment activities, aim to serve Russian state and national interests in the first place, then their policies and actions would be in accordance with national interests at least regarding the economic aspect.

The complementing explanations about the relationship between Russian foreign policy and Russian TNCs abroad proposed by the experts on Russian foreign policy serve two other hypotheses in the present analysis:

- There is no clear Russian foreign policy strategy, but only one replete with internal conflicts. Therefore, businesses cannot use foreign policy as guidelines (Feklyunina, 2008; Tsygankov, 2005; Ahrend and Thompson, 2005; Mankoff, 2008).
- In absence of clear support/resistance to Russian investments in host countries, acceptance emerges through the ideological conflict (Abdelal, 2005; Eichler, 2005; Closson 2009; Kuznetsov 2007a; Orttung 2009, Orban 2008).

Several main tools are used in the analysis:

- a) Liuhto's (2001) REM-model serves as the tool to analyze the *motives for internationalization of Russian companies*. In this model *R* stands for reasons, *E* for environment, and *M* for mode of internationalization.

- b) Perceptions of Russia and attitudes towards Russian FDI in host countries usually appear on three levels:
- **micro level** refers to the level of company in host country, i.e. potential partner/child companies (in case of mergers and acquisitions (M&As)),
 - **macro level** refers to the state level in host country, i.e. regulations and political elites (in cases of both M&As and Greenfield investments), and
 - **medium level** refers to perceptions of population in host country towards Russian investors.
- c) In order to analyze how the perceptions and other above outlined factors influence *TNC-state (FP) cooperation*, I graphically present its levels in Figure 1.2 (Chapter 1), which shows all forms and mechanisms of Russian TNC-state cooperation abroad that the present research in the two previous chapters has revealed. These forms and mechanisms exist on different levels, starting from company level to the highest state level and cooperation operates in formal/institutional and informal/personal forms. Based on these insights, as pointed out in Chapter 1, Section 1.4., TNC-state cooperation is *high* when cooperation exists on all levels and in all forms represented in Figure 1.2; TNC-state cooperation is defined as *medium* when cooperation exists on some but not all levels and forms represented in Figure 1.2, and; TNC-state cooperation intensity is defined as *low* when cooperation is limited to one level and form represented in Figure 1. 2.

Using data from nearly seventy in-person interviews (conducted during personal meetings) and personal conversations and consultations (in the cases when my respondents were reluctant to participate in official interviews) with representatives of Russian, and German, Hungarian, and Bosnian business and state officials and non-state institutions' representatives, I investigate the extent of coordination among these actors in instances of Russian FDI in

Germany, Hungary, and Bosnia-Herzegovina. Specific method of inference for each case study is provided in the first sections of each of the empirical chapters.

3.2.Method of Inference

The data was gathered from qualitative surveys and in-person interviews with representatives of Russian and German business and state officials and non-state institutions' representatives. The questions were organized in three groups: a) the relations between the company/subsidiary and the Russian state institutions in Germany; b) Russian-German relations on the company level and their impact on Russia's image in Germany; and c) the impact of Russian-German political relations and Russia's image on Russian business in Germany. The series of thirty interviews and surveys were conducted between July 2011 and September 2012. Professional affiliations and positions in German subsidiaries of Russian TNCs and Russian state institutions and commercial organizations served as the main criteria in choosing the respondents. Most respondents from Russian TNCs' German subsidiaries are public relations and external communications senior management. In the cases of small size TNCs the respondents are the top management. The interviews were conducted in one of four forms - interviews during in-person meeting, personal conversations, telephone interviews, and answers in written form sent by e-mail. Respondents chose the most convenient form for them to answer. Most respondents (twenty out of thirty) took the form of telephone or Skype conversation, which was electronically recorded. Five respondents preferred to answer in written form. Only three agreed on electronically recorded interviews during in-person meetings, and the rest preferred to provide information only in form of personal conversation, while I was taking notes. It is important to note here that respondents in Germany were the most open among respondents from the three countries cases, and, in contrast to respondents from Russia, Hungary, and Bosnia-Herzegovina,

most of them agreed to the use of their official positions when referring to information received from them in this dissertation.

In the next section I present a brief analysis of the evolution of Russian-German relations after the end of the Cold War.

3.3. Russian-German Relations in the Post-Cold-War Era

Starting from the mid-1980s, economic objectives have been crucial for Russia's relations with Germany and for the evolution of post-Soviet Russian FDI in Germany. As Kuznetsov (2007a) points out, in the late 1980s, Gazprom replaced the Soviet Ministry of Gas Industry and used the USSR-GDR gas supply agreements to create joint ventures with German energy companies, Wingas and Wintershell. These joint ventures, therefore, were the first forms of Russian FDI in Germany.

In the same period, the USSR adjusted its political relations with both German states due to growing needs for financing the state economy. The importance of economic relations between the USSR and Western Germany gradually increased over the 1980s as the USSR experienced economic stagnation, which turned into internal economic and social crisis. This crisis moved the USSR's domestic politics towards social and economic liberalization. Under Gorbachev's rule, the USSR reconciled with Western Germany and the West in general, which in turn put an end to the Cold War and made German re-unification possible. The reconfiguration of the relationship with Germany in the late 1980s meant that at this stage Germany was the most important country in terms of Soviet foreign policy, as a reliable source of financial aid.

The future of German-Soviet economic cooperation remained high on the Kremlin's agenda, and ... it tried to strike the best deal possible. At this point, German leadership was beginning to realize how expensive German unification might be ... they were also keenly aware of their own financial limitations. Moreover, as the USSR's largest Western trading partner, the FRG was particularly affected by the Soviets' inability to repay credits (Stent, 1999, p.138).

Simultaneously, rapid and incomplete economic and institutional reforms, with lagging building market-oriented institutions deepened the social and economic crisis in the USSR and resulted in the disintegration of the world's second superpower. In turn, for a second time in the twentieth century, Germany was the first country to recognize the Russian Federation as the USSR's successor. By mid-1994, under Yeltsin's rule, Russia arranged the withdrawal of the Soviet troops from German territory. In return, Germany financed the building of homes in Russia for former Soviet soldiers who earlier served in Germany.

On September 5, the Soviet ambassador in Bonn, Vladislav Terekhov, presented a new DM 36 billion bill to the German government, all of which was related to the stationing in and withdrawal from East Germany of Soviet troops (Stent, 1999, p.138-9). Moreover, during the 1990s, Germany remained Russia's largest creditor (Russian Ministry of Foreign Affairs, 2011). Thus, in the early 1990s during the initial period of transition, Russia successfully traded political capital (in the form of accepting the reunification of Germany) and military strength (paradoxically by withdrawing troops) in exchange for German economic support. Therefore, the relationship between the Russian Federation and Germany in the early 1990s was shaped by Russia's economic problems, which meant that Russia was willing to give up East Germany, support reunification and withdraw troops in return for German economic support. According to Stent (1999), negotiations continued after the USSR's collapse. In April 1992, with a prodding from Germany, G-7 offered Russia a \$43.4 billion assistance plan, including a \$15 billion Paris Club debt rescheduling "that allowed Russia to repay its debts due in 1992 and 1993 over the next ten years" (Stent, 1999, p.175). Two years later, in June 1994, G-7 announced that they will reschedule further \$80 billion Russia's debt, and committed to bring Russia into the General Agreement on Tariffs and Trade.

According to Zverev *et al.* (2011), during the late 1990s, trade turnover between Russia and Germany decreased rapidly. In 1997 it was DM 34 billion, and by 1999 it fell to DM 29.5

billion (p.79). As Zverev *et al.* argue, this fall in trade turnover between Russia and Germany was due to two factors: first, the Russian financial crisis in 1998, and second, Gerhard Schröder's policy of "pragmatic" relations with Russia. This meant non-privileged status for Russia in German foreign policy, and consequential minimization of financial aid and economic support. Nonetheless, in 2000, with both Russia's economic recovery and Vladimir Putin's coming to power, Russian-German relations entered a new period of close cooperation. The trade turnover between the two countries followed this new trend and in 2000 reached the 1990 level of 41 billion DM (Zverev *et al.*, 2011).

In the twenty-first century, Germany remains a more important economic partner for Russia than vice versa. The trade turnover between Russia and Germany serves as evidence to Russia's larger dependence on Germany. For the period 2010-2011 Germany was Russia's second (after China) largest foreign trade partner (Russian Ministry of Foreign Affairs, 2011). For the same period, Russia occupied seventh place in German imports, and only twelfth place in German exports (GTAI, May 2012). Therefore, for Russia the relations with Germany represent the first priority in the EU. Simultaneously, Russia remains less important as one of Germany's foreign policy priorities. For Germany, relations with Russia also remain the first priority in Eurasia. Energy trade still plays the main role in both Russian and German foreign policy regional priorities. While Germany needs Russian energy to sustain its industries, Russia needs German technologies to modernize its economy and revenues from energy exports to sustain its state budget (Zverev *et al.*, 2011).

The current Russian-German joint project serves as evidence to support the latter argument about uneven economic interdependence: it is the Nord Stream gas pipeline along the bottom of the Baltic Sea, which represents the most recent Russian-German bilateral agreement.

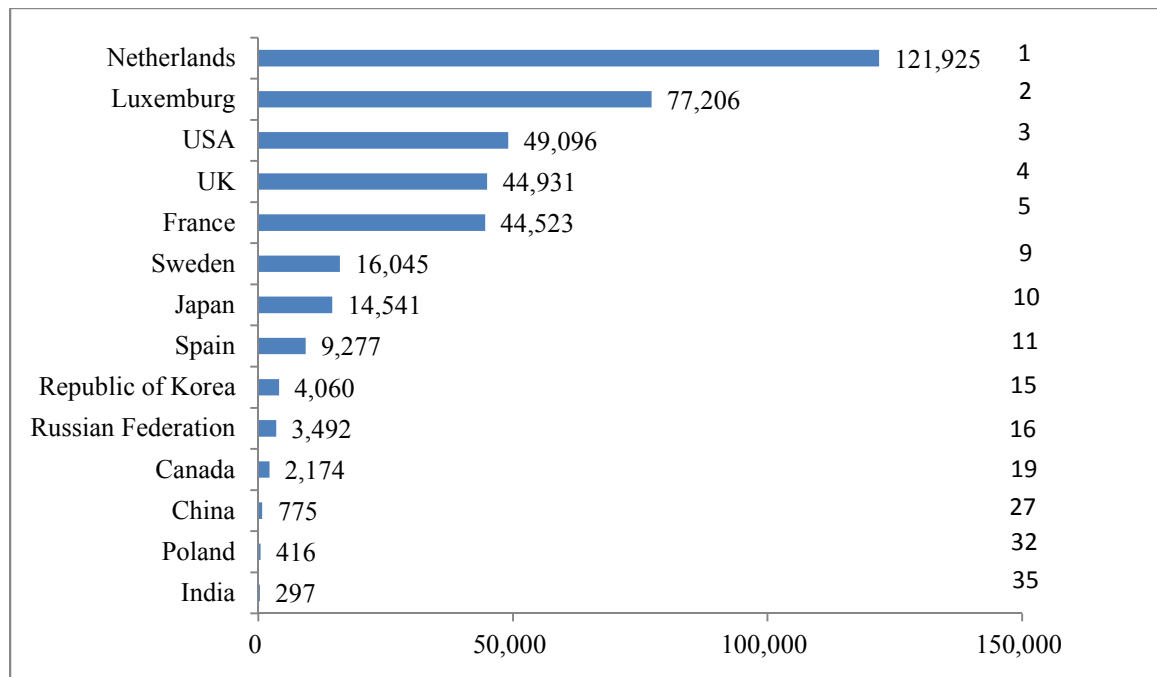
Germany signed it in 2005 with Russia separate from other EU members; while the energy relations between European countries and the Former Soviet Union have been regulated by the multilateral Energy Charter Treaty, which was signed in 1991, the EU common position on energy trade and transit was first developed only in 2007 (Energy Charter Treaty, 2012). The Nord Stream reveals uneven interdependence and the complexity of present Russian-German relations. It was signed between Russian Gazprom, and German EON Ruhrgas and BASF, with political support of Gerhard Schroder and Vladimir Putin. The pipeline will serve the most direct connection between the vast gas reserves in Russia and energy markets in the European Union, and will transport “a combined total of 55 billion cubic meters of gas a year to businesses and households in the EU for at least 50 years” (Nord Stream, 2012). The Nord Stream also exemplifies the close cooperation between the left wing German politicians and the Russian leadership: the view that German left wing politicians – as opposed to those of the right wing - are more open to cooperation with Russia originates from the Cold War era and is still widely shared among Russian officials and policy decision-makers. At the same time, as Rahr (2011) argues, the economic cooperation of political elites does not bring closer Russian and German societies. As Shevtsova and Kremer (2012) keenly notice, until recently, German political leadership pursued a policy toward Russia that could be defined as “close partnership based on common interests and total rejection of the normative approach” This policy during Gerhard Schroeder’s rule received the name “Schroederization”, which meant avoiding anything that would annoy the Kremlin. There were expectations by the German public that Angela Merkel’s rise to power would end “Schroederization” in German’s relations with Russia. However, although she made a positive impression on the German public when during her first visit to Russia as German chancellor she met with Russian civil society and opposition figures, her later

policy towards Russia turned “Schroderization” into “Merkelization”, reflecting more continuity than change. As Shevtsova and Kremer (2012) point out, recently, under increasing pressure from German civil society and human rights groups, Merkel, along with other representatives of German political elite is gradually changing her relations with Russian leadership. Most importantly for the current analysis, the Nord Stream provides a striking example of the close links between Russian political elites and large Russian TNCs. However, as I will show, the Nord Stream is rather an outlier than a typical example of Russian FDI in Germany, as most Russian TNCs in Germany have limited contacts with Russian political elite. In light of this analysis, the next section analyzes reasons and modes of Russian FDI in Germany today.

3.4.Reasons and Modes of Russian FDI in Germany

Today’s investment activities between Russia and Germany confirm the historical trends of asymmetric interdependence between these two countries. In 2010 Germany ranked fifth largest investor country in Russia (Russian Ministry of Foreign Affairs, 2011). In the same year Russia was the tenth largest country investor in Germany (GTAI, 2012, see Figure 3.1).

Figure 3.1: Total FDI stocks ranked in Germany by country of origin (2010, in € million)



Source: Bundesbank 2012 (in GTAI, 2012)

To analyze the reasons and modes of Russian FDI in Germany it is useful to apply Liuhto's (2001) REM-model described earlier as the most appropriate theoretical model for analyzing Russian FDI. Most FDI theories classify reasons for internationalization – or *R-factor* in Liuhto's REM-model - into *market-seeking*, i.e. aim at penetrating the local markets, *resource-seeking*, i.e. to have access to cheap raw material, pool of labor or infrastructure, *efficiency-seeking*, i.e. sources of competitiveness, economies of scope and specialization and low cost of production (Wadhwa, 2011); and *assets-seeking*, i.e. accessing market itself, firm-specific knowledge or organizational models (Franco et al, 2008). Among other reasons, one of the most frequent motivations for company's internationalization is *trade (import) substituting*, i.e. directing trade to avoid customs.

The evidence from the interviews below shows that market- and efficiency-seeking are the most important factors that drive Russian FDI in Germany. For a former Soviet state official and current Deputy of Russia's Trade Commercial Bureau in Berlin, Russian companies' purely

business reasons for foreign expansion are understandable, but not always appreciated from the point of view of the state's interests.

Business is not always patriotic. Business is internationalized and globalized. Here the companies can earn more by buying and selling shares. On the other hand, both in Russia and in the West there is a wise proverb: do not put all your eggs in one basket. In Russia both economic and political risks are much higher than here. The rating of Germany is much higher than that of Russia, infrastructure is much better and the labor force as well. (Deputy of Russia's Trade Commercial Bureau in Berlin, personal interview, December 13 2011).

The respondent from the medium-sized Russian wood-processing company, Illim Timber, which expanded its production to Germany in 2008 and became one of the largest Russian investors in Germany, confirms this opinion. The company's Director for external relations, underlines precisely the lack of infrastructure and the high costs of production in Russia as the main reason for the company's investment in Germany.

In line with the company's export increasing strategy, the leadership wanted to build the plant in Russia before the crisis. They negotiated buying the equipment from Germany for the new Russia-based wood-processing plant (Illim Timber, Director for external relations, telephone interview, June 14 2012).

However, the global economic crisis changed the company's leadership plans. When the company's top management came to Germany to negotiate purchasing the equipment, they realized that the whole plant was for sale. As a result, they decided to acquire the plant.

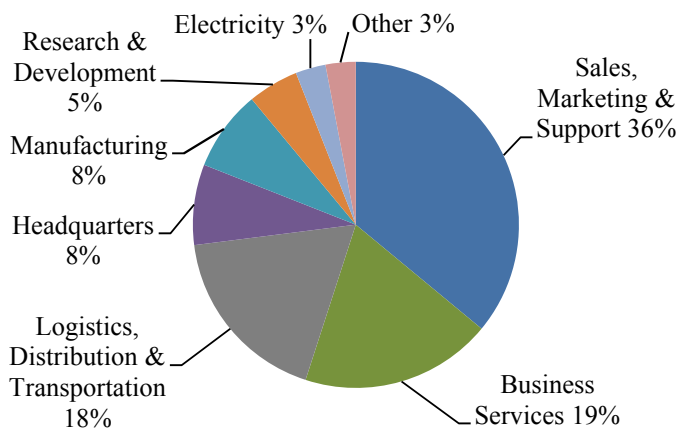
It was much faster than to go through the whole process of building, teaching people, developing the plant and production from scratch in Russia. Moreover, in Russia the infrastructure for shipment is very poor. In Germany, the conditions for production are much better. The staff is already educated; all requirements for production are already here. Thus, it happened that the crisis helped us to acquire the plant in Germany (Illim Timber, Director for external relations, telephone interview, June 14 2012).

This suggests that asset-seeking reasons, including the search for advanced technologies and modern managerial skills, are also very important for Russian FDI in Germany. The Deputy of Russia's Trade Commercial Bureau in Berlin confirms that currently these factors are largely missing in Russia. "The sad fact about Russian transition is that we have lost our engineering

school in the last two decades. Thus we are not able to produce as we used to do” (Deputy of Russia’s Trade Commercial Bureau in Berlin, personal interview, December 13 2012).

The majority of my respondents so far spoke about infrastructure and human capital being important, suggesting that at least they themselves believe this, and that it may therefore be true. This group of factors in Liuhto’s REM model is represented as *E*-factor, which refers to choice of environment for internationalization. In addition to considerations of infrastructure and modern managerial skills, Russian TNCs appear to be influenced by market-size and market demand in their decisions to invest in Germany. This is exemplified by largest percentage of sales and marketing support (36%) and business services (19%) among business activities of Russian companies in Germany (see Figure 3.2).

Figure 3.2: Russian projects in Germany by business activity 2003-2011



Source: GTAI, 2012

From my interviewees, I also got an impression that these factors shape Russian TNCs’ FDI in Germany, including state-owned energy giants. The response from Gazprom Germania confirms that market-size and market demand play a crucial role in the company’s work in Germany.

Our priority is to ensure the reliable supply of energy to traditional corporate customers with medium- and long-term gas supply contracts. This is directly in line with GAZPROM's corporate strategy. Demand for natural gas is stagnating, competition is increasing, and we therefore expect that the market environment will continue to be difficult. We intend to overcome these challenges with new, more flexible contract models. However, GAZPROM Germania also has great opportunity to create value for our parent company GAZPROM by diversifying our fields of business, developing new markets, directly investing in natural gas infrastructure projects, or indirectly investing through our subsidiaries and participations (Gazprom Germania's PR representative, online interview, June 28 2012).

The geography of Russian investments in Germany also serves as evidence that the main reasons for Russian TNCs' FDI are market-size and market demand. Table 3 below shows that the majority of companies with Russian capital are based in economically more developed German regions, and in the German capital. For instance, as Table 3.1 shows, the highest total share of the employees in Russian TNCs is located in the most developed German region of North Rhine – Westphalia, while the largest number of companies is located in the German capital and largest city, Berlin.

Table 3.1: Number of Russian Companies and Employees in Germany by Federal State (2011)

Federal States	Russian Companies (Appr. Value)	Employees (Appr. Value)
Berlin	245	715
North Rhine-Westphalia	210	1,060
Bavaria	180	845
Hamburg	110	309
Baden-Wuerttemberg	105	285
Hessen	90	350
Niedersachsen	70	520
Saxony	50	410
Brandenburg	35	50
Rheinland-Pfalz	30	85
Schleswig-Holstein	20	35
Mecklenburg-Vorpommern	15	460
Saxony-Anhalt	15	190
Bremen	10	35
Thuringia	10	190
Saarland	5	61
Total	1,2000	5,600

Source: GTAI, 2012

In addition to the large Russian TNCs in Germany, I investigated a group of smaller TNCs in the science and technology sector. Here, I found that a similar pattern holds for the

large TNCs, if from a slightly different perspective, which we may call finance seeking. These companies are owned by Russian technical scientists, who immigrated to Germany during the last two decades in search of better technical and legal conditions and finances to develop their innovations. “An important advantage of German market is very developed business culture and the lack of corruption” (Innovation Fabric, small Russian-owned innovation company, Skype interview, July 23 2012). Today, these small TNCs work under the umbrella of ARGUS, the Union of Russian-speaking Entrepreneurs in Germany (ARGUS, representative, telephone interview, August 4 2012).

With the marketing support of their fellow Russian entrepreneurs from small Russian-owned consulting agencies, these TNCs aim to receive financial support from European funds for development of Russian innovations and for cooperation between European and Russian scientists. According to one of the top managers of Hamburg-based consulting agency, Kronstadt GmbH, some Russian innovations waited for their investor in Russia for approximately twenty years. However, in the case of these small companies, none of the large Russian energy companies with close ties to the Russian government were willing to invest in their development, at which point they expanded their search for investors to Germany and the EU more broadly. For example, in 1996 the Russian scientist and entrepreneur Alexandr Filimonov developed a new generation of small airplanes, model ‘Bella’, and unsuccessfully sought Russian financing. As a result, with the help of ARGUS, he expanded his search abroad to Germany, and with Kronstadt GmbH marketing support, obtained €700,000 from the European Commission for testing and developing his innovation. “We united a Russian-speaking group of scientists from all over Europe, including UK and Latvia. Now, our goal is to test the concept of the airplane of the future” (Director of Kronstadt GmbH, personal conversation, June 13 2012).

Finally, by investing in Germany, Russian TNCs try to *diversify* their business activities. For instance, the leadership of the Russian Bank, Avangard, diversified its business by acquiring four large malting plants in Germany. All of them are located in western Germany (Avangard Malz AG, PR representative, personal conversation, July 1 2012).

The final, M-factor refers to modal choice that answers the question of how a firm implements its internationalization (Liuhto, 2001). As shown above, some Russian TNCs, such as Illim Timber, implement internationalization by acquiring plants in Germany. For Russian TNCs in Germany, mergers and acquisitions (M&As) are the most frequent modal choice for internationalization. Similar to Illim Timber examples are NUKEM Technologies, 100% acquired by Russian state-owned Atomstroyexport (Nukem Technologies, Director for Corporate Communications and Support, telephone interview, June 15 2012), and Avangard Malz AG plants, 100% owned by Russian Bank, Avangard (Avangard Malz AG, 2012).

At the same time, as an expert of Berlin-based law firm, Beiten Burkhard, points out, Russian capital more often comes to Germany through the offshore-registered companies than directly from Russia. These companies are usually based in the Netherlands, Cyprus, British offshore zones, and Switzerland. Therefore, the real number of Russian investors in Germany can be considerably larger than represented in official statistics. As the legal expert explains, German taxation law is the most frequent reason for Russian companies to invest in Germany through their subsidiaries in offshore zones.

The use of offshore companies is reasonable from the point of view of taxation. Dividends for Cypriot, Swiss, and Dutch companies are much higher after German taxation, than they are for Russian companies, because of the membership of these countries in free economic zone (expert of Berlin-based law firm, Beiten Burkhard, telephone interview, June 13 2012).

Another very popular mode of internationalization among Russian TNCs is, as shown in the previous section, the creation of joint stock Russian-German companies. The Nord Stream is the best example.

In sum, REM-model of Russian TNCs in Germany looks as follows.

Table 3.2: REM-model of Russian TNCs in Germany

R-factor: Why internationalize? ↓	E-factor: Where to internationalize? ↓	M-factor: How to internationalize? ↓
Market-seeking, efficiency-seeking, asset-seeking, finance-seeking, and diversification	Market-size, market demand, well-developed infrastructure, well-developed legal system (low political and economic risks)	Mergers and Acquisitions, joint stock companies; offshore subsidiaries
Why go outside Russia? ↑	Why go to Germany? ↑	How invest in Germany? ↑

Although these reasons for Russian FDI in Germany are purely economic, some of them can also be considered as political in terms of fulfilling the national interests in economic issues. Russian political leadership and state officials often represent the interests of large TNCs as Russia's national interests. However, economic issues are not the first priority for official Russian foreign policy. In the Russian Foreign Policy Concept (2008), the *Emergence of a new world order* is the first priority for Russia in addressing global problems. The Concept claims that

Russia looks forward to the emergence of a stable system of international relations based on the principles of equality, mutual respect and mutually beneficial cooperation as well as the norms of international law. Such a system aims at ensuring reliable and equal security for every member of the international community in the political, military, economic, information, humanitarian and other areas and employs multilateral diplomacy as its main tool (Russian Foreign Policy Concept, 2008, Section 3, 1).

The primacy of law in international relations and *Strengthening international security* are the second and the third foreign policy priorities.

The maintenance and strengthening of international rule of law is among its priorities in the international arena. ... Russia consistently calls for diminished role of the force factor

in international relations with simultaneous enhancement of strategic and regional stability (Section 3, 2).

International economic and environmental cooperation occupies only fourth place on the list of foreign policy priorities. The Concept suggests that

[t]he main priority of the Russian Federation's policy in the area of international economic relations is to contribute to the development of its national economy in the environment of globalization by ensuring equal positions of the country and Russian business in the system of world economic links. ... [Russian Federation] provides state support to Russian enterprises and companies in getting access to new markets and in developing traditional markets, counteracts discrimination of national investors and exporters, especially in the markets of high-tech products and goods of high level of processing; assists in drawing foreign investments in science-intensive and other priority areas of the Russian economy; continues to build up and modernize the capacity of the fuel and energy industry to support its reputation as a responsible partner in the energy markets, while ensuring sustainable development of its economy and contributing to the maintenance of balanced world energy markets (Russian Foreign Policy Concept, 2008, Section 3, 3).

The Russian leaders' official rhetoric best reflects the last of the above listed Russian foreign policy priorities. In the context of Russian-German investment cooperation, Vladimir Putin stated to German business society in Russia that Russian investors have more difficulties to invest in Germany than German investors experience when investing in Russia. "We must not count who experience more difficulties, we must not go up a blind alley. "We must find the mode in which we shall have a two-way street" (Putin, November 16, 2011). In similar manner, Putin argued that Nord Stream represents both Russian and German national economic interests.

I can understand why there's been a lot of noise in countries that live off transit, but I simply cannot figure out why there has been so much controversy in Germany. It's completely incomprehensible to me. This project is obviously consistent with the national interests of both Germany and Russia (Putin, 2011).

How do the findings from this section about reasons and modes of Russian TNCs' FDI in Germany differ or coincide with official Russian foreign policy? What impact does the latter have on Russia's image in Germany? As the next section will show, the equating of national economic interests with the interests of Russian TNCs in Russian foreign policy rhetoric has very

negative impact in some regards on both Russia's image and the image of Russian TNCs in Germany.

3.5.Perceptions of Russia and Russian TNCs in Germany

Perceptions of Russia in Germany are analyzed on three levels: the first one is macro level, i.e. the level of state officials and political elites; the second, medium level, i.e. the level of German general public; and the third one micro level, i.e. the level of German business community. On the macro level, i.e. the level of the German political elite (including experts), attitudes towards Russia can be characterized as negative, but pragmatic. For instance, famous German expert on relations with Russia, Alexander Rahr titled his recent book (2012) about Russia "Der Kalte Freund" (the cold friend). This ambiguity in German elite's perception of Russia is also reflected in both rhetoric and attitudes towards Russian FDI in Germany. For example, German center-right Chancellor Angela Merkel has criticized Russian leadership's domestic policies; still, as pointed out in the previous section, when in 2009 GM-owned-Opel's fate was uncertain, her government lobbied Canadian-Russian Magna-Sberbank's bid to acquire GM's assets (Macalister, 2009). This particular case suggests that Russia's negative image as perceived by German leadership is created by Russia's leadership policies, although pragmatism dominates in economic issues.

On the medium, i.e. population level, Russia's perceived image in Germany is less ambiguous than on macro level. To examine public opinion in Germany about Russia, I used the results of several opinion polls conducted by various German institutes for public opinion research in the 2000s and the recent (2011-2012) surveys of Russian companies and the Russian state institutions in Germany. The analysis in this section reveals four groups of factors that shape German perceptions of Russia and Russian business in Germany. The first group of factors

comprises Russian domestic politics, foreign policy and the personal image of Russian leadership. These factors often negatively affect German perceptions of Russia (Poligraphist, 2003). The second factor comprises Russian culture and Russia's economic performance (Kocuba, 2009). These factors often positively affect Russia's image in Germany (Poligraphist, 2003). The third group of factors is the business activities of mafia-like early post-Soviet Russian-speaking communities in Germany and traditionally authoritarian style of business management (Tirpilz, Groll and Ghane, 2012). This group of factors negatively affects the image of Russian companies in Germany. The final group of factors that shapes perceptions of Russia and Russian business in Germany is linked to Russia's Soviet legacy (Poligraphist, 2003). This factor has also been the source of negative perceptions.

Three groups of these factors – the first, second, and partially fourth – create the top-down direction of the German perceptions of Russia. Based on 1000 telephone surveys, fifty expert interviews with the German cultural elite, two focus-groups, and psycho-semantic research, the experts of German IFAK found that Germans evaluate countries based on four criteria: 'cultural influence', 'power influence', 'public governance record', and 'democratic development' (Poligraphist, 2003). Measured by these criteria, in Germany Russia is seen as a country with a weak democracy, an ineffective political structure and weak political influence. Simultaneously, in the perceptions of the majority of Germans, these disadvantages are compensated for by Russia's cultural influence. In the German perception, the latter can help to improve both Russia's international status and democratic backwardness. These results indicate that Russia's image in Germany is related rather to Russia's culture than to the development of democratic institutions in Russia (Poligraphist, 2003).

The results of Allensbach Institute's opinion polls (conducted among the German population aged 18 and over, and based on a sample of about 2000 respondents), conducted in the period between 2001 and 2008, confirm these IFAK findings. These polls show that the image of Russian leadership and Vladimir Putin, in particular, has largely shaped these German perceptions. For instance, in 2001 at the time of the creation of the Russian-Western anti-terrorist coalition, Putin was viewed positively by 45% of Germans, and only 11% saw him negatively. In 2008 these indicators were almost opposite: while 16% of Germans envisioned Putin positively, 45% saw him negatively. Simultaneously, the polls show that in 2001 Russia was seen as a great power by 50% of Germans, and that the other 50% did not see it as such. By contrast, in 2008, 62% of Germans envisioned Russia as a great power, and only 21% of Germans did not perceive it as such (Kocuba, 2009). The last results suggest that while Germans perceive Russian leaders' assertiveness as Russia's strength, they do not perceive the latter positively.

In Russian understanding of German perceptions about Russia, the third and partially fourth groups of factors create the bottom-up direction of these perceptions. The responses from the representatives of Russian state and economic institutions reflect these perceptions on the activities of Russian business in Germany. They share concerns about the discrimination of Russian businesses with German law and consulting firms, which predominantly work with Russian clients. The Deputy of Russian Trade Representative Office in Berlin points out that the grey mafia-like businesses of Russian-speaking communities that operated in Germany in the early 1990s created negative stereotypes of Russians among Germans. These stereotypes are still widely used by German media in Russia- and Russian business-related reports. Simultaneously, interest about Russia in Germany is growing. "There is no country in the world which is as much analyzed in Germany as Russia" (Deputy of Russian Trade Representative Office in Berlin,

personal interview, December 13 2012). This broad generalization reflects respondents' perception of how Russia is perceived in Germany. The representative of Russian Trade Chamber in Berlin shares similar impressions that Russia and Russian business are among the most analyzed topics in German media, usually with negative connotations. "Russia is something horrible, dangerous, *terra incognita*. It is the effect of insufficient knowledge about Russia" (Representative of Russian Trade Chamber in Berlin, personal interview, December 14 2011).

Finally, perceptions of Russia on micro, i.e. company and business level, is most ambiguous. An expert from Beiten Burkhard, a law agency that works closely with a number of Russian companies investors in Germany, argues that these negative perceptions are a matter of historical legacy.

The negative image is formed by media that uses stereotypes when it informs about Russia. There is also the factor of historical legacy, especially in former Western Germany, for which Russia was the enemy that frightens everybody. The fear of the USSR is still present in people's heads. They do not understand that the times now are totally different (expert of Berlin-based law firm, Beiten Burkhard, telephone interview, June 13 2012).

At the same time, according to a former member of German Business Council in Russia, the representatives of some eastern German lands that are less economically developed have attempted to attract, among others, Russian investors over the last couple of years. For instance, despite a negative experience with the Russian investor, who over the two years after the acquisition of troubled ship-building company Nordic Yards did not fulfil his obligations regarding modernization, the management of the company attempted to find another Russian investor to save the company. In these attempts the Nordic Yards management joined support of the local authorities of the Macklenburg-Vorpommern, where the ship-building capacities are situated. In doing so, they contacted both the representatives of German Business Council in Russia, and the officials of the Russia's Trade Commercial Bureau in Berlin.

There are Eastern German lands that experience serious economic problems and they are very interested in attracting Russian investments. Recently we organized the meeting where the representatives of Mecklenburg-Vorpommern presented the opportunities to Russian business (Deputy of Russia's Trade Commercial Bureau in Berlin, personal interview, December 13 2011).

As a result of these attempts, in 2011 another Russian investor acquired Nordic Yards, and according to a former representative of German Business Council in Russia, this acquisition has turned successful so far for both the new owner and the company.

Although the acquisition took place relatively recently, some of the capacities have already been reconstructed and, due to the new owner's contacts, the production has been re-oriented towards new markets and new customers (former representative of German Business Council in Russia, personal conversation, September 1 2012).

This example suggests that German regions' policies concerning foreign investors are based on economic rationality and interest in economic prosperity. Simultaneously, Russia's economic performance and culture create, to a certain extent, a positive perception for Russian companies in Germany and their German staff. For instance, the marketing expert of Russian software producer Kaspersky Lab argues that the company's Russian origin was rather an advantage in the German market.

We don't have problems with being a Russian company. In the beginning this even helped us as Russia was always seen as the land of the mathematicians and great thinkers (the marketing expert of Russian software producer Kaspersky Lab, online interview, June 17 2012).

There are less negative perceptions on the company level. One of the general problems of Russian companies in Germany is their traditionally authoritarian style of business management, in contrast to German traditionally democratic style (Enter Germany Business Guide, 2011/12). This difference in business cultures also reflects at the personal level. The experience of the Director for Corporate Communication and Service Support of Atomstroyexport's German

subsidiary Nukem Technologies shows that sometimes the differences in Russian and German business cultures create misunderstanding.

For a long time I was wondering why our Russian colleagues never shake hands with me. Then I learned that a token of Russian esteem is not to touch women, a simple story which led to misunderstanding on my part (Director for Corporate Communication and Service Support of Nukem Technologies, online interview, June 15 2012).

The second reason for the negative image of Russian business in Germany considers mostly medium and small Russian companies. As Tirpilz, Groll and Ghane (2012) demonstrate, insufficient knowledge about the German market and customs produce problems for companies in marketing and staff recruiting. For instance, they argue that small and medium Russian companies quite often establish representative offices in Germany without conducting preparatory research. In turn, they experience difficulties in staff recruiting, which negatively affects the image of Russian medium and small companies in Germany. For instance, the representative of Gazprom Germania suggests that there is a need for improving the company's image, which is negatively affected by the fact that it is a Russian state-owned company.

We work at the point where Russia and Germany meet, and we are committed to working towards creating new energy in Russian-German relations. We have initiated a number of socio-cultural projects to strengthen mutual understanding between the two cultures and promote relations between their people, thereby improving understanding and relations between the two countries (Gazprom Germania's PR representative, online interview, June 28 2012).

On the other hand, a marketing expert of famous Russian privately-owned software producer, Kaspersky Lab, points out that the company's Russian origin was rather an advantage in the German market. Their experience suggests that on the micro level perceptions of Russia in Germany itself have lower impact on reactions to Russian companies' investments than the companies' ownership and size.

The factors that shape German perceptions of Russia and Russian companies in Germany are summarized in Table 3.3. It shows that, out of all factors, only Russian culture and economic performance of Russian companies positively influence German perceptions about Russia.

Table 3.3: Factors that shape German perceptions of Russia and Russian companies

Direction of influence on perceptions	Positive perception	Negative perception
Top-down direction	Culture and economic performance	The sum of Russian domestic politics, foreign policy, and image of Russian leadership
Bottom-up direction	Economic performance and culture	Business activities of mafia-like early post-Soviet Russian-speaking communities and authoritarian style of governance
Both directions	Culture and economic performance	Soviet legacy

In addition, Table 3.4 summarizes German perceptions of Russia on the three levels. The next section explores the impact of these factors on investment activities of Russian companies in Germany.

Table 3.4: German perceptions about Russia on the three levels

Level	Perceptions
Macro	predominantly neutral
Medium	predominantly negative
Micro	neutral and negative

3.6. Attitudes towards Russian FDI in Germany

How do Russian-German relations and Russia's image and the perceptions about Russia in Germany affect the activities of Russian companies in Germany? I posed this question to my respondents from Russian companies, their German partners, and the representatives of Russian state institutions in Germany. Depending on size and sector, the responses reveal different experiences and impressions. When analyzing the impact of perceptions on the acceptance of

Russian FDI in Germany, it becomes important to differentiate among three groups of Russian TNCs. The first group comprises large TNCs supported by the Russian political elite. Gazprom Germania serves as the best illustration of this group. The second group comprises large Russian TNCs that invest in Germany without visible political support. Among them are TMK Europe and HBL Holding. The third group comprises medium and small Russian TNCs that also operate without visible political support. The wood-processing Illim Timber and software producer Kaspersky Lab are the most striking examples in this group.

The first group of Russian TNCs attracts huge attention in the German media. Several unsuccessful attempts by Russian TNCs to acquire control shares in German companies caused the main concerns about Russia's image among both Russian political and business circles. They showed that the political lobbying for the interests of business does not necessarily bring the desired results for Russian companies. The first of these unsuccessful attempts was Sberbank's bid with Canadian car producer Magna to acquire Opel's majority assets from General Motors in 2009. The second was Russian AFK Sisitema's bid to acquire 29% of former Siemens' IC unit, Infineon in 2010. Both bids were negotiated at the highest political level, thus, they attracted attention of both European and Russian media.

The following example also confirms the argument that involvement of politicians in business does not have a positive effect on Russian companies' business in Germany. According to The Guardian report, Angela Merkel's government lobbied Magna-Sberbank's bid (Macalister, 2009). Apart from high ranked German officials, Russian state officials, including Vladimir Putin personally, provided active political support to the Russian-Canadian Sberbank-Magna joint stock company (Macalister, 2009). Thus, General Motor's refusal to sell 55% of Opel's shares to Sberbank-Magna consortium evoked both negative responses from Russian

political elite and even greater interest of the European and Russian media. In November 2009 at a cabinet meeting Vladimir Putin stated that the last-minute refusal to complete the Opel deal was not harmful to Russian interests, but that it showed that American partners have “a very original culture when dealing with counterparties”, and that the decision rather negatively affects Europeans more than Russians (Macalister, 2009).

Nonetheless, Dmitry Medvedev personally lobbied for AFK Sistema’s interests in trying to receive support from German Chancellor Angela Merkel for the takeover for Infineon’s shares. This suggests that the Russian political elites try to utilize their political positions for the interests of Russian big business. According to European media reports, AFK Sistema could use Infineon to make its navigation satellite network Glonass commercially viable, while also using the company's encryption and passport technologies. Simultaneously, the involvement of the Russian corporation could make it difficult for Infineon to buy western companies (Daly, 2010). Similarly to AFK Sistema’s bid for 25% shares in Deutsche Telekom in 2006, its bid for Infineon in 2010 was refused due to concerns that Infineon’s technologies would be transferred to AFK Sistema’s Russia-based microelectronics subsidiary Sitronics.

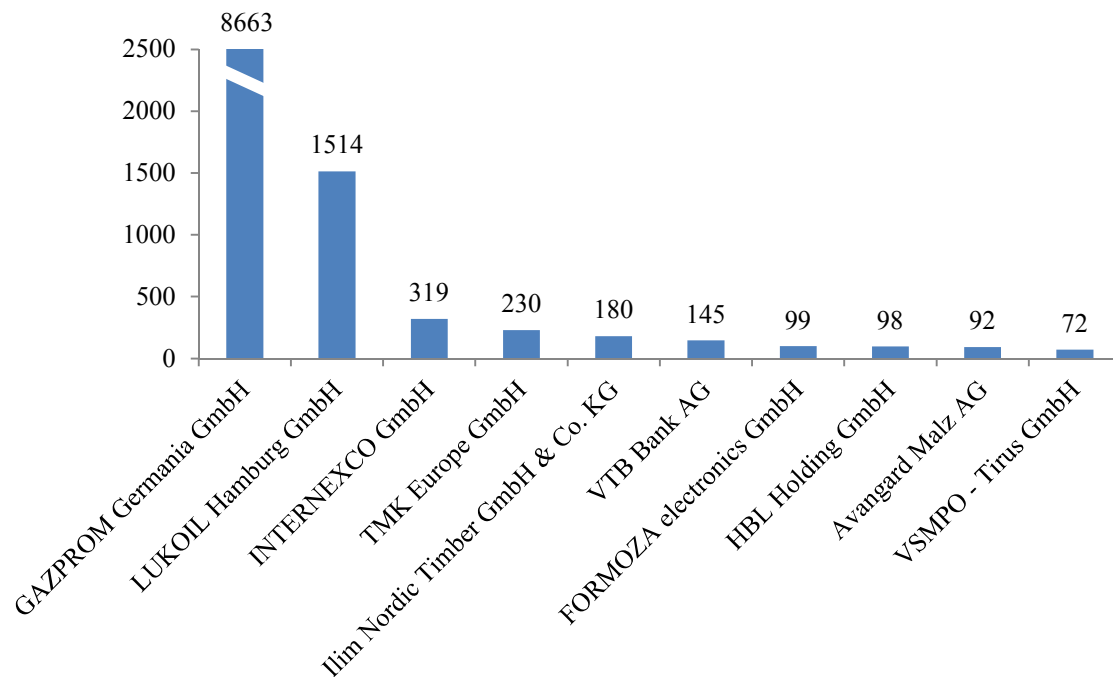
The reactions of Russian political elites and state officials reflect precisely these unsuccessful attempts of Russian business to invest in Germany. They show that Russian foreign policy claims to support Russian business abroad are limited to large Russian state-owned corporations, or private Russian TNCs owned by Russian tycoons, members of the Kremlin’s ‘inner’ circle. Nevertheless, these microeconomic interests are always well-masked with national interests in the foreign policy rhetoric.

Russian companies are interested in investing in projects, attractive from the point of view of modern technologies. It is difficult to reach the agreements in this particular sphere with our partners, as they protect technologies from prospective competitors

(senior official of Russian Ministry of Economic Development, personal interview, July 23 2011).

There are also successful examples of Russian TNCs that enjoy support from Russian political elites in Germany. The most striking example is Gazprom Germania. The subsidiary was founded in the 1990s, thus, Gazprom Germania is the oldest Russian company in Germany. It is also the largest Russian investor by turnover in Germany (see Figure 3.3).

Figure 3.3: Ten most important Russian companies in Germany by turnover in 2011 (in € mil.)



Source: GTAI, May 2012

However, when in 2011 the EU passed the rules to liberalize its energy markets and open them to cross-border investments by companies from other EU countries, in an effort to lower prices and increase energy security, along with other natural gas companies and Gazprom subsidiaries in the EU, in September 2011 Gazprom Germania experienced European Commission raids. As Wall Street Journal in September 2011 reported, although German EON and Austrian OMV were also among companies, which the European Commission inspected on suspicions they have breached EU competition rules or have information about such breaches,

Russian state officials stated that both the new EU regulations and raids were aimed at hindering Russian interests (Gronholt-Pedersen, 2011). This fact supports the argument about the negative effect of even indirect political involvement in the activities of Russian business abroad. The European media reported that the raids were part of the EU's efforts to wean itself off its reliance on Russian gas and concerns about Gazprom's power as a state-controlled entity. These concerns were attached to the fact that both top Russian political leaders have close relations to the Russian gas monopolist. For instance, Dmitry Medvedev was a chairman of Gazprom. Simultaneously, according to Reuters' report, some critics accused Prime Minister Vladimir Putin of using energy exports as a lever in geopolitical maneuvering (Soldatkin, 2011). Nevertheless, the company's comprehensive strategy aims to overcome all possible obstacles to its business activities in Germany.

As a company with Russian roots, a European orientation, and its headquarters in Germany, we operate in a multicultural environment. We consider it part of our role to actively support intercultural dialogue between people and nations. ... For example, we sponsor the German-Russian Festival and Russian Film Week in Berlin (Gazprom Germania's PR representative, online interview, June 28 2012).

The quotation above suggests that Gazprom Germania actively uses German positive perceptions of Russian culture to overcome the negative ones. It suggests that the positive image of Russian culture in Germany is another Russian national 'mask' for hiding individual profit-seeking interests of the Russian elite.

However, there are much larger numbers of Russian companies which did not enjoy political support of Russian elites, and therefore did not experience any serious obstacles when investing in Germany. Within this number is the second group of Russian companies in Germany, which comprises large and mostly privately owned TNCs. Although they are diverse in terms of sector affiliations, most of them use their German subsidiaries for sales and

distribution of their products. Within this group are: HBL Holding GmbH owned by Russian giant metal producer Mechel, Russia's largest oil company's subsidiary Lukoil Hamburg GmbH, and the subsidiary of Russian and the world's largest titanium producer VSMPO-Tirus GmbH. This group also includes the malting plants owned by Russian Bank Avangard. The fact that these companies are rarely the subject of both European and Russian media reports, especially those with negative connotations, suggests that the lack of open support by the Russian political elite facilitates their business activities in Germany. This supports the argument that political support of the Russian leadership has negative effect on activities of Russian TNCs in Germany.

The third group of Russian TNCs is the most numerous in Germany. It comprises medium and small companies. They are the most diverse group in their sector affiliations, business activities and internal structures. Similarly to the second group of Russian TNCs in Germany, their investment activities were not politically supported. The Director for external relations of Illim Timber considers that this absence of political support and neutral German reaction to the company's investment is due to its political insignificance.

Wood is not a politically relevant product. Thus, the politics and Russian-German relations in general do not play a role in our business. Otherwise, the relations between Russia and Germany are stable and quite good, so we even experienced better acceptance than some other investors in Germany, for instance Chinese (Director for external relations of Illim Timber, telephone interview, June 14 2012).

The German representatives of software producer Kaspersky Lab have very similar experiences in this context.

The political relations between Germany and Russia are important for the Kaspersky Lab, but not as important as other factors like the quality of the software, good reviews in magazines and local marketing (marketing expert of Kaspersky Lab Germany, online interview, June 17 2012).

Although acquired by Russian state-owned energy company, according to the Director for Corporate Communication and Service Support, the business for Nukem Technologies also remains separated from Russian foreign policy.

Due to the fact that NUKEM is active world-wide, we do not cooperate with Russian institutions more than with other foreign institutions, beside some technical contacts like applying for visa for colleagues travelling to Russia. ... In Germany NUKEM Technologies is understood as the German company. It goes without saying that political relations never hinder business successes. However, know-how and experience are the more important factor in our business (Director for Corporate Communication and Service Support, online interview, June 15 2012).

The lack of support from the Russian state and subsequent need to emigrate abroad in order to develop innovations turned many owners of small Russian science-based TNCs into opponents of the Russian authorities. The European Commission and Russian medium size businesses became the main partners in development of technological innovations for these small Russian TNCs. Still, to some extent their success depends on their relations with Russian authorities.

We received greetings and congratulations from the Russian MFA and from the Federation Council. In terms of economic support it does not mean anything. However, for us it means that in future we can count on certain support from the German and European structures. If we received compliments from the Russian MFA, that means that German Bundes Ministerium will pay more attention on us and then, in turn, it can bring some economic support (Director of Kronstadt GmbH, personal conversation, June 13 2012).

To sum up, the evidence presented in this section confirms the argument that, although the open political support to Russian TNCs usually hinders investment activities of Russian business in Germany, the political relations between Russia and Germany still remain an influential factor for Russian companies in Germany. These findings are summarized in Table 6 below.

Table 3.5: The most influential factors that shape German attitudes towards Russian FDI

Attitudes towards Russian FDI in Germany	Attitudes are always economically motivated; BUT predominantly negative towards large energy Russian companies' FDI, and neutral towards non-energy Russian companies' FDI
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How do Russian TNCs in Germany try to overcome this discrepancy between negative effect of Russian leadership's political support and the need for cooperation with Russian state institutions in order to improve their image? The last section looks more closely at the mechanisms of cooperation between Russian state institutions and TNCs in Germany.

3.7.Mechanisms of Russian Foreign Policy-TNCs Relations

Russian business in Germany aims to overcome problems with its unfavorable image on the level of companies, and on the political level. The main Russian state institution responsible for economic relations with Germany is the Russian Trade and Commercial Bureau, the commercial unit of the Russian Embassy in Germany. The major mechanism of Russian-German economic relations on the state level is the Working Group for Strategic Cooperation in Economics and Finance (Russian Ministry of Foreign Affairs, 2011). The long term cooperation aims at achieving mutual economic benefits. For Russia the main goal of economic cooperation with Germany is modernization of the Russian economy, which includes technical support for industries. For Germany the main benefit in its economic cooperation with Russia is the increasing presence of German small and medium sized businesses in the Russian market (Zverev *et al.* 2011).

However, as I have shown in the previous section, the Russian state has been losing its ability to influence Russian economic activity abroad. The Deputy of Russian Trade and Commercial Bureau in Berlin confirms this trend.

In the Soviet times, the state had the power to say what amount of production the organizations should export to Germany. Now, we have a market economy, and all what

we can do is to establish the connections and to support Russian business abroad, when required. However, we have no tools to make them useful for Russia itself (Deputy of Russian Trade and Commercial Bureau in Berlin, personal interview, December 13 2011).

At the same time, Russian TNCs aim to improve the image of Russia and Russian business in Germany in order to facilitate their activities. Therefore, Russian business initiated the founding of the Council of Russian Entrepreneurs in Germany in cooperation with Russian Trade and Commercial Bureau in Berlin.

The organization copies the functions of the American Trade and Industry Chamber. It is the non-governmental organization, and its goal is to increase knowledge about Russian business in Germany and, consequentially, to improve the image of Russian companies in Germany (Illim Timber, Director for external relations, telephone interview, June 14 2012).

The organization was initiated in September 2011 and registered in January 2012. German partners of Russian TNCs also became its members. The expert of the law agency, Beiten Burkhard, envisions an even wider specter of the Council's activities.

The goal of this Council is to defend the interests of Russian companies in Germany and to support them. The Council has an objective to connect Russian companies, especially those that have been in Germany for a long time, and those that plan to enter the German market and invest in Germany. Through the Council they can exchange their experiences and ideas (expert of Berlin-based law firm, Beiten Burkhard, telephone interview, June 13 2012).

In sum, the analysis provided in this section suggests three conclusions about the Russian foreign policy-TNCs relationship in Germany. First, the creation of the Council of Russian Entrepreneurs in Germany suggests that Russian medium and small business in Germany is gradually gaining maturity. The understanding that its image is related to the image of Russia as the state is an important sign of this maturity. Second, the state's inability to influence the activities of Russian business abroad suggests that the Russian state institutions need a different pattern of cooperation with Russian medium and small companies in Germany. Third, it can be

seen that Russian state institutions-TNCs *cooperation* in Germany has for a long time been limited to close and usually not very effective cooperation between Russian political elite and the Kremlin-related TNCs, thus it could be characterized as *low to medium*. On the other hand, relatively recently - since 2011 - other Russian TNCs in Germany try to improve Russia's image and in particular the image of Russian business in Germany by initiating *cooperation* with Russian state institutions in Germany, which allows us to characterize its level as *high*.

Conclusions

From the above analysis several things become clear. First, the expansion of Russian TNCs in Germany is a logical continuation of Russian-German economic path dependency, in which Russia has been more dependent on Germany. The expansion of Russian TNCs in Germany is mostly related to Germany's considerably better business climate. This finding confirms economic explanation proposed by Kuznetsov (2007a) and Olikier et al. (2009), which characterize Russian TNCs as rational, profit-seeking actors. At the same time, this finding disproves 'imperialist expansionism' explanation proposed by Vahtra and Liuhto (2004), Liuhto (2008), and Orban (2008). Second, the negative image of Russia and Russian business in Germany represents a major obstacle to Russian FDI. Russia's leaders politically support large TNCs, which usually enhances negative perceptions of Russian business and results in investment failures. This finding suggests that individual interests of both Russian political elites and top-management of some Russian TNCs prevail over both Russia's national interests and business interests of these Russian companies. This coincides with Kuznetsov's (2010) argument that top managers of Russian TNCs use companies' capacities and Russian state institutions to pursue their own interests.

At the same time, both large and medium Russian companies that conduct their investment without visible support of the political elite are more successful in their FDI goals in

Germany. This finding coincides with the arguments of group of IR authors (Tsygankov, 2005; Feklyunina, 2008; Mankoff, 2008) that there is no clear Russian foreign policy strategy, thus, business cannot use foreign policy as guidelines. Third, the Russian state institutions in Germany serve the interests of Russian TNCs, which coincides with Moran's (1993) argument about the relationship between US government and US TNCs. Finally, both the Russian state institutions and Russian TNCs in Germany seek to improve their image. Therefore, recently they jointly founded the Council of Russian Entrepreneurs in Germany. This development suggests the emergence of Russian joint state-business strategy at least in Germany.

Overall, the analysis of Russian foreign policy-TNCs relationship in Germany confirms the argument proposed in Chapter 2 that foreign policy serves as camouflage for the state's institutional weakness vis-à-vis large business and that, even with their activities abroad, Russian elites neglected the needs of the majority Russians, including not closely Kremlin-related TNCs. To what extent do these arguments hold for other European countries? The next chapter analyzes this question by studying Russian FDI and Russian foreign policy-TNCs relationship in Hungary.

Chapter 4: Russian Foreign Policy and FDI in Hungary: State as the Agent of Business

Summary

This chapter examines the interaction between Russian companies and Russian state and economic institutions in Hungary. It looks at the cooperation between TNCs and Russian state in the instances of FDI in the context of Russian-Hungarian relations. By bringing together literature about Russian-Hungarian relations and Russian FDI in Hungary, which predominantly characterizes Russian investments in Hungary as ‘imperialist expansionism’, the chapter demonstrates that Russian state, in fact, serves the interests of Russian TNCs abroad. The analysis of the official documents and the interviews with Russian state officials and Russian and Hungarian business persons shows that Russian state institutions in Hungary echo Russian domestic institutions and are, in fact, the agents of the interests of Russian big business. Therefore, the case of Russian FDI in Hungary provides a clear example of capturing of the Russian national interests by Russian large companies. Simultaneously, business interests are usually ‘masked’ under Russian national interests.

Introduction

As pointed out in previous chapters, Russian foreign policy has experienced a revival since Vladimir Putin’s coming to power in early 2000. Russia has sought a new role in the international stage projecting power through economic as opposed to former political military means (Stent, 2008). Precisely this projection of Russia as one of major world economic players has raised simultaneous interest and concern towards Russian FDI, especially in the Central and Eastern European (CEE) countries, and former Soviet satellites. Among them, Hungary deserves special attention for two reasons: first, it was the leader among CEE in economic and political

reforms long before the disintegration of Eastern bloc. As Russian scholar Grinberg (2002) points out,

[f]rom the end of the 1960s Russian scientific community followed with a lot of attention and much sympathy how their Hungarian colleagues implanted market mechanisms into a planned economy first and later carried out a systemic transformation. That is why Hungary is something more than just another transitional economy for us (p.71).

During his official visit to Budapest in 2006, Vladimir Putin expressed similar attitude towards Russia's relations with Hungary, saying that despite their ups and downs in recent history, Russia's partnership with Hungary had helped Moscow improve ties with the European Union and NATO, of which Hungary is a member (People's Daily Online, 2006). Nevertheless, Hungary has not constituted a priority in Russian Foreign Policy Concepts (2000 and 2008); at the same time, both the Russian Ministry of Foreign Affairs and Ministry of Economic Development have kept their representative offices (Embassy and Trade Representative Bureau) in Budapest. Furthermore, being a member only since 2004, Hungary has had a peripheral status within the EU, while for Russia it has had significance because of its forthcoming EU membership, rather than as Russia's political and trade partner per se. Still, these trends are changing at least in official rhetoric of Russian and Hungarian leaders. During Hungarian Prime Minister Viktor Orban's visit to Moscow in January 2013 he stated that "Hungary wants to cooperate with a powerful Russia as a strong European country", while Vladimir Putin replied that "Hungary is without doubt our priority partner in Eastern Europe" (Geropulous, 2011).

In this chapter I analyze Hungary as a host country to Russian investments. Similarly to the previous chapter, this chapter is structured around the following questions:

- What is the nature of Russian foreign policy-TNCs relationship in the EU, and in Hungary in particular?

- To what extent do Russian state institutions in Hungary cooperate with Russian TNCs? How effective is this cooperation?
- What does Russian foreign policy-TNCs relationship in Hungary say about relations between state and business in Russia?

The literature on foreign direct investments (FDI) shows that, among the Central and Eastern European countries, Hungary was the first to open its economy to foreign investments and the first to attract investments of several largest TNCs; since the 1990s it continuously has been one of the largest FDI recipients in the region (Hastenberg, 1999; Kornecki, 2007; Fillipov and Duysters, 2011). Nevertheless, according to representatives of the Russian Trade and Commercial Bureau in Hungary (2011) and the Former Director of Hungarian Investment Agency (2012), FDI from Russia has been insignificant compared to other investor countries in Hungary. In the Russian Foreign Policy Concept (2008), the CEE is mentioned as a region of significance for Russia. However, separate sentence is devoted only to the Baltic States, but not to the Visegrad countries (Hungary, Slovakia, Czech Republic, and Poland). The analysis of Russian FDI in Hungary shows that Russian business interests are much more important than the national ones.

To date little literature has been devoted to Russian-Hungarian relations in the post-Soviet decades. Moreover, so far only Anita Orban (2008) has comprehensively analyzed the relationship between Russian foreign policy and Russian FDI in Hungary; nevertheless, her work was limited to companies that represent the energy sector. In addition, the literature that examines Russian-Hungarian political relations in post-Soviet period is limited to a few works by Russian and Hungarian authors (Markov, 1998; Poti, 2002; Keskeny, 2003; Biro, 2006; Poti, 2007), which express mostly balanced diplomatic views on the relations in question, copying to a

large extent the official position of the Hungarian political elite towards Russia. Other works analyze the activities of Russian TNCs in the CEE, with very limited analysis of Russian FDI in Hungary in particular (Kalotay, 2006; Weiner, 2006; Fillipov and Duysters, 2011). This chapter aims to close this gap by combining these insights and by adding new evidence for Russian foreign policy-TNCs relationship from the official documents and the interviews with Russian state officials and Russian and Hungarian business persons. The findings suggest that Russian political intervention serves the interests of Russian companies, and that Russian FDI inflow in Hungary depends mostly on the reaction of Hungarian government.

The chapter proceeds as follows. The next section briefly describes methods of analysis applied in this chapter. In the second section I analyze the nature of Russian-Hungarian relations after the collapse of the USSR to set the context for the analysis of Russian FDI in Hungary. The third section analyzes the activities of Russian TNCs in Hungary since the dissolution of the Soviet bloc by using Liuhto's (2001) REM-model. In the fourth section I analyze Hungarian perceptions of Russia. In the fifth section I analyze the impact of the latter on attitudes towards Russian companies' FDI in Hungary. In the fifth section I explore the forms and mechanisms of Russian foreign policy-TNCs relationship in Hungary. The last section provides the answers to the research questions and situates them to the literature on Russian foreign policy-TNCs relationship.

4.1.Methods of analysis

As in the previous chapter, I used analysis of official documents, in-person interviews, and personal conversations with representatives of Russian and Hungarian business. The questions were organized in three groups: a) frequency and quality of the relations between the company/subsidiary and the Russian state institutions in Hungary; b) Russian-Hungarian

relations on the company level and their impact on Russia's image in Hungary; and c) the impact of Russian-Hungarian political relations and Russia's image on Russian business in Hungary. A series of twenty interviews and personal conversations with Russian diplomats, managers of Russian companies, the representatives of Russian entrepreneurs, and the representatives of Hungarian companies and business circles were conducted between July 2011 and April 2013.

Most respondents from Russian TNCs are in human resources and external communications management. In the cases of small size TNCs, the respondents are the top management. Majority of respondents did not want their names and exact positions to be exposed. The interviews were conducted in one of four forms - interviews during in-person meeting, personal conversations, telephone interviews, and answers in written form sent by e-mail. Respondents chose the most convenient form for them to answer. Majority of respondents (thirteen out of twenty) were ready to answer only in form of personal conversation, while I was taking notes. Four respondents agreed to electronically recorded interviews during in-person meeting. Three respondents preferred to talk by phone and these answers were electronically recorded. Official sources in Lukoil and Sberbank did not agree on any kind of interview, thus I used personal connections and unofficial sources to gather information about these two companies.

Having defined expected results and the methods of the current analysis, in the next section I provide a brief analysis of the evolution of Russian-Hungarian relations after the end of the Cold War.

4.2. Russian-Hungarian Relations in the Post-Soviet Era

For official Moscow in the early 1990s the West became the example to follow. As I discussed in detail in Chapter 2, due to the Soviet economic and ideological defeat in the Cold

War, the earliest version of post-Soviet Russian foreign policy under the Minister of Foreign Affairs (MFA) Andrey Kozyrev was allied strongly with liberal ideas and the West. The relations with the West were, therefore, the first priority of early post-Soviet Russian foreign policy. At the same time, foreign policy neglected the former Soviet satellites in the CEE for their economic and political peripheral status. As a result, in early post-Soviet Russian foreign policy Hungary (among other Central and Eastern European countries) was seen as a no-man's-land between the former Soviet Union and the West, rather than a region of particular importance for Russia. According to Orban (2008), "Central Europe, for the Russians, was the playing field in a zero-sum game; it had hoped to keep the region a demilitarized, neutral zone between Russia and the West" (p.24).

For Hungary - which aspired to gain a neutral status on the European political map long before the end of the Cold War- this Russian stance towards the CEE served to fulfil this aspiration. Hungarian experience with economic reforms in the late 1980s served as a fertile ground for further liberal reforms pursued by the government; its efforts resulted in quite rapid and relatively large FDI inflows over the 1990s. For instance, due to its front-runner-performance in transition and to its eligibility for the EU membership in the first round of enlargement, the whole CEE region in a relatively short period attracted considerable amounts of FDI. According to van Hastenberg (1999), in 1997 Hungary accumulated the largest FDI stock, which amounted to \$15.5 billion (for comparison, in the same year FDI stock in Russia was \$14.3 billion, in Poland \$8.6, and \$ 8.7 in Czech Republic). Most of FDI in Hungary came from Western companies. This rapidly increased presence of Western companies with practical absence of Russian ones (at least from the statistics of official origin, because many Cypriot investments are of Russian origin) in Hungary became the most visible sign of the changed

balance of Western-Russian influences in the region. As a result, according to Orban (2008), as the West gained influence in the region, Russia lost it.

Another significant outcome of Russia's loss of influence in the region was rapid decline of Russian-Hungarian economic ties over 1990-1993. Table 1 below shows dynamics in the Russian-Hungarian trade turnover in the period between 1990 and 2000.

Table 4.1: Trade turnover between Russia and Hungary, 1990-2000 (in \$mil.)

Year/ Indicator	1990	1993	1995	1999	2000
Turnover	5500	3342.6	2662.6	1987.7	3044.0
Russian exports	2490	2399.3	1839.8	1631.1	2588.6
Russian imports	3060	945.0	822.8	356.2	455.4
Balance	570	-1452.6	-1017.0	-1274.9	-2133.2

Source: Russian and Hungarian foreign trade statistical yearbooks for respective years (Magyarország Külgazdasága 1999 és 2000)

As can be seen from Table 4.1, trade turnover between Russia and Hungary declined in the first post-Cold-War decade; at the same time, Russian exports to Hungary surpassed its imports. Political relations followed this path. As most scholars on Russian-Hungarian relations argue, during this short period (similarly to other former Soviet satellites), the relations between post-Soviet Russia and Hungary were built around the political compromises which resulted in 1995 in the agreement that later became known as the “zero solution”; it was based on the least costly forms of Russia's accountability for all kinds of damages in Hungary during the Soviet occupation in exchange for Hungarian acceptance of an apology for them (Biro, 2006; Poti, 2007; Orban, 2008). In particular, on Russian President Boris Yeltsin's insistence, when Russia remitted compensations for certain buildings it claimed were Soviet investments and withdrew the remains of a Soviet army from Hungarian territory, Hungary remitted compensations for ecological damages it claimed had been wrought by the USSR.

In this early post-Soviet period there were also two reciprocal Hungarian and Russian leaders' initiatives that considerably warmed the relations between two countries. The first was

Hungarian prime minister Jozsef Antal's call to Yeltsin during the coup in August 1991, offering his support. A year later Yeltsin gave an official visit to Budapest and brought with him two Hungarian paintings looted by Soviet troops in 1945. Moreover, Yeltsin gave a speech in which he claimed to bow to the memory of the victims of 1956 (Orban, 2008). This was a clear sign of transformation of Russian-Hungarian relations on their way, as Poti (1997) puts it, from Hungary's subordination to Russia, to partnership between them.

With Hungary's gradual economic and political integration to the West – in CSCE and the EU – emerging Russian TNCs increased their interest in the CEE markets. In 1994 Russian energy giant Gazprom was the first to establish its subsidiary Panrusgas in Hungary, which by the early 2000s was still the largest Russian direct investment in Hungary. Simultaneously, Russian politicians started to envision the CEE (and Hungary in particular) as a transit area to Western Europe, rather than neutral zone between Russia and the West, i.e. geopolitics in Russian foreign policy reshaped from militaristic to economic means. For most of 1990s, Hungarian foreign policy was balanced between Western Europe and Russia. As Biro (2006) argues, similarly to other CEE countries, Hungary had to prove to the West that it became independent from Moscow; simultaneously it had to remain vigilant to Russia's internal transformations. Therefore, Hungarian Socialist government proved pragmatic in its carefully balanced relations with Moscow.

These relations radically worsened in the late 1990s, when the center-right FIDESZ party led by prime minister Viktor Orban came to power in Hungary. At the same time, in August 1998, Russia was hard hit by Asian financial crisis, which resulted in the most radical weakening of its international position in the twentieth century. One of the outcomes of these was Russia's foreign policy defeat in the Kosovo crisis in early 1999, in which it took a stance opposite to the

West. Simultaneously, these events significantly changed the balance of power between Russia and Hungary. The incident with the Russian humanitarian convoy for Serbia on Ukrainian-Hungarian border serves best to illustrate this change in balance of power. In early 1999, Hungary as a new NATO member participated in NATO air attacks on Russia's traditional ally Serbia. Russia and Belarus sent a truck convoy on the grounds that was carrying humanitarian aid to Serbia, for which Moscow had requested and received permission to pass through Hungary. However, Hungarian border guards on the Hungarian-Ukrainian border Zahony denied the convoy entrance for carrying far beyond the amount of fuel necessary for the permitted eight trucks, explaining it as violation of the UN fuel embargo against Serbia and possibility that fuel could be used for military purposes. Accusations of breaking the agreements and treaties came from both Russian and Hungarian sides. After several days of negotiations between Russian Minister for Emergency Situations and Hungarian Minister of Internal Affairs, the conflict was resolved and, in the end, the convoy passed safely to Serbia and later returned to Russia. Nevertheless, this conflict left a deep rift in Russian-Hungarian relations.

Although the three factors - the rise of world energy prices, Russian anti-terrorist coalition with the West in 2001, and Russian new President Vladimir Putin's assertive foreign policy rhetoric - in the early 2000s significantly improved Russia's international status, the Russian-Hungarian relations remained tense. Hungarian prime minister Orbán's foreign policy rhetoric was noticeably anti-Russian. For instance, as Biro (2006) points out, during the meeting of European center-right parties in Tallinn in 2001, the representative of the Hungarian Ministry of Foreign Affairs gave a speech in which he divided Europe into East and West, associating the former with the past, and the latter with the future. Given Russia's anti-terrorist coalition with the West, this comparison was already out of date (Biro, 2006). Despite this extremely negative

attitude of Hungarian political elites towards Russia, Russian companies pursued both their business interests and the individual profit-seeking interests of their top-managers in Hungary (which I discuss at length in the following sections) by using companies registered in the EU member states: for instance, in September 2000, by using - as Orban (2008) puts it – “covert’ means”, i.e. through Irish company Milford, Gazprom acquired majority ownership of Hungary’s largest petrochemical company Borsodchem.

The relations, however, rapidly improved in 2002, when the Hungarian Socialist Party came to power in Hungary again. One of its most important program-goals was to gain back the Russian market (Orban, 2008). Russian government under Putin’s leadership responded positively to these changes in Hungarian policy towards Russia. One of the visible results of these positive changes was the creation of a Russian-Hungarian Intergovernmental commission for economic cooperation in 2005 (Russian Trade Representative Bureau in Hungary, 2012). As Smith (2005) points out, already in February 2005 Prime Minister Mikhail Fradkov noticed that Russian-Hungarian trade rose to \$4 billion annually. Russian prime minister also announced the intentions of Russian companies to take part in the construction of the metro in Budapest, modernization of railway carriages and expansion of the Paks nuclear power station. Russia and Hungary also signed an intergovernmental agreement on the production and maintenance in Hungary of armaments, military equipment and spares under licenses of the former Soviet Union (Smith, 2005).

Russian companies used the warming of political relations to pursue their business goals in Hungary, which bore fruits during Putin’s second presidential term. The latter became the peak of Russian investment expansion in Hungary. Two significant instances of Russian investments in Hungary (that I discuss in more detail in the next section) date precisely to that

period: Russian privately-owned oil giant Lukoil built a chain of its petrol-stations, and privately-owned Russian air transport company Air Bridge acquired troubled Hungarian national company Malev. The end of Putin's second presidential term was marked by Gazprom's victory over its US-backed competitor, Nabucco gas pipeline project, in extending the South Stream gas pipeline from the Western Balkans to Hungary.

During Dmitri Medvedev's presidency, Russian companies continued to utilize friendly political relations between the two countries. For instance, in 2009 the Russian privately-owned company Surgutneftegaz acquired from Austrian OMW about 22% of Hungarian MOL; simultaneously, due to lack of transparency in Surgutneftegaz's operations, Hungarian general public saw this takeover as a hostile one. The previous shift in Russian-Hungarian relations happened in 2010, when Viktor Orban and FIDESZ Party returned to power in Hungary. Orban's government lobbied against the influence of Surgutneftegaz on MOL, claiming a takeover hostile, thus in mid-2011 Surgutneftegaz was forced to sell its assets in MOL (MOL's employee, personal conversation, January, 2012). Nevertheless, due to the global economic crisis that heavily hit Hungarian economy and simultaneously complicated its relations with the EU and the global financial institutions, Orban's overall policy towards Russia happens to be more positive than ever before and since early 2013 it has been friendly indeed. As I shall discuss at length, the latter has had a positive impact on investments of Russian TNCs in Hungary.

In sum, since the end of the Cold War and dissolution of the USSR and the Eastern bloc, Russian-Hungarian relations transformed from Hungary's subordination to Russia to Russian-Hungarian partnership. This partnership was the result of Russia's international power decline from a world superpower to regional power status, and the change of Hungary's status of a Soviet satellite to an EU member state. Despite considerably improved status vis-à-vis the core

republic of its former key ally, Hungary retained noticeably positive relations with Russia over the entire post-Cold-War period. For Russian TNCs, good relations with Russia's former satellite have been important only due to Hungary's geographically close position to the Western European markets and for its membership in the EU. As the following section shows, Russian FDI in Hungary reflects its importance for Russian TNCs as a part of the EU.

4.3.Reasons and Modes of Russian FDI in Hungary

Investment activities between Russia and Hungary have not been significant either for Russia, or for Hungary over the whole post-Cold-War period, and in 2012 total Russian investments in Hungary have been about \$1.5 billion, while Hungarian investments in Russia amounted to \$1 billion (Russian Trade Representative Bureau in Hungary, 2012). In comparison to other investor-countries in both Russia and Hungary, these amounts are insignificant. Therefore, neither was Russia among important countries-investors in Hungary, nor were Hungarian companies among active investors in Russian economy. Nevertheless, several instances of Russian investments in Hungary mentioned above were quite significant, as they affected some of the largest Hungarian companies and thus attracted attention of Hungarian public and some scholars on FDI (Weiner, 2006; Kalotay, 2010; Filippov, 2011). For instance, while Kalotay (2010) explains Surgutneftegaz's takeover of MOL's assets as (at least) partially politically motivated, Weiner (2006) fully disregards politics as possible motive of Russian FDI in Hungary and the CEE in general and puts forward economic motives as the explanation.

Similarly to the previous chapter, to test the validity of these explanations, in this section I apply Liuhto's REM-model described in Chapter 1. As in the previous chapter, I classify R-factor (reasons, or economic motives for internationalization) into *market-seeking*, i.e. aim at penetrating the local markets, *resource-seeking*, i.e. to have access to cheap raw material, pool of

labor or infrastructure, *efficiency-seeking*, i.e. sources of competitiveness, economies of scope and specialization and low cost of production (Wadhwa, 2011); and *assets-seeking*, i.e. accessing market itself, firm-specific knowledge or organizational models (Franco et al, 2008). Among others, one of the most frequent reasons for company's internationalization is *trade (import) substituting*, i.e. directing trade in the way to avoid customs. Based on this categorization, let us look at how motives for Russian FDI expansion in Hungary can be classified.

4.3.1. Gazprom

Chronologically, Panrusgas was the first Russian investment in Hungary. As I pointed out in the previous section, Gazprom and Hungarian MOL founded Panrusgas as joint-stock company in 1994, when Hungary experienced a rapid integration with Western Europe. Gazprom's post-Soviet internationalization to Europe followed the gas pipeline structure: since then, Gazprom's main downstream activity has been gas retail trade. The response to my questions of Gazprom's official confirms that market-seeking and trade substituting represent the reasons (the R-factor of Liuhto's REM-model) for Gazprom's expansion to Europe.

The role of all our European subsidiaries and joint-stock companies is to control the delivery of our gas supplies to Europe and the revenues received from them. As we are majority state-owned company, it is logical that the state has the same interest as we do, and, therefore, Russian state institutions provide help if Gazprom needs it. (Gazprom official, telephone interview, May 20 2012).

This is precisely the rhetoric - utilized not only by Russian energy TNCs' representatives, but also by state officials - that creates confusion between Russian state interests and business interests of Russian companies to invest abroad. The response from the representative of Russian Ministry of Energy provides some clarifications on this account. In his view, Russian state interest abroad in their economic realm coincides with Gazprom's motives for investments in Europe because Russian state budget receives most revenues from the energy sector.

Our relations with state-owned energy companies should be analyzed within the context of Russia's Energy Strategy by 2030, which is part of the broader Strategy for Russia's Economic Development. ... Energy is Russia's leading sector of economy. Therefore, Russia's state budget to a large extent depends on the revenues of state-owned energy companies. In order to increase these revenues, and consequently to increase state budget, not only our Ministry but other ministries also have to support our energy companies both in Russia, and abroad. (Representative of the Russian Ministry of Energy, telephone interview, August 5 2011).

This suggests that confusion between economic and political motives particularly for Gazprom's investments abroad comes from Russian state's reliance and consequent dependence on one 'heavy' sector, or in Shafer's (1994) definition, "high-high sector".

A similar situation is with Gazprom's other investments in Hungary. Gazprom's next investment after Panrusgas in Hungary was 24.58 percent shares in Hungary's largest petrochemical company Borsodchem. Apart from obvious market-seeking motives – controlling the Hungarian petrochemical industry – and asset-seeking, i.e. symbiotic TVK-Borsodchem-MOL ethylene pipelines – Gazprom was suspected of gaining control over Hungarian energy giant MOL in order to regain Russia's political control over its former zone of influence by economic means. Although arguing in favor of political motives for Gazprom's FDI in Hungary, based on the reports from Hungarian newspapers, Orban (2008) proposes several explanations that confirm both personal and economic motives for Gazprom's investment in Hungary rather than political ones. The first explanation is that Gazprom's intention was to control Hungarian petrochemical industry as a major industry in any country; the second is that Gazprom wanted to build ethylene pipeline from Russia to Western Europe; the third explanation is that Gazprom had intention to simply control MOL. Only the last explanation confirms neither political nor economic motives but speaks in favor of personal motives of some Russian businessmen, namely the attempt to establish money-laundering operation, for which the ethylene pipelines would have been the most convenient system. The fact that Gazprom's long-standing representative in

Hungary and Panrusgas' CEO, Megdet Rakhimkulov was the richest man in Hungary for long time, and that he and his family own consulting company Kafijat Kft, suggests that the abovementioned Gazprom investment activities in Hungary were a part of Rakhimkulov's individual profit-seeking interests: according to official Russian sources, Rakhimkulov was in close personal and business relations with former long-standing Yeltsin era Russian prime minister, Viktor Chernomyrdin and Gazprom's CEO Rem Vyakhirev, and this group was known as "children of Gazprom" because managers involved their families in Gazprom's business and actively used its capacities for their own personal gain (Hassel and Bershidsky, 2001). In the early 2000s this group was gradually replaced by new management with close ties to Vladimir Putin (Malkova and Igumenov, 2012). This information confirms Orban's (2008) last explanation that speaks in favor of personal motives of Gazprom's top-management.

Apart from the abovementioned Gazprom attempt to acquire TVK-Borsodchem-MOL complex, the argument about economic motives holds for Gazprom's attempt to acquire gas-operations daughter-companies in 2004 and negotiations with Hungarian authorities about investments in gas pipeline projects Blue Stream in 2005, and South Stream in 2007.

Currently, most of our activities in Hungary are focused on South Stream project development. Similar to other countries, which participate in South Stream pipeline project, in Hungary we established joint venture with our Hungarian partners. ... Our partnerships are based on simple mutual interests: the goal of all our foreign partners is to secure gas supplies, and our goal is to reach our final consumers in Europe and to increase the revenues (Gazprom's official, telephone interview, May 20 2012).

This position is shared by majority of my respondents, which suggests that Gazprom's investment projects in Hungary (like in other host countries) were driven mostly by market-seeking motive. Lobbying for Gazprom bids on the part of Russian state officials confirms the Russian state's incapacity followed by attempts to hide this Russian state's weakness: based on my personal conversations with several Russian state officials abroad, including Hungary,

lobbying for interests of Russian large companies was one of the means to justify their positions abroad, which, in turn, served Putin's system as the means for the system's "incapacity-hiding" (Krastev and Holmes, 2012, p.40). In short, it seems that business interests dominate R-factor in Gazprom's investment expansion in Hungary; only in one instance of Gazprom's FDI in Hungary (in the case of acquisition of Borsodchem) can individual profit-seeking interests in money-laundering of some Russian businessmen serve as non-business (but also non-national) interests.

In terms of E-factor of Liuhto's REM-model, i.e. the choice of Hungary as environment for internationalization, the explanation seems short and clear: for Gazprom, Hungary is one of the shortest and easiest transit cuts to the Western European markets. Hungary's geographic position and existing industrial infrastructure provide ideal conditions for Gazprom's downstream activities. Similarly to other Russian TNCs (and in other countries), Gazprom in Hungary uses acquisitions and joint ventures as a predominant modal choice.

In sum, Gazprom FDI in Hungary is predominantly driven by business interests. Hungary as environment for internationalization is important for Gazprom mainly as the transit country to the Western European markets. Investing in Hungary, Gazprom uses acquisitions and joint ventures as a mode of FDI. The choice of joint ventures as the mode of internationalization also confirms business interests for investment and, as mentioned in the previous chapter, it is in accordance with the EU rules for its energy markets liberalization. Now let us see how Gazprom's investments in Hungary compare to FDI of other Russian large energy TNCs.

4.3.2.Lukoil

Russian privately-owned oil giant Lukoil entered Hungary in 2003. Kuznetsov (2007) argues that Russian national interests require the improvement of oil-refining processes on

Russia's territory; Lukoil instead follows business and individual profit-seeking interests of its owners. Therefore, the company acquires oil refineries and petrol stations across CEE "and invests large amounts to modernize them and to increase sales through its own chains and in accordance to European standards" (Kuznetsov, 2007a, p.237). Lukoil's activities in CEE speak in favor of Kuznetsov's argument. Lukoil Hungary is part of interregional association of Lukoil's daughter-companies in CEE, with the central office in Prague. Retail is Lukoil's main activity in Hungary, and, as Lukoil Hungary's executive director Denis Rupin said in an interview to "Russian Courier", in 2011 the company had seventy five petrol stations across the country (Popova, 2011). Approximately half of them are situated in Budapest and its suburbs. Lukoil's developmental path in Hungary and in Europe in general suggests that market-seeking and asset-seeking (in terms of organizational model) respond to the R-factor of Liuheto's REM-model of internationalization.

Moreover, according to Rupin, Hungary as environment of internationalization for Lukoil is not as favorable as other CEE markets.

Hungarian market is as complex as Czech and Polish markets due to presence of large number of competitors. Our business in Hungary shows slightly worse results than in other CEE countries. MOL is dominant in Hungarian market. However, our task is not to be competitors to dominant companies in these markets. Our goal is rather to keep our share and presence in the CEE markets (Popova, 2011).

So far, this response suggests that the CEE as region has rather a secondary importance for Lukoil, and Hungary represents the smallest share of it. Thus, speaking about Hungary in terms of E-factor in Liuheto's REM-model, for Lukoil it has very peripheral role as a market.

Finally, in terms of modal choice of internationalization in Hungary, or M-factor in REM-model, according to former Director of Hungarian Investment Promotion Agency (ITD),

so far Lukoil is the only Russian investor in Hungary whose modal choice included Greenfield investments.

There is no oil production capacity established with Russian capital, although Lukoil made certain type of Greenfield investment. In contrast to other Greenfield investors in Hungary, Lukoil actually did not contact ITD. They did not ask any kind of support, incentives, or any information. We were not involved in their investment process. ... Lukoil is a petrol retailer... The government decided not to incentivize or give tax incentives to investors, who come in so-called local competitive retail market.... Lukoil also did not get any incentives, because it entered the market, it built petrol stations in good locations, and it sells petrol. That should be self-financing business case. (Former Director of Hungarian Investment Agency ITD, personal interview, June 12 2011).

This response suggests that Lukoil is less important in Hungary than other Greenfield investors, as it did not create any production capacities in Hungary, although it created jobs, and although it is the only Russian TNCs that apart from acquisitions conducted Greenfield investment. In sum, being smaller part of Lukoil's European strategy, the company's activities reveal asset-seeking motive for internationalization in Hungary. In the next two subsections I briefly overview the reasons and modes of Russian non-energy TNCs' expansion in Hungary.

4.3.3. Air Bridge

Air Bridge's acquisition of the Hungarian national air transportation company Malev has been so far the largest Russian non-energy-related investment in Hungary. In 2006, this air-transporting company owned by Russian oligarch Boris Abramovich and with head-quarters in the Russian city of Krasnoyarsk, acquired Malev for \$1 million through its daughter company KrasAir, which was founded especially for this occasion. This goes along the lines of Weiner's (2006) argument, that Russian TNCs are interested in the CEE countries due to privatizations of their companies. According to Malev's former employee, extensive internal corruption by the Malev's leadership led the company to the situation in which privatization was the only way to avoid bankruptcy (personal conversation, March 25 2012). As a result, for both Russian and

Hungarian state and business representatives this acquisition turned negative experience. Former Director of ITD confirms that the reason why the shares of Malev were for public sale was the company's long-term financial debts.

The opinions within Hungarian business circles considering Russian acquisition of Malev were quite skeptical. The government was aware of possible gaffs of Russian investors, but it simply tried to save Malev, which had big financial problems. Before the Air Bridge, AlItalia acquired Malev, but AlItalia bankrupted soon after, and there was little solution to Russian investors for Malev. (Former Director of Hungarian Investment Agency ITD, personal interview, June 12 2012).

Pointing out that Air Bridge's acquisition of Malev was lobbied for by Putin during his visit to Budapest in 2006, Hungarian newspaper Nepszabadsag (7 March, 2006) suggests that this acquisition could have had political motives. Moreover, Russian investor and Air Bridge's owner Boris Abramovich had never commented on the acquisition. Only Russian NTV channel reported on this story, that in order to receive access to these shares of Malev, Abramovich promised to invest in the company \$65 million more in the two years following the acquisition. He created a new management structure of Malev, which nevertheless turned to be ineffective. Moreover, no further investments followed either in two years after the acquisition, or later.

My respondent - expert on Russian-Hungarian relations from the Russian Ministry of Foreign Affairs – argues that Air Bridge's failure to meet commitments towards Malev put Russian state institutions in Hungary in a very unpleasant situation, although neither Embassy nor Trade Representative Bureau were involved in acquisition itself.

Both our Hungarian partners and we understood that the Air Bridge had only exacerbated the situation in Malev. The Hungarian government contacted us for help in resolving the problem. ...In turn, we conducted negotiations with the Hungarian state representatives on the level of a Russian-Hungarian Inter-governmental commission, and decided to support Malev financially in order to save overall Russia's image. For another three to five years, Vneshekonombank was the only financial sponsor to Malev (expert on Russian-Hungarian relations from the Russian Ministry of Foreign Affairs, personal interview, July 23 2011).

Malev's bankruptcy in early 2012 confirms both assumptions about extensive corruption inside the company and fulfillment of purely individual profit-seeking interests on the part of Russian private investor. In sum, the activity of Air Bridge in Hungary creates the impression that Russian investor followed neither business, nor Russian national interests when conducting investment in Malev, but rather individual profit-seeking interests. In terms of E-factor, it seems that for Air Bridge Hungary provided favorable conditions, and due to its financial problems Malev turned an 'easy prey' in the process of reaching these goals. Finally, modal choice, or M-factor of Liuhto's REM-model was typical for Russian TNCs' acquisitions.

4.3.4.Sberbank

The last, but not least important Russian investment in Hungary is the recent acquisition by Sberbank of Austrian Volksbank's Central and Eastern European assets. According to Russian weekly business journal Expert, the acquisition reached about €600 million and brought to Sberbank 300 offices of Volksbank across eight CEE countries, including Hungary (Shokhina and Skryleva, 2011). Commentators from Russian state institutions in CEE claim that Sberbank's leadership informed them about its intentions to extend its financial operation to the region in question; however, they did not ask for any kind of state's support in this deal, which speaks in favor of pure business goals (Representative of Russian Trade Bureau in Budapest, personal conversation, September 23 2012). Sberbank's acquisition of Volksbank left similar impressions on Hungarian business circles. According to former Director of Hungarian Investment Agency, Sberbank's investment seems logical from the point of view of business strategy.

There is no reason to think that Sberbank follows any political goals, as Volksbank has always worked with small and medium size companies both in Hungary and elsewhere. This investment looks like any bank's business strategy for foreign expansion. (Former Director of Hungarian Investment Agency, personal interview, June 12 2012).

Both comments in Russian and Hungarian press and my respondent's position Sberbank's investment as based on pure business goal. This suggests that R-factor in Sberbank's acquisition of Volksbank's assets in the CEE is driven by asset-seeking motives for both accessing market and organizational model. Considering E-factor, similarly to Lukoil, for Sberbank Hungary represents just one among others CEE markets as a host environment. Finally, as in all previously analyzed cases, acquisition of existing assets represents Sberbank's mode of internationalization.

In light of the above analysis, two REM-models of Russian TNCs in Hungary can be derived: the first one is the REM-model of oil and gas companies presented in Table 4.2, and second is the REM-model of non-energy companies presented in Table 4.3.

Table 4.2: REM-model of Russian energy TNCs in Hungary

R-factor: Why internationalize? ↓	E-factor: Where to internationalize? ↓	M-factor: How to internationalize? ↓
Market-seeking, trade (import) substituting, personal microeconomic reasons	Favorable geographical transit position (proximity to Western Europe), well-developed infrastructure, market-demand	Joint-stock companies, offshore subsidiaries (in case of rejection), Greenfield (rarely)
Why go outside Russia? <i>trade (import) substituting</i> ↑	Why go to Hungary? ↑	How invest in Hungary? ↑

This model shows that, similarly to Russian oil and gas TNCs in Germany, Russian energy companies internationalize in Hungary following mostly market-seeking and trade-substituting motives. Hungary's attractiveness for Russian energy TNCs is mostly in its geographically central position between Russia and Western European markets. These findings confirm the argument proposed by Oliker et al. (2009) and Kuznetsov (2010) that Russian TNCs serve mostly their own business interests. Their most usual modes of internationalization are joint-stocks (in the cases of Gazprom's Panrusgas and South Stream) and foreign subsidiaries (in case of Lukoil), but when they experience resistance to investments – as in the case with

Gazprom's attempt to acquire the shares of Borshochem – they also tend to use offshore subsidiaries.

The foreign investment-model of Russian non-energy TNCs in Hungary is presented in Table 4.3 below.

Table 4.3: REM-model of Russian non-energy TNCs in Hungary

R-factor: Why internationalize? ↓	E-factor: Where to internationalize? ↓	M-factor: How to internationalize? ↓
Asset-seeking (Sberbank) /personal microeconomic reasons (Air Bridge)	Well-developed infrastructure and privatization procedures, relatively cheap assets and labor	Acquisitions
Why go outside Russia? ↑ <i>trade (import) substituting</i>	Why go to Hungary? ↑	How invest in Hungary? ↑

Although the analysis of Air Bridge and Sberbank reveals different motives for investments in Hungary, with a prevalence of personal economic reasons in the case of Air Bridge, and asset-seeking in the case of Sberbank, both use acquisitions as their mode of internationalization. Both cases confirm non-political hypotheses: first case confirms hypothesis about personal goals as a motive to invest in Hungary, while the second confirms pure business motives in FDI decisions. At the same time, Air Bridge also presents a striking example of absence of Russian foreign policy strategy when dealing with outward FDI (Feklyunina, 2008; Tsygankov, 2006).

Still, it is significant that there were several points in the analysis above in which the issues about political motives of Russian TNCs for investment in Hungary were raised. This poses the question how the findings about reasons and modes of Russian TNCs' FDI in Hungary differ or coincide with official Russian foreign policy. To answer this question, let us look at official Russian foreign policy objectives and public opinion towards the EU (and CEE as its part).

As pointed out at the beginning of this chapter, in the Russian Foreign Policy Concept (2008) CEE is mentioned as a part of the EU, and none of the Visegrad countries are mentioned separately. Therefore, in Russian foreign policy Hungary can be analyzed only in the context of CEE (ten countries that joined the EU in 2004) within the EU. As, according to the Concept, Russian foreign policy has two major aspects – economic and security – for Russia the CEE region has not only its economic dimension as the part of the EU, but it also has a security dimension as the part of NATO. According to VTSIOM's opinion polls in 1996-2000, the majority of Russians considered Russia's negative economic performance (including unemployment, growth of prices, and economic collapse) as a main source of threat, while cooperation with NATO was perceived as the best solution to Russian security interests (All Russian Center for Public Opinion, VTSIOM, 2000; 2000c). Since 2000 (after the Kosovo crisis and NATO air attacks on Serbia), Russians have perceived NATO as more hostile to Russia: for instance, according to VTSIOM's 2011-2012 polls, about 59% of the Russians have perceived NATO's eastern expansion as threat to Russia's security (VTSIOM, 2012). If we narrow this down to Russian-Hungarian relations in the early post-Soviet era, it provides a plausible explanation to the incident with the Russian convoy on the Ukrainian-Hungarian border discussed in Section 3 above: in this narrow context, Hungary represents a threat to Russia's security as a member of NATO. Simultaneously, according to Tumanov et al. (2011), large number of Russians associates the EU with economic prosperity, stability, freedom of movement, democracy and social security.

In the opinion of Russians, the most characteristic values of the EU are a market economy (57 per cent), human rights (48 per cent), the rule of law and legal norms (42 per cent), economic prosperity (40 per cent) and democracy (38 per cent). The core values for Russia seem to be completely different: except for a market economy (36 per cent), it is mainly characterized by tolerance (36 per cent), respect for various religions

(34 per cent), peace (33 per cent) and respect for different cultures (30 per cent) (Tumanov et al., 2011, p.132).

In this wider context, Hungary as an EU member represents a rather positive example for Russians in terms of economic prosperity and democratic values. These statistics suggest that official Russian foreign policy goals have to a large extent reflected Russian public opinion, while REM-model of Russian companies' internationalization in Hungary in particular have to a very small extent reflected economic dimension these goals. In the next section I analyze the impact of official Russian-Hungarian relations and official Russian foreign policy on perceptions of Russia in Hungary, so I found out that they differ among political elites, general population, and business circles.

4.4.Perceptions of Russia and Russian TNCs in Hungary

During the last two decades, three levels of perceptions have emerged about Russia in Hungary: the first one is the level of state officials and political elites, i.e. **macro level**, the second is the general public, or **medium level**. The third one is the level of business community, i.e. the **micro level**. On the macro level, Hungarian elite's perceptions of Russia – at least in their rhetoric - depend on the place of its representative on a political spectrum. Generally speaking – as mentioned in Section 2 – there are two groups of Hungarian political elite, first represented by Hungarian Socialist Party and its leaders, and second represented by the center-right party FIDESZ and its leader Viktor Orban. The former traditionally have closer and rather friendly relations with the Russian leadership, while the latter traditionally pursue rather hostile foreign policy towards Russia. However, Hungarian prime-minister Viktor Orban's recent visit to Moscow represented significant shift to a more positive attitudes towards Russia. For instance, during his most recent visit to Moscow in January 2013, Orban stated that "Russia is a great power" and that "one of Hungary's primordial, obvious interests is to support fruitful and close

cooperation with Russia” (Kremlin, 2013). On the same occasion, Orban also added that the Hungarian government wants “to support Russia’s investment activity in Hungary” (Orban, 2013). Overall, Hungarian political scientist Zoltan Kiszelly in his comment to the newspaper L.A. Times gave the fitting illustration of Hungarian political elites’ attitudes towards Russia and Russian investments in Hungary, saying that it is good to have Russia as an ally, but it is good to have them far (Stack, 2009).

At the same time, Kiszelly’s view largely reflects perceptions of Russia on the medium level, i.e. the level of the Hungarian population: the bitter Soviet legacy still gives rise to negative perceptions of Russia among Hungarians. Simultaneously, the fact that only one public opinion poll precisely about perception of Russia has been conducted in Hungary over the last two decades (in 2006) suggests that Hungary has largely left Russia’s orbit of influence. The poll was prepared and conducted by Hungarian social scientist Gyula Szvak, and its results also reflect the decrease of Russian influence in Hungary: the lack of interest for Russian culture and little interest to learn Russian language (only 5% of respondents) - in comparison for instance to interest to learn English (35%), German (27%), and even Spanish (7%) – serve as good indicators of decreased Russian influence. Simultaneously, the poll shows that Russian influence has been negatively perceived by majority of respondents: for instance, when asked to name the nations that had the worst influence on Hungarians, 56% of respondents referred to Russians (for comparison, 50% referred to Turks).

Moreover, in comparison to other nations - Hungarian attitudes towards Russians are similar to those towards Americans and Romanians: on five-point scale, where one was the most negative and five the most positive point, Russians received 2.77 points, whereas Americans received 3.18, and Romanians 2.37 respectively. Generally, older respondents show more

positive attitude towards Russia, whereas younger ones express more positive attitudes towards the US and neutral towards Russia. Finally, when asked about importance of Russian-Hungarian relations in economic, political and scientific realms, the majority of respondents expressed positive attitudes: for instance, 65% support close economic ties with Russia, while only 5% are in favor to weaken them. In terms of political cooperation with Russia, surveyed Hungarians are much more cautious: only 38% support the development of Russian-Hungarian political relations, while 8% consider that they should be weakened.

These statistics show that the perceptions of Russia and Russians by the Hungarian elite slightly differ from those of Hungarian general public. Still, realist and pragmatic views dominate both levels, and thus development of Russian-Hungarian overall relations can be considered as publicly legitimized. Bringing this argument back in the context of Russia-EU relations, it can be argued that the EU-Russia Watch (2011) realistically reflected on Hungary's attitude towards Russia:

Hungary puts its economic interests in first place, and is rather reluctant to criticize Russia about questions of human rights and democracy. Naturally, Budapest follows and obeys the relevant EU policies and guidelines, but is not engaged in anything more than that (EU-Russia Watch, 2011, p.63).

Finally, on the micro level, perceptions about Russia have been shaped both by the bitter history of Russian-Hungarian relations and Russian overwhelmingly murky ways of doing business (as showed in the previous section on the examples of Gazprom and especially Air Bridge). Representatives of Hungarian business and academic circles confirm the prevalence of these two factors in the creation of Russia's image in Hungary.

Among both Hungarian business circles and general public Russia is perceived negatively. Both events of 1848 and those of 1956 left bitter memories among Hungarians and it is hard to change it soon, although long time went by. ... The takeover of 22% of MOL was hostile and, among all, non-transparent. This takeover contributed to Russia's negative image in Hungary. The same can be said about the takeover of Malev (Former Director of Hungarian Investment Agency, personal interview, June 12 2012).

In sum, the evidence presented in this section shows that although the Hungarian perceptions towards Russia are rather negative with some tendency towards neutrality on two out of three levels of perceptions, pragmatism in relations with Russia prevails among Hungarians (see Table 4.4 for summary).

Table 4.4: Hungarian perceptions of Russia

Level	Perceptions
Macro	Predominantly negative, but changeable (center-right wing) and neutral (left wing)
Medium	predominantly neutral
Micro	negative – economic threat

Considering this finding, in the following section I explore how these perceptions affect Russian companies' FDI in Hungary.

4.5. Attitudes towards Russian FDI in Hungary

In Hungary most Russian investor companies are oil and gas giants, such as Gazprom and Lukoil. As pointed out in Section 2, in 1994 Gazprom and Hungarian MOL established joint-stock company Panrusgas to control the delivery of Gazprom's gas supplies. Gazprom's next investment attempt after Panrusgas in Hungary was 24.58 % shares in largest Hungarian petrochemical company Borsodchem in 2000. As Gazprom was rejected to acquire Borshodchem, according to Orban (2008), the company's representative in Hungary, abovementioned Panrusgas' CEO, Megdet Rakhimkulov, who has been closely related to Russian Yeltsin's era government, used its Irish subsidiary Milford to accomplish the takeover; in turn, Hungarian government ruled by FIDESZ claimed the takeover politically motivated and hostile, and succeeded in keeping Gazprom away from Borshodchem. Overall, as the previous section showed, the interests of Gazprom have been well-masked with Russian national interests, which resulted in negative attitudes towards Gazprom's FDI in Hungary.

In contrast, when in 2006 MSZP was in power, Putin personally lobbied for Russian privately-owned company Air Bridge to bid to acquire Hungarian national air transportation company Malev, and, in attempts to save Malev from bankruptcy, the leadership of Hungarian government accepted this bid.

The opinions within Hungarian business circles considering Russian acquisition of Malev were quite skeptical. The government was aware of possible gaffs of Russian investors, but it simply tried to save Malev, which had big financial problems. Before the Air Bridge, AlItalia acquired Malev, but AlItalia bankrupted soon after, and there was little solution to Russian investors for Malev. (Former Director of Hungarian Investment Agency, personal interview, June 12 2012)

However, for both Russian and Hungarian state and business representatives this acquisition turned negative experience, as Air Bridge did not fulfill its obligations as an investor, and, in turn, Russian government took Air Bridge's responsibilities in subsidizing Malev. As my respondent, an expert on Russian-Hungarian relations from Russian Ministry of Foreign Affairs points out, Russian state decided to financially support Malev in order to save overall Russia's image.

Summarizing the findings on all three levels, negative attitudes prevail on two (macro and micro) out of three levels. Overall, while in Hungary Russia's perceived image is still associated with a security threat, the attitudes towards Russian FDI seem to depend first on Russian FDI's possible positive impact on Hungary's economic, and, second, to a lesser extent, on the 'color' and foreign policy vector of the political party dominant in government. Moreover, the analysis of this and the previous section showed that perceptions of Russia in Hungary matter for Russian FDI on state (macro) and business (micro) levels, but less on the level of general public (medium level). Considering this finding, in the next section I explore how exactly Russian TNCs cooperate with Russian state institutions in Hungary in order to reach their goals.

4.6.Mechanisms of Russian Foreign Policy-TNCs Relations

As can be seen from the discussion above, Russian business in Hungary pays little if any attention to its own image, but also to the image of Russia as a state, which usually contributes to traditionally negative image of Russia in Hungary. This is mainly due to Hungary's relatively peripheral role in the EU and in Russia's foreign trade. Still, as the analysis in this chapter shows, the degree of acceptance of Russian investments in Hungary depends mainly on the persistent need and readiness of Hungarian leadership to cooperate with Russia. For instance, as the previous section showed, the periods when traditionally Russian-friendly Hungarian Socialist Party (MSZP) dominates Hungarian parliament coincide with relatively high degree of acceptance of Russian FDI in Hungary. Russian companies take advantage of these positive attitudes in Russian-Hungarian relations and conduct their investments in Hungary openly, sometimes with Russian leadership's political support (as in the cases of Air Bridge and South Stream). On the contrary, in the periods when traditionally (and mostly rhetorically) Russia-hostile FIDESZ is in power, Russian TNCs use their EU-based subsidiaries to conduct their investments and consequent business interests in Hungary. In Table 4.5 below this regularity is evident. The exception is FIDESZs' recent 'Opening to the East' foreign policy, in which Russia occupies top priority (Hungarian Government, 2013).

Table 4.5: The frequency of Russian FDI in Hungary

Period	Dominant party in Hungarian parliament	Russian FDI in Hungary and its pattern
1994-1998	MSZP	<i>1994 - Gazprom</i> (Panrusgas joint-venture with MOL)
1998-2002	FIDESZ	<i>2000 – Gazprom</i> (through Milford, acquisition of Borsodchem)
2002-2010	MSZP	<i>2006 – Air Bridge</i> (acquisition of Malev); <i>2006 – Lukoil</i> (retail chain); <i>2007 - Gazprom</i> (joint-stock South Stream; <i>2009 – Surgutneftegaz</i> (acquisition of 22% MOL's shares through OMV)
2010-2013	FIDESZ	<i>2011 – Surgutneftegaz</i> sells its 22% of shares in MOL under FIDESZs' political pressure <i>2013 – change in FIDESZ policy towards Russia</i> : Orban and Putin negotiate <i>Rosatom's</i> investments in Hungarian nuclear station Paks

As shown in Section 3, Russian TNCs tend to contact Russian state institutions in Hungary usually only when they experience obstacles and problems in doing business. The main Russian state institution responsible for economic relations with Hungary is Russian Trade and Commercial Bureau (the Bureau), which is the direct representative of Russian government and Russian prime minister. Based on insights that I received through my contacts with the Bureau's representatives, the main function of this institution is to provide support to Russian companies in Hungary (series of personal conversations conducted from December 2011 to October 2012). This Bureau's support to Russian companies - in close cooperation with The Representative Office of Russian Trade Chamber (the Chamber) in Budapest – is free and consists mainly of collecting commercially relevant information about the situation in Hungarian market, which includes notifications about possible investment targets in Hungary, and translation services. The Bureau provides for same free information for Hungarian companies interested in Russian market and partnership with Russian companies. Former Director of Hungarian Investment Agency ITD confirms these efforts on the part of Russian Trade and Commercial Bureau in Budapest but doubts their effectiveness.

ITD has had very positive relations with both Russian Trade and Commercial Bureau and Trade Chamber. They have always invited us whenever they have organized any kind of event, be it exhibition, or official presentations of Russian companies. On our part, we have always sent them our commercial offers as to all our other partners. However, there

has never been any feedback or follow-up information from them. (Former Director of Hungarian Investment Agency, personal interview, June 12 2012).

The reason for this lack of the feedback and follow-ups from the Bureau and the Chamber is that their services provided to Russian and Hungarian companies are conducted in only one direction, from the Bureau and the Chamber to companies. According to expert on Russian-Hungarian relations from the Russian Ministry of Foreign Affairs, the Russian Embassy in Hungary interferes in economic issues only in the cases where the support of more than one Russian ministry is needed.

Although we are political institution and, consequently, our tasks are exclusively political, we are obliged to provide support to Russian business in the form of favorable political conditions and in order to avoid discrimination against Russian companies. ... Unfortunately, companies hardly consider Russian state and national interests in their activities abroad. The example of Air Bridge's acquisition of Malev's majority shares is striking example. This acquisition turned harmful for both us and our Hungarian partners and our task as Russian Ministry of Foreign Affairs was to neutralize negative effects of Air Bridge's business failure on the expense of Russian state interests: in order to save Russia's image in Hungary, we arranged Vneshekonombank's financial support to Malev after Air Bridge failed to fulfill its obligations (Expert on Russian-Hungarian relations from the Russian Ministry of Foreign Affairs, personal interview, July 23 2011).

Obligation of Russian state institutions to work for interests of Russian business abroad is confirmed by Gazprom as the largest investor which is also typical in terms of reasons and modal choice for Russian investors in Hungary.

One of the state institutions' most important tasks abroad is to support Russian state-owned companies. They are obliged to provide us with information about potential customers abroad and, when we experience obstacles in our activities abroad that are possible to resolve only on political level, then we delegate these tasks to the Embassy, or to the Trade Representative Bureau. It is their task to create politically favorable conditions for us, and, to my knowledge, the main mechanism that they use for this is Russian-Hungarian Inter-governmental commission. We have usually experienced obstacles in Hungary, when traditionally anti-Russian FIDESZ has been in power in Hungary. However, since their last coming to power, FIDESZ seems more pragmatic in its foreign policy towards Russia, thus we also do not experience resistance to our activities as we used to before (Gazprom's official, telephone interview, May 20 2012).

This Gazprom's official comment suggests that Gazprom also utilizes the state capacities, usually with very limited attention to broader Russia's national interests (including Russia's image in Hungary). All the analysis above confirms that Russian foreign policy experiences marketization, in which individual profit-seeking and business interests shape Russia's actual foreign relations.

In sum, the analysis provided in this section suggests three conclusions about the Russian foreign policy-TNCs relationship in Hungary. First, the activities of Russian state institutions in Hungary experience large-scale marketization of Russian foreign policy in this country, evident through state's services provided to Russian TNCs. In this constellation, the cooperation with the state institutions depends directly on the needs of particular TNC, but also, as the case of Air Bridge suggests, on Russian leadership's readiness to take responsibility for activities of Russian companies abroad for the sake of Russia's international image, as well as for their personal image. Therefore, in the cases of Gazprom and Air Bridge, company-state cooperation exists on both formal and informal levels and includes one form of each level, and *cooperation* between Russian companies and Russian state institutions can be considered as *medium*. At the same time, in the cases of Lukoil and Sberbank, company-state cooperation is very limited and formal, thus *cooperation* between Russian companies and Russian state institutions can be considered as *low*. Second, murky activities of Russian TNCs in Hungary contribute to Russia's traditionally negative image in Hungary. Finally, Russian state institutions in Hungary have little autonomy from Russian TNCs and capacity to pursue foreign policy based on broader Russian national interests.

Conclusions

From the above analysis several things become clear. The first is that, by investing in Hungary, most Russian TNCs are driven by business and individual profit-seeking interests.

These findings coincide with economic explanation of Russian FDI proposed by Weiner (2006), Kuznetsov (2007), and Olikier et al (2009). Simultaneously, these findings disapprove ‘imperialist expansionism’ thesis about Russian FDI in Hungary comprehensively proposed by Vahtra and Liuhto (2004), Orban (2008), and Liuhto (2008). In other words, my findings show that Russian TNCs in Hungary serve mostly their business interests, as their activities are mostly in accordance with their business goals and not with broader Russian national interests in Hungary. Second, the findings also show that, in some instances, individual profit-seeking goals of Russian TNCs’ management are quite frequent motive for Russian TNCs to invest in Hungary, which coincides with Kuznetsov’s (2010) argument that top managers of Russian TNCs use companies’ capacities and Russian state institutions to pursue their own interests.

The third conclusion that the findings of this chapter suggest is that acceptance of Russian FDI in Hungary depends mostly on the attitude of the majority in the Hungarian government towards Russia: Hungarian Socialist Party and its leaders have traditionally neutral and sometimes even positive and friendly relations with Russian leadership, while more conservative FIDESZ until recently has usually projected negative attitudes towards Russia. These findings go along the lines with the explanation that in absence of clear support/resistance to Russian investments in host countries, acceptance emerges through ideological conflict (Orttung, 2009; Closson, 2009; Abdelal, 2005).

Simultaneously, both conclusions contribute to the explanation proposed by the third strand of literature, best represented by Tsygankov (2006) and Feklyunina (2008), namely that there is no clear Russian foreign policy strategy, but only one replete with internal conflicts. The case of Air Bridge’s acquisition of Malev (analyzed in Section 3) suggests that there is the lack of common goals between the Russian Ministry of Foreign Affairs and Russian companies and in

particular their owners, which in turn illustrates the lack of common strategy on Russian foreign investments not only between the Russian TNCs and state institutions but also among different levels of Russian state system in the present political regime.

Finally, this chapter contributes to broader International Political Economy literature by proposing better understanding in the economic relations between two former socialist countries, one small with capable state (Hungary), and another big one with extremely weakened state (Russia). In particular, the findings from this chapter suggest that primacy of ‘heavy’ (especially raw-material-based) sectors of home country economy impedes not only domestic economic and institutional development; it also tends to produce a negative image through their foreign investments and other activities abroad. As a result, it creates obstacles to investments of companies-representatives of other home country’s sectors, i.e. Russian non-energy transnational companies. The next chapter analyzes the motives and modes of Russian investments and the consequent Russian company-state cooperation in one of the smallest and poorest European countries, Bosnia-Herzegovina to compare it with these findings.

Chapter 5: Russian Investments in Bosnia and Herzegovina: Benefits from Russia's Image and Absence of Competitors

Summary

The last chapter of the empirical part of the present dissertation examines the cooperation between Russian state institutions and Russian companies in one of Europe's poorest countries with a practically failed state, Bosnia-Herzegovina. The findings show that - in terms of modes and sectors, Russian investments in Bosnia-Herzegovina follow similar patterns as in previously examined Germany and Hungary: most of FDI are in the energy sector Brownfield, i.e. acquisitions and restructuration of existing energy capacities. The findings also suggest that the Bosnian (mostly Serb) diaspora in Russia played a major role in attracting Russian investments in Bosnia-Herzegovina. Russian companies have taken the advantage of an almost absent competition among other investor countries and relatively low acquisition costs in Bosnia-Herzegovina to access the Balkan and consequently the EU markets.

Introduction

This chapter aims to examine to what extent Russian TNCs cooperate with Russian state institutions when they invest in relatively poor countries with institutionally weak states. Being one of the former Yugoslav republics hard hit by 1990s' wars, Bosnia-Herzegovina today represents one of Europe's poorest countries. In its current form Bosnia-Herzegovina emerged in 1995, based on the Dayton Peace Accord. Since then Bosnia-Herzegovina is *de jure* divided into two entities: Bosnia-Herzegovina Federation composed of Bosniak and Croat ethnic counties; and Serb entity Republic of Srpska, with its own government and local governing bodies. The Bosnian parliament and a three-headed presidency (for the three constitutional ethnicities) is the state-level governing body. However, according to Reljic (2009), *de facto* Bosnia-Herzegovina is

governed by the group of international organizations embodied in the institution of the **high representative**.

As Russia is traditionally considered as the Serbs' ally, the political and popular perception of Russia varies in Bosnia-Herzegovina's two entities: while political leadership of Republic of Srpska considers it as its most important ally, political elites of Bosnia-Herzegovina Federation are much more cautious in their relations with Moscow because of the two Bosnian entities' mutual animosity towards each other. For all these reasons, by exploring Russian FDI in modern Bosnia-Herzegovina, this chapter in fact analyzes two states rather than one.

Practically all IR literature about Russian-Bosnian relations deals with Russia's political role in the post-Yugoslav conflicts (Guskova, 1994; Donaldson and Noguee, 2005; Nygren, 2008; Ponomareva, 2008), and only few authors analyze economic aspect of Russian presence in the Balkans (Nygren, 2008; Reljic, 2009; Dzombic, 2011). With its focus on the relationship between Russian foreign policy and Russian TNCs' investments in Bosnia-Herzegovina, this chapter aims to contribute to the knowledge about Russian-Bosnian relations. In order to examine the extent of coincidence/discrepancy between Russia's national interest and interests of Russian TNCs in Bosnia-Herzegovina, similarly to the previous two chapters, it is useful to apply both top-down and bottom-up approaches. The top-down approach serves in analyzing the impact of political and economic relations between Russia and Bosnia-Herzegovina on Russian FDI in Bosnia-Herzegovina. Specifically, the analysis includes the impact of Russia's state image in analyzed country on investment activities of Russian business. The bottom-up approach analyzes how Russian business affects Russia's image in Bosnia-Herzegovina. Similarly to Chapters 3 and 4, the present chapter is organized around following questions:

- What is the nature of Russian foreign policy-TNCs relationship in Bosnia-Herzegovina?

- To what extent do Russian state institutions in Bosnia-Herzegovina cooperate with Russian TNCs? How effective is this cooperation?
- What does, in turn, the Russian foreign policy-TNCs relationship in Bosnia-Herzegovina suggest about relations between state and business in Russia?

The chapter consists of six sections. The next section briefly describes the methods of inference applied in this chapter. The second section analyzes the role of Russia in creation of contemporary Bosnia-Herzegovina and their relations over the last two decades in order to set the context for the analysis of Russian FDI. Third section uses Liuhto's REM-model to analyze motives and modes of Russian TNCs investments in Bosnia-Herzegovina. Fourth section briefly examines popular perceptions of Russia. Fifth section explores attitudes towards Russian investments in Bosnia-Herzegovina's two entities. With regard to findings from these five sections, sixth section analyzes the forms and mechanisms of cooperation between Russian TNCs and state institutions in Bosnia-Herzegovina. The final section concludes.

5.1.Method of inference

Apart from analysis of official documents, in-person interviews (conducted during personal meetings), and personal conversations with representatives of Russian and Bosnian business and state officials and non-state institutions' representatives as in previous chapters, due to lack of official opinion polls about Russia in Bosnia-Herzegovina, my fieldwork included forty semi-structured personal conversations in two Bosnian entities. According to 1991 census (which is the most recent census, while the next one is scheduled for the end of October 2013), about three million people lived in Bosnia-Herzegovina: about seventeen percent of them considered themselves as Croats, about thirty-one percent as Serbs, and about forty-three percent as Muslims. During the war about fifty percent of all of them left the country, and a much

smaller number returned after the war. There are a number of people from Arab countries who now live in Bosnia-Herzegovina. However, I conducted surveys only among remnants of the three main ethnic groups i.e. Bosnian Muslims or Bosniaks (twelve of twenty in Bosnia-Herzegovina Federation), Serbs (fifteen of twenty in Republic of Srpska), and Croats (five of twenty in Bosnia-Herzegovina Federation), and ‘mixed’, i.e. people who represent simultaneously two or all three of them (three of twenty in Bosnia-Herzegovina Federation). I informally interviewed the same number of people in both entities. Croats have expressed the most neutral attitudes towards Russia and Russians, Serbs’ attitudes have been almost absolutely positive, while Muslims’ (Bosniaks’) attitudes have been predominantly negative, although some expressed neutral attitudes. In general, this sample appropriately represents the Bosnian population.

These surveys were conducted in the period between July 2010 and February 2013, and they included following questions: What is your vision of Russia? What does Russian FDI mean for your country? If the respondent talked about historical, cultural, and political aspects of his/her vision of Russia, I considered that politics factors play a more important role for him/her than economic ones. If, in contrast, the respondent talked mostly about economic aspects of his/her vision of Russia, I considered that economics are crucial in his/her perception of Russia. In the next section I provide a brief analysis of the evolution of Russian-Bosnian relations since the end of the Cold War, to set fundament for the analysis of the relationship between Russian companies and Russian state institutions in Bosnia-Herzegovina.

5.2. Russian-Bosnian Relations since the Collapse of the USSR

Russian-Bosnian relations – as part of Russia's foreign policy towards South-East Europe - have always been closely related and heavily dependent on Russia's relations with other former Yugoslav republics and with the West. Similarly to the majority of its Western partners, Russian leadership recognized Bosnia-Herzegovina as independent from Yugoslavia on April 27 1992; simultaneously, disputes between three Bosnian major ethnicities escalated to full-fledged civil war over the spring of 1992: the Serbs (31.3 % of Bosnian population according to census in 1991) and Croats (17.3 %) opposed a unified independent Bosnian state proposed by Bosnian Muslims (43.7 %). However, Russia's stance towards the sides in Bosnian conflict was significantly different from those of the Western powers, as only official Moscow did not blame the Bosnian Serbs' leadership in escalation of the conflict. In fact, the war in Bosnia-Herzegovina in early 1990s caused strains in Russian relations with the West, especially with the US. While Russia, who historically assumed the role of protector of the Orthodox Slavs in the Balkans, allied with Serbs,

[t]he United States found itself sympathetic to Bosnian Muslims because they were the victims of widespread Serbian atrocities associated with the policy of "ethnic cleansing" ... Both Moscow and Washington were constrained in their support for their respective sides (Donaldson and Noguee, 2005, p.234).

Nevertheless, as pointed out in Chapter 2, due to Russia's domestic economic and political weakness, Russia under Yeltsin's leadership tried to avoid strains with the West, thus in several instances it supported US-led actions against Serbs. First, in 1992 official Moscow supported the initiative of the UN Security Council to use military force in Bosnia-Herzegovina to guarantee the delivery of humanitarian aid. Second, at Forty-Eighth General Assembly session of the UN, when the Assembly voted to expel Yugoslavia from the UN, the Russian

representative did not make an effort to use its power of veto to prevent the expulsion of Yugoslavia from the organization (Donaldson and Noguee, 2005).

Despite Yeltsin's administration's attempts to avoid drifts far from the mainstream of international opinion on Bosnia (because of Russia's economic dependence on Western financial aid), and despite its use of all diplomatic means over the course of the war to support politically Serbs' interests (due to rising nationalist moods among Russian society), Russian foreign policy under Yeltsin's leadership in Bosnia-Herzegovina and the Balkans in general had little success. At that time Russia had too weak international power even to mediate between the West and Serbs. The NATO air strike on Serbs' artillery positions near Bosnian town of Gorazde in 1994 that were conducted without even consultations with Moscow best illustrated this weakness of Russia and relative insignificance of its role in Bosnian war. Although Russian leadership protested against NATO's action, Russian MFA Andrey Kozyrev attempted to balance Russian position by criticizing the Bosnian Serbs' leaders for using "a great country's policy to achieve its own aims" (Russian Ministry of Foreign Affairs, 2012). As a result, the crisis in Gorazde showed the paradox of Bosnian conflict for Russian foreign policy.

Russia's national interests dictated that NATO forces not be used against the Serbs, so as to prevent NATO from becoming the guarantor of peace in Europe, but Serb war tactics were provoking NATO military strikes, and Moscow was unable to control its nominal allies. The optimal solution for all parties would be a negotiated settlement. ... [T]he locus of diplomatic efforts became a group of five nations – Russia, the United States, France, Great Britain and Germany – known as the "contact group". Their goal was to devise a political solution to the Bosnian civil war (Donaldson and Noguee, 2005, p.248).

The efforts of the 'contact group' resulted in the Dayton Peace Accords signed by the presidents of Serbia, Croatia and Bosnia-Herzegovina, Milosevic, Tudjman, and Izetbegovic in Paris in December 1995. According to the Dayton Accords, Bosnia-Herzegovina was divided into two entities, Bosnia-Herzegovina Federation (initially Bosniak-Croat Federation), which

occupies 51% of Bosnia-Herzegovina's territory, and Republic of Srpska, located on the remaining 49% (see Figure 5.1 below).

Figure 5.1: The division of Bosnia-Herzegovina according to Dayton Accords



The main component of the Accords was the compromise for all sides to create “a central government with a Bosnian parliament and a three-headed presidency” (p.251). To enforce the peace, the Accords established a special NATO Implementation Force (IFOR), which originally comprised of 60,000 troops. The fact that 1600 of these forces came from Russia indicates that Russia's military influence in post-war Bosnia-Herzegovina was a small element of victory in overall defeat in Russia's foreign policy towards Bosnia-Herzegovina. Nevertheless, the main goal of Dayton Accords – the end of Bosnian warfare - was achieved partially due to Russia's diplomatic efforts.

As discussed in detail in Chapter 2, from the end of Bosnian war to the late 1990s, Russian leadership was preoccupied with Russia's domestic affairs including the parliamentary

and presidential elections in 1995/1996, and the financial crisis in 1998 that hard hit Russia's economy. These domestic issues resulted in the most striking failure of Russian foreign policy including the Balkans, i.e. the NATO air strike on republics-remnants of Yugoslavia, Serbia and Montenegro. In views of official Moscow, NATO's attacks on Serbia as one of the signatories of Dayton Accords put the peace in Bosnia again under possible reconsideration and made the position of Bosnian Serbs politically vulnerable. Despite Russian society's strong demand to defend and support Serbia, Russia's commitment to its traditional allies in the Balkans this time happened to be even less effective due to its domestic economic, political and security weaknesses. Among failures in domestic politics, the unsuccessful attempts to provide an adequate support to its allies in the Balkans was seen by majority of Russians as a major defeat. It resulted in Yeltsin's decision to resign and proposing Vladimir Putin as his successor.

As shown in Chapter 2, Russian foreign policy under Putin in general and towards the Balkans in particular happened to be more pragmatic than the one during Yeltsin's rule. At the same time, Russian-Bosnian relations remained closely related to Russia's relations with Serbia, especially in economic and security realms. In the economic realm, during Putin's first presidential term, in 2001, Russia and Federal Republic Yugoslavia (Serbia and Montenegro) signed the Free Trade Agreement that allowed Yugoslav companies to trade with Russia on equal conditions as the Commonwealth of Independent States (CIS) countries. According to Trade Chamber of Republic of Srpska, this Agreement also facilitated exports of some products from Republic of Srpska to Russia, where Serbian companies served as mediators. To improve direct economic relations, in 2004 Russia and Bosnia-Herzegovina established intergovernmental commission for trade and economic cooperation (Bosnian Embassy in Russian Federation, 2012). Nevertheless, trade turnover between Russia and Bosnia-Herzegovina has remained

relatively low (for example, in comparison to Russia's trade turnover with Serbia) and composed mainly of Russian energy exports to Bosnia-Herzegovina (Representative of Russian Trade and Industry Chamber, personal conversation, September 2 2012). Table 5.1 represents trade turnover between Russia and Bosnia-Herzegovina between 2000 and 2012.

Table 5.1: Russian-Bosnian trade turnover in 2000-2012

Year	Turnover (total)	Russian exports to Bosnia-Herzegovina	Bosnian exports to Russia	Structure of trade Russia/Bosnia-Herzegovina
2000	\$38 million	\$34,4 million	\$4 million	Energy resources/ manufactured corundum, leather shoes, black metals
2002	\$40 million	\$35 million	\$5 million	Energy resources/ manufactured corundum, leather shoes
2005	\$83,5 million	\$71 million	\$12 million	Energy resources/ manufactured corundum, leather shoes
2009	600,2 million	\$582,9 million	\$17,3 million	Energy resources/ manufactured corundum, leather shoes
2011	1136 million	\$1101 million	\$35,8 million	Energy resources/ manufactured corundum, leather shoes

Source: data aggregated from several sources (Bosnian Embassy in Russian Federation Website, Russian Trade and Industry Chamber, Russian Ministry of Economic Development, Republic of Srpska's Trade and Industry Chamber)

Still, as Table 5.1 shows, Russian-Bosnian trade turnover has largely increased over the last decade (where 90% of Bosnian exports to Russia are from Republic of Srpska – all industries represented in structure of trade are concentrated in Republic of Srpska). The most serious concern in Russian-Bosnian economic relations for both countries is the lack of interstate agreement for avoidance of double taxation and the protection of investments. At the same time, there is preferential export regime for Bosnian products in Russia that allows Bosnian companies' exports in Russia without custom duty (PR representative of Foreign Investment Promotion Agency – FIPA, online interview, November 7 2012). Nevertheless, the trade deficit is still increasing, as Bosnia-Herzegovina imports Russian energy, while many Bosnian producers export their products to Russia through Serbia, as the latter has Free Trade Agreement with Russia.

In the security realm, in 2003 Putin removed the remnants of the Russian peace-keeping forces from Kosovo, arguing that Russia does not want to participate in Kosovo's development in the wrong direction (Kremlin, 2001). At the same time, Russia's political support was crucial factor that enabled Republic of Srpska to politically retain its autonomy within Bosnia-Herzegovina. Bosnian Serbs' leadership and growing business class have envisioned their political stability and security in strong economy: the best way to reach these two goals at once has been attracting investments from their largest political ally, Russia.

As the analysis in this section shows, Russia earned certain political capital with its diplomatic efforts in the Balkans over the 1990s. As pointed out in Chapter 2, Russia's ability to support its allies was more a question of Russia's domestic politics: there was no agreement among Russian political leadership whether they should support Bosnian Serbs in any way or not. Nevertheless, in turn it was efforts of Russian politicians and diplomats that made the existence of Serb entity in Bosnia-Herzegovina possible. These efforts and the results that they provide are absolutely acknowledged by Bosnian Serbs, and it is what constitutes Russia's political capital in Bosnia-Herzegovina.

These efforts in the 2000s have served as a basis for the Russian capital class to transform it into economic benefits. The next section provides the detailed analysis of these processes in Bosnia-Herzegovina.

5.3.Motives and Modes of Russian FDI in Bosnia-Herzegovina

Russian companies have expanded in Bosnia since mid-2000s. According to information provided by the Bosnian for Foreign Investment Promotion Agency (FIPA), seven companies with Russian capital over €50,000 invested in Bosnia-Herzegovina in 1994-2010 (PR

representative of FIPA, online interview, November 7 2012). Table 5.2 below provides information about these companies and their investment activities in Bosnia-Herzegovina.

Table 5.2: Russian companies investors in Bosnia-Herzegovina 1994-2010

Company/Investor (Location)*	Activity	Founder	Amount (in \$)	% of shares owned by Russian investor
Oil Refinery, Bosanski Brod (RS)	Production	NeftegazInKor (Zarubezhneft), Moscow	\$141,6 million	53.6
Oil Derivates Refinery, Modrica(RS)	Production	NeftegazInKor (Zarubezhneft), Moscow	\$103,6 million	39.2
IEFK Bank/ MF Bank, Banja Luka (RS)	Banking	East European Financial Corp.	\$13,4 million	5.1
Petrol, Banja Luka (RS)	Retail	NeftegazInKor (Zarubezhneft), Moscow	\$2,1 million	0.8
RMG, Sarajevo (F)	Production	Sekur, Russia	\$2,6 million	1.0
Trade Center (F)Biosfera, Mostar	Retail	Emir Kecho	\$471,000	0.2
Invest Vrbas Konsalt, Banja Luka (RS)	Consulting	Sergeev Dmitry	\$269,360	0.1
Other joint-stocks			\$2,020	-
TOTAL			\$264,3 million	100

Source: Bosnia-Herzegovina's Ministry of Foreign Trade and Economic Relations 2010; *F – Bosnia-Herzegovina Federation/ RS – Republic of Srpska

By 2011 Russia was the fifth largest country investor in Bosnia-Herzegovina after Austria, Serbia, Croatia and Slovenia, and in 2011 it improved up to the fourth position. Direction of Russian FDI in Bosnia-Herzegovina continues pattern of Russian-Bosnian historical and political relations: as Table 5.2 indicates, the most FDI from Russia in Bosnia-Herzegovina are located in Republic of Srpska. Simultaneously, as Table 5.3 indicates, for Russia's total FDI the share of Bosnia-Herzegovina is negligible.

Table 5.3: Russian FDI (banks and non-banking corporations) in 2007-2011 (total and in Bosnia-Herzegovina)

Partner country	2007	2008	2009	2010	2011
Total (in \$ millions)	45897	55540	43632	51886	67221
Bosnia-Herzegovina (in \$ millions)	1 (0, 0002%)	55 (0, 0009 %)	287 (0,006 %)	94 (0,001%)	104 (0,001 %)

Source: Central Bank of Russia, 2012

Sectoral structure of Russian FDI in Bosnia-Herzegovina follows the trend of earlier analyzed Russian FDI in Germany and Hungary: energy sector is receiver of the largest amounts of FDI from Russia. This trend confirms heavy dependence of Russia's economy on its energy sector.

Similarly to previous two chapters, in this section I apply Liuhto's REM-model to analyze motives and modes of Russian FDI in Bosnia-Herzegovina, where R-factor (reasons for internationalization) can be classified into *market-seeking*, i.e. aim at penetrating the local markets, *resource-seeking*, i.e. to have access to cheap raw material, pool of labor or infrastructure, *efficiency-seeking*, i.e. sources of competitiveness, economies of scope and specialization and low cost of production (Wadhwa, 2011); and *assets-seeking*, i.e. accessing market itself, firm-specific knowledge or organizational models (Franco et al, 2008). Among other reasons, one of the most frequent motivations for company's internationalization is *trade (import) substituting*, i.e. directing trade to avoid customs.

5.3.1.FDI of Zarubezhneft and other Russian energy companies

Zarubezhneft is Russia's smallest 100% state-owned oil company and simultaneously the oldest Russian foreign economic enterprise founded in 1967 (Zarubezhneft, 2012). By using credit from Russian VneshTorgBank (literally, the bank of foreign trade), a deal that will be analyzed in detail in Section 5 of the present Chapter, Zarubezhneft's child-company, NeftegazInkor as the largest Russian company investor (and one of the largest foreign investors) in Bosnia-Herzegovina provides an important example for the analysis of intensity of TNC-state (FP) cooperation, and thus deserves special attention.

The quotations from the interviews below suggest that *market-* and *resource-seeking* are major motives for Zarubezhneft's internationalization in Bosnia-Herzegovina. According to a

former Zarubezhneft official, the main goal of investment in oil capacities in Bosnia-Herzegovina was the company's easier access to the direct customers in the EU markets.

Bosnia-Herzegovina is geographically close to the EU and as a potential EU member it has more favorable conditions for trade with the EU than Russia. Our main goal is to gain the access to the EU markets not only with raw oil, but with final oil products. However, we are too small company to invest directly in the EU as the competition there is much higher than here (former Zarubezhneft official, personal conversation, October 15 2011).

This citation explains not only the main reason for Zarubezhneft's internationalization in Bosnia-Herzegovina, but also the choice to locate its Bosnian office as close to the Western European markets as possible. NeftegazInKor was established in Banja Luka (located only 30km from Bosnian-Croatian border) in 2007 (when Croatia's prospects for the EU membership were already confirmed). Largely destroyed during Bosnian war and out of use since 1992, Oil Refinery Bosanski Brod became NeftegazInKor's first purchased capacity. The purchase of the Refinery for Oil Derivates in Modrica followed soon after. The responses from both Zarubezhneft's representative and their hosts in Bosnia-Herzegovina indicate that conditions of purchase were favorable for both contractors.

Investment climate in Republic of Srpska is quite favorable: we pay only property tax to local budget, which is only 0,03% of the revenues. Not only Republic of Srpska, but whole Bosnia-Herzegovina benefits from our investments: due to it, the Bosnian budget raised by €120 million. As a result, the credit rating of Bosnia-Herzegovina increased for the first time in the post-war period. Labor force is also cheaper than in neighboring countries (Zarubezhneft's former official, personal conversation, October 15 2011).

Moreover, this Russian company was not the only potential foreign investor for these oil capacities.

There was one attempt by the British company 'Vitol' to privatize the Refinery, but the attempt was fraud as the investor did not want to purchase on minimal acceptable for Republic of Srpska price. As a result the former Refinery's CEO, who lobbied for the deal, was arrested. ... It is much better for us in long perspective that Refinery Brod was sold to Russian company than to the British one, as Russia has more oil than the UK, thus oil supplies are guaranteed (Trade Chamber of Republic of Srpska representative, personal interview, December 6 2012).

Apart from the investments in the two refineries mentioned above, NeftegazInKor also purchased the chain of petrol stations ‘Petrol’ in Bosnia-Herzegovina. After 2009 it extended the petrol stations chain to Bosnia-Herzegovina Federation by purchasing Hungarian MOL’s stations and those of local brand ‘Zovko’ (Bosnian Foreign Investment Promotion Agency, November 2012). These purchases made NeftegazInKor the largest retailer in Bosnia-Herzegovina, a position that Hungarian MOL earlier held in Bosnia-Herzegovina. Since 2011 NeftegazInKor has entered the Serbian market with Modrica Refinery’s oil derivate products (Optima Group, Marketing manager, telephone interview, December 4 2012). For both refineries, this move represents a great ‘come back’ to the regional market after almost two decades of recession and collapse.

Our Western partners, who were the main economic advisors in Bosnia in early aftermath of the war, were wrong when they told us that the future is in small and medium enterprises (SMEs). SMEs can exist only if there is at least one large company, which acts as ‘locomotive’ of economic growth! And this exactly happened when the Russians purchased and re-activated the Brod Refinery (Trade Chamber of Republic of Srpska representative, personal interview, December 6 2012).

In terms of mode of internationalization (M-factor of Liutho’s REM-model), Zarubezhneft’s investments in Bosnia-Herzegovina follow the same pattern as most Russian FDI in earlier analyzed Germany and Hungary, i.e. Brownfield is the only form of Zarubezhneft’s FDI in Bosnia-Herzegovina. NeftegazInkor purchased and pooled resources under umbrella of Optima Group Corporation. Moreover, the chain of initially purchased Petrol petrol stations was redesigned under brand “Nestro” with its recognizable green-yellow sign (Optima Group, Marketing manager, telephone interview, December 4 2012). Zarubezhneft former official points out that green color (considered as one of the major symbols of Islam) in “Nestro” brand sign was company’s marketing means to attract clients in Bosnia-Herzegovina Federation (where majority population are Muslims).

Most petrol stations are already reconstructed and rebranded. A large part of production capacities in both refineries is already modernized, while others are under reconstruction. According to respondents from both Zarubezhneft and Trade Chamber of Republic of Srpska, Refinery Modrica invested about € five million in introducing the production of the ecologically clean oil Euro-5, which corresponds to the EU standards. This company's success is a source of pride not only for the company's representatives, but also many entrepreneurs in Republic of Srpska.

Through this Russian system, Modrica not only profited in terms of production's quality, but also with possibility to modernize and enter EU market, and to have its own profits already now, only two years after the end of purchase (Trade Chamber of Republic of Srpska representative, personal interview, December 6 2012).

The leadership of Zarubezhneft expects that the investments will return by 2015, when the profits will allow them to extend their business not only in republics of former Yugoslavia, but in the wider region, too.

It seems that Zarubezhneft was not the last Russian energy company that entered post-war Bosnia-Herzegovina. Gazprom and its regional partners have expressed interest in investing in Bosnia-Herzegovina (Bosnian Foreign Investments Promotion Agency, FIPA, November 7 2012). For instance, in 2010 the Republic of Srpska's government, Zarubezhneft and Gazpromneft's Serbian child-company NIS (largest oil company in Serbia) signed an agreement on oil sources research in the territory of Republic of Srpska (Representative of Republic of Srpska Representative Office in Moscow, personal interview, October 11 2011). According to Bosnian Foreign Investments Promotion Agency, this project is worth €100 million, with €15 million in the initial stage (FIPA, online interview, November 7 2012). Aforementioned consortium of Russian energy companies (Zarubezhneft and Gazpromneft-NIS) also proposed similar project on the territory of Bosnia-Herzegovina Federation worth €150 million.

Furthermore, very recently, in October 2012, Gazpromneft, which since 2008 has owned NIS, obtained the chain of petrol stations “Oktan promet” from northern-eastern Bosnian town of Bijeljina, although the amount of the deal has not been disclosed. Finally, Gazprom has negotiated building one part of South Stream gas pipeline through the Bosnian territory, in Republic of Srpska (Representative of Republic of Srpska Representative Office in Moscow, personal interview, October 11 2011; FIPA, online interview, November 7 2012). This project would also include gasification (the term used for building and use gas pipelines) of the Bosnian towns and distribution of gas (FIPA, online interview, November 7 2012; Representative of Russian Embassy in Bosnia-Herzegovina, personal interview, December 2 2012). This project is expected to bring more than €100 million of investments to Bosnia-Herzegovina. In sum, Gazprom’s main goal in Bosnia-Herzegovina is to gain direct access to the customers, similarly to all other Russian energy companies’ projects in Bosnia-Herzegovina analyzed above.

Finally, Russian investors in Bosnia-Herzegovina announced three more significant investment projects in energy sector in the coming years. For instance, according to the respondent from FIPA, Russian businessman Oleg Burlakov obtained the concession of Ljestani coal mine in Novi Grad (territory of Republic of Srpska). Concession agreement that was signed in May 2012 obliges the businessman to invest € twelve million (FIPA, online interview, November 7 2012). *Resource-seeking* seems the main motive that drives this Brownfield investment project. Another Russian businessman Rashid Serdarov with his Cyprus-based company made a proposal for one more Greenfield investment – the building of thermoelectric station Ugljevik 3 – in the area of northern-eastern Bosnian town Bijeljina. While it seems clear that both *resource-* and *market-seeking* motives drive this intention to invest, the volume of the project is not indentified yet.

In the next subsection I shall briefly analyze Russian FDI in the non-energy sector in Bosnia-Herzegovina to compare it with the FDI in the energy sector.

5.3.2. Russian FDI in non-energy sectors

When analyzing other Russian FDI in Bosnia-Herzegovina, it seems that Zarubezhneft's investment really acted as the trigger to not only attracting Russian and other foreign investments, but also as a 'locomotive' of economic growth. The first confirmation of this is the existence of Russian-owned consulting agency "Invest Vrbas Konsalt" and Russian-owned bank MF Bank (former IEFK Bank) in downtown Banja Luka. The latter invested about €10 million (FIPA, online interview, November 7 2012). By investing in these forms of business services, Russian investors responded to demand for Russian-speaking services in Bosnia-Herzegovina. Thus their reasons for investing in Bosnia-Herzegovina can be considered as both *market-seeking* and *investment substituting* (as the analogy to *trade (import) substituting*). In turn, Russian investors have concentrated more in and around Banja Luka. Despite the fact that these FDI are not forms of typical company transnationalization (as it is the case with above analyzed energy companies), they can be considered as Brownfield investments, as Russian investors obtained offices in existing office capacities in Bosnia-Herzegovina.

Existing capacities for small and medium business also attracted Russian SMEs from non-services sectors. For instance, Russian citizen Adam Vitarigov in 2011 bought chemic production capacities Bentoproduct located about 80 km from Banja Luka. Respondent from FIPA points out that, according to the contract plan, this investment should include a new factory. Therefore, apart from Brownfield, it is expected that this particular project will include Greenfield FDI. Apart from *market-seeking*, this investment project seems to be also driven by *asset-seeking* motive for FDI.

Another Greenfield FDI project in Bosnia-Herzegovina that is considered as Russian investment is the trade center ‘Biosfera’ located in Bosnia-Herzegovina Federation in the city of Mostar. The amount of this investment is \$471,000 (see Table 2 above). The Russian company Biosfera owned by Bosnian immigrant to Russia (businessman Emir Kecho) also announced investment in renovation of the architectural monument, hotel “Ruza” in Mostar (FIPA, online interview, November 7 2012). Both Biosfera’s projects in Bosnia-Herzegovina seem to be driven primarily by *asset-seeking* motives for the similar reasons as previously analyzed Bentoproduct. Cultural proximity serves as a secondary driver for these particular projects.

In the light of the above analysis, two kinds of REM-model of Russian FDI in Bosnia-Herzegovina can be constructed: one for the TNCs representatives of the energy sector, and another for non-energy companies. Table 5. 4 summarizes REM-model of the former.

Table 5.4: REM-model of internationalization of Russian TNCs representatives of energy sector in Bosnia-Herzegovina

R-factor: Why internationalize? ↓	E-factor: Where to internationalize? ↓	M-factor: How to internationalize? ↓
Market-seeking, resource-seeking, asset-seeking (lower costs of production), investment substituting	Favorable geographical location (proximity to the Western EU), low-cost labor, market-demand, cultural proximity	Acquisitions and mergers (among purchased companies), joint-stocks with other Russian energy TNCs (for participation in large projects)
Why go outside Russia? ↑	Why go to Bosnia-Herzegovina? ↑	How invest in Bosnia-Herzegovina? ↑

Based on the analysis from the previous section, Table 5. 4 shows that motives for Russian TNCs’ internationalization in Bosnia-Herzegovina range from the most typical ones for Russian energy TNCs in previously analyzed Germany and Hungary market-seeking to specific for Bosnia-Herzegovina resource-seeking motive. Bosnia-Herzegovina also attracts Russian energy TNCs by its simultaneous geographical proximity to the Western European markets and

relatively low labor costs. These findings confirm the hypothesis proposed by Oliker et al. (2009) and Kuznetsov (2010) that Russian energy TNCs are rational actors that serve their own business interests rather than Russia's national interests. As the following sections will show, cultural proximity plays one of the most important roles in Russian TNCs' decisions to invest in Bosnia-Herzegovina. Considering the M-factor, while at the end of the previous decade the only mode of internationalization in Bosnia-Herzegovina for the Russian energy companies was acquisitions, for the last couple of years some joint-stocks also emerged with other Russian energy TNCs.

Finally, Table 5.5 summarizes investment-model of Russian non-energy TNCs in Bosnia-Herzegovina.

Table 5.5: Investment model of Russian non-energy TNCs in Bosnia-Herzegovina

R-factor: Why invest?	E-factor: Where to invest?	M-factor: How to invest?
Market-seeking, investment substituting, asset-seeking	market-demand, cultural proximity, low cost labor	Acquisitions by SMEs (of factories and office capacities), Greenfield
Why go outside Russia?	Why go to Bosnia-Herzegovina?	How invest in Bosnia-Herzegovina?

The analysis of Russian non-energy investments in Bosnia-Herzegovina shows that these investments are conducted rather by small and medium enterprises owned either by Russian citizens, or by Russia-based Bosnians. Apart from this, as Table 5.5 shows, the investment model of Russian non-energy investors in Bosnia-Herzegovina differs from their counterparts from the energy sector in the much smaller number of reasons both to go abroad and to invest precisely in Bosnia-Herzegovina. Finally, their motives to invest in Bosnia-Herzegovina second those of Russian energy TNCs, thus also confirming prevalence of business interests in instances of Russian FDI in Bosnia-Herzegovina.

How do the findings about reasons and modes of Russian FDI in Bosnia-Herzegovina differ or coincide with official Russian foreign policy towards this country? To answer this

question, let us look at official Russian foreign policy objectives and public opinion towards the Balkans. In contrast to Russian foreign policy objectives in 1990s, when the relations with the USA were the first Russian foreign policy priority, in 2000 the USA was replaced with the CIS and Western Europe. Simultaneously, security objectives remained equally important as they were in 1990s. Moreover, for official Moscow in early 2000s, the question of war and peace were equally important in the post-Soviet space and in the Balkans. Russian officials insisted on the role of Organization for Security and Cooperation in Europe (OSCE) as the main guarantor of security in Europe as opposed to NATO. For instance, it is stated that “Russia will strongly oppose the narrowing down of the OSCE functions, specifically the attempts to redirect its specialized activities to the post-Soviet space and the Balkans” (The Foreign Policy Concept of the Russian Federation 2000).

In contrast to its 2000 version, in Russian Foreign Policy Concept of 2008 the Balkans are mentioned as part of Central and Eastern and Southern and Eastern Europe, not as a separate region. The only countries within this region that were separately mentioned are the Baltic States.

Russia is open for further expansion of pragmatic and mutually respecting cooperation with the States of Central, Eastern and South-Eastern Europe ... The Russian Federation is willing to interact with Latvia, Lithuania and Estonia in the spirit of good-neighborliness and on the basis of reciprocal consideration of interests (The Foreign Policy Concept of the Russian Federation 2008).

It is also remarkable - despite the Russian officials' frequent criticism of the NATO and Western politics - that instead of seeking an alternative to NATO, the Concept of 2008 highlights the importance of equal partnership with the military bloc.

Proceeding from a realistic assessment of the role of NATO, Russia deems it important to ensure progressive development of interaction within the format of the Russia-NATO Council in the interests of ensuring predictability and stability in the Euro-Atlantic Region (The Foreign Policy Concept of the Russian Federation 2008).

Russia's presence in the Balkans remained the political objective only of the Russian nationalist-conservatively oriented parliamentarians and members of the Russian society. The surveys of Russian Levada Center (the center for sociological research) showed that there was a widespread opinion in Russia that the war in former Yugoslavia in general has a very special meaning for Russia. As pointed out in Chapter 1, according to Alexei Grazhdankin, deputy head of Levada Center, Russians' attitude to the United States was largely negative in the beginning of 2000s, when the public reacted promptly to Washington's moves, becoming more critical during the bombing of Yugoslavia in 1999 (Gazeta, 2007).

Simultaneously, economic objectives became the first Russian foreign policy priority, while security and positive political relations for Russian political-economic elite became the means to reach their business goals. The best illustration of this was Dmitry Medvedev's statement - on the occasion of signing the agreement on acquisition of Serbian NIS by Gazpromneft - that the agreement was the purchase of NIS as an element of moral and economic support to Serbia in its Kosovo territorial issue due to the Western pressure (Medvedev, 2008). Taking the results of this analysis forward, the following section explores to what extent, if at all, these Russian foreign policy activities and their leaders' statements affected perceptions of Russia in Bosnia-Herzegovina.

5.4.Perceptions of Russia and Russian TNCs in Bosnia-Herzegovina and their Impact on Russian FDI

Similarly to the two previous chapters, to examine perceptions of Russia in Bosnia-Herzegovina on **macro level**, i.e. the level of political elites, I used speeches and official statements of Bosnian politicians, and to examine perceptions on **micro level** I used formal interviews and personal conversations. On the **macro level**, politicians representing Bosnia-Herzegovina Federation tend to keep neutral stance towards Russia and keep it within the

diplomatic formalities both in political and economic relations. This attitude is conditioned by the Russian-Bosnian relations, and the fact that Bosnia-Herzegovina, in fact, is too weak as a state to be an actor in the international arena (Bosnia-Herzegovina – Russia Relations, 2012).

On the contrary, politicians that represent Serb entity usually portray Russia as the main political and economic ally. For instance, current prime-minister of the Republic of Srpska, Aleksandar Dzombic recently stated that Republic of Srpska's participation in the South Stream project will be 'the key investment for further development of the entity, that will bring other large investments' (mojevesti.ba, 2012). Therefore, both politicians and business persons in Republic of Srpska agree that Russian investments have brought multiple benefits to both Republic of Srpska and Bosnia-Herzegovina in economic and social terms.

Considering **micro level** represented by business class in both Bosnian entities, perceptions of Russia are extremely rationalized: depending on varied business interests, Russian companies can be portrayed as either 'major partners' or a 'right hand of militant and aggressive Kremlin'. The latter is rarely heard in Bosnia-Herzegovina, but it is clear that business interests of the Federation's oil lobby (allies of Hungarian MOL) are behind this kind of discourse. For instance, there was the case where official press published the article that illustrated potential building of the South Stream gas pipeline as potential threat to Bosnia-Herzegovina's sovereignty, characterizing it as 'Bosnia's geopolitical slavery to Russia' (Representative of Russian Embassy in Bosnia-Herzegovina, personal interview, December 2 2012). This example suggests that business interests shape both positive and negative perceptions of Russia, which are also projected on Russian FDI in Bosnia-Herzegovina. On the other hand, in Republic of Srpska the attitude towards Russia are very positive. It seems that these positive attitudes are the result primarily of the positive changes in economic situation in the Republic of Srpska after

penetration of Russian companies and investors in this part of Bosnia-Herzegovina. Russia is perceived almost in a mythological manner.

For us here Russia is still seen as some kind of savior. Whether it is savior historically or not, that is an open question; nevertheless, our ties from the Yugoslav and Soviet times and similarity of systems created perception that they are best partners for us (Representative of Trade and Industry Chamber of Republic of Srpska, personal interview, December 6 2012).

Finally, as pointed out in Section 1 of the present chapter, in contrast to previously analyzed Germany and Hungary, there are no official public opinion surveys about Russia in Bosnia-Herzegovina: therefore, as a part of my fieldwork I conducted formal and informal interviews in Banja Luka and Sarajevo and learned from them about the perceptions of Russia among local population. The interviews conducted to examine acceptance on **medium level** in Republic of Srpska included twenty people aged between twenty-five and sixty-five, men and women (equally), predominantly intellectuals (five of the interviewees had no higher education diploma). All of them expressed positive attitudes towards Russia and especially towards Russian FDI and related them to hopes for further economic prosperity. Fifteen of them also related their positive attitudes towards Russian economic presence in Bosnia-Herzegovina to the traditional cultural proximity between Russians and Serbs. For the latter, Russia's presence in Bosnia-Herzegovina still represents an extremely important security factor.

It is the fact that the influence of Russia in Bosnia-Herzegovina is much higher today than a decade ago. It is not only traditional cultural and economic ties, and much greater possibility for investments and opening the market, but also the fact that we feel much greater political security, because Russia is one of signatory of the Dayton Accords (Director of Center for International Relations, personal interview, December 6 2012).

This view confirms the observation of my respondent from the Russian Embassy in Bosnia-Herzegovina, which can serve as an interesting illustration of the difference in the attitudes towards Russia in Republic of Srpska and Bosnia-Herzegovina Federation.

An interesting cultural initiative came from Republic of Srpska, where a group of enthusiasts led by famous Bosnian Serb journalist Zarko Stojanovic organize an annual Festival of Russian film. However, the festival has been popular only in Republic of Srpska, and there are no interests yet for such an event in the Federation (Russian Embassy's representatives in Bosnia-Herzegovina, personal interview, December 2 2012).

At the same time, in Bosnia-Herzegovina Federation another twenty people in the same age span were interviewed, and showed less enthusiastic and rather purely materialistic attitudes towards Russia. Russia is still perceived as the Soviet Union, i.e. world's superpower, opponent to the West, while Russian, i.e. Soviet, products are the main artifacts of its inefficient economy.

Who would buy Lada? It is not good quality car. It is common to have Volkswagen and Fiat, good to have Renault or Ford etc, but nobody would like to buy Lada, or Skoda, or any other car produced in Eastern Europe (Resident of Sarajevo, Bosnia-Herzegovina Federation, personal conversation, August 3 2010).

However, in the last decade these perceptions have slightly changed. With Russian companies entering Bosnian market and rumors that they together with Western companies found and own Bosnian oil reserves, perceptions of Russia in general have changed from economically negative to economically neutral. The respondents interviewed in Sarajevo (Bosnia-Herzegovina Federation) expressed satisfaction because of investment inflows in the country, and this was mostly related to a Bosnian newspaper article about possibilities for oil extraction in Bosnia-Herzegovina. Some representatives of the business class in Republic of Srpska guess that this article could have been ordered by the oil lobby of the Bosnia-Herzegovina Federation, considered as a traditional ally of Hungarian MOL (which, as mentioned in the previous section, largely lost its positions in the Bosnian market since Zarubezhneft's acquisition of oil-proceeding capacities in Bosnia-Herzegovina). In conclusion to this section, perceptions about Russia in Bosnia-Herzegovina can be summarized in three levels, as presented in Table 5.6 below.

Table 5.6: Perceptions of Russia in Bosnia-Herzegovina in 2012

Entity/Level	Perceptions about Russia in Bosnia-Herzegovina Federation	Perceptions about Russian FDI in Bosnia-Herzegovina Federation	Perceptions about Russia in Republic of Srpska	Perceptions about Russian FDI in Republic of Srpska
Micro (business) level	Neutral, tendency towards positive	Neutral, tendency towards positive	Positive	Positive, tendency towards neutral
Middle (population) level	Negative, tendency towards neutral	Neutral	Positive	Positive
Macro (political) level	Negative, tendency towards neutral	Neutral	Positive	Positive

As Table 5.6 indicates, despite traditionally being influenced by politics, perceptions of Russia in Bosnia-Herzegovina are increasingly shaped by economic factors. This tendency has the most impact on the business community in Bosnia-Herzegovina's both entities. With regard to these findings from this and the two previous sections, in the following section I explore the influence of political relations and business interests on attitudes towards Russian FDI in Bosnia-Herzegovina.

5.5. Attitudes towards Russian FDI in Bosnia-Herzegovina

This section analyzes the impact of perceptions on reactions to Russian FDI in Bosnia-Herzegovina. As the results of my interviews and personal conversations with both Russian and Bosnian respondents show, regardless of different perceptions of Russia between the two Bosnian entities, none of the Russian companies have ever experienced difficulties in conducting FDI in Bosnia-Herzegovina. This argument holds for attitudes towards Russian FDI in both Bosnian entities and regardless of the level of perceptions. For instance, among business circles in Bosnia-Herzegovina Federation neutral attitudes with tendency to positive towards Russian FDI seem to play facilitating role for Russian investors in Bosnia-Herzegovina.

Our activities are very much directed to attract investments from Russian Federation. Our management visited Russian Federation in the frame of the official government's visit ... the Agency aims to provide support to the Russian companies investors to avoid and overcome all possible difficulties and to promote their activities in Bosnia-Herzegovina (PR representative of FIPA, online interview, November 7 2012).

On the other hand, the reaction to prospective Russian investors in Republic of Srpska at least seemed positive and even emotional. According to respondent from the largest Russian investor in Bosnia-Herzegovina, Russian state-owned oil company Zarubezhneft, the experience was positively surprising.

The offer for the oil-proceeding capacities in Republic of Srpska was quite attractive as an investment. At the same time, our goal was to get to final consumers in Europe, which is hard to achieve in Germany and elsewhere in Europe, where nobody welcomes Russians and Russian companies. It is easier to access the EU markets from Bosnia than from Russia. ... In Bosnia we received the warmest ever welcome from the local people. ... When we arrived for the first time, the group of people gathered around us and cheered ‘Russians, Russians!’ (Zarubezhneft’s former official, personal conversation, October 11 2011).

It is hard to imagine someone trying to attract investments in the way explained above: nevertheless, having examined in the previous section public opinion in Republic of Srpska, such a situation seems possible. Although underpinned with generally positive attitudes towards Russia, it seems that the main reason for Bosnian Serbs to attract Russian investment was economic rationality.

When the Russians purchased and re-activated the Brod Refinery, former workers received their long-awaiting salaries, and in only two months 200 cars were bought in Brod. The SMEs for technical and cleaning services and restaurants appeared, and the life came back to Brod (Trade Chamber of Republic of Srpska representative, personal interview, December 6 2012).

Overall, it can be argued that in Bosnia-Herzegovina Russian FDI is very welcome for two reasons: first due to the country’s extremely poor economic performance, and second but equally importantly, due to the political antagonisms between the two Bosnian entities. With regard to these findings, the next section analyzes the ways and the degree in which Russian TNCs cooperate with Russian state institutions in Bosnia-Herzegovina.

5.6. Forms and Mechanisms of Cooperation between Russian TNCs and State Institutions

As seen from the analysis above, Russian companies in Bosnia-Herzegovina have practically never experienced any discrimination and difficulties in their decisions to invest in Bosnia-Herzegovina. The actors from Bosnia-Herzegovina have made efforts in attracting Russian investments. Especially important role in attracting Russian investments in Bosnia-Herzegovina played Bosnian/former Yugoslav business diaspora that emerged in Russia in early 1990s as a result of migrations influenced by wars on the post-Yugoslav space. Although during the wars Russian public opinion largely supported Serbs (as shown in the Section 2 of the current chapter), only insignificant number of Russians were really aware about the details of conflicts and their outcomes. For instance, one of the first reports in Russian media about Russian investment in the Balkans informed that “Zarubezhneft invested in modernization of oil refinery in Serbia” (Oilnews, March 2011), meaning the investment in Refinery in Bosanski Brod, Republic of Srpska. This example, along with my personal and professional experience and years of observations in Russia, shows that among Russian journalists, diplomats, and scientists, usually only those who specialize in the Balkans understand the difference between Serbia and Republic of Srpska. Experiences of some representatives of former-Yugoslav business diaspora in Russia show that the same holds for Russian business class.

During our recent visit to Russia, there were several occasions when we had to explain that we are not from Serbia. In all of these occasions it took some time us to explain that Republic of Srpska is the part of Bosnia-Herzegovina, not Serbia. But it is quite typical for all big nations (Representative of Trade and Industry Chamber of Republic of Srpska, personal interview, December 6 2012).

As mentioned above, the management of the refineries in Republic of Srpska and the entity’s government tried to find an investor for the deteriorating oil capacities by using all possible networks around the world. Finally, in 2005 representatives of former-Yugoslav

business diaspora in Russia succeed in attracting the attention of state-owned Zarubezhneft. Despite common friendly attitudes among Russians toward Serbs, Zarubezhneft's negotiators kept purely professional attitude towards their Bosnian partners during negotiations (personal participant observation, Moscow, November 2007). Negotiations lasted till the end of 2007, when the first official contracts were signed in Moscow. These contracts were official guarantee that Zarubezhneft already has all rights on decision-making regarding Bosnian oil capacities.

After receiving these guarantees, the company's top management decided to apply for the state's credit to conduct the acquisition in Bosnia-Herzegovina. According to former Zarubezhneft's official, this application resulted in uneasy negotiations in the Kremlin and even in disputes among various Kremlin's factions and their members in the ministries over the next two years. Resistance to Zarubezhneft's application came from the politicians considered as the Kremlin's liberal wing.

In spite to agreement among the departments in the Ministry of Energy that this acquisition can be useful for the state's oil sector, there was strong resistance to the credit on the part of the Ministry of Finance, and Minister Kudrin in particular, who was responsible for the state budget. Former Minister of Economic Development, German Gref supported Kudrin. In their views, Bosnian and other Western Balkan markets were too small and too poor to be attractive for Russian investments (Zarubezhneft's former official, personal conversation, October 11 2011).

Therefore, the management of Zarubezhneft realized that the only way to receive credit for the planned acquisition in Bosnia-Herzegovina was to bypass the ministerial level. Personal network in the Kremlin were the main means of lobbying for the credit. Some managers used personal friendships with some of the most influential decision-makers in Vneshekonombank. Others used personal relations with the representatives of the presidential administration and with the President Putin personally. Final agreement was reached with recognized mutual personal commercial interests in the deal among the representatives of the presidential

administration, Vneshekonombank and the company. As a result of two years of non-transparent negotiations and disputes among the factions, Vneshekonombank granted the credit to Zarubezhneft, and the acquisition was finalized in 2009. Official explanation for the decision again was attached to the Russian foreign policy interests in the Balkans.

After the Zarubezhneft's intention to acquire the oil capacities in Bosnia became the top business story in both Russian and Balkan media, it became the matter of the state's pride and dignity to finalize the project. We received the credit and finalized the acquisition in 2009 (Zarubezhneft's former official, personal conversation, October 11 2011).

Since conducting the major acquisition in Bosnia-Herzegovina, Zarubezhneft needed the state's support only once, when the company experienced the certain problems with influx of its oil through the territory of neighboring Croatia. According to economic expert of the Fourth European Department of the Russian Ministry of Foreign Affairs, the Russian Embassy's representatives in Bosnia immediately contacted their colleagues in Russian Embassy in Croatia for support.

The price for influx of Zarubezhneft's oil was considerably higher than that for the Croatian company INA. In turn, the Russian Embassy in Croatia contacted the Croatian government, and negotiated the lower price of oil influx for Zarubezhneft (Economic expert of the Fourth European Department of the Russian MFA, personal interview, July 20 2011).

Otherwise, according to the representative of the Russian Embassy in Bosnia-Herzegovina, being relatively frequent on the highest level, the contacts between Zarubezhneft's management and the Embassy's representatives in Bosnia-Herzegovina are limited to the official formalities.

There are about 100 Russian citizens in Banja Luka that create some kind of Russian business community. When there were elections, we organized polling station in Banja Luka for them (Russian Embassy's representatives in Bosnia-Herzegovina, personal interview, December 2 2012).

Apart from the elections and protocol meetings, the Embassy is little involved in activities of not only Zarubezhneft's subsidiaries, but all other Russian investors in Bosnia-Herzegovina. Embassy's representatives are not even informed about many of other Russian investors in Bosnia-Herzegovina.

I know that there is one Russian company that plans to invest in Mostar, and that its owner is originally from Bosnia. I learned about it from the local newspaper (Russian Embassy's representatives in Bosnia-Herzegovina, personal interview, December 2 2012).

Similarly to Russian Embassies elsewhere, one of the aims of Russian Embassy in Bosnia-Herzegovina is to support the promotion of Russian language and Russian culture abroad. My respondent from the Russian Embassy in Bosnia-Herzegovina expressed satisfaction about the initiative of Refinery Modrica to organize Russian language courses for its workers, but also for the citizens of Modrica who are willing to learn Russian. Simultaneously, Russian language courses also bring more material benefits to their initiators.

The courses were initiative not only of the company's employees, but also of the spouse of one of directors; she is Russian and Russian teacher, so she decided to continue her carrier here in Bosnia. ... I think that the courses are commercial as the teacher and company need to have certain paybacks for their efforts. ... This Russian teacher called the Embassy and asked how can we help and support them. Fortunately, we had some good Russian textbooks that we once received from some cultural fund from Moscow ... We gave them these textbooks and we were very happy that we as the Embassy could donate and contribute to the efforts to promote Russian culture here (Russian Embassy's representatives in Bosnia-Herzegovina, personal interview, December 2 2012).

Finally, it seems that Bosnian Serbs' initiatives and Bosnian and other former-Yugoslav diaspora still remain the main force of attracting Russian investment in Bosnia-Herzegovina. For instance, the executive director of Oleg Burlakov's Bosnia-based company Privredni Preporod (Industrial Revival) is former Bosnian Ambassador to Russia, Gordan Milinic speaks of the above analyzed tendency. Bosnian entrepreneurs also search for more forms of economic cooperation.

The organization of Russian-Serbian Friendship exists for long time and now all entrepreneurs use it that to find possibilities either for investments or for entering Russian market. All relations are useful ...Therefore, cultural cooperation is one of important forms to establish economic ties (Representative of Trade and Industry Chamber of Republic of Srpska, personal interview, December 6 2012).

In sum, the findings from the analysis above suggest three conclusions. First, the main force that attracts Russian investments in Bosnia-Herzegovina is its business diaspora in Russia with strong linkage to Bosnian energy sector and political leadership of Republic of Srpska. Second, the findings clearly show that there is no unified position among Russian elites considering both Russian business and national interests in Bosnia-Herzegovina in particular and the Western Balkans in general. This ambiguity leads to negotiations about the foreign investments only on informal level and using the personal links within the Russian state and among the diaspora of the host country. Finally, there is little if any need for diplomatic support to Russian investors in Bosnia-Herzegovina; therefore the cooperation between Russian state institutions and Russian companies is limited to protocol formalities. The only Russian state representative institution in Bosnia-Herzegovina (the Embassy) in fact has no influence over the activities of Russian companies. In light of these conclusions, it seems logical to consider *cooperation* between Russian state and TNCs in Bosnia-Herzegovina as *low*.

Conclusions

Similarly to the two previous chapters, this chapter shows that in practice four out of five hypotheses about Russian FDI complement each other, although in different ways. While as the first hypothesis states Russian TNCs are rational actors that do not use foreign policy as guidance, they and their managers, opposite to the second hypothesis, use foreign policy as an instrument for reaching their goals. As a result, foreign policy is present in Russian FDI, but only as a means, while goals are business and individual profit-seeking interests. Therefore, the evidence about Russian FDI in Bosnia-Herzegovina confirm economic explanation of Russian

FDI proposed, for instance, by Kuznetsov (2007) and Olikier et al (2009), and following individual interests explanation proposed by Kuznetsov (2010), while it disproves ‘imperialist expansionism’ thesis about Russian FDI in general comprehensively proposed by Vahtra and Liuhto (2004), Liuhto (2008), and Orban (2008).

Second, the analysis in this chapter confirms that the dependent variable, i.e. *cooperation* between Russian TNCs and state institutions in host country is directly dependent on the *attitudes towards* Russian FDI in host country. In the case of Bosnia-Herzegovina, these attitudes are mostly positive and the acceptance of Russian FDI is relatively high due to the country’s very low economic performance, low level of economic development, and internal political strains. Nevertheless, Bosnia-Herzegovina is a striking example of the dependence of Russian state-TNCs cooperation on both frequency of Russian FDI and attitudes towards it: Republic of Srpska have used its business diaspora in Russia to attract Russian investors on its territory, while in Bosnia-Herzegovina Federation investments from Russia came directly from Bosnian diaspora in Russia. In sum, the case of Russian FDI in Bosnia-Herzegovina parallels Stallings’ (1992) thesis about international influences on domestic policies in the Third World countries, which argues that the stronger the economic, political, and ideological linkage between domestic groups and international actors, the less need there is for leverage between the latter and Third World governments. In other words, the case of Russian FDI in Bosnia-Herzegovina shows that the poorer the host country, the better the attitudes, and the higher the acceptance in a host country, the lower the intensity of Russian TNCs-state cooperation. By comparing findings from the three empirical chapters, the next, final part of the present dissertation, *inter alia*, discusses the broader relevance of the theory proposed by the findings of this chapter.

Part 3: Comparisons, Contributions, and Conclusions

Chapter 6: Russian Foreign Policy and Foreign Direct Investments in Germany, Hungary and Bosnia-Herzegovina: Comparative Perspective

Summary

The present chapter compares the findings from the three empirical chapters, i.e. the political, economic and social factors that influenced cooperation between Russian state institutions abroad and Russian companies in instances of outward foreign direct investments. The findings show that although political and social factors to some extent shape the trajectories of Russian FDI, the decisive factor for the cooperation between Russian state institutions and Russian TNCs is the economic factor, i.e. the level of economic and institutional development of the host country: the higher this level is, the more attractive is the host country for Russian FDI, and the more difficult it is for investments from Russia to enter their markets, and thus, the higher the cooperation between Russian state institutions and Russian TNCs. Therefore, out of the analyzed countries, the cooperation between Russian state institutions and Russian companies is the highest in Germany, and the lowest in Bosnia-Herzegovina.

Introduction

In the previous three chapters I analyzed the impact of the independent variables, i.e. Russian political and economic relations with Germany, Hungary, and Bosnia-Herzegovina, investment activities of Russian companies in these three countries, and the perceptions of Russian companies in them, on the dependent variable, i.e. cooperation between Russian companies and Russian state institutions. Findings from empirical chapters show that a) business interests prevail in most Russian foreign direct investments, b) individual profit-seeking interests are almost equally important as business ones, and c) both are usually masked with Russian political goals (in order to justify it as national interests to the Russian public). In order to

construct a model of cooperation between Russian TNCs and state institutions in instances of outward foreign direct investments, in this chapter I compare findings across the three analyzed countries. To answer the main research question of the present dissertation, I situate this model of cooperation in the four strands of literature about the motives for Russian foreign direct investments. Thus, the chapter is led by the following questions: How does the importance of political, economic and social factors for Russian companies vary across Germany, Hungary, and Bosnia-Herzegovina? Under what conditions and in which forms do Russian companies and Russian state institutions abroad cooperate with each other? How does this cooperation vary across host countries according to attitudes toward Russian companies' FDI and host country's level of development?

The chapter proceeds as follows. Section 6.1 analyzes similarities and differences in Russian relations with Germany, Hungary and Bosnia-Herzegovina over the post-Cold-War period. Section 6.2 analyzes similarities and differences in motives and modes of Russian companies' investments in these three countries. Section 6.3 compares perceptions of Russia and Russian TNCs in the three countries, while Section 6.4 compares the impact of these perceptions on the attitudes towards foreign direct investments from Russia across three countries. Section 6.5 shows the variety in dependent variable across the three countries, comparing cooperation between Russian companies and state institutions in Germany, Hungary, and Bosnia-Herzegovina, and concludes.

6.1. Russia's Relations with Germany, Hungary, and Bosnia-Herzegovina: Different Countries, Different Relations

In the early aftermath of the USSR's dissolution, Russia appeared as a new independent country and its leaders' first foreign policy task was to establish new diplomatic relations. Simultaneously, this process was closely related to mutual recognition of the new boundaries and

new states, including Russia's status as the main successor of the USSR. In this process there were few if any similarities in Russia's relations with Germany, Hungary, and Bosnia-Herzegovina. As discussed in Chapter 3, Russia's relations with Germany were in the focus of emerging Russian foreign policy, as they provided space to trade political capital and military strength in exchange for economic support. Namely, in the early 1990s, Russia experienced deep economic crisis and needed reliable foreign creditors to overcome it, and Germany not only fit the role of capable foreign creditor, but also needed Russia's political support and readiness to withdraw Soviet troops from former Eastern Germany. These mutual interests led to close cooperation between Russia and Germany, in which each of them fulfilled agreements in the shortest possible time. Thus, due to economic opportunities that this interdependence between Russia and Germany provided, for Russia in the 1990s Germany was the most important partner country in the world and first priority in early Russian post-Soviet foreign policy.

In contrast to Germany, Hungary as one of the relatively small former Soviet 'satellites', happened to be much less important for Russia after the dissolution of the USSR. As discussed in previous chapters, first political leadership of post-Soviet Russia was focused on economic issues and obsessed with the West's economic success (Donaldson and Nogee, 2005); therefore, in the early 1990s Russia almost completely disengaged from the countries of the former Soviet bloc, including Hungary. Russian first post-Soviet leadership considered these countries merely as a neutral zone between the former Soviet Union and the West, rather than a region of particular importance for Russia. Thus, for early Russian post-Soviet foreign policy, Hungary was rather a country of secondary importance.

In sharp contrast to its relations with both Germany and Hungary, the political situation in Bosnia-Herzegovina, which in spring 1992 escalated to civil war, complicated Russia's

relations with the West. Although, following the majority of its Western partners, Russian leadership recognized Bosnia-Herzegovina as independent from Yugoslavia in April 1992, their stance towards the sides in the Bosnian conflict was significantly different from those of the Western powers, as only official Moscow did not blame the Bosnian Serbs' leadership in the escalation of the conflict. On the other hand, along with Germany, Great Britain, France, and the United States, Russia was a member of a 'contact group' whose diplomatic efforts in December 1995 created conditions for Bosnian peace agreement, known as Dayton Peace Accords, according to which Bosnia-Herzegovina was divided into two entities, Bosnia-Herzegovina Federation and Republic of Srpska (see Chapter 5 for details). Thus, in the early aftermath of the USSR's dissolution, Bosnia-Herzegovina happened to be one of stumbling blocks in Russia's relations with the West, rather than a partner country itself.

As discussed in Chapter 2 at length, in 1998 Russia was heavily hit by financial crisis that, along with long-lasting internal political struggles, deteriorated its international positions and image. In the same year, reunified Germany's new leadership claimed 'pragmatic' relations with Russia, which meant non-privileged status for Russia in German foreign policy, and, more importantly, consequential minimization of financial aid and economic support. In turn, in 1998 and 1999 trade turnover between Russia and Germany decreased rapidly. Moreover, as all remnants of the Soviet troops were already withdrawn from German territories, Germany's political dependence on Russia decreased significantly; simultaneously, Russia's economic dependence on Germany remained the same as in the early 1990s. Thus, although Russia remained important for Germany as the main energy supplier, in the late 1990s the relations between them took their previous form characterized by Stent (1999) as uneven interdependence, in which Russia was more dependent on Germany than vice versa.

The late 1990s also brought significant changes in Russia's relation with Hungary. While the financial crisis and internal political struggles made Russia internationally weak, Hungary's international status significantly improved due to relatively successful economic reforms, NATO membership, and confirmed candidacy for the EU membership. This integration to the Western European military and political structures provided Hungary with leverage not only to politically oppose Russia in the Kosovo crisis (in which official Moscow again took stance opposite the West), but also, as described in Chapter 4, to ban the transit to a Russian-Belorussian humanitarian convoy to Serbia through the Hungarian territory (Orban, 2008). Thus, although Hungary remained heavily dependent on Russia's energy supplies as it had been during the Soviet times, it significantly improved its international status in general and vis-à-vis Russia in particular. As a result, the significance of Hungary in Russian foreign policy increased as both a NATO member and a future EU member state.

In contrast to both Germany and Hungary, and due to its preoccupation with domestic affairs, Russia's relations with Bosnia-Herzegovina in the late 1990s were rather the side-effect of Russia's opposing to the West in the Kosovo crisis. For instance, official Moscow stated that NATO's attacks on Serbia as one of the signatories of the Dayton Accords put peace in Bosnia again under stress and made the position of Bosnian Serbs politically vulnerable. Nevertheless, due to domestic economic, political and security weaknesses, Russia's political engagement in Kosovo crisis in 1999 happened to be much less successful than its efforts in peace settlement in Bosnia-Herzegovina in the first half of 1990s. Thus, similarly to the early 1990s, in the late 1990s Russia's relations with Bosnia-Herzegovina merely echoed Russia's relations with the West, especially regarding Kosovo crisis.

Starting from 2000, due to rise of energy prices in the world market, Russia's economy recovered from the deep economic crisis. Russia's economic recovery was accompanied with nominal political stabilization in the country and Vladimir Putin's coming to power and his increasingly (at least rhetorically) assertive foreign policy. These two factors improved Russia's international position, especially as one of the world's largest energy suppliers. Moreover, Putin's coming to power in Russia had almost immediate positive effect on Russian-German relations. His fluent German and personal contacts in Germany, which were the results of years spent in Eastern Germany as a former Soviet colonel (Shevtsova, 2005), served as fertile ground to enter a new period of close Russian-German economic cooperation.

Still, besides the fact that Russia's importance for Germany increased due to rising energy prices and Putin's coming to power, Russian-German relations remain unevenly interdependent: while Germany needs Russian energy to sustain its industries, Russia needs both German technologies to modernize its economy and revenues from energy exports to sustain its state budget (Zverev *et al.*, 2011). Due to its economic and institutional backwardness, Russia remains less important partner for Germany than vice versa and this uneven interdependence is reflected in both Russian and German official foreign policies: for instance, while for Russia the relations with Germany represent the first priority in the EU, for Germany relations with Russia remain the first priority in Eurasia.

In the twenty first century, with Russia's rise as energy power, energy supplies are defining factor in Russian-Hungarian relations. For official Moscow, Hungary is important as a part of the EU, geographically close to Russia's major partners in Western Europe. On the other hand, to a large extent Russian-Hungarian relations also depend on the attitude towards Russia of the Hungarian government's dominant political force. Usually, but not exclusively, Russian-

Hungarian relations have been more cooperative when Hungarian Socialist Party dominated Hungarian government, and less favorable for Russia when FIDESZ dominated it. However, as shown in Chapter 4 on the example of Viktor Orban's relatively recent visit to Moscow, these trends are changing. Overall, in the last twenty years Russian-Hungarian relations transformed, in Poti's (2007) words, from Hungary's subordination to Russia to a Russian-Hungarian partnership.

Finally, Russian foreign policy under Putin towards Bosnia-Herzegovina happened to be more pragmatic than during Yeltsin's rule. Still, Russian-Bosnian relations remained closely related to Russia's relations with Serbia, especially in economic and security realms: similarly to Russia's political support to Serbia in attempts to retain control over Kosovo, its political support was a crucial factor that enabled Republic of Srpska to politically retain its autonomy within Bosnia-Herzegovina. Moreover, Bosnian Serbs' current leadership and growing business class have envisioned their political stability and security in a strong economy: the best way to reach these two goals at once has been to attract investments from Russia. Thus, in contrast with Russia's relations with Germany and Hungary, Russian-Bosnian relations are based on Bosnian Serbs' relatively high political and economic dependence on Russia.

In sum, over the last two decades, while Russian-German relations have been characterized by a relatively rapid transformation from Germany's dependence on Russia to uneven interdependence, and Russia-Hungarian relations were characterized by a gradual change from Russia's 'paternal' control towards partnership, Russian-Bosnian relations changed towards Bosnia-Herzegovina's increased dependence on Russia. In addition, it can also be concluded that the extent of unequal interdependence in Russian-German relations has varied, depending on world energy prices and what political force has been in power in Russia. Similarly, Bosnia-

Herzegovina's dependence on Russia has been uniform, regardless of personalities and political parties in power in Bosnia-Herzegovina. In contrast to Russian-German and Russian-Bosnian relations, Russian-Hungarian relations shifted depending on personalities and political party in power. This comparison is summarized in Table 6.1 below. The next section compares motives and modes of Russian investments in these three countries.

Table 6.1: Russia's relations with Germany, Hungary, and Bosnia-Herzegovina (1990-2012)

<i>Host country/ Independent variable 1</i>	Germany (regional power, core country of the EU)	Hungary (peripheral country with capable state)	Bosnia-Herzegovina (peripheral country with failed state)
Russia's political relations with host country	Very intensive, characterized as unequal interdependence (Russia more dependent on Germany, than vice versa), regardless of political force in power in Germany	Fluctuating intensity, characterized as transformation from subordination of Hungary to Russia, to partnership between them, dependent on personalities and politics of dominant political party in power in Hungary	Very intensive with Serb entity, almost absent with Bosnian Federation, characterized by Serb entity's high political and economic dependence on Russia, regardless of personalities and political force in power in Bosnia-Herzegovina

6.2. Russian Companies' Investments in Germany, Hungary, and Bosnia-Herzegovina: Different Countries, Similar Interests for FDI

As the previous section showed, Russia's relations with the three analyzed countries have been influenced mostly by their economic and political positions in general, and those vis-à-vis Russia in particular. Therefore, while Germany has been among Russia's most important foreign partners, Hungary has played a rather peripheral role in Russian foreign policy, and Bosnia-Herzegovina has been a country of tertiary importance (see Table 6.2 below for comparisons of Russian business interests in the three analyzed host countries).

Table 6.2: Russian business interests in Germany, Hungary, and Bosnia-Herzegovina

<i>Host country/ Independent variable 2</i>	Germany (regional power, core country of the EU)	Hungary (peripheral country with capable state)	Bosnia-Herzegovina (peripheral country with failed state)
Russian business interests in host country	Germany is a) primary (target) market for Russian goods; b) economically/technologically independent; c) financial source for business development.	Hungary is a) secondary market, transit to major markets; b) economically/technologically relatively dependent.	Bosnia-Herzegovina is a) tertiary market, located close to target markets (in comparison to Russia); b) economically/technologically fully dependent.

Simultaneously, economic attractiveness of these three countries as markets for Russian companies has reflected their political importance for the Russian leadership: while Russian companies from practically all sectors have invested in Germany, most Russian companies-investors in Hungary and Bosnia-Herzegovina have been from the energy sector. As Table 6.3 below shows, the amounts of Russian FDI also follow the path of Russia's relations with Germany, Hungary, and Bosnia-Herzegovina.

Table 6.3: Banks and nonbanking corporations in \$million by geographic allocation (2007-2011)

Partner country/Year	2007	2008	2009	2010	2011
Total	46,897	55,540	43,632	51,886	67,221
Non-CIS countries	42,423	51,977	39,734	50,618	62,748
Germany	674	1,860	1,488	1,880	1,227
Hungary	-12	542	1,789	47	-2722
Bosnia-Herzegovina	1	55	287	94	104

Source: Central Bank of Russia, 2012

At the same time, as the analyses in the three empirical chapters showed, the combination of the four host markets' characteristics has made the level of development of a host country practically the most important determinant for difference in Russian FDI in the three countries. These characteristics include: a) market size (population in millions), b) market sophistication (GDP per capita), c) regulations of FDI (levels of political and economic risks) and, d) competition on the local market by other foreign investors. In the three empirical chapters above internationalization of Russian companies was operationalized on grounds of Liuhto's (2001)

REM-model (where *R* stands for reasons for internationalization, *E* for environment for internationalization, and *M* for mode of internationalization). In this chapter I use the same model to compare investments from Russia in Germany, Hungary, and Bosnia-Herzegovina and analyze all known cases of Russian FDI in these three countries.

6.2.1. Energy TNCs

The beginning of Russian companies' internationalization varies across Germany, Hungary, and Bosnia-Herzegovina in line with their relations with Russia. As pointed out in Chapter 2, the peak of internationalization came in first half of the 2000s. Nevertheless, Russia's largest energy company, Gazprom, started its internationalization at the same time as the USSR collapsed. Due to Soviet-Eastern German energy supply contracts, Germany was the first destination to Russian FDI outside the former Soviet Union, where Gazprom started to internationalize in the early 1990s using the legacies of economic relationship under communist regimes. For instance, Gazprom used the USSR-GDR gas supply agreements to create joint ventures with German energy companies, Wingas and Wintershell (Kuznetsov, 2007a). These contracts provided Gazprom with long-term access to one of the largest and the most financially stable European consumer markets.

One of the most important more recent outcomes of this long-term Russian-German energy cooperation is another joint venture between Gazprom and German companies (Wingas and BASF), the Nord Stream gas pipeline over the Baltic Sea bottom, which aims to connect directly Russian gas fields and German market in order to avoid interruptions by transit countries in Russia's gas supplies to Germany. As discussed in Chapter 3, this Russian-German energy project, which excludes other countries from possible participation, provoked long-lasting discussions in the EU about European energy security, and resulted in the attempts to decrease

Europe's overall dependence on Russia's energy supplies. The project started in 2005, and in 2012 the first direct Russian-German gas supplies were delivered.

Similar to Germany, in Hungary, Gazprom also followed the Soviet pipeline structure. In 1994 it used the Soviet-times contacts to establish a joint-stock company Panrusgas for gas retail trade with Hungarian MOL. Gazprom's motives to establish joint ventures both in Germany and Hungary have been to control the delivery of gas supplies to Europe and the revenues received from them. Therefore, *market-seeking* motive is the most important reason for Gazprom's internationalization in both Germany and Hungary (R-factor in Liuhto's REM-model). However, while for its size Germany has been Gazprom's target market, Hungary has rather represented one of the shortest and easiest transit cuts to the Western European markets.

Similarly to Nord Stream, Gazprom's South Stream gas pipeline over the Black Sea bottom aims to avoid Ukrainian territory and provide direct gas supplies from Russia to the EU through Bulgaria, Serbia and Hungary to reach Austria, Italy and other Western European markets. It also takes the form of joint ventures with the major energy companies in these countries. Similarly to Gazprom's other project in Hungary, as discussed in Chapter 4, for South Stream Hungary is important as a transit route rather than as a target market. Final agreement between Gazprom and Hungarian authorities based on mutual interests was reached in November 2012.

Therefore, Gazprom's most frequent mode of internationalization (M-factor in Liuhto's REM-model), i.e. *joint ventures* with companies in host countries, also confirms economic motives for Gazprom's investments in both Germany and Hungary. This mode is in accordance with the Third EU Energy Charter, the main aim of which is to achieve free competition on the EU market via increasing the number of gas-supplying companies. At the same time, being

Russia's largest mostly state-owned company and in order to justify its foreign activities in the eyes of Russian public, in official documents and advertisements Gazprom has represented its business interests as Russia's state interests. This is the reason why many scholars argue that foreign investments of practically all Russian energy companies serve Russian national interests (Vahtra and Liuhto, 2004; Liuhto, 2008; Perovic et al. 2009; Orban, 2008). Moreover, as Section 3 will show, in both Germany and Hungary, these Gazprom's investments have also been perceived mostly as Russia's political instruments.

In contrast to Gazprom, major investment projects of other large Russian energy companies in Europe, such as Lukoil and Rosneft, started later in the first half of 2000s, during the peak period of Russian companies' internationalization. For instance, similarly to Gazprom's investments, Lukoil's investments across Europe aimed to access steady consumer market of the EU. While acquisitions (M-factor in REM-model) of the existing assets have been the dominant mode of Lukoil's internationalization across Europe, which has served trade-substituting motives (R-factor of the REM-model), in both Germany and Hungary Lukoil has also been engaged in smaller Greenfield projects (M-factor) that served both market-seeking and trade-substituting motives (R-factor). Therefore, in contrast to the abovementioned arguments of a group of scholars, evidence about Russian energy companies' investments from three empirical chapters compared in this section supports arguments of Oliker et al. (2009) and Kuznetsov (2010), namely that Russian energy companies' investments in Europe serve mostly their own business interests.

The case of Russian Zarubezhneft's investment in two large oil refineries in Republic of Srpska, Bosnia-Herzegovina (as discussed in Chapter 5), which started in the late 2007, also confirms the argument about pure business interests as the main driver of Russian FDI.

Moreover, Zarubezhneft's investment in Bosnia-Herzegovina clearly shows that even relatively small Russian state-owned energy companies, such as Zarubezhneft, use Russian state budget to fulfill their business interests abroad even when these interests are the opposite that of Russia's national interests in their economic realm. Similarly to Russian energy companies in Hungary, Zarubezhneft has never considered Bosnia-Herzegovina as a target market due to its small size and overall economic weakness. Bosnian oil-producing capacities attracted Zarubezhneft's investment rather for perspectives to extract oil on Bosnian territory for relatively low costs of production (R-factor), and due to their geographical proximity to the Western EU markets in comparison to Russia (E-factor). Additional advantage for Zarubezhneft's investment in Bosnia-Herzegovina has been cultural proximity to Russia (E-factor). Table 6.4 below summarizes REM-models of Russian energy companies in Germany, Hungary, and Bosnia-Herzegovina.

Table 6.4: Comparative REM-model of Russian energy TNCs: Germany, Hungary, and Bosnia-Herzegovina

Host country	R-factor: Why internationalize?	E-factor: Where to internationalize?	M-factor: How to internationalize?
Germany	market-seeking, trade (import) substituting	Market size, market demand	Joint-stock ventures, acquisitions, Greenfield (rarely)
Hungary	Market-seeking, trade (import) substituting, individual profit-seeking reasons	Favorable geographical transit position (proximity to Western Europe), well-developed infrastructure, market-demand	Joint-stock companies, offshore subsidiaries (in case of rejection), Greenfield (rarely)
Bosnia-Herzegovina	Market-seeking, resource-seeking, asset-seeking (lower costs of production), investment substituting	Favorable geographical location (proximity to the Western EU), low-cost labor, market-demand, cultural proximity	Acquisitions and mergers (among purchased companies), joint-stocks with other Russian energy TNCs (for participation in large projects)

In sum, as Table 6.4 shows, although motives of Russian energy companies largely vary in time and across the three countries, all of them reflect classic business interests. The following subsection compares investments of Russian companies, which represent non-energy sectors in Germany, Hungary, and Bosnia-Herzegovina.

6.2.2.Non-Energy TNCs

In contrast to FDI of Russian energy giants, REM-models of internationalization of Russian non-energy TNCs in Europe do not leave any doubt concerning the primacy of business interests in foreign investments. Russian companies from non-energy sectors are most numerous in Germany. This category includes all Russian investors, from large metal-producers such as Mechel, to small companies in science and technology sector, to consulting agencies. While large Russian non-energy companies with their investments in Germany have been driven mostly by market-seeking and asset-seeking motives, as in the case of Russian metal-producer Mechel, in some cases investments have been driven by attempts to diversify their business activity, as in the case of Bank Avangard's acquisition of several malting plants across Germany.

The motives that have driven investments of Russian small and medium (SME) enterprises in Germany are as diverse as these companies are. For instance, companies that represent IT sector, such as famous Russian software producer, Kaspersky Lab, with their investments in representative offices (M-factor) in Germany supported their trade activities, i.e. have been driven by market-seeking and trade-substituting motives (R-factor). On the other hand, Russian wood-producer Illim-Timber's acquisitions (M-factor) of wood-producing plants in Germany aimed at simultaneous reducing the costs of production and at getting access to advanced technologies and modern managerial skills (E-factor). All these aims are recognized as asset-seeking motives (R-factor). Finally, Russian service provider companies invested in Germany in order to get access to German customers (E-factor), and thus have been driven mostly by pure market-seeking motives (R-factor). Their modes of internationalization also vary in accordance to their activities. Thus, for instance, while Mechel and Illim Timber used acquisitions to internationalize in Germany, Russian technicians and scientists established small Germany-based companies to support their research and trade activities (M-factor).

In contrast to Germany, there have been only two significant cases of Russian investments in non-energy sectors in Hungary. These have been Air Bridge's controversial acquisition of Hungarian Malev, and the relatively recent Sberbank's acquisition of Austrian Volksbank's Central and Eastern European (CEE) assets. Air Bridge's murky acquisition (M-factor) of Malev in 2006 and its following activities with Hungarian national air transportation company, which were analyzed in Chapter 4, suggest that in this particular instance of Russian FDI, the company investor followed neither political nor pure business goals. Rather the individual profit-seeking goals of its owners (R-factor) drove this acquisition. In contrast to Air Bridge, Sberbank's acquisition of Volksbank's assets seemed as clear business strategy from the very beginning, as Volksbank's major clients in CEE have been small and medium enterprises. Therefore, although Sberbank is one of the largest Russian state-owned banks, its investment activities in the CEE and in Hungary in particular seem to be driven by asset-seeking motives for both accessing the market and improving its organizational model.

Finally, Russian investments in non-energy sectors in Bosnia-Herzegovina seem to be triggered by Zarubezhneft's acquisition of two large oil refineries in the Republic of Srpska. Several small Russian-owned companies from service and banking sectors, such as Investment Vrbas Consulting and MF Bank, appeared in Republic of Srpska's capital Banja Luka just couple of years after Zarubezhneft acquired two oil refineries. These small Russian investors responded to demand for Russian-speaking services in Bosnia-Herzegovina. Therefore, their motives to invest in Bosnia-Herzegovina can be considered as both market-seeking and investment substituting (R-factor). Similarly to their SME counterparts in Germany, their internationalization occurs via small Bosnia-based enterprises (M-factor). In similar fashion, some Russian individual entrepreneurs invested in Bosnian chemical industry. For instance,

Russian citizen Adam Vitarigov in 2011 bought chemicals-producing factory Bentoproduct and, according to the contract plan, this investment should include a new factory. Therefore, it is expected that this particular project will also include Greenfield FDI (M-factor). Table 6.5 below summarizes the REM-models of Russian non-energy companies in Germany, Hungary, and Bosnia-Herzegovina.

Table 6.5: Comparative REM-model of Russian non-energy companies: Germany, Hungary, and Bosnia-Herzegovina

Host country	R-factor: Why internationalize?	E-factor: Where to internationalize?	M-factor: How to internationalize?
Germany	Market-seeking, efficiency-seeking, asset-seeking, finance-seeking, and diversification	Market-size, market demand, well-developed infrastructure, well-developed legal system (low political and economic risks)	Acquisitions, trade-representative offices, Germany-based small enterprises
Hungary	Asset-seeking (Sberbank) /individual profit-seeking reasons (Air Bridge)	Well-developed infrastructure and privatization procedures, relatively cheap assets and labor	Acquisitions
Bosnia-Herzegovina	Market-seeking, investment substituting, asset-seeking	Market-demand, cultural proximity, low cost labor	Acquisitions by SMEs (of factories and office capacities), Greenfield

In sum, in all three countries the investments of Russian non-energy companies have been driven by economic rationality. However, in contrast to Germany and Hungary, where investments of Russian non-energy companies have followed individual business goals of each investor company, in Bosnia-Herzegovina they followed market demand triggered by single large Russian investment, namely Zarubezhneft's acquisitions of Bosnian oil-refineries. Also, in contrast to Germany and Hungary, Russian investors in Bosnia-Herzegovina have been attracted by Republic of Srpska's cultural proximity to Russia. The next section compares perceptions of Russia and Russian companies in the three analyzed countries.

6.3.Perceptions Concerning Russia and Russian Companies in Germany, Hungary, and Bosnia-Herzegovina

The present section aims to compare perceptions of Russia and Russian companies in Germany, Hungary, and Bosnia-Herzegovina. Similarly to Chapters 3, 4, and 5, in the present chapter perceptions of Russia are operationalized on three levels: macro (state), medium (general public), and micro (companies and business circles).

6.3.1.Macro level of perceptions concerning Russia: Germany, Hungary, and Bosnia-Herzegovina

Uneven interdependence in Russian-German relations seems to be reflected in Russia's perceived image in Germany. On the **macro level**, i.e. the level of the German political elite (including experts), attitudes towards Russia can be characterized as negative, but pragmatic. For instance, famous German expert on relations with Russia, Alexander Rahr titled his recent book about Russia "Der Kalte Freund" (the cold friend). This ambiguity in German elite's perception of Russia is also reflected in both rhetoric and attitudes towards Russian FDI in Germany. German center-right Chancellor Angela Merkel has criticized Russian leadership's domestic policies; still, when in 2009 GM-owned-Opel's fate was uncertain, her government lobbied Canadian-Russian Magna-Sberbank's bid to acquire GM's assets (Macalister, 2009). This particular case suggests that Russia's negative image as perceived by German leadership is created by Russia's leadership policies, although pragmatism dominates in economic issues.

In contrast to Germany, Hungarian officials' and political experts', i.e. **macro level** attitudes towards Russia depend on the place of its concrete representative on the political spectrum. Hungarian Socialist Party traditionally has closer and rather pragmatic relations with the Russian leadership, while the center-right FIDESZ usually, although not always, pursue hostile rhetoric towards Russia. Overall, Hungarian political scientist Zoltan Kiszelly in his

comment to the newspaper L.A. Times gave the best illustration of Hungarian attitudes towards Russia and Russian investments in Hungary, saying that it is good to have Russia as an ally, but it is good to have them far (Stack, 2009).

Similarly to Germany and Hungary, Russia's perceived image in Bosnia-Herzegovina follows historical relations. Considering Russia's perceived image on the **macro** level, politicians representing the Bosnia-Herzegovina Federation tend to keep a neutral stance towards Russia and keep the relations with Russia within the diplomatic formalities and avoid conflicts. Simultaneously, politicians that represent the Serb entity usually portray Russia as their main political and economic ally. For instance, current prime-minister of the Republic of Srpska, Aleksandar Dzombic recently stated that Republic of Srpska's participation in the South Stream project will be the key investment for further development of the Serbs' entity that will bring other large investments (mojevesti.ba, 2012).

In sum, perceptions of Russia in Germany, Hungary and Bosnia-Herzegovina on macro level represent the whole spectrum of varieties. While in Germany these perceptions are predominantly neutral, with a tendency to be negative but very pragmatic, and while in Hungary they are predominantly neutral in the left political wing and mostly negative in the center-right political wing, in Bosnia-Herzegovina perceptions of Russia on macro level are neutral in Bosnia-Herzegovina Federation, and very positive in Republic of Srpska. The following subsection compares perceptions of Russia and Russian companies in these three countries on the medium level.

6.3.2. Medium level of perceptions concerning Russia: Germany, Hungary, and Bosnia-Herzegovina

On the **medium**, i.e. population level, Russia's perceived image in Germany is less ambiguous than on macro level. As pointed out in Chapter 3, to examine public opinion in

Germany about Russia, i.e. the **medium level** of perceptions, I used the results of Allensbach Institute's opinion polls conducted in the period between 2001 and 2008. They show that the image of Russian leadership and Vladimir Putin, in particular, has largely shaped German perceptions of Russia. For instance, in 2001 at the time of the creation of the Russian-Western anti-terrorist coalition, Putin was viewed positively by 45% of Germans, and only 11% saw him negatively. In 2008 these indicators were almost opposite: while 16% of Germans envisioned Putin positively, 45% saw him negatively. Simultaneously, the polls show that in 2001 Russia was seen as a great power by 50% of Germans, and that the other 50% did not see it as such. By contrast, in 2008 62% of Germans envisioned Russia as a great power and only 21% of Germans did not perceive it as such (Finam.ru, 2009). The latter results suggest that while Germans perceive Russian leaders' assertiveness as source of Russia's strength, they perceive this strength rather as a security threat to Germany.

In Hungary, opinion polls about Russia were conducted in 2006, and its results show that, for instance, the lack of interest for Russian culture and little interest to learn Russian language (only 5% of respondents would like to learn Russian), in comparison to the interest to learn English (35%), serves as the best indicator of decreased Russian influence. The poll also shows that Russian influence has been negatively perceived by the majority of respondents: for instance, when asked to name the nations that had the worst influence on Hungarians, 56% of respondents referred to Russians. Moreover, in comparison to other nations, Hungarian attitudes towards Russians are similar to those towards Americans and Romanians (where Romanians are perceived more negatively than Russians). Generally, older respondents show more positive attitude towards Russia, whereas younger ones are more neutral. When asked about importance of Russian-Hungarian relations in economic, political and scientific realms, the majority of

respondents expressed positive attitudes: for instance, 65% support close economic ties with Russia, while only 5% are in favor of weakening them. Finally, considering political cooperation with Russia, surveyed Hungarians are much more cautious: only 38% support the development of Russian-Hungarian political relations, while 8% consider that they should be weakened.

In contrast to Germany and Hungary, in Bosnia-Herzegovina perceptions of Russia on **medium** level are significantly different in two Bosnian entities: while Bosnian Serbs have considered Russia their main ally, Bosniaks have seen it as a threat, as it has been ‘their enemy’s ally’. As pointed out in Chapter 5, there were no official surveys available in Bosnia-Herzegovina about Russia and Russian companies, and I conducted surveys and interviews in both entities. The survey in Republic of Srpska included twenty men and women (equally) aged between twenty-five and sixty-five, predominantly intellectuals (only five of the surveyed had no higher education diploma). All of them expressed positive attitudes towards Russia and especially towards Russian FDI and related them to hopes for further economic prosperity. Most of them (fifteen) also related their positive attitudes towards Russian economic presence in Bosnia-Herzegovina to the traditional cultural proximity between Russians and Serbs.

At the same time, in Bosnia-Herzegovina Federation another twenty people in the same age span were surveyed, and showed less enthusiastic and rather materialistic attitudes towards Russia. Russia is still perceived as the world’s superpower, opponent to the West, while Russian, i.e. Soviet products are mainly seen as the artifacts of its inefficient economy. However, in the last decade these perceptions have slightly changed. With Russian companies entering Bosnian market and rumors that they together with Western companies found and own Bosnian oil reserves, perceptions of Russia in economic realm have changed from negative to neutral.

In sum, perceptions of Russia on medium level are to similar extent neutral with tendency towards negative in Germany, Hungary and Bosnia-Herzegovina Federation, and very positive in Republic of Srpska. The next subsection compares perceptions of Russia on micro, i.e. company and business level in these three countries.

6.3.3. Micro level of perceptions concerning Russia: Germany, Hungary, and Bosnia-Herzegovina

Perceptions of Russia on **micro**, i.e. company and business level, is most ambiguous. For instance, the representative of Gazprom Germania suggests that there is a need for improving the company's image, which is negatively affected by the fact that it is a Russian state-owned company. On the other hand, a marketing expert of famous Russian privately-owned software producer, Kaspersky Lab, points out that the company's Russian origin was rather an advantage in the German market. Their experience suggests that on the micro level perceptions of Russia in Germany itself have lower impact on attitudes towards Russian companies than the companies' ownership and size.

In sharp contrast to Germany, perceptions of Russia and Russian companies on micro level in Hungary have been shaped both by the bitter history of Russian-Hungarian relations and Russian overwhelmingly murky ways of doing business. Representatives of Hungarian business and academic circles confirm the prevalence of these two factors in the creation of Russia's image in Hungary. According to former Director of Hungarian Investment Agency ITD, among both Hungarian business circles and general public Russia is perceived negatively (personal interview, June 12 2012). Since perceptions of Russia in Hungary on micro level are largely negative, they also negatively affect perceptions of Russian companies, which, in turn, by their activities often contribute to negative perceptions of Russia in Hungary.

In contrast to Hungary and to some extent similarly to Germany, perceptions of Russia on micro level in Bosnia-Herzegovina are largely rationalized: in dependence to business interests, Russian companies can be portrayed as both ‘major partners’ and ‘right hand of militant and aggressive Kremlin’. For instance, as discussed in Chapter 5, there was a case where official press published an article that interpreted plans to build the South Stream gas pipeline as potential threat to Bosnia-Herzegovina’s sovereignty, characterizing it as ‘Bosnia’s geopolitical slavery to Russia’. Still, neutral attitudes towards Russia prevail in business circles in Bosnia-Herzegovina Federation. On the other hand, in Republic of Srpska favorable attitudes are the result of the positive changes in economic situation in the Republic of Srpska after penetration of Russian companies. This is the reason why in business circles of Republic of Srpska Russia and Russian companies are perceived as ‘saviors’ and ‘best economic partners’.

In sum, comparison of perceptions of Russia on micro level shows that in Germany they are generally neutral, with a tendency to be negative towards large energy TNCs. In contrast to Germany, in Hungary perceptions on micro level are predominantly negative and heavily influenced by Russian-Hungarian historical relations replete with conflicts. In contrast to Hungary and similarly to Germany, perceptions of Russia and Russian companies in Bosnia-Herzegovina are rationalized; thus, in Republic of Srpska they are extremely positive, while in Bosnia-Herzegovina Federation they have gradually changed from negative to neutral. These findings are summarized in Table 6.6 below. The next section compares the impact of perceptions of Russia and Russian companies on their FDI in these three countries.

Table 6.6: Perceptions about Russia on three levels in Germany, Hungary and Bosnia-Herzegovina

Independent variable 3/ Host country	Germany	Hungary	Bosnia-Herzegovina
Perceptions about Russia on medium, micro and macro levels	Medium: predominantly negative; Micro: neutral and negative; Macro: predominantly neutral	Medium: predominantly neutral; Micro: negative – economic threat; Macro: negative(center-right wing) and neutral (left wing)	Serb entity / Federation: Medium: positive/ negative; Micro: positive/neutral; Macro: positive/neutral

6.4.The Impact of Perceptions on Reactions to Russian Investments: Comparison between Germany, Hungary, and Bosnia-Herzegovina

In this section I analyze and compare the impact of perceptions on reactions to Russian FDI in Germany, Hungary, and Bosnia-Herzegovina. Based on the comparisons from the previous section, the aim of this section is to figure out which level of perceptions is the most influential in three analyzed host countries for investment activities of Russian companies.

When analyzing the impact of perceptions on Russian FDI in Germany, it is important to differentiate among three groups of Russian TNCs. The first group comprises large TNCs supported by the Russian political elite, such as Gazprom Germania. The second group comprises large Russian TNCs that invest in Germany without visible political support. Among them are abovementioned metal-producer Mechel, and TMK Europe. The third group comprises medium and small Russian TNCs that also operate without visible political support. The wood-processing Illim Timber and software producer Kaspersky Lab are the most striking examples in this group.

The first group of Russian TNCs attracts huge attention in the German media. Several unsuccessful attempts by Russian TNCs to acquire control shares in German companies have caused major concerns about the country's image among Russian political and business circles. They showed that political support to business does not necessarily bring the desired results for

Russian companies. Among them are the abovementioned Sberbank-Magna bid for GM's shares of Opel in 2009, and AFK Sistema's bid to acquire 29% of Infineon in 2010. Both bids represented the interests of Russian tycoons, members of the Kremlin's 'inner' circle, and thus they were lobbied for by the Russian leadership and well-masked with national interests in the foreign policy rhetoric.

Gazprom Germania is a relatively successful example of a Russian company that enjoys support from political elite. It is the oldest and the largest Russian investor by turnover in Germany: only in 2011, Gazprom Germania's turnover reached €8,663 million, while, for instance, Lukoil Hamburg's turnover was 1,514 (GTAI, 2012). However, all Gazprom subsidiaries in the EU in September 2011 experienced European Commission raids. As a response, Vladimir Putin emphasized the importance of North Stream for Russian and German national interests. Critics accused Putin of using energy exports as a lever in geopolitical manoeuvring (Soldatkin, 2011). Nevertheless, the company's comprehensive strategy aims to overcome all possible obstacles to its business activities in Germany by supporting active communication with representatives of government, business, and society. Thus, Gazprom Germania actively communicates with German society on all levels to overcome the negative impact of Russia's perceived image.

There are a larger number of companies which have not enjoyed political support of Russian elites, and therefore have not experienced any serious obstacles when investing in Germany. Within them are large and mostly privately owned TNCs: they use their German subsidiaries for sales and distribution of their products. This group includes: HBL Holding owned by Mechel, Russia's largest oil company's subsidiary Lukoil Hamburg, the subsidiary of the world's largest titanium producer VSMPO-Tirus, and the malting plants owned by Russian

Bank Avangard. The fact that these companies are rarely the subject of European media reports, especially those with negative connotations, suggests that the lack of (at least) open support by the Russian political elite rather facilitates their business activities in Germany. As Chapter 3 demonstrates, in fact there is no direct interplay between Russia's political leadership and these companies in their foreign investment activities: as the findings represented in Chapter 3 suggest, the lack of this interplay is a result of lack of personal interests of Russian political elites. At the same time, there are no conflicts between them either, as they act on different levels, thus they do not have direct contacts with each other.

The third group of Russian TNCs is the most numerous one in Germany. It comprises medium and small companies. They are also the most diverse in their sector affiliations, business activities and internal structures. Similarly to the second group of Russian TNCs in Germany, their investment activities have not been politically supported. The Director for external relations of wood-processing Illim Timber considers that politics and Russian-German relations do not play a role in the company's business in Germany, because wood is not a politically relevant product. The German representatives of software producer Kaspersky Lab, which has very similar experiences in this context, argues that the most important factors in the company's work in Germany are the quality of the software, and good reviews in magazines.

Therefore, pragmatism and economic interests seem to dominate German attitudes towards Russian investments. The data provided by German Trade and Investment Agency (GTAI) confirms this argument: for instance, less developed Eastern German regions attempt to attract as much investment as possible, *inter alia* from Russia. Still, according to GTAI (2012), most Russian companies in Germany prefer Berlin and the Western lands, as they provide better business opportunities. Overall, despite relatively negative perceptions of Russia, German

attitudes are strikingly pragmatic and, similarly to Russian FDI, they are based on pure economic interests.

In contrast to Germany, in Hungary Russian energy companies have experienced resistance from the Hungarian companies and business circles to their attempts to invest. As discussed in Chapter 4, the two most striking cases of obstacles to Russian investment in Hungary were attempt of Gazprom's top managers to purchase Hungarian chemical company Borsodchem in 2000, and in 2009 Surgutneftegaz's attempt to retain its 22% of MOL purchased from Austrian OMV. It is significant that center-right wing FIDESZ rather unfriendly with Russia was in power in Hungary when both attempts occurred. On the other hand, when in 2006 MSZP was in power, Putin personally lobbied for Air Bridge to bid to acquire Hungarian national air transportation company Malev, and the leadership of Hungarian government accepted this bid. However, for both Russian and Hungarian state and business representatives this acquisition turned into a negative experience. Former Director of ITD explains that the reason why the shares of Malev were for public sale was the company's long-term financial debts. In a similar fashion, an expert on Russian-Hungarian relations from the Russian Ministry of Foreign Affairs argues that Air Bridge's failure to meet commitments towards Malev put Russian state institutions in Hungary in a very unpleasant situation, although neither the Embassy nor the Trade Representative Bureau were involved in the acquisition itself. Overall, in contrast to Germany, the openness to Russian FDI in Hungary seems to depend first on the need for foreign investments, and second, on the 'color' of the political party dominant in government.

Finally, regardless of the difference in attitudes towards Russia between the two Bosnian entities, in Bosnia-Herzegovina none of the Russian companies have ever experienced difficulties in conducting FDI. As discussed in Chapter 5, for my respondent from Zarubezhneft,

the experience in Bosnia-Herzegovina, in comparison to other Russian companies' experiences in most European countries, was positively surprising: when they first time arrived to the Serb entity in Bosnia, local people met them with extreme warm welcome. Nevertheless, although underpinned with positive perceptions, the main reason for Bosnian Serbs to attract Russian investment was economic rationality: Zarubezhneft's re-activation of Bosnian oil refineries revived the economy of all Bosnia-Herzegovina. Overall, it can be argued that in Bosnia-Herzegovina, in contrast to Hungary, and with some similarity to Germany, Russian FDI is very welcomed for two reasons: first due to the country's extremely poor economic performance, and second but equally important, due to the political antagonisms between the two Bosnian entities.

In sum, this section has shown that perceptions of Russia in host countries impede Russian companies' FDI activities and facilitate them in others. For instance, while in Germany the micro level of perceptions has had the largest and usually negative impact on reactions to Russian FDI, in Hungary macro level perceptions has mostly influenced negative reactions to Russian FDI. Finally, in Bosnia-Herzegovina equally micro and medium level perceptions alike contribute to attracting Russian companies to invest in the country. These findings are summarized in Table 6.7 below. Based on them, the following section analyzes the dependent variable, i.e. cooperation between Russian state institutions and Russian TNCs and compares its variations across Germany, Hungary, and Bosnia-Herzegovina.

Table 6.7: The most influential level of perceptions in reactions on Russian FDI in Germany, Hungary, and Bosnia-Herzegovina

Independent variable 4/ Host country	Germany	Hungary	Bosnia-Herzegovina
Reaction to Russian FDI in host country (most influential level of perceptions)	Micro – business interests	Macro – state's interests	Medium – population, and Micro – business interests

6.5. The Variety in Cooperation between Russian Companies and Russian State Institutions in Germany, Hungary, and Bosnia-Herzegovina

Having compared all independent variables across the analyzed host countries, this section aims at analyzing the dependent variable, i.e. cooperation between Russian state institutions and companies in instances of FDI across Germany, Hungary, and Bosnia-Herzegovina. As analysis through the dissertation has showed, this cooperation takes both informal/personal and formal/institutional forms and exists on various levels from state officials to small companies. All forms and levels are illustrated in Figure 1.2 (presented in Chapter 1).

The dependent variable, i.e. cooperation between Russian state institutions and Russian companies has been approximated based on the number of forms in which and levels at which it can be observed in the analyzed countries. Thus, cooperation is considered as *high* when it exists on all levels and in all forms represented in Figure 1.2; cooperation is considered as *medium* when it exists on certain but not all levels and forms represented in Figure 1.2, and; cooperation is considered as *low* when it is limited to one level and form represented in Figure 1.2.

As the analysis above has revealed, out of three analyzed countries, a combination of the four economic characteristics of host markets with the host country's reactions on Russian FDI has made Germany the most attractive market for Russian investors: a) relatively large size of the German market (of about eighty million people), b) high market sophistication, with about \$39100 GDP per capita in 2012 (against Russia's \$17700 GDP per capita in the same year) (indexmundi.com, 2013), and a spectre of variations in diversification of business and financing, c) strict regulations of FDI, which provide low political and economic risks, and d) high competition by other foreign investors. This last characteristic has made Germany simultaneously the most complex market for Russian investors. This combination of German market's characteristics has determined the active nature of cooperation between Russian state

institutions and Russian companies in Germany, while German reactions on micro level of perceptions to Russian FDI influenced them to institutionalize this cooperation. As shown in Chapter 3, for long time the only form of cooperation between Russian state institutions and Russian companies in Germany has been largely limited to close and usually not very effective cooperation between Russian political elite and the Kremlin-related TNCs. Formal cooperation was restricted to infrequent communication between the Russian Trade and Commercial Bureau and representative office of the Russian Trade Chamber in Germany on the one side, and Russian companies willing to invest in Germany on the other side. Therefore, the cooperation between Russian state institutions and Russian companies in Germany for a long time was at the medium level. Moreover, the Russian state in general has been unable to influence the activities of Russian business abroad and in Germany in particular. At the same time, as my research revealed, there was little if any interest on the part of the state institutions for cooperation with small and medium Russian companies and vice versa.

However, as shown in Chapter 3, over the last several years Russian small and medium businesses have gradually matured: entrepreneurs and managers realized that the image of themselves and their business is related to the image of Russia as the state. This was the reason why Russian business initiated the founding of the Council of Russian Entrepreneurs in Germany in cooperation with Russian Trade and Commercial Bureau in Berlin in late 2011: this was their private-state organizational solution. The main goal of this form of cooperation is to increase knowledge about Russian business in Germany and, consequentially, to improve the image of Russian companies in Germany in order to avoid negative reactions of German business circles towards them in the future. Other aims of the Council are to defend the interests of Russian companies in Germany and to support them, to connect Russian companies, especially those that

have been in Germany for a long time, and those that plan to enter the German market and invest in Germany, and to provide the forum for exchanging experiences and ideas. This development has opened practically all channels of cooperation between Russian state institutions and Russian companies investing in Germany. Therefore, over the last couple of years cooperation between Russian state institutions and Russian companies in Germany can be considered as high.

In comparison with Germany, the combination of four market characteristics with Hungarian reactions to Russian FDI on macro level of perceptions has made Hungary a rather secondary market to both Russian energy and non-energy companies over the entire post-Soviet period: a) relatively small size of the Hungarian market (of about ten million people), b) medium level of market sophistication with \$19800 GDP per capita in 2012 and relatively low possibilities for diversification of business and financing, c) a porous regulations of FDI with limited political and economic risks, and d) and medium level competition by other foreign investors. This combination of Hungarian market's characteristics has made cooperation between Russian state institutions and Russian companies in Hungary irregular and relatively lax. As shown in Chapter 4, cooperation between them and Russian state institutions has occurred periodically and usually only when Russian companies have experienced obstacles and problems in doing business over the entire analyzed period, which usually coincided with FIDESZ's time in power. As my examination of Russian state institutions in Hungary revealed, similarly to Russian Embassies across the world, the main Russian state institution responsible for economic relations with Hungary, the Russian Trade and Commercial Bureau is obliged to provide the support to Russian companies in Hungary. Its services, which include notifications about possible investment targets in Hungary, and translation services, are free for Russian companies, but also for Hungarian companies interested in economic cooperation with Russia. Thus, the

Russian Trade and Commercial Bureau serves the Russian business in Hungary without material benefits for Russian state.

Moreover, as the striking example of Air Bridge's investment in Hungarian Malev showed, Russian business in Hungary pays little if any attention not only to its own image, but also to the image of Russia as a state. This usually contributes to traditionally negative image of Russia in Hungary and, in turn, intensifies negative attitudes towards Russian companies and their investments in Hungary. At the same time, economic activity of Russian state institutions is seen as ineffective in Hungarian business circles. As my research revealed, although Russian state institutions, usually together with the representative office of Russian Trade Chamber, organize exhibitions and presentations of the Russian companies, they practically never provide feedback and follow-up to Hungarian partners. This indicates that cooperation between Russian state institutions and Russian companies in Hungary is conducted in only one direction, from state institutions to companies. Therefore, the intensity of cooperation between Russian state institutions and Russian companies vary from one company to another. In the cases of Gazprom and Air Bridge, company-state cooperation exists on both formal and informal levels and includes one form of each level, and, thus, the cooperation can be considered as medium. On the other hand, in the cases of Lukoil and Sberbank cooperation is very limited and formal, thus, it can be considered as low.

Finally, in striking contrast to Germany, and with some similarities with Hungary, the combination of the market's three characteristics with Bosnian reactions to Russian FDI on all three levels of perceptions has made Bosnia-Herzegovina the market of no importance for both Russian energy and non-energy companies: a) a small market (of about only three million people), b) unsophisticated market with only \$8300 GDP per capita in 2012 and almost no

possibilities for diversification of business and financing, c) lax regulations of FDI with high political and economic risks. At the same time, as shown in Chapter 5, the fourth characteristic of Bosnian market, namely d) almost absent competition by other foreign investors has attracted limited number of Russian investors. This combination of Bosnian market's characteristics has also influenced the cooperation between Russian state institutions and Russian companies in Bosnia-Herzegovina to be weak and scarce. Opposite to Germany and Hungary, as pointed out in Chapter 5, former Yugoslav business diaspora, which emerged in Russia in early 1990s as a result of migrations influenced by wars on the post-Yugoslav territory, played the most important role in attracting Russian investments in Bosnia-Herzegovina: this means that very positive Bosnian reactions to Russian FDI have been decisive factor that drove Russian FDI in Bosnia-Herzegovina. With the efforts of this diaspora, Zarubezhneft was attracted to conduct the investment in Bosnia-Herzegovina's Serb entity; however it was ready to invest only with the Russian state's financial support. Nevertheless, as representatives of ministerial level of the Russian state considered this investment inappropriate for economic aspect of the Russian national interests abroad, the top management of Zarubezhneft bypassed the ministerial level, and used personal contacts in the Kremlin to receive financial support. Therefore, the main cooperation between Russian state institutions and Zarubezhneft took place in Russia, before the investment was conducted. As a result, Russian state-owned Vneshtorgbank granted the credit to Zarubezhneft, and the acquisition was finalized in 2009.

Not surprisingly, neither Zarubezhneft nor other Russian companies have ever experienced any discrimination and difficulties in their decisions to invest in Bosnia-Herzegovina. As my research revealed, since conducting the acquisition in Bosnia-Herzegovina, Zarubezhneft has needed the state's support only once, when the company experienced certain

problems with influx of its oil through the territory of neighboring Croatia. Otherwise, according to the representative of the Russian Embassy in Bosnia-Herzegovina, although relatively frequent on the highest level, the contacts between Russian companies, including Zarubezhneft, and the Embassy's representatives in Bosnia-Herzegovina, are limited to the official formalities, such as elections and protocol meetings. Therefore, cooperation between Russian state institutions and Russian companies in Bosnia-Herzegovina can be considered as low. Table 6.8 summarizes the impact of the combinations of the four host market's characteristics with host country's reactions to Russian FDI on cooperation between Russian state institutions and Russian companies in the three host countries.

Table 6.8: The impact of the combination of the four host market's characteristics with host country's reactions to Russian FDI on cooperation between Russian state institutions and Russian companies in Germany, Hungary, and Bosnia-Herzegovina

Host country	Market size	Sophistication of market (GDP per capita in 2010/2011/2012)	Regulations of FDI	Competition by other foreign investors	Reaction to Russian FDI (most influential level of perceptions)	Impact on dependent variable (state-TNCs cooperation)
Germany	About 80 mill. people, i.e. attractive	\$39100/38700/37500 i.e. attractive	Strict (low risks), i.e. attractive	High, i.e. challenging	Neutral and negative (micro)	Increasing cooperation
Hungary	About 10 mill. people, i.e. relatively attractive	\$19800/19900/19500 i.e. relatively attractive	Porous (relatively low risks), i.e. relatively attractive	Medium, i.e. relatively attractive	Negative and neutral (macro)	Irregular and formal cooperation
Bosnia-Herzegovina	About 3 mill. people, i.e. relatively not attractive	\$8300/8200/8100, i.e. not attractive	Lax, i.e. not attractive	Low, i.e. somewhat attractive	Positive and neutral (medium and micro)	Cooperation limited to diplomatic formalities

In sum, this section has revealed that in an environment where Russian companies often face obstacles to conduct investments and do business, they tend to improve Russia's image and, consequently, to cooperate more closely with Russian state institutions abroad. The Council of Russian Entrepreneurs in Germany, which emerged two years ago, illustrates this tendency. On

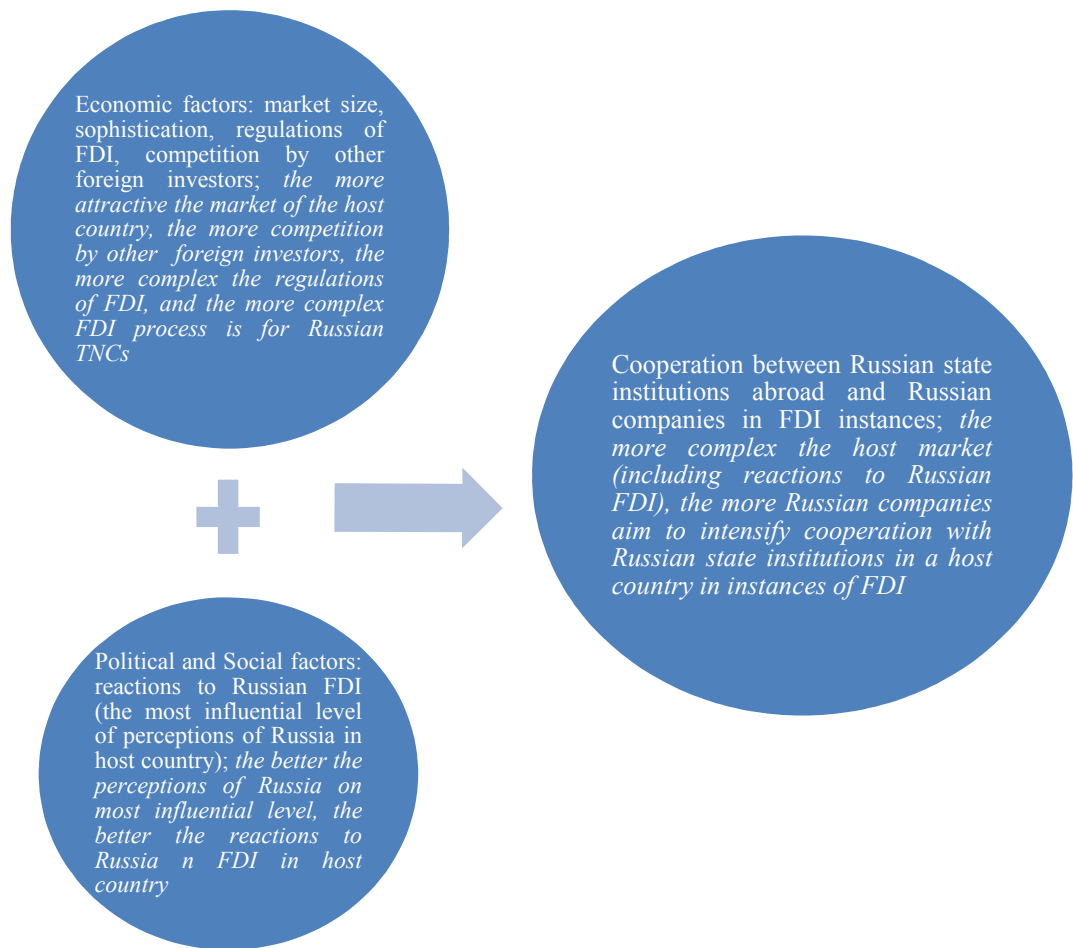
the other hand, in an environment where Russian companies do not experience obstacles, or if the obstacles are relatively easy to overcome, Russian companies either have minimal protocol-related contacts with Russian state institutions, or they do not have them at all. Russian companies in Bosnia-Herzegovina usually follow this tendency. Russian companies in Hungary, depending on particular circumstance, resemble both tendencies. In Table 6.8 below Stallings' (1992) definitions of a) *leverage* as power relations between international factor (in this context Russia) and host countries' government (i.e. Germany, Hungary, and Bosnia-Herzegovina), and b) *linkage* as political, economic and ideological connection between the international actors (Russia) and domestic groups (i.e. political parties, business and social communities in Germany, Hungary, and Bosnia-Herzegovina) are used to summarize these findings.

Table 6.9: Summary of similarities and differences of cooperation between state institutions abroad and companies in instances of FDI in Germany, Hungary, and Bosnia-Herzegovina

Host country/ Dependent variable	Germany	Hungary	Bosnia-Herzegovina
Russian State-Companies Cooperation in host country	Little leverage, thus the need for a stronger linkage: business tries to improve the state's image. Cooperation: high.	More leverage, thus no need for strong linkage: business is indifferent towards state's image. Cooperation: medium to low.	Strong leverage, no need for linkage: business is mostly indifferent on its impact to the state's image. Cooperation: low.

Overall, the analysis shows that a combination of host market's characteristics with host country's reactions to Russian FDI, which are all of the E-factor of Liuhto's (2001) REM-model, defines cooperation between Russian companies and state institutions abroad. Figure 6.1 summarizes this argument, representing Russian model of cooperation between companies and state institutions abroad.

Figure 6.1: Russian model of cooperation between Russian state institutions abroad and Russian companies in instances of FDI



Situating this model in the literature about Russian foreign policy and outward foreign direct investments of Russian companies is the aim of the final chapter of the present dissertation.

Chapter 7: Contributions and Conclusions; Diversity of Motives for FDI from Russia and Factors that shape them across Space and Time

Summary

The aim of concluding chapter of the present dissertation is to relate the findings from the previous chapters to the four specific strands of literature about the motives for Russian outward foreign direct investments, and to the broader international political economy literature. Specifically, the chapter demonstrates that findings confirm the prevalent business and individual profit-seeking interests in motives for Russian outward investments suggested by first strand of literature about motives for Russian outward foreign investments. At the same time, the chapter shows that the findings provide more detailed confirmation to hypotheses suggested by third and fourth strands of literature about motives for Russian outward investments, namely, that there is no unified Russian foreign policy strategy in outward FDI and that the cooperation between Russian state institutions and Russian companies abroad depends on the complexity of the host country's market. Finally, the chapter shows that this dissertation's potential contributions to both specific and broader literatures represent very nuanced answers to research questions posed in Chapter 1, rather than overwhelming evidence for a full-scale theory about motives for Russian outward direct investments.

Introduction

Having constructed the Russian model of cooperation between Russian state institutions abroad and Russian companies in terms of foreign direct investments, the concluding chapter of the present dissertation situates the findings in the four strands of literature about motives of Russian outward foreign direct investments, and addresses on these grounds relevant debates in broader international political economy literature. It also provides potential contributions of the present dissertation to this literature, and conclusions.

7.1. Individual and Business Interests Masked as Russian National Interests

On the one hand, as pointed out in Chapter 2, experts on Russian investment expansion abroad focus on TNCs' expansion motives, and analyze the effects of expansion on TNCs (Bulatov, 1997; Liuhto, 2001; Vahtra and Liuhto, 2004; Liuhto et al., 2006; Kalotay, 2006; Kuznetsov, 2007; 2010). On the other hand, political scientists and scholars of International Relations concentrate on the role of TNCs in domestic and foreign policy, and they usually see them as the instruments of foreign policy (Tsygankov, 2006; Perovic, Orttung and Wenger, 2009). These two groups of scholars propose two competing hypotheses:

A1: Russian TNCs investing abroad are rational, profit-seeking actors. As a result, their investment strategies do not follow the official foreign policy rhetoric (Kalotay, 2006; Kalotay and Sulstarova, 2008; Kuznetsov, 2007, 2010; Olikier et al., 2009).

A2: Russian energy and other transnational companies are the instruments of Russian foreign policy. As a result, their investment decisions ought to reflect Russian foreign policy ideas (Tsygankov, 2006; Perovic, Orttung and Wenger, 2009; Vahtra and Liuhto, 2004; Liuhto, 2008).

The analysis in this dissertation and the model of cooperation between Russian state institutions and Russian companies in instances of FDI, derived from the findings compared across the case studies, help evaluate these two hypotheses in the following way. First and foremost, the analysis in this dissertation showed that cooperation between Russian institutions and Russian companies abroad in instances of FDI is neither only a matter of Russian national interests nor only a matter of business interests of Russian companies. Still, the analyses in the empirical chapters to a large extent support the first hypothesis, demonstrating that business interests prevail over Russian national interests in most instances of Russian FDI. More specifically, the model shows that all Russian companies act according to their business interests

and that they do not follow the official Russian foreign policy which reflects broader Russian national interests. Therefore, the model supports Olikier et al (2009), who point out that most Russian large energy TNCs act in their own business interests, which do not necessarily coincide with Russian national interests.

Moreover, apart from the analysis in Chapter 2, some instances of Russian companies' investments analyzed in Chapter 4, such as Gazprom's attempt to purchase Borsodchem, and Air Bridge's acquisition of Malev, show that national and business interests are not necessarily the only interests that shape motives for Russian foreign investments: the third very influential motive for Russian companies' FDI expansion is individual - usually profit-seeking - interests of owners of private companies, Russian politicians, and top-managers of state-owned TNCs. Going back to Chapter 2, I generated the third competing hypothesis about the motives for Russian companies' FDI expansion supported by Kuznetsov (2010), namely

A3: Top managers of Russian TNC use both their companies' resources and Russian state institutions to pursue their own personal rent-seeking interests. Therefore some foreign investment activities of Russian TNCs follow neither business logic nor Russian national interests.

The abovementioned findings from Chapter 4 confirmed this hypothesis in the similar way as Kuznetsov (2010) points out that some top-managers of a Russian TNC under state control abuse their position and pursue their own interests, simultaneously ignoring both Russian national interests as well as the economic objectives of the TNC. Therefore, as Chapter 2 showed, and Chapter 4 confirmed, instead of two types, there are three major types of actors whose interests drive Russian FDI: the two collective actors are state and companies, while individual actors are owners of private companies, Russian politicians, and top-managers of

state-owned TNCs. With consideration to their positions, representatives of state institutions and companies should act in accordance to national and business interests; however, as the analysis in this dissertation showed, in some instances of FDI, owners of private companies, Russian politicians, and top-managers of state-owned TNCs act as individuals, and instead of following national interests and business goals, they pursue their individual rent-seeking interests. As Figure 2.6 (in conclusion to Chapter 2) shows, each of these three types of interests can be combined with the other two types. Although it was not an easy task to separate these interests from one another because the actual negotiations are not transparent, in all cases of FDI across the three host countries I found business interests, and in some cases this type was combined with individual profit-seeking interests, while Russian national interests were almost impossible to find, except as a cover and facade for the other two. Thus, although Russian companies are usually perceived abroad as instruments of achieving Russia's political goals, in reality the situation is reversed. Namely, Russian companies' managements and owners of Russian private companies use Russian state institutions and Russian foreign policy for their business and individual profit-seeking goals. This relationship between Russian state institutions and Russian companies abroad reveal serious signs of state capture by large firms that confirms Dunleavy's (1985) argument that "the power of bureaucrats can be overestimated and their motivations misunderstood" (cited in Barr, 2003, p.89). Bringing this finding to a broader context of boundaries between states and markets confirms Barr's (2003) argument that markets and governments can be both efficient and inefficient, and that, therefore, market failure is a counterpoint to government failure.

Moreover, as I pointed out above, in particular cases, Russian companies' owners and top managers also utilize political instruments to achieve their individual rent-seeking goals. This

finding to a large extent parallels Tullock's (1990) argument that the creation of monopolies requires resources, which Russian companies' owners and top managers arguably possess, and that this is the fastest (although not the most profitable) way to gain profit. Furthermore, the analyses from the three empirical chapters show that Russian energy companies are almost exclusively perceived in host countries as Russia's political and foreign policy instruments, which parallels Przeworski's and Wallerstein's (1988) argument that state is not structurally dependent on capital, and again confirms Barr's (2003) abovementioned claim that market failure is a counterpoint of government failure in a case when government is inefficient. Nevertheless, the data gathered from Germany, Hungary, and Bosnia-Herzegovina shows that Russian energy companies have very similar market-related motives for foreign investments to Russian non-energy companies. Therefore, contradicting the second hypothesis, many Russian companies, especially state-owned representatives of energy sector, usually use Russian foreign policy as an instrument for reaching business goals of their companies, or to justify their individual profit-seeking goals. At the same time, as shown in Chapter 6, the motives for outward FDI of Russian energy companies are as diverse as the companies and their needs are.

In addition, as shown in Chapter 1, two yet different complementary hypotheses emerged from relevant literature:

H3: There is no clear Russian foreign policy strategy, but only one replete with internal conflicts. Therefore, businesses cannot use foreign policy as guidelines (Tsygankov, 2005; Ahrend and Thompson, 2005; Mankoff, 2008; Feklyunina, 2008).

H4: In absence of clear support/resistance to Russian investments in host countries, acceptance emerges through the ideological conflict (Abdelal, 2005; Eichler, 2005; Kuznetsov 2007; Orban 2008; Closson 2009; Orttung 2009).

As the model of cooperation between Russian state institutions abroad and Russian TNCs shows, each of these hypotheses explains one aspect of companies' relations with their own state's institutions abroad. First, as the analysis in Chapter 2 showed, Russian domestic politics and consequently, Russian foreign policy represents itself as the sum of conflicting interests between different factions of Russian merged political and business elite. Thus, Russian foreign policy's strategy is quite ambiguous and, consequently, hard to follow. Second, the proposed model of cooperation contributes to these two strands of the literature also by showing that it is not uncommon that Russian companies do not have a state-dependent strategy for internationalization: instead, they try to rely on state institutions only when they experience obstacles in their business activities. This seems to indicate lack of a strategy.

This argument leads to another point in which the model contributes to these two strands of literature. Namely, it shows that the most important explanatory variable for the cooperation is a combination of four host market's characteristics with the reaction to Russian investments in the host country, i.e. independent variable 4. Although political (e.g. the attitude towards Russia of the political party in power reflected in perceptions on macro level in a host country) and social (e.g. perceptions of Russia on the level of population) factors to some extent shape the trajectories of Russian FDI, the decisive factor for the cooperation between Russian state institutions and Russian TNCs is the level of economic safety and institutional development of the host country (reflected in the combination of the four market characteristics presented in Table 6.7): the higher these levels, the higher the cooperation between Russian state institutions and Russian TNCs. Therefore, the really interesting issue is not only whether *foreign policy is important in Russian outward FDI, and the causes of the difference between official Russian foreign policy and the actions of Russian companies abroad*. Rather the question is: *Under what*

conditions and in which forms do Russian companies and Russian state institutions abroad cooperate with each other? The answers of the dissertation contribute to the literature in four major ways.

7.2.Diversity in motives for FDI

The first part of the answer to this question presents the main potential contribution of the dissertation and is directly related to Russian companies' motives for FDI. The following quotation illustrates the ways that the motives of energy companies are presented in the literature:

While Russia claims to pursue strictly economic interests in its energy policy, many outsiders – especially in the US – maintain that Russia is using energy provisions as a political tool. Some even claim that Russia is using energy provision as part of bargain to tie its neighbors and European partners into its orbit – just as the Soviet Union did when it sought to strengthen control over its Eastern European allies via the building of oil and gas pipelines. While the US is generally much more concerned about political use of energy than the Europeans, some European governments also view dependency on Russia very negatively (Perovic, 2009, p.3).

As Chapter 2 revealed and empirical chapters confirmed, Russian companies' motives for outward FDI are not as uniform as the literature portrays them, but are as diverse as these companies are in their size and sector, and, consequently, in their needs. While these motives are always of a profit-seeking nature, even Russian state-owned energy companies most analyzed in the literature vary in their motives for FDI. For instance, as demonstrated in the empirical part of this dissertation, although both Gazprom and Zarubezhneft are state-owned energy companies, their motives for FDI vary and appear in different forms, depending mostly on their size, but also to a large extent, on personalities in their top management and their individual profit-seeking interests.

This contribution questions claims proposed by the second strand of literature about national interests-based political motives for FDI of Russian companies. For example, Vahtra

and Liuhto (2004) classify Russian TNCs into six types, based, as they put it, on TNCs' level of conformity with Russian foreign policy. For example, according to Vahtra and Liuhto (2004), Gazprom is a 'Patriot', i.e. it follows Russian foreign policy goals, and consequently, Russian national interests, and, thus, one of Russian TNCs with the low transparency of operations. In contrast, the analysis in this dissertation explained that Gazprom's management, who equates Gazprom's and Russian national interests, in fact use patriotic rhetoric to mask both company's pure business goals, and their individual profit-seeking interests. The latter also explains low transparency of Gazprom's operations. For similar reasons, the analysis of this dissertation has not found supportive evidence for Orban's (2008) and Liuhto's (2008) claims about Russian energy companies' 'imperialist expansionism': being based only on the analyses of Russian companies' activities outside Russia, these studies overlooked social aspects of Russian domestic affairs, which are a crucial source of Russian TNCs' motives for internationalization.

For instance, as Chapter 2 of this dissertation showed, the Russian leadership's and Gazprom's management's equating Gazprom's and Russia's national interests has been an important tool of Russian political system led by Putin and labeled under 'managed democracy'. Krastev and Holmes (2012) appropriately characterize as a system that was ignoring and pacifying the people, and ignoring national interests, "while amassing unbelievable riches from the sale of Russia's natural resources abroad" (p.40), i.e. pursuing business and individual profit-seeking interests. The latter argument is supported by Kuznetsov (2010), who points out that some top-managers of a Russian TNC under state control abuse their position and pursue their own interests. Wenger (2009) also confirms this argument by pointing out that "[w]hile the state has attempted to formulate a long-term energy strategy, its energy politics remain dominated by short-term personal gains and by the interests of competing elites, rather than by the long-term

interests of the Russian people” (p.228). Therefore, as demonstrated in this dissertation, presenting Russian TNCs’ FDI as activities in accordance to Russia’s national interests has been only a camouflage for Russian political leadership’s and TNCs’ management’s individual profit-seeking goals, which can be paralleled with Krastev and Holmes (2012) notion that “incapacity-hiding, not capacity-building” has been the basis for Putin’s statecraft.

The analysis in this dissertation also showed that diversity in Russian TNCs’ motives for FDI produce diversity in geography of their FDI as well, which leads us to the second part of the answer to the research question and the second potential contribution of the present dissertation.

7.3.Diversity of factors which shape Russian companies’ motives for FDI vary across countries and regions (space)

In addition, and as a confirmation to the first part of my argument above, as the empirical part of this dissertation showed, Russian companies seek the state’s support only when they face difficulty to pursue their goals abroad. These goals vary across countries and regions. Therefore, as shown in the empirical part, being a highly sophisticated and both politically and economically safe market, Germany generally counts as attractive and a priority market for most Russian companies, and thus, attracts the largest amounts of their FDI among the three analyzed countries. As Chapter 3 showed, there is a large geographical diversity among Russian companies’ FDI even within Germany. The sector that they represent and their size, and infrastructure and capacity of particular German regions define their geographical location and the mode of their investment in Germany.

The empirical part also showed that motives for FDI of even one particular company vary from one country to another. For instance, while for Gazprom Germany represents the most economically safe and institutionally developed market in Europe, Hungary with its smaller and less economically and institutionally developed market is of secondary importance, and Bosnia-

Herzegovina of tertiary importance. This argument also holds for other Russian companies. At the same time, as the analysis in part two showed, the stronger economically and institutionally the host country, the more attractive, and simultaneously the more difficult it is for investments from Russia to enter their markets. As discussed in Chapter 6, the different combinations of the four characteristics of host market (market size, sophistication, regulations of FDI, and competition by other foreign investors) with reactions to Russian FDI in Germany, Hungary, and Bosnia-Herzegovina determined Russian companies' FDI in these countries. Therefore, whereas in host countries with weak states Russia's image itself is sufficient for investment, in host countries with strong states it creates rather the obstacle to Russian companies to reach their investment goals. As a consequence, Russian companies working in strong institutional and socially relatively hostile environment engage in the process of strengthening Russian state institutions (at least abroad) and become the drivers of this process.

This finding not only confirms the economic hypothesis, which states that Russian companies are rational profit-seeking actors, which do not follow Russian foreign policy rhetoric and goals but also provides more nuanced and more sector specific contribution. This is in line with, for instance, Kalotay's and Sulstarova's (2008) argument that Russian TNCs in energy sector aim to control upstream natural resources in the CIS and developing countries, while in high-income countries they aim at controlling downstream markets. In addition, this dissertations' findings explain in detail Kalotay's and Sulstarova's (2008) claim that many ex-socialist countries fear the Russian government is using its energy companies as foreign policy tools and that in some cases those fears have been grounded: as the analysis in Chapter 4 shows, at least in Hungary the situation is reversed, and Russian companies cooperate with Hungary-based Russian state institutions only when they experience difficulties in reaching their goals. On

the other hand, as the example of Air Bridge's investment in Hungarian Malev show, the fears of Russian FDI supported by the Russian political leadership can be grounded; however, only as fears of Russian companies' managers and politicians pursuing their individual profit-seeking goals instead of business or Russian national interests.

Apart from these two spatial factors that shape motives for Russian companies' FDI, there are also time and sector specific factors. They constitute the third part of answer to the main research question, and simultaneously, the third potential contribution of the present dissertation.

7.4. The factors that change motives over time are case specific and sector specific

Another important factor in addition to the level of economic safety and institutional development of a host country is its political and historical relations with Russia. It is generally assumed that political relations between countries depend on political color of dominant political forces and leaders: illustrative examples serve Russian-German relations when Putin and Schroeder were in power, and changes in Hungarian rhetoric towards Russia depending on dominant political party in power in Hungary. As shown in the empirical part of the present dissertation, this assumption is present in most of the literature about Russia's relations with the three analyzed countries, and it provides the argument that if the relations are predominantly positive, Russia's image speeds up FDI processes (as some of the findings from Chapter 5 about Russian FDI in Bosnia-Herzegovina show), while it rather slows them down if political and historical relations with Russia are less friendly (as some of the findings from Chapter 4 about Russian FDI in Hungary show). However, as Chapter 6 showed, the reality is much more nuanced. Indeed, Russia's relations with Germany and Bosnia-Herzegovina happened to be constant despite dominant political party being in power in these two host countries. This

confirms Shevtsova's and Kremer's (2012) argument namely that, as they put it, the "Schroederization" of German-Russian relations continued even during Germany's "Merkelization".

Among the three analyzed countries, as Chapter 6 showed, only Russia's relations with Hungary have to a large extent depended on the color of dominant political party in power and particular political preferences of leader. As pointed out in Chapter 4, over the last twenty years Russian-Hungarian relations have been more favorable during the periods when Hungarian Socialist Party (MSZP) dominated Hungarian parliament, and less favorable when center-right FIDESZ dominated Hungarian parliament. This has had a direct impact on attitudes towards Russian companies' FDI in Hungary: when MSZP was in power, FDI of Russian companies was welcomed in Hungary, while under FIDESZ's rule, Russian companies tended to hide their origins in order to be allowed to invest. However, the recent development in FIDESZ's and its leader's Viktor Orban's foreign policy (officially titled as Opening to the East) radically changed this tendency in Russian-Hungarian relations towards being more friendly. This shift also includes positive shift in Hungarian leadership's attitudes towards Russian companies' FDI in Hungary: as pointed out in Chapter 4, during his recent visit to Russia, Orban stated that Hungary welcomes Russian investments. Thus, this tendency suggests that the dynamics of inter-state relations over time can depend not only on color of the dominant political forces, but also on personalities in power. Simultaneously, as Chapter 4 showed, they shape modes of Russian companies' FDI over time.

The empirical part also revealed that factors that change motives of Russian companies to invest abroad are in part sector specific. In this sense, the findings of the present dissertation confirmed the widely recognized specific nature of energy sector and its companies. Due to their

dependence on large infrastructural capacities, which are usually the matter of broader public interests, energy companies in general, and Russian energy companies in particular and their FDI have been both subjects to a special attention in Europe as major energy suppliers, and key players in Russia's relations with Europe as major financial sources to Russia's budget. It is for these reasons that Russian energy companies' FDI in Europe have been politically supported by Russia's political leadership, when they considered this support necessary. One exception has been oil giant LukOil, which in the analyzed countries did not have visible political support of the Russian state. As shown above, due to all these reasons, Russian energy companies have much more power over Russian state institutions both at home and abroad, and, thus their cooperation with state institutions is usually limited to the level of Russia's political leadership. While this argument finds confirmation in Stallings' (1992) 'more leverage, less need for linkage and *vice versa*' framework in narrower context of Russia's state-firms relations, it also can be paralleled with Moran's (1993) study about the governments-firms relationships, where he argues that US state institutions politically support US companies in instances of their FDI.

Similar argument as for Russian energy companies holds for Russian companies' FDI from other sectors with close connections to Russia's political leaders: as shown in Chapters 3 and 4, in some cases Russia's political leaders personally lobby for the interests of some telecommunication firms (as in the case of Medvedev's lobbying AFK Sistema's interests in purchasing German Infineon) and air transportation companies (as in the case of Putin's lobbying for Air Bridge's interests in purchasing Hungarian Malev). As the findings of this dissertation showed, cooperation between these companies and Russian state institutions abroad is also limited at the level of contacts with Russia's political leadership, as is in case of most Russian energy companies.

Other Russian non-energy companies either have minimal or no contacts with Russian state institutions abroad, which is the case with most Russian investors in Hungary and Bosnia-Herzegovina. In contrast, Russian small and medium non-energy companies that invest in Germany tend to increase at least their formal cooperation with Russian state institutions only in order to improve Russia's image, and consequently, their own image in Germany. The latter to a large extent has been damaged by generally negative reputation of Russia's leadership and its open political support to above analyzed Russian energy and non-energy companies, which led many scholars to generalizing the political role of Russian foreign policy in the operation of Russian TNCs. For instance, Orban (2008) writes that "Russia's energy-centered foreign policy is not limited to the states of the former Soviet Union and is clearly designated to increase its leverage in key geostrategic theatres and over U.S. allies, and to achieve far reaching foreign policy goals" (p.121). The contribution of this dissertation is that factors that change motives for Russian companies' FDI and shape their cooperation with Russian state institutions are not only sector specific, but also vary from one company to another. This important notion leads us to the final part of the answer to the research question.

7.5.The impact of motives and their factors on Russian companies and FDI

As this dissertation has shown, the factor that is most influential for cooperation between Russian state institutions abroad and Russian companies that invest abroad is the overall host country's environment, i.e. a combination of four host market characteristics with host country's reactions to Russian FDI. The factors that shape these reactions have in detail been analyzed in the previous sections. Here it is important to underline their impact on Russian companies and their FDI in three analyzed host countries. The findings of this dissertation show that Russia's overall image has very important impact on the reactions to Russian companies and their FDI in

all three countries. Consequently, first reactions to Russian companies and their FDI are mostly related to Russia's overall image in these countries. Thus, Russian companies have generally easier access to the markets of the countries where Russia is perceived positively, and they have to face more initial obstacles in countries where the opposite is the case.

These perceptions of Russia come from various sources of information, but the most influential one – as demonstrated in Chapter 3 – is the image and international reputation of Russia's political leadership (created and influenced by various host countries' media, which, in its turn, reflects the interests of various political and business groups). Although in several instances of Russian FDI (such as Gazprom's North Stream project with German Wingas and BASF, and purchase of Malev by Air Bridge in Hungary) direct lobbying by Russia's leaders had positive impact on Russian companies, generally negative and increasingly worsening image and reputation of Russia's political leaders tend to have negative impact not only on Russia's image in general, but on image of Russian companies and their FDI in particular. The most striking examples of such negative impact are Sberbank's (and Canadian Magna's) unsuccessful attempt to purchase GM's Opel assets in Germany, the failure of AFK Sistema to purchase a quarter of shares in German Infineon, and Surgutneftegaz's purchase of OMV's shares in Hungarian MOL, which, due to the gas company suspected close ties with Russian political elites, were sold two years after the purchase. On the other hand, as Chapter 5 shows, Russia's positive image in the Serb entity of Bosnia-Herzegovina paved the way for Russian investment.

On the other hand, overall analysis of this dissertation suggests that it is not only Russia's image that influences the reactions to Russian companies and their FDI in host countries, but that Russian companies with their FDI activities abroad also contribute to Russia's overall image. In

these terms, most of Russian companies' FDI activities in Hungary have negatively affected Russia's image in Hungary, especially among Hungarian business circles. The most striking and frequently mentioned example of such negative impact here is Air Bridge's purchase of Malev, which turned into a negative experience not only for Malev itself and Hungary, but also for Russian state. On the other hand, Zarubezhneft's purchase of oil-refining capacities in the Serb entity of Bosnia-Herzegovina, by creating new employment, even more improved Russia's overall image among Bosnian Serbs, and to a large extent neutralized negative perceptions of Russia in Bosnia-Herzegovina Federation at least on the level of business community. It seems that in a similar way, which includes not only job creation, but also transparent activities, Russian small and medium non-energy companies tend to gradually change Russia's image in Germany to more positive. Therefore, paralleling Feklyunina's (2008) observation that Russia's political leadership recognizes the negative character of Russia's image in the West as "one of the major security threats for the country" (p.605), based on the analysis in this dissertation, it can be argued that Russia's image and FDI activities of Russian TNCs interdependent.

In sum, the answer to research question integrates three explanations proposed by existing literature on the relationship between Russian foreign policy and outward FDI from Russia, namely: a) that Russian FDI are driven mostly by business interests, and to some extent by individual profit-seeking interests of their owners, managers, and representatives of Russian political elites; b) that there is no unified Russian foreign policy strategy, especially considering FDI, and; c) that the combination of four host market characteristics with reaction in the host country on Russian FDI is the most influential factor that shapes the level of cooperation between Russian companies and Russian state institutions abroad. Based on the contributions above, the next section provides some suggestions for further research.

7.6. Suggestions for Further Research

Although the analysis in this dissertation contributed to the research on Russian FDI, by adding to it the dimension of Russian domestic affairs, there is a need for further research on the role of personal relations between Russian leadership and management of Russian TNCs in order to gain more complete knowledge about Russian companies' FDI. In light of the second contribution of the present dissertation, there is another suggestion for further research: in order to test the theory of Russian FDI presented in this dissertation, it would be useful to extend its geography of exploration of Russian companies' internationalization modes to Americas, Asia, and Africa.

Furthermore, as this dissertation revealed, the factors that change motives of internationalization of Russian TNCs are case specific and sector specific. Although this dissertation focused on large and small-medium size Russian TNCs across Europe, further research of Russian diaspora business activities would create new knowledge in political economy and migration processes. Finally, there is a need for broader research on the impact of foreign activities of Russian business on Russia's international image, and, in turn, on Russian companies' FDI. This kind of research then can be compared with analyses of other emerging markets, which would create a deeper knowledge about the functioning and role of emerging markets in international political economy.

APPENDIX: The list of interviews and personal conversations used in the dissertation

- Avangard Malz, AG, PR representative (personal conversation, July 1 2012)
- Beiten Burkhard Berlin, Attorney-at-Law, representative (telephone interview, June 13 2012)
- Center for International Relations in Banja Luka, Director (personal interview, December 6 2012)
- Foreign Investment Promotion Agency (FIPA) of Bosnia-Herzegovina, PR representative (online interview, November 7 2012)
- Gazprom Germania, PR expert, (online interview, June 28 2012)
- Gazprom, Senior official (telephone interview, May 20 2012).
- German Business Council in Russia, former representative (personal conversation, September 1 2012)
- German Trade and Investment Agency, GTAI. Marketing manager, (online interview, May 12 2012).
- Hungarian Investment Promotion Agency (ITD), Former Director, (personal interview, June 12 2012).
- Illim Timber GmbH, Director for External Relations, (telephone interview, June 14 2012)
- Innovation Fabric, small Russian-owned innovation company, Skype interview, July 23, 2012
- Kaspersky Lab, Germany, Director for Marketing (online interview, June 17 2012)
- Kronstadt GmbH, Director (personal conversation, June 13 2012)
- Malev, former employee (personal conversation, March 25 2012)
- MOL, employee (personal conversation, January 30 2012)
- Nukem Technologies, Director for Corporate Communications and Support, (online and telephone interview, June 15 2012)
- Optima Group, marketing manager (telephone interview, December 4 2012)
- Russian Commercial Bureau, Berlin (personal interview, December 13 2011).
- Russian Embassy in Bosnia-Herzegovina, representative (personal interview, December 2 2012)
- Russian Ministry of Communication and Mass Media, Department of International Cooperation, 3 Senior Officials (personal interviews, October, 23 2011)
- Russian Ministry of Economic Development, Department for Foreign Investments (5 personal conversations with Senior Officials), Representative offices in Hungary and Germany (4 personal conversations with Junior Officials, October 2011 - October 2012).
- Russian Ministry of Economic Development. Senior Official (personal interview, July 23 2011).
- Russian Ministry of Energy, Department of International Relations, Deputy (telephone interview, August 5 2011).
- Russian Ministry of Foreign Affairs, Economic expert of the Fourth European Department, (personal interview, July 20 2011)
- Russian Ministry of Foreign Affairs, Expert on Russian-Hungarian Relations (personal interview, July 23 2011).

- Russian Ministry of Foreign Affairs. Diplomats of various ranks in Hungary (7 personal conversations), and diplomats of various ranks in Germany (3 personal conversations, December 2011 – March 2012).
- Russian Trade and Industry Chamber, representative (personal conversation, September 2 2012)
- Russian Trade and Commercial Bureau in Budapest, representative (personal conversation, September 23 2012).
- Russian Trade and Industry Chamber, Representative Office in Berlin (personal interview, December 14 2011).
- Trade Chamber of Republic of Srpska, 2 representatives, (personal interviews, December 6 2012)
- Union of Russian-speaking Entrepreneurs in Germany, ARGUS, representative, (telephone interview, August 4 2012)
- Zarubezhneft's former official (personal interview, Moscow, October 15 2011)
- 20 personal conversations with the population of Bosnia-Herzegovina Federation and 20 personal conversations with the population of Republic of Srpska conducted between July 2010 and December 2012

Extract from the online interview:

1. What are the main challenges for GAZPROM Germania in German market? What measures/steps do you take to resolve them?

Our priority is to ensure the reliable supply of energy to traditional corporate customers with medium- and long-term gas supply contracts. This is directly in line with GAZPROM's corporate strategy. Demand for natural gas is stagnating, competition is increasing, and we therefore expect that the market environment will continue to be difficult. We intend to overcome these challenges with new, more flexible contract models. However, GAZPROM Germania also has great opportunity to create value for our parent company GAZPROM by diversifying our fields of business, developing new markets, directly investing in natural gas infrastructure projects, or indirectly investing through our subsidiaries and participations. We also expect that new business opportunities will present themselves as natural gas becomes more important to electricity generation following the dramatic events in Japan.

2. To what extent are relations with German state institutions important for the business of GAZPROM Germania?

GAZPROM Germania operates in an environment characterized by the varied interests of its stakeholders, both global and regional. Dialogue with our stakeholders is a component of our everyday business processes. We are also in contact with political decision-makers, representatives of non-governmental organizations (NGOs), and local government on various issues. Government, society, and the public sphere, and this includes the media, demand that energy companies ensure the reliability and security of their energy supply, but also that they are transparent and obey the law. Particularly concerning issues such as large infrastructure projects, expanding energy supply networks following the recent change in energy policy, and the protest against wind-energy parks, it is clear that our society's acceptance mechanisms are undergoing significant change. Dialogue, that is, active communication with representatives of government,

business, and society, is vitally important to us and the entire energy industry as a means of avoiding or resolving these conflicts and ensuring our continued commercial success.

3. The gap between Russian and German business is widely recognized among business people and scholars. What is your opinion about these differences? Which of these two business cultures, in your opinion, prevails at GAZPROM Germania?

As a company with Russian roots, a European orientation, and its headquarters in Germany, we operate in a multicultural environment. We consider it part of our role to actively support intercultural dialogue between people and nations. We work at the point where Russia and Germany meet, and we are committed to working towards creating new energy in Russian-German relations. We have initiated a number of socio-cultural projects to strengthen mutual understanding between the two cultures and promote relations between their people, thereby improving understanding and relations between the two countries. For example, we sponsor the German-Russian Festival and Russian Film Week in Berlin. Russo-German relations have developed over many hundred years, shaped by a variety of positive factors and a neighbourly coexistence. Gas supply relations between Russia and Germany are a good demonstration of this. In the past four decades, business relations between GAZPROM and its customers in Germany and Europe have withstood the East-West conflict, the oil price crises, and the fall of the Soviet Union.

4. How do you evaluate the role of Russian foreign policy towards Germany and the EU in business success of GAZPROM Germania?

No comment

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