Kálmán Kalotay

The future of Russian outward foreign direct investment and the eclectic paradigm: What changes after the crisis of 2008–2009?

Az orosz tőkeexport és az eklektikus paradigma jövője: Mi változik a 2008–2009. évi válság után?

This article explores the future of Russian outward foreign direct investment in the aftermath of the crisis of 2008–2009. As it is too early to analyse the full impact of the crisis, it develops hypotheses about the degree of slowdown in the foreign expansion of Russian transnational corporations. It uses an extension of the eclectic paradigm to home country advantages (competitive environment, business environment, development strategy, State involvement) applied to a comparison of the Russian Federation with other economies in transition as an analytical tool. Systematic differences between transnationals from the Russian Federation (global firms, based on natural resources, aiming for vertical integration of assets) and from new European Union member countries (regional firms, based on downstream activities or services, aiming for horizontal integration) allow us to formulate more solid conclusions about the future of the Russian firms facing lower export prices, lower market capitalizations and higher debts. In turn, this article argue that a comparison with the large emerging economies of Brazil, China and India, under the acronym of BRIC can be less useful in the current context, as these economies are significantly less affected by the crisis of 2008–2009 than the Russian Federation; hence they can not expect a slowdown in their outward foreign direct investment similar to that of Russian transnationals.

JEL: F23; F21; O52; P29

Keywords: *Russia; Outward FDI; Eclectic paradigm; Home country; Crisis; Economy in transition*

Kulcsszavak: *Oroszország, tőkeexport, eklektikus paradigma, anyaország, válság, átmeneti ország*

Over a historically brief period (a decade and a half), the Russian Federation has become a major outward investing country on a global scale. According to data from the United Nations Conference on Trade and Development (UNCTAD), registered outward foreign

Kálmán Kalotay – Economic Affairs Officer
United Nations Conference on Trade and Development
Palais des Nations, CH-1211 Geneva 10, Switzerland
Tel.: +41 22 907 50 99; fax: +41 22 907 01 94.
E-mail address: kalotayk@gmail.com.
The view are those of the author and do not necessarily reflect the opinion of the United Nations.

direct investment (FDI) stock of the Russian Federation's increased from U.S.$ 2 billion in 1993 to U.S.$ 255 billion in 2007 (*UNCTAD, 2008*), making it the 15th most important source economy of investments worldwide, and the second largest among emerging economies (defined as developing and transition countries together), behind Hong Kong (China) only, and ahead of Brazil, China, India and South Africa, to mention a few. However, with the onset of a major financial crisis in the second half of 2008, which affected the Russian economy deeply, questions are raised about the immediate future, as well as the long-term sustainability of those large outward investments.

This article argues that questions about the future of Russian outward FDI are particularly acute because the timing of crisis coincides with a change in the business cycle of Russian transnational corporations (TNCs): after a stage of very fast foreign expansion, time has come to consolidate the foreign assets, resulting in a slower growth abroad (and even a retreat in some cases). The future is thus uncertain to predict with exactness. However, if a right analytical framework is applied to the Russian outward FDI phenomenon, certain trends can be predicted. This article applies two of them: one is a business case study methodology, in which the most salient current problems of Russian TNCs are analysed; the other is a more theoretical one: an extended version of the eclectic paradigm (extended to a separate home-country factor) applied to the Russian Federation in comparison to other economies in transition (acknowledging that the two methods can partly overlap). In turn, this article argues that the analysis of the future of Russian outward FDI has to be detached from the "BRIC" Group (Brazil, Russian Federation, India and China), as the three other economies do not share any common characteristics with the Russian Federation.

The rest of the paper is organized as follows: First, a business case study analyses briefly the periods of boom and halt in Russian outward FDI, with a special reference to its natural resource base. It is followed by an argument about by the analytical framework of the BRIC group is no longer valid. The subsequent section applies the extended eclectic paradigm to the Russian Federation in comparison to other economies in transition. The conclusion formulates some general hypotheses about the future of Russian outward FDI.

Boom and slowdown

According to official statistics, in the late 1990s and till 2007, the growth rate for Russian outward FDI stocks was by far the fastest among emerging markets, faster than other newly emerging source countries such as India, or rapidly expanding offshore centres such as the British Virgin Islands. However, the three-digit growth rate of the outward FDI stock of The Russian Federation is partly a statistical artefact. It may well be that in the 1990s, the outward investment position of the country was largely underreported. After 1999, the Bank of Russia started receiving increasingly accurate information but was not fully in a position to revise its previous reporting. That is partly confirmed by a look at the difference between outflows and outward stock data over the period 1999–2007: the cumulative outflows of that period reached U.S.$ 117 billion, while the outward FDI stock rose by U.S.$ 245 billion.[1] Naturally, part of the discrepancy may be due to changing valuations or the fact that not all the private sector outflows of that period were correctly recorded under

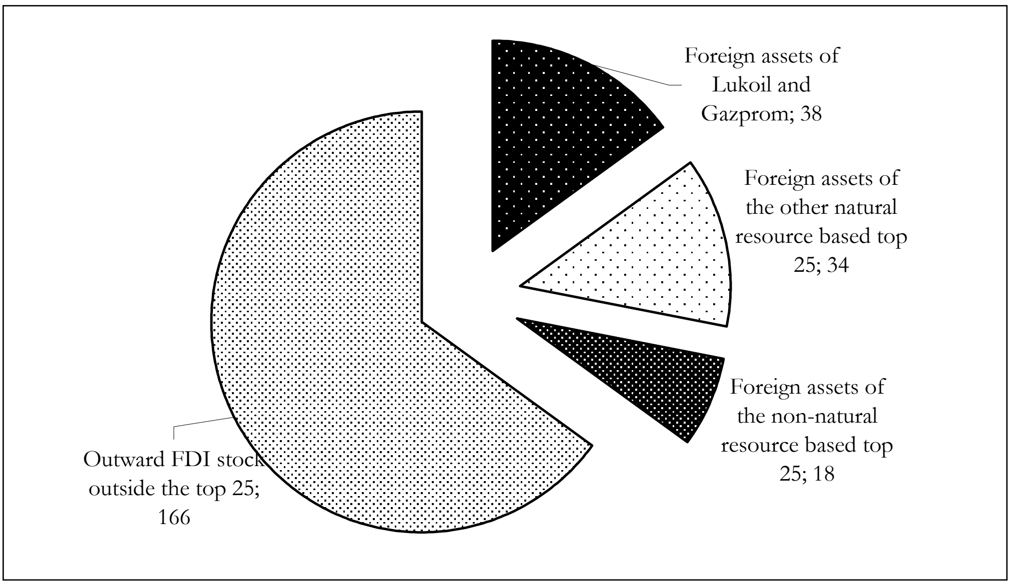
[1] *See the data of the UNCTAD FDI/TNC database.*

FDI. Nevertheless, the dynamics of flow data too indicates fast growth. The main salient feature about the period of take off (especially 2000–2007) is that fact that lower middle-income The Russian Federation became mostly unexpectedly a net capital exporter, and some of its firms, such as Gazprom, Lukoil, Norilsk Nickel, and Severstal, for example, have already leapfrogged to a global status, due to their aggressive strategies of foreign expansion and leveraging of their natural-resource-base (expansion financed by borrowing).

While Russian corporations that expand internationally constitute a mostly diverse group of firms in terms of ownership structures, motivations, and strategies, the most important and the largest ones of them (Gazprom, Lukoil, Norilsk Nickel, United Company of Rusal, etc.) are strongly linked with the natural resources of their home base. Of the 25 largest Russian TNCs of 2007 ranked by foreign assets (*Skolkovo and VCC, 2008*), there were 3 oil and gas firms, which occupied the top 2 positions), 6 iron and steel companies, 2 mining companies, and one metals company. These firms together account for U.S.$ 72 billion in foreign assets (figure 1), of which two companies (Lukoil and Gazprom) were responsible for more than half (U.S.$ 34 billion). This means that natural-resource-based firms accounted for four-fifths of the foreign assets of the top 25. Setting aside the methodological differences between FDI and foreign asset data, a rough estimate can be made to compare the foreign assets of the top 25 (U.S.$ 72 billion) against the total outward FDI stock of the Russian federation at the same year (2007) (U.S.$ 255 billion). The former amounts for 35% of the latter, and given the fact that the top 25 list may exclude certain non-reporting large companies, this ratio is an indication of a very high concentration of outward FDI by a few firms.

Figure 1

Foreign assets of the top 25 Russian TNCs and outward FDI stock of the Russian Federation, 2007(Billions of U.S. dollars)



Source: Author's calculations, based UNCTAD FDI/TNC database and Skolkovo and VCC 2008.

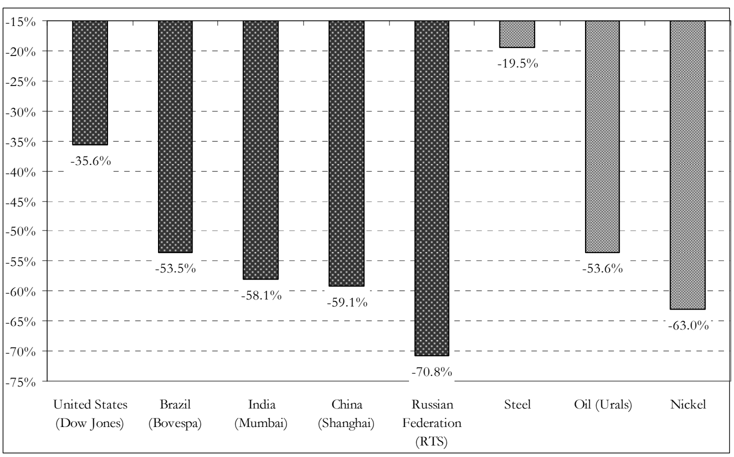
The crisis that started in 2008 affected all business around the world negatively, including Russian TNCs. The general negative fallout of the crisis includes reduced access to finance; a sharp deterioration of perceptions about business prospects by TNCs; and a strong risk aversion of all businesses (*UNCTAD, 2009*). Indeed, the financial crisis of 2008[2] has reached the Russian Federation quickly and in many senses augurs badly for outward investing Russian TNCs.

There are certain circumstances that make the impact of the crisis particularly strong on Russian firms. For example, *greenfield investments* (new investments and expansion of existing facilities) which seem to be so far been quite resilient to the crisis (*UNCTAD, 2009*) represent a small portion of outward FDI by Russian TNCs, as the latter have preferred M&As in their vision to leapfrog to global status (*Kalotay, 2008*). This is so because cross-border M&As are not just larger in terms of the size of the project but, unlike greenfield investments, require a large upfront payment. In times of crisis, it is exactly those financial resources that become scarce.

Another problem arose from the above mentioned industry structure of Russian outward FDI. As the prices of their export commodities – the main source of their revenues – declined sharply for natural-resource based Russian firms in 2008 (-20% for steel, -54% for oil and -63% for nickel; figure 2), the continued financing of activities – including the ones abroad – became more difficult. This in turn affected the market valuation of Russian firms: the Russian market index fell by 71% in 2008, twice as much as the Dow Jones, and sharper than in other large emerging economies (figure 2). The decline in export prices and domestic market valuations inevitably led to a weakening of GDP growth and currency devaluation. The latter in turn made foreign expansion for Russian TNCs more expensive when expressed in rouble terms.

Figure 2

Year-to-year changes of selected stock market indices and commodity prices, 2008 (Billions of U.S. dollars)



Source: Author's calculations, based on raw data published in the Russian & CIS Daily of Unicredit Aton, Moscow.

[2] *By 2009, this financial crisis had become a general economic crisis.*

While financing difficulties were mounting, the corporate debt of large Russian firms was rising (to an estimated U.S.$ 110 to be paid in 2009)[3] as a result of past strategies of strong leveraging. This is almost double the total owed in Brazil, India and China together. Since the changes in markets in 2008, this level of debt is no longer sustainable against the current valuation of Russian corporate assets. The list of Russian TNCs that have high international debts (estimated to have tripled it from 2006–2008) include United Company Rusal, Norilsk Nickel, TMK and Sistema. This inevitably leads to either for a need to find new sources of capital (for example in the form of State investment in troubled companies or foreign investments) or to a further consolidation of the universe of largest Russian TNCs (with the "healthier" companies taking over the debt-ridden ones). Government assistance in the case of Russian firms can come from State-owned Vnesheconombank, which is responsible for handling the bailouts. In return for the loans, Vnesheconombank is requiring a representative at the company and the right to veto any debt or major asset sale.

One more unfavourable development in the Russian Federation in 2008 was the recurrence of capital flight, which by and large disappeared after 1999. The central bank estimated having lost U.S.$ 131 billion in foreign reserves in the second half of 2008 alone.[4] This capital flight in turn further reduces the capabilities of public authorities to bail out firms in trouble.

To some extent even the ownership structure of Russian TNCs (a mix of oligarchs and State) became a disadvantage, making it more difficult to raise financial resources form other sources. For example, in the past, some of the Russian TNCs have financed their expansion via initial public offerings (IPOs). With their export prices low, they can no longer engage in IPOs. Moreover, State ownership and influence has made raising money abroad more difficult, as the onset of the crisis coincided with foreign policy problems (such as the war in Georgia, and gas transit crisis with Ukraine) that made the foreign sources of financing even more reluctant to lend to companies associated with The Russian Federation as a home country.

Despite all these negative developments, it is not yet certain to what degree Russian FDI would be affected in 2009 and beyond. Over the first 9 months of 2008, outward FDI flows were still increasing, to U.S.$ 43 billion, up from U.S.$ 36 billion over the same period of 2007.[5] It was only in the last quarter of 2008 that outward FDI projects had to be put on hold and sometimes divested. For example, Lukoil attempted to acquire a 26% share in Spain's Repsol in November and December 2009 but did not find the necessary financing and had to shelve the deal. Other Russian firms such as Norilsk Nickel had to go even further and divest from existing foreign assets (it closed in October 2008 its Cawse plant in Western Australia, aiming to put it up for sale; and sold its minority stakes in Canadian auto parts producer Magna and German building company Hochtief). Another sign of slowdown of outward FDI from the Russian Federation is the cutting by Russian TNCs of their overall investment outlays in 2009. For example, Lukoil decided to cut investment spending in 2009 by 40%, to U.S.$6 billion, down from more than U.S.$10 billion in 2009, due to the appearance of a net loss in its accounts in the fourth quarter of 2008, marking

[3] *See "Oligarchs Seek $78 Billion as Credit Woes Help Putin (Update2)", Bloomberg, 22 December 2008.*

[4] *See www.cbr.ru/eng/.*

[5] *See www.cbr.ru/eng/.*

the "worst ever quarter in the whole history of Lukoil".[6] These cuts affect investments both at home and abroad.

The crisis of the BRIC hypothesis

One way of formulating hypotheses about the future of Russian outward FDI would be through a comparison with large developing economies such as Brazil, China and India. Indeed, such comparison under the acronym of BRIC has become a commonplace these days (see e.g. *Gammeltoft, 2008*; *Sauvant, 2005*). Below we will argue however that this is not the proper analytical framework, as these four countries were put together by a historical accident, without sharing major common characteristics.

To recall, the hypothesis about the existence of an economic group called BRIC was first formulated by Goldman Sachs in 2001.[7] Already at the beginning, these four countries shared surprisingly few common characteristics: they are big and they are not developed countries. In turn, from the outset, it was difficult to create meaningful common analysis for a group of four diverse countries that consisted of three developing countries and a country in transition (the Russian Federation); two major importers of natural resources (China and India) and a major exporter of the same (the Russian Federation); a global export platform (China), a global services platform (India), a global source of natural resources (The Russian Federation) and a regional economic power (Brazil; two countries of fast growing population (Brazil and India) and a country of shrinking population (The Russian Federation), two "liberal" democracies (Brazil and India), a "limited" democracy (the Russian Federation) and a one-party state (China). These countries could develop only apart from each other. Moreover, differences between are not derived from a common historical co-evolution that would explain scientifically their differences, but are due to historical "accidents". Hence in most cases the four can not be analysed together in a fully scientific manner.

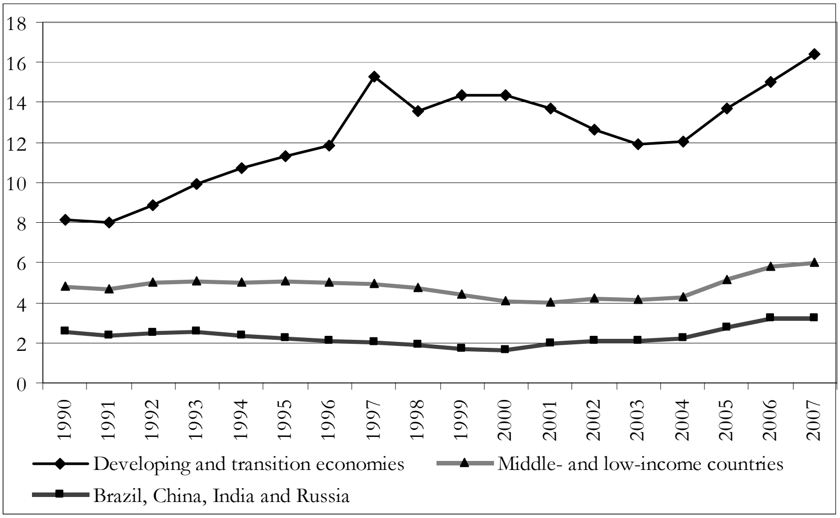
In terms of outward FDI, despite all expectations (*Sauvant, 2005*), the BRICs have not played the role of locomotive among developing and transition economies. Since the 1990, the share of all developing and transition economies in world outward FDI stock has been mostly on a rising curve: it was around 8% around 1990, by 1997, it reached a peak of 15%, declining somewhat to 12% in 2003–2004, and reaching a new record of 16.4% in 2007 (figure 3). That means that effectively their share more than doubled over 1990–2007. In turn, the share of the BRICs was declining between 1990 and 2000 (from 2.6% to 1.7%), and rose only after 2000, to 3.3% in 2007 (figure 3). As a result, the net gain in the share of the BRICs was only a quarter in 1990–2007. As a result, while the BRICs represented 31.5% of the outward FDI stock of developing and transition economies, by 2007, their participation declined to 20% (figure 3).

[6] *See "Lukoil Posts Loss; Cuts Spending on Weak Ruble, Oil (Update1)", Bloomberg, 7 April 2009 (www.bloomberg.com/apps/news?pid=20601087&sid=aO18xz3VKreQ&refer=home, accessed on 20 April 2009)*

[7] *See "Another BRIC in the wall", The Economist, 21 April 2008.*

Figure 3

Share of developing and transition economies in world outward FDI stock, 1990–2007 (Per cent)



Source: Author's calculations, based on data from the UNCTAD FDI/TNC database.

A counter-argument raised against this bleak picture of BRICs missing the role of locomotive is that the group of developing and transition economies as defined by the United Nations includes high-income countries and certain offshore financial centres, whose data inflate the numbers of non-BRIC developing and transition countries. This criticism is partly warranted. Indeed, if the outward FDI stock of the BRIC countries is compared to only the countries that the World Bank defines as middle and low-income, the differences are significantly lower between the whole group and the BRICs (figure 3). The rise of the share of middle and low-income countries in world outward FDI stock between 1990 and 2007 is from 4.8% to 6% only, while the relative importance of the BRICs in the middle and low-income total increases marginally, from 53% to 54%.

It has to be noted however that the elimination of high-income economies from the group of developing and transition countries misses out various important economies which still consider themselves both politically and economically part of the developing world (Bahrain, Brunei Darussalam, Hong Kong Special Administrative Region of China, Republic of Korea, Kuwait, Qatar, Singapore, Taiwan Province of China, Trinidad and Tobago, United Arab Emirates, to mention a few; table 1). In that sense, the use of the list of middle and low-income countries can be more misleading than the group of developing and transition economies as a whole. Moreover, it excludes those high-income emerging economies which more or less recently became high-income countries (Czech Republic, Estonia, Israel, Slovenia; table 1). The only weak point of the United Nations classification is that it puts the middle-income new European Union (EU) members already into the category of developed economies (table 1). However, as it will be shown later on, the outward FDI stock of these economies is small in absolute terms, and unlike the cases of Hong Kong (China), Republic of Korea, Singapore and Taiwan Province of China, do not have any major impact on the absolute values of outward FDI stock from developing and transition economies.

Table 1

Main differences between the definitions of developing and transition economies, versus middle and low-income economies, 2007

'Developing and transition' includes high-income economies:	'Middle and low-income' excludes all high-income economies but includes:
Asian tigers:	Middle-income developed
Hong Kong, China	countries (new EU members):
Korea, Republic of	Bulgaria
Singapore	Hungary
Taiwan Province of China	Latvia
High-income oil exporters:	Lithuania
Bahrain	Poland
Brunei Darussalam	Romania
Kuwait	Slovakia
Qatar	
Trinidad and Tobago	*And still excludes high-*
United Arab Emirates	*income 'emerging economies':*
Offshore financial centres:	*Czech Republic*
Aruba	*Estonia*
Barbados	*Israel*
British Virgin Islands	*Slovenia*
Cayman Islands	
Netherlands Antilles	

Source: the author.

The global financial and economic crisis of 2008–2009 accelerated the differentiation of the BRICs in general economic performance (in terms of exchange rate stability and GDP growth) and prospects for outward FDI, making the hypothesis of a single group even more difficult to hold. In 2008/2009, the Russian Federation was the weakest performer on all measures, and China was the strongest (table 2). In other terms, the Russian Federation is perceived as an economy largely affected by the crisis while China, and to a lesser extent Brazil and India, seem to be relatively resistant, although far from being isolated. This in turn can have major implications for outward FDI. Until recently, the Russian Federation seemed to be the most dynamic of the four, although mostly relying on a handful of large natural-resource-based companies, and on borrowed financial resources. In the future, these vulnerabilities may slow down Russian outward FDI, and less so the foreign expansion of Brazilian, Chinese and Indian TNCs.

Table 2

Brazil, China, India and Russia: Change in the estimated GDP growth rate, 2009/2008, and change in the dollar exchange rate, February 2009/February 2008 (Percent)

Country	GDP growth, 2008	GDP growth, 2009	Change, 2009/2008	Change in dollar exchange rate
Brazil	5.3	1.6	-3.7	-29.3
China	9.0	6.0	-3.0	4.0
India	5.3	5.0	-0.3	-22.0
Russian Federation	6.0	1.0	-5.0	-33.1

Source: Author's calculations, based on data from the EIU (GDP growth) and from the FXConverter of OANDA.

In the future, a more meaningful and deeper analysis of outward FDI from the former BRICs would probably need to put each country into the region to which it belongs, and with which it shares more common characteristics: Brazil together with other Latin American countries, especially the larger ones such as Argentina and Mexico; China and India together with other major Asian developing countries such as Indonesia, the Republic of Korea or Thailand; and the Russian Federation together with other economies in transition (such as Kazakhstan and Ukraine), or with new EU member countries (such as Poland), even if the latter's outward FDI is much smaller in scale and scope than the outward FDI of Russian TNCs. This is the methodology that the subsequent section will apply.

The application of an extended eclectic paradigm to the post transition space

The extended eclectic paradigm as an analytical framework

In order to draw systematic conclusions about the future of outward FDI from the Russian Federation, we will benchmark it against the outward FDI performance of other transition or former transition (new EU member) economies. The analytical framework applied here is John H. Dunning's eclectic paradigm of ownership (O), locational (L) and internalization (I) advantages in its most recent elaboration (*Dunning, 1988*; *Dunning and Lundan, 2008*) which differentiates between distinguished between asset (O_a) advantages and transaction (O_t) advantages, extended to the factor of home country (H) advantages (table 3).

The selection of the eclectic paradigm for this analysis reflects the fact that so far the rise of new, emerging sources of outward FDI has not led to the birth of new separate theories of TNC behaviour covering these new home countries and regions, but rather to "special theories of" of those TNCs "nested" within the "general theory" of TNCs and FDI (*UNCTAD, 2006: 146*). In other words, we can not speak about separate theories of United States, European, Japanese or developing-country TNCs, but rather about the adjustment and application of a general theory to their specific characteristics. This approach is particularly useful in the sense that whatever modification or extension is made to the general theory from the point of view of one group of TNCs, it can feed back to, and interact with, the specific theories of other groups of TNCs. As for TNCs from economies in transition, we have no convincing case (yet) that they would be an exception to that rule, and would alone require a fully new theory.

The selection of the eclectic paradigm as the main envelope of this analysis can be also justified on the grounds that until a theory is fully rejected ("falsified") by new evidence, it is better to modify and fine tune it, instead of trying to build a completely new one from scratch. This evolutionary stance, as opposed to any forced revolution, allows us to use the experience gained so far with the existing theory. Naturally the use of extant theorems for new phenomena requires a high degree of flexibility in terms of additions and modifications; otherwise inflexible attachment to old theories developed in another context and another time would make it difficult to explain new evidence gained in a new context.

In this spirit of respect to tradition and flexibility, the extension of the eclectic paradigm from an OLI framework to an OLIH framework (the order of letters can be disputed) is a hypothesis formulated in relationship of the Russian outward FDI phenomenon (*Kalotay, 2008*). This extension has been suggested in answer to the theoretical problem created by the invention, and then increasing application, of O_t advantages, especially to developing- and transition-economy firms: these advantages are no longer located strictly within the boundaries of the firm; they rather exist somewhere on the border line of the firm and its environment (mostly but not exclusively the home economy). How do we know then that they still belong to ownership advantages, and not to the home country environment? Additionally, as will be demonstrated, in these economies TNCs respond to a series of factors that can no longer be attributed to the parent firm at all, such as the domestic policy environment or State intervention. If we want to take these into consideration as part of the eclectic paradigm, we have to extend it to a new, home country, factor that could accommodate rightly those influences. If this extension is applied to Russian TNCs, it seems to hold well. It will remain to be tested if it also holds to TNCs from other emerging economies, or even to traditional TNCs which wish to rely more than traditionally on the help of their home country authorities to support their foreign expansion.

So far, there has been no major indication that the hypothesis of the home country advantages as an extension of the traditional eclectic paradigm needs to be rejected.[8] In turn, it requires further elaboration, for example in terms of differentiating between various subsets of advantages, such as home country based competitive (H_c), business environment (H_b), development strategy (H_d) and State involvement (H_s) advantages (table 3). As for H_c advantages, we understand that they have to be treated in combination with the traditional O_t advantages – or better say, some of the former O_t may need to be reclassified to H_c (table 3). All this will then be applied to the case of current and former economies in transition, highlighting what the main systematic differences are and how they affect outward FDI.

[8] *Paz Estrella Tolentino (2008) attempted to prove, through a vector autoregression (VER) model, that in the foreign expansion of Chinese and Indian TNCs, the impact of the home country withers away (with the exception of the national technological capabilities of India). It has to be noted however that the results of this study are to be taken with much caution because the size of the sample was many times smaller than the one required for a robust VAR analysis. Moreover, the study also suffers from a flaw in its logic that is unfortunately frequently committed by economists: it confuses the lack of evidence (which it really finds) with the evidence of the non-existence of the phenomenon (which it claims to find). Similar examples of faulty logic are found in highly regarded studies, too (e.g. Carkovic and Levine, 2002, on the alleged lack of spillovers and lack of GDP impact of FDI), whose strongly formulated conclusions for these reasons can not be accepted.*

It also has to be discussed briefly what order the different factors of the extended eclectic paradigm should follow. If one looks at the original OLI, there is no indication of explicit order, although it can be derived from the logic of the paradigm that ownership advantages are *primus inter pares*, or are a necessary but not sufficient condition of foreign expansion, without which the other two advantages would lose most of their meaning. We would argue that the added H advantages play a similar role as O advantages, and in this sense they would need to precede the L and I advantages. What is even more, in certain emerging economies, and the Russian Federation is surely one of them, H advantages may be the single most important factor of outward FDI, and for this reason, they could be put at the beginning of the acronym. However, in due respect to the original theory, and admitting that this is only an extension of a major intellectual effort started more than three decades ago (*Dunning, 1977*), we keep for the moment being, the H factor at the end: OLIH.

The outward FDI scoreboard of economies in transition

The outward FDI scoreboard of current and former economies in transition proves the existence of certain systematic differences among these economies that will allow us to apply the extended eclectic paradigm to these cases in a systematic manner. The most important of these differences are related to the absolute and relative size of outward FDI in different economies of the region (table 4). For analytical purposes, we differentiate between three groups: the Russian Federation itself, a category of its own; 7 relatively important source economies of outward FDI from Central and Eastern Europe, of which 6 are new members of the EU, while Croatia is currently negotiating its accession to the EU – they are called sometimes as the "Seven Dwarves" (*Kalotay, 2006*) as their outward FDI is small compared to the Russian Federation;[9] and three major source countries of outward FDI from the Commonwealth of Independent States (CIS): Azerbaijan, Kazakhstan and Ukraine[10] (table 4).

In absolute terms, the Russian federation is a giant compared to the other economies in transition. In 2007 its outward FDI stock was more than four times higher than that of the "Seven Dwarves" combines, and 20 times more than that of the three other CIS countries (table 4). Since 2000, this difference has remained practically unchanged vis-à-vis the "Seven Dwarves": it was higher in 2001 but has declined since then. Compared to the other three CIS countries which are particularly latecomers to outward FDI, the difference used to be bigger until 2003 and has been reduced since then. Nevertheless, the huge difference between frontrunner Russian firms and the others seems to persist.

Compared to the inward FDI stock, again a major difference exists between the Russian Federation, in which the outward FDI stock has tended to come close the volume of the inward FDI stock, despite a very fast increase of the latter in the 2002s (table 4), and all the other economies, where the same ratio was typically under 20% in the same period, with some notable exceptions, such as high-income Slovenia and oil exporting Azerbaijan over the same period, or dynamic Estonia at the end of it (table 4). As will be discussed in section c, those patterns are a clear indication of differences in the internationalization strategies of those economies in the new millennium.

[9] The outward FDI stock of the remaining 4 new EU members from Central and Eastern Europe (Bulgaria, Latvia, Lithuania, Romania) is even smaller than that of the "Seven Dwarves".
[10] The outward FDI stock of the remaining 8 CIS member countries is marginal.

Table 3

The application of the extended eclectic paradigm (OLIH) to selected countries' outward FDI, after 2000

Advantages	Russian Federation	The "Seven Dwarves"[a]	Azerbaijan, Kazakhstan and Ukraine
O_a (asset-based) advantages (Traditional competitive advantages)	Limited; related mostly to upstream assets in natural resources	Only a small number of firms possess them; mostly downstream or in services	Only a small number of firms; related mostly to upstream in natural resources
O_t (transaction-based) advantages	Capacity to turn around substandard assets; related to large firm size	Some (in neighbouring countries)	Capacity to turn around substandard assets; related to large firm size
Combination of O_t and H_c (home country based competitive) advantages	Oligopolistic advantages, derived from home market; reinforced by home country policies	Competitive pressures of small home markets	Oligopolistic advantages, derived from home market; reinforced by home country policies
H_b (home country business environment)	Until recently, exodus	Expansion from outset	Until recently, none
H_d (home country development strategy): methods of transition to market economy and reintegration to the world economy	Based on creation of national champions and outward FDI	Based on inward FDI; sometimes a "springboard" for Western TNCs (indirect FDI)	Until recently, autarky
H_s (home country State involvement in outward FDI)	Increasingly State-led	Limited	State-led since onset
Location advantages	Market seeking; mostly global strategies (EU and the U.S. preferred locations)	Market seeking; regional expansion, mostly in neighbouring countries	Market seeking; regional expansion
Internalization advantages	Mostly vertical integration of the value chain (downstream)	Mostly horizontal integration	Mostly vertical integration of the value chain (downstream)
Cross cutting and concluding aspects: "Advantages" derived from the current crisis	Turning away from quick expansion to consolidation of assets abroad; increasing help from the home State	Muddling through; in some cases being bought by larger TNCs	Benefitting from the advantages of autarky at home

Source: the author.

[a] *Croatia, the Czech Republic, Estonia, Hungary, Poland, Slovakia and Slovenia.*

As for the comparison of outward FDI stock with gross domestic product (GDP), the ratio of the Russian Federation has fluctuated around 20% since 2002, while in the rest of the sample, most of the ratios remained under 10%, with the exception of again Azerbaijan and very small Estonia (as well as Hungary and Slovenia at the very end of the period of observation). Here again, there is an indication of divergent development paths followed by these economies. This issue will be analysed in detail in section c, especially under the H_d advantages.

Table 4

Outward FDI from selected economies in transition, 2000–2007
(Millions of U.S. dollars and per cent)

Region/economy	2000	2001	2002	2003	2004	2005	2006	2007
Russian Federation								
Outward FDI stock	20 141	44 219	62 350	90 873	107 291	146 679	209 559	255 211
As a % of inward FDI stock	62.5	83.6	88.0	93.9	87.7	81.3	77.2	78.8
As a % of gross domestic product	7.8	14.4	18.0	21.1	18.1	19.2	21.3	19.8
The "Seven Dwarves"								
Poland								
Outward FDI stock	1 018	1 156	1 453	2 147	3 228	6 279	16 291	19 644
As a % of inward FDI stock	3.0	2.8	3.0	3.7	3.7	6.9	13.1	13.8
As a % of gross domestic product	0.6	0.6	0.7	1.0	1.3	2.1	4.8	4.7
Hungary								
Outward FDI stock	1 280	1 556	2 166	3 509	6 018	7 836	12 177	18 282
As a % of inward FDI stock	5.6	5.7	6.0	7.3	9.6	12.6	14.9	18.8
As a % of gross domestic product	2.7	2.9	3.2	4.2	5.9	7.1	10.8	13.2
Czech Republic								
Outward FDI stock	738	1 136	1 473	2 284	3 760	3 610	5 017	6 971
As a % of inward FDI stock	3.4	4.2	3.8	5.0	6.6	6.0	6.3	6.9
As a % of gross domestic product	1.3	1.8	2.0	2.5	3.4	2.9	3.5	4.0
Slovenia								
Outward FDI stock	768	989	1 505	2 350	3 025	3 300	4 554	6 123
As a % of inward FDI stock	26.5	38.1	36.6	37.3	39.9	45.5	51.0	59.2
As a % of gross domestic product	3.9	4.9	6.6	8.2	9.1	9.4	11.9	13.3
Estonia								
Outward FDI stock	259	442	676	1 028	1 419	1 940	3 613	5 873
As a % of inward FDI stock	9.8	14.0	16.0	14.7	14.1	17.2	28.5	35.4
As a % of gross domestic product	4.6	7.1	9.3	10.5	11.9	13.9	21.8	27.6
Croatia								
Outward FDI stock	825	889	1 674	2 033	2 128	2 047	2 415	3 495
As a % of inward FDI stock	29.6	22.8	27.7	23.9	17.2	14.0	8.8	7.8
As a % of gross domestic product	4.5	4.5	7.3	6.9	6.0	5.3	5.6	6.8
Slovakia								
Outward FDI stock	374	449	485	823	835	597	1 154	1 609
As a % of inward FDI stock	7.9	8.0	5.7	5.6	4.0	2.5	3.0	4.0
As a % of gross domestic product	1.8	2.1	2.0	2.5	2.0	1.2	2.1	2.1

Region/economy	2000	2001	2002	2003	2004	2005	2006	2007
CIS countries								
Ukraine								
Outward FDI stock	170	156	144	166	198	468	334	6 077
As a % of inward FDI stock	4.4	3.2	2.4	2.2	2.1	2.7	1.4	16.0
As a % of gross domestic product	0.5	0.4	0.3	0.3	0.3	0.5	0.3	4.3
Azerbaijan								
Outward FDI stock	5	17	343	1 260	2 465	3 685	4 391	4 676
As a % of inward FDI stock	0.1	0.4	6.4	14.6	20.2	30.9	38.7	70.9
As a % of gross domestic product	0.1	0.3	5.5	17.3	41.5	27.8	20.9	15.9
Kazakhstan								
Outward FDI stock	16	- 10	417	300	972	1 142	992	2 149
As a % of inward FDI stock	0.2	-0.1	2.7	1.7	4.3	4.5	3.0	5.0
As a % of gross domestic product	0.1	..	1.7	1.0	..	..	..	2.1

Source: UNCTAD, FDI/TNC database.

The application of an extended eclectic paradigm

The extended eclectic paradigm offers a good analytical framework for differences within the post-transition space in terms of outward FDI, with all elements having a special significance for that analysis. The application of the OLIH to economies in transition below takes into consideration the findings of the most important summaries of outward FDI from those countries, prepared by, among others, *Wladimir Andreff (2003)*, *Marjan Svetlicic and Matija Rojec (2003)*, *Marjan Svetlicic (2004)*, *Kálmán Kalotay (2004a)*, as well as country case studies by *Katalin Antalóczy and Magdolna Sass (2008*, for Hungary), *Andreja Jaklic and Marjan Svetlicic (2003*, for Slovenia), *Kálmán Kalotay (2008)* and *Kari Liuhto (2005*, for the Russian Federation), *Dariusz Rosati and Witold Wilinski (2003*, for Poland), *Urmas Varblane et al. (2001*, for Estonia), and *Alena Zemplinerová and Marie Bohatá (2004*, for the Czech Republic).[11]

Ownership advantages

In economies in transition, ownership – or competitive – advantages have a similar meaning as in other parts of the world. Their main utility is derived from the fact that they compensate for the additional costs of setting up and operating foreign affiliates compared to those faced by local host-country producers (*Dunning, 1988*). This is true to all economies in transition – in fact to all countries engaged in outward FDI (table 3). There is however a difference in the mix of asset (O_a) and transaction (O_t) advantages: O_a advantages, which are derived from the ownership of specific assets, for example physical property or intangible assets (technology, patents, reputation etc.), are less elaborate and less developed in economies in transition than in developed countries. It is in fact true to all current and former economies in transition. There is however a major difference between the Russian Federation and other CIS members on the one hand, and the "Seven

[11] There are unfortunately no good summary studies on outward FDI from individual CIS countries outside the Russian Federation.

Dwarves" on the other: the former derive most of their advantages from upstream assets, while the latter draw most of them from the downstream, or from services activities. As for the broadness of the firm base of O_a advantages, it is relatively broad in the Russian Federation, although differences in size are enormous (figure 1), while the company base is relatively narrow in the rest of the sample.

O_t advantages, derived from firm size and the subsequent economies of scale, management experience, privileged access to resources, to finance etc., are very important for all economies in transition because they compensate for the relative weakness of O_a advantages. In the Russian Federation and other parts of the CIS, it manifests itself as a capacity to turn around substandard assets (*Kalotay, 2008*). In this sense, TNCs from economies in transition share a common characteristic with many other new TNCs from around the world (*UNCTAD, 2006*). From the main characteristic of Russian TNCs, one can deduct that often these firms do not possess technology-related ownership advantages in the classical sense (O_t), although they possess some organizational advantages (O_a), as witnessed by their relative successes in less than perfect business environments.

The organizational advantages of Russian firms are in part linked to a special 'Russian' way of doing business and acquiring assets abroad, which enable Russian TNCs to overcome in some cases the reluctance of target countries to accept Russian investment. This method of investment abroad consist of transactions taking place through shadow (offshore) firms instead of purchasing shares up front in the TNCs' own names (*Kalotay, 2008*). These strategies of proxy-based operations, however, can be double-edged in the longer term. In the short term, they are increasing outward FDI. In the longer term, however, they can reduce the readiness of host countries to accept Russian FDI. The strategy of using proxies such as privately owned Western firms to acquire assets abroad are usually seen as low-transparency transactions that raise concerns in host countries about intentions although Russian experts insist that that the funds used for those transactions are of legal origin (*Livshits, 2001*). Moreover, while these transactions may be seen as competitive advantages in the short run, they may complicate expansion abroad in the longer run.

Home country advantages

Home country advantages are particularly important in explaining the foreign expansion of TNCs from economies in transition. It is not fully surprising as the latter have less experience in operating in a market economy environment than their peers from developed or even developing countries. Therefore, the relative weaknesses of ownership advantages are compensated for by home country advantages.

The combination of O_t and H_c advantages is particularly salient in the case of Russian TNCs and TNCs from other CIS countries (table 3). In the cases of these TNCs, outward FDI has relied substantially on oligopolistic advantages, derived from dominant positions in the home market; these advantages have then often been reinforced by home country policies, favouring the creation of national champions (see below). Large Russian firms have always shown a desire for the domestic consolidation of their respective industries, as corroborated by the frequency of merger talks and hostile takeover bids in The Russian Federation (*Radygin, 2002*). Oligopolistic positions and mergers then often result in high profitability and fast growth, at least until the beginning of the crisis of 2008–2009. For example, over the full year of 2008, total sales increased in 24 of the 25 largest Russian firms ranked by market capitalization (*Kalotay, forthcoming*), sometimes with double-digit growth. This is a situation very different from that of the new EU member countries, where the domestic market has been very competitive from the outset, forcing TNCs from these often small countries to go abroad at an early stage (*Svetlicic, 2003*).

The effect of the home country business environment (H_b; both in terms of advantages and disadvantages), has been very important in all economies in transition, although in different ways (table 3). In some cases, the home country business environment has given a positive impetus to outward FDI, resulting in an "expansion" of formerly domestically oriented firms (to use the categories created by *Kari Liuhto, 2005*). In other case, the domestic business environment proved to be difficult, resulting in an "exodus" of firms (*idem.*). The situation has varied by groups of counties. In the Russian Federation, until recently, exodus dominated. Then from 1999, the motivation of expansion abroad was gaining importance, until the beginning of the crisis in 2008, which reinforced exodus again. This experience has been different from those of the TNCs from the new EU members where expansion has been the dominant motivation from the outset, and of the CIS countries, where exodus still dominates.

The push of Russian firms to go abroad (exodus) has undergone major changes over time. In the early periods of transition, the Russia the business environment was very difficult, prompting Russian firms to create safety nest abroad, protecting them from host country uncertainty (*Bulatov, 1998*). In general, the motivations of exodus have undergone various cycles: they were strong at the beginning the transition (early 1990s), followed by less "capital flight" in the mid-1990s, followed by the crisis of 1998, which prompted a rise in "capital flight" again, and a normalization, especially under President Putin (1999–2008) (*Kalotay, 2002*). Most recently, the advent of the global crisis in 2008 and its negative fallout for Russian has resuscitate the motivation of exodus again, as evidenced by the dwindling the central bank reserves.

The reliance of the Russian Federation on outward FDI as a channel of transition and internationalization goes back to the history of privatization in The Russian Federation in the 1990s, whereby not only large industrial groups were created, but these firms immediately started consolidating their industries,[12] first at home, and then abroad, with the latter being a logical expansion of domestic expansion. The firms that became Russian TNCs had been created through a rushed privatization, under which "international investors were almost totally excluded from the mass privatization in 1992 and later from Loans for Shares in 1995 (which allowed the companies' capital to be transferred to a number of oligarchies at greatly reduced prices). Not until 1997 were the restrictions on their participation in Russian companies' capital lifted" (*Locatelli, 2006*, pp. 1081–1082).

Home country development strategy advantages (H_d) in all economies in transition are linked to the methods and strategies adopted during the transformation from centrally planned to market economy and reintegration to the world economy in the 1990s (table 3). In the Russian Federation, those methods and strategies were based on the creation of national champions, a long-term protection from inward FDI, especially in strategic industries, and an increasing emphasis on promoting outward FDI (although eh latter started rather spontaneously in the 1990s; see *Bulatov, 1998*).

[12] In 2001, the Russian investment bank Troika Dialog calculated that around 70 large financial and industrial groups controlled 40% of the Russian GDP (Shekshnia, 2001).

This strategy was almost a geometrically opposite of the transition of future new EU member countries, where transformation from the outset was (at least partly) based on reliance on inward FDI, which in some cases entailed the sales of "crown jewels" (for example Skoda in the Czech Republic) to foreign investors. It was estimated that by 1998, only 3% of former state properties had been sold to foreign buyers in the Russian Federation, compared to 48% in Hungary and 15% in the Czech Republic (*Kalotay and Hunya, 2000*). Moreover, privatization sales to foreigners in the latter groups accelerated after 1998, while it remained practically non-existent in the Russian Federation. As a result, the outward FDI flows of new EU member countries were limited to either a handful of firms that remained in local hands, or to a phenomenon called "indirect FDI" (*Altzinger et al., 2003*; *Kalotay 2004b*), under which the foreign owners of affiliates in these countries used those affiliates as "springboards" for investing in other, less advanced economies in transition (in most cases in South-East Europe). No wonder then that the outward FDI of new EU members in much smaller and more geographically concentrated than those of the Russian Federation.

The H_d advantages of other CIS countries have been much less developed and different from those of either the Russian Federation or of new EU member countries, as they were based, until recently, on tendencies towards autarky, under which neither inward nor outward FDI was encouraged. According to data on their outward FDI stocks (table 4), it was only very recently that, based on high natural resource revenues, some of their State-owned firms started investing abroad.

The H_s advantages of economies in transition are related to two main factors: government policies towards outward FDI; and State ownership in outward investing firms (table 3). Government policies toward outward FDI in each transition economy have undergone changes; moving usually from reservations through acceptance towards some kind of promotion (*Kalotay, 2002*). In some new EU countries such as Slovenia and Hungary acceptance and some forms of moderate promotion came relatively early (around 2000), while in the case of the Russian Federation, and especially other CIS countries, it came later on. Moreover, while the Russian Federation has always had implicit policies towards outward FDI, even today they are less articulate than in developed countries. During the presidency of Boris Yeltsin (1991–1999), it was the Russian State that actively contributed to the creation of the large private monopolies, which gave birth to the future TNCs, although it did not intend to promote actively outward FDI at that time. Under the presidency of Vladimir Putin (1999–2008), the Russian state has clearly shifted its objectives towards promoting outward FDI, mostly in the service of national strategic goals.[13] "The implicit part of the strategic government policy is the creation of Russian-owned corporations in key industries of the Russian economy with either state finance (such as funding capital received from the state, favourable loans from Kremlin-friendly financial organizations, etc) or by using administrative measures, i.e. using authorities (such as environmental, construction, taxation, or regional authorities, etc) to slow down the operations of a foreign competitor or non-Kremlin loyal Russian corporation. This policy may also be called the National Champions

[13] See "Gosudarstvo podderzhit expansiyu rossiyksogo biznesa na zarubezhnykh rynkakh" [The State supports the expansion of Russian business on foreign markets]. Pravda.ru, 25 March 2005, www.pravda.ru/economics/2005/7/21/63/19414 expansion.html (accessed on 3 February 2006).

Policy" (*Liuhto, 2008: 5*). As for institutional support, it is still in the stage of planning at the moment of writing this article.[14]

H_s advantages also manifest themselves in the form of State ownership of outward investing firms. This is the case of some outward investing Russian firms, such as Gazprom, Rosneft, Sovcomflot and Alrosa, as well as some Azeri and Kazakh outward investing firms (State Oil Company of Azerbaijan Republic and KazMunaiGas). In turn, it is almost fully absent in the case of outward FDI from new EU member countries whose outward FDI is almost completely based on private firms. In the Russian Federation, moreover, one can observe a shift over time towards more State ownership and more State intervention, best reflected in the case of Gazprom whose strategy aims increasingly at controlling its value chain, especially the downstream markets, in key developed economies, especially in Europe, following national strategic goals set by the majority owner: the State (*Liuhto, 2008*). It has to be recalled that the state regained majority ownership in Gazprom in 2005 only (*Dittrick, 2005*). It is also to be recalled that the period of 2004–2005 brought about the dismantling of one of the largest privately owned Russian TNCs, Yukos whose assets ended up mostly in the hands of the State-owned company Rosneft. A look at the 25 largest Russian companies by absolute size at the end of 2008 (*Kalotay, forthcoming*) reveals that no less than 55% of their aggregate market capitalization is due to State owned firms, while in terms of foreign assets, State-owned TNCs account for 26% of total of the top 25.

Moreover, the relationship between the Russian State and private business has also changed since the mid 2000s, in favour of the former. As a result, private TNCs also follow Government strategic objectives, without being owned by the latter (*Liuhto, 2008*; *UniCredit Aton Research, 2008*).

State ownership however, can be both an advantage and a disadvantage: It can facilitate the expansion of Russian firms into locations with good diplomatic relations, and offer some kind of guarantee in case of engaging in risky projects abroad or in case of a crisis. However, it can be a handicap in case of international political conflicts, such as the Russian-Ukrainian gas conflicts and the war in Georgia. Moreover, the implementation of State policies at the expense of business considerations can be harmful to profits.

Locational advantages

L advantages are a key for all TNCs' decisions to select in which country to undertake FDI or international production. Location-specific advantages (see *Dunning, 1988*) indicate that foreign production is possible for the TNC by combining goods, services and technology transferred (in most cases) from the home country[15] with partly or fully immobile factors (e.g. land, labour,[16] skills) or intermediate goods and services in another country. However, to do so, TNCs must possess at least some competitive advantages (O advantages) over the firms in foreign market, or should possess specific home country advantages which

[14] See "VEB gotov sozdat' Agenstvo po strakhovaniyu eksportnykh kreditov i investitsiy [VEB ready to establish Export Credit and Investment Insurance Agency]", RBC Daily, 8 December 2008, www.rcb.ru/news/17381 (accessed on 91 March 2009); and "VEBu trebuyetsya docherneye agensto [VEB needs affiliate agency]", Vremya online, 9 December 2008, www.vremya.ru/2008/228/8/218786.html (accessed on 19 March 2009).

[15] In some cases, they can be transferred from an affiliate in a third country, or, in the case of some emerging economy TNCs, the transfer can be reverse.

[16] Labour is at least partly immobile.

increases their competitiveness on foreign markets. For that reason, in our analysis, L advantages are listed after the O and H advantages.

TNCs from transition economies undertake the same kind of calculation of locational advantages as other TNCs when deciding to invest abroad: They consider whether the "factor endowments" (L advantages) in a host country are strong enough to overcome the risks and costs associated to their foreignness. Nevertheless, the degree of foreignness may be lower for them in markets with which they are familiar (*Kuznetsov, 2008*): Russian TNCs invest at relative ease in certain CIS countries, while Slovenia firms invest with ease in South-East Europe. The locational advantages of host economies also depend on the motivation of TNCs. For efficiency seeking TNCs, the main issue is that the production costs of the foreign location should not be higher than at the home base. In turn, for market seeking TNCs, a high-income (and hence high-cost) location is particularly advantageous, while for resource-seeking investors, the availability of resources primes over all other considerations.

In the case of Russian TNCs, the most salient feature is the prominence of market seeking motives in their strategies (they seek first of all, the control of downstream markets). For that reason, they follow mostly global expansion strategies, with the (EU and the U.S. being their prime target locations. The most important Russian firms are natural-resource based companies that operate upstream. They aim at integrating the supply chain downstream, to the level of the consumer (as witnessed by Gazprom's investment in European pipelines or Lukoil's purchase of Getty's gas stations in the U.S.). In addition, there are also some Russian firms expanding to the CIS in industries such as telecommunications (e.g. VimpelCom, Mobile TeleSystems), where cultural proximity matters. As Russian outward FDI has been always dominated by market seeking motivations, it is no surprise that Russian TNCs have targeted mostly developed countries.

The motivations of TNCs from new EU member countries are also mostly market seeking. However, they do not possess assets upstream, and therefore their expansion is mostly limited to neighbouring countries, often at a lower level of development as themselves. As for the few TNCs from other CIS countries, they are also mostly market seeking. For the moment being however, they have limited their downstream expansion to their own region.

Internalization advantages

Internalization advantages refer to a specific capability of TNCs, inherited from their quality of firms (*Coase, 1937*): they are able to eliminate markets as a mechanism of coordinating international transactions, and to own, manage and coordinate efficiently assets owned in foreign countries. In most cases, TNCs prefer to internalize their foreign activities in order to reduce risks and uncertainty related to transaction costs, or to reduce the risk of losing control over technology. Internalization however implies at least two types of costs: one of them is related to the acquisition of assets and their opportunity cost; the other is related to the costs of coordinating across the borders. For that reason, TNCs in real life always combine internalization with external transactions (e.g. alliances, non-equity joint ventures, outsourcing, arm's length market transactions), and keep only the "strict minimum" under their own governance.

TNCs from emerging economies are not different from other TNCs in terms of their selection of internalization versus other forms of international coordination. One would say that given the slow start of outward FDI from these countries, future TNCs used to be conservative at the beginning of transition. It can be hypothesized too that these firms needed a period of learning from other types of international transactions (mostly trade), before moving abroad.

The types of internalizations undertaken by TNCs form the Russian Federation, other CIS and new EU member countries are different. Russian TNCs have preferred mostly the vertical integration of their value chains, mostly towards the downstream. In certain other cases, large Russian groups have combined the horizontal and vertical integration of production capacities in their industries. The preferred vertical integration in certain foreign countries (especially developed markets) while relied on oligopolistic or monopolistic behaviour and conglomeration efforts in the Russian Federation and other CIS countries. Under conglomeration, the groups of firms can also include not just production facilities but also distribution networks and banking (which used to be separated from production during Soviet times). Alfa Bank, for example, is the 'banker' of the Alfa Group mentioned above. In this case, the bank acts as the coordinator of the group. In the case of the Gazprom Group, the roles are the reverse, and the production company controls the Gazprombank. In the rest of CIS countries, the little evidence on outward FDI would suggest a behaviour similar to those of the Russian firms, relying mostly on vertical integration (downstream).

In terms of internalization, TNCs from the "Seven Dwarves" are different form Russian and CIS TNCs as they have preferred horizontal integration in their efforts of foreign expansion. This type of integration is related partly to the industry composition of such FDI (e.g. in the case of Slovenian supermarkets or Hungarian banks going abroad) and to the fact that in the majority of cases these firms invested abroad in order to overcome the limited size of their domestic market. In that sense, the foreign market is a kind of extension of the domestic one, where activities and competitive strengths are supposed to be similar, and cultural proximity and familiarity with the local business environment matter. This kind of foreign expansion in turn requires ownership advantages different from those of Russian TNCs: less based on financial strength and more on familiarity with markets.

Conclusion

In conclusion, in most cases, the ownership advantages of TNCs from economies in transition, and Russian TNCs in particular, although not as developed as of TNCs from developed or developing countries, enable them to expand abroad smoothly. One can also hypothesize that in certain cases when ownership advantages are not yet complete, they are partly replaced by home country advantages (such as the backing of the state, see section 4.32. above), which enable them to invest abroad despite their apparent ownership handicap. Indeed, in those cases, State ownership and government policies play a major role in promoting outward FDI.

As for the impact of the crisis of 2008–2009, the main question is to what degree it hinders, or even washes back, FDI from economies in transition. As the crisis is far from being over at the moment of writing this article, only hypotheses can be formulated about the cross cutting issues related to the crisis. In other words, we have to ask if there are any advantages that could be derived from the current crisis (table 3). It is a question that seems to be a bit unusual given the fact that (mostly rightly) the opinion on the crisis emphasizes the downsides.

From the point of view of TNCs form economies in transition, and especially the Russian Federation, the crisis puts an end to a period of very fast expansion abroad. Such an expansion would have needed to slow down and give way to a period of consolidation. The crisis in that sense acts as a catalyst of consolidation of assets abroad; it also acts as a catalyst for increasing help from the Russian State. This situation is very different from those of the TNCs from new EU member countries which do not possess a financial backing similar to Russian TNCs and hence seem to be more fragile (table 3). They may more often risk bankruptcy or being bought by larger TNCs. For them, the main aim during the crisis may be survival. TNCs from other CIS countries in turn may benefit from the fact of coming from mostly isolated countries, at least in the short run. The few State-owned TNCs of these countries do not risk any major upheaval in the near future.

The future of Russian outward FDI will also hinge on the capabilities of Russian TNCs to withstand their current difficulties (mostly, but not exclusively, by using their O advantages). One can construct three scenarios: an optimistic one, a base line ("muddle through") and a pessimistic one. An optimistic scenario can build on quick turnaround in the external environment, such as a recovery in oil and metals prices, coupled by a capacity of Russian TNCs to restructure themselves quickly (perhaps through a further consolidation of the industry). The probability of this scenario is further strengthened by the experience of the Russian Federation with the previous major crisis (in 1998), when most outward investing firms (especially Lukoil) managed to use foreign assets to shield their companies against the effects of the crisis (*UNCTAD, 1999*). A baseline scenario would mean a more protracted crisis, with a recovery in domestic factors such as GDP and stock markets picking up slowly, forcing TNCs to hold back foreign expansion by various years. Finally, a catastrophe scenario – although little unlikely, but to be mentioned for the sake of completeness – would lead a series of bankruptcies in Russian business, wiping out some of past expansion by Russian TNCs. This scenario can however only take place is the global crisis turns out to be much severe than currently thought, and the Russian State loses all financial resource to be used to bail out large Russian firms (e.g. through accelerating capital flight).

Outward FDI from The Russian Federation is also expected to remain closely related to state participation. The final format of the relationship between the state and large firms will have major implications for the future. If those firms are 'washed back' to dependent status, they will become followers of the Government's foreign policy, independently of their ownership. If the rise of the state's power is contained, on the other hand, one can expect more private interest and more diverse strategies from Russian TNCs. Future research needs to keep up with new developments in this respect, and provide objective, scientific explanations for them.

For the future of general analytical tools, such as the eclectic paradigm, the main challenge of the current situation (crisis, emergence of new players) is how to keep up with the changing realities of the world. This article has suggested one way, that is to extend it to a separate home country factor. In this article, most of the hypotheses have been formulated about the economies in transition, in which probably there is the most evident need for such extension. We would expect however that the same hypothesis could be tested on other emerging-market firms, as the latter tend to have less clear ownership advantages than their developed-country peers and in turn more influenced by home-country conditions.

This can be also one way to save at least a part of the mostly defunct BRIC hypothesis. For example, despite the dissimilarities, an analysis of home country factors in Brazil, China and India in general, and during the crisis in particular, could highlight some kinds of patterns that could lead to certain conclusions. For example, one could build a measurement of the degree of home country affects, and see if those have implications for the outward FDI and its resilience to crisis in individual countries. Naturally, this testing could go well beyond the former BRICs, and encompass various regional groups (African, Asia, Latin American), making he analysis even more solid.

All in all, the extension of the eclectic paradigm to a home country leg allows us to better understand and organize the information available on Russian TNCs. It can lead to conclusions about its future both in a global context and regionally – even compared with the mostly dissimilar BRIC countries: for example, we may hypothesize a situation whereby Russian outward FDI grows slower than outward FDI from Brazil, China and India, a scenario under which State participation in Russian outward FDI further increases, becoming more important that in outward FDI from China.[17] It can also feed back to the theory of developed-country TNCs. Under the circumstances of the economies crisis of 2008–2009, it became more visible how TNCs from those countries, and their international activities, may depend on developments in their home basis, both in terms of risks of bankruptcy affecting the whole global network of the TNC, and home government actions affecting outward FDI (in the current situation, these are mostly protectionist measures trying to dissuade outward FDI): These phenomena have been with us for a while, but have been a bit neglected; as the crisis makes them more frequent, one day they may find their way to the mainstream analysis, leading to an OLIH applied to developed-country TNCs, too.

References

Altzinger Wilfried, Christian Bellak, Andeja Jaklic, Matija Rojec (2003): *Direct versus Indirect Foreign Investment from Transition Economies: Is there a difference in parent company/home country impact?* In: Marjan Svetlicic, Matija Rojec (Eds.), Facilitating Transition by Internationalization: Outward Direct Investment from Central European Economies in Transition. Ashgate, Aldershot, pp. 91–110.

Andreff, Vladimir (2003): *The newly emerging TNCs from economies in transition: a comparison with Third World outward FDI.* Transnational Corporations 12(2), 73–118.

Antalóczy, Katalin, Magdolna Sass (2008): *Emerging multinationals: the case of Hungary.* Paper for the conference on 'Emerging Multinationals: Outward Foreign Direct Investment from Emerging and Developing Economies', organized by, and held at, the Department of International Economics and Management of the Copenhagen Business School, 9–10 October.

Bulatov, Alexander (1998): *Russian direct investment abroad: main motivations in the post-Soviet period.* Transnational Corporations 7(1), 69–82.

Carkovic, Maria V., Ross Levine (2002): *Does Foreign Direct Investment Accelerate Economic Growth?* University of Minnesota Department of Finance Working Paper.

Coase, Ronald H. (1937): *The nature of the firm.* Economica (New Series) 4(16), 386–405.

Dittrick, Paula (2005): *Gazprom to sell additional stake to Russian government.* Oil & Gas Journal 103(24), 27–29.

[17] *In the outward expansion of Brazilian and Indian firms, the role of State has always been smaller, limited to certain natural-resource-based projects.*

Dunning, John H. (1977): *Trade, location of economic activity and the multinational enterprise: a search for an eclectic approach.* In: Ohlin, Bertil – Hesselborn, Per-Ove – Wijkman, Per Magnus (Eds.), The International Allocation of Economic Activity: Proceedings of a Nobel symposium held at Stockholm. Macmillan, London, pp. 395–418.

Dunning, John H. (1988): *The eclectic paradigm of international production: a restatement and some possible extensions.* Journal of International Business Studies 19(1), 1–31.

Dunning, John H., Sarianna Lundan (2008): *Multinational Enterprises and the Global Economy.* 2nd Edition, Edward Elgar, Cheltenham.

Gammeltoft, Peter (2008): *Emerging Multinationals: Outward FDI from the BRICS countries.* International Journal of Technology and Globalisation 4(1), 5–22.

Jaklic, Andreja, Marjan Svetlicic (2003): *Enhanced Transition through Outward Internationalisation: Outward FDI by Slovenian Firms.* Ashgate, Aldershot.

Kalotay, Kálmán (2002): *Outward Foreign Direct Investment and Governments in Central and Eastern Europe: The Cases of the Russian Federation, Hungary and Slovenia.* The Journal of World Investment 3: 267–287.

Kalotay, Kálmán (2004a): *Outward FDI from Central and Eastern European Countries.* Economics of Planning 37(2), 141–172.

Kalotay, Kálmán (2004b): *The European Flying Geese: New FDI patterns for the old continent?* Research in International Business and Finance 18(1), 27–49.

Kalotay, Kálmán (2006): *Outward FDI from transition economies.* Presentation at the panel session on 'The Emerging Multinationals: Outward FDI by transition and emerging economies', held at the 32nd Annual Conference of the European International Business Association (EIBA), University of Fribourg, Switzerland, 9 December.

Kalotay, Kálmán (2008): *Russian transnationals and international investment paradigms.* Research in International Business and Finance 22(2), 85–107.

Kalotay, Kálmán (forthcoming): *Take off and turbulence in the foreign expansion of Russian multinationals.* In: Karl P. Sauvant, Wolfgang A. Maschek, Geraldine McAllister (Eds.), Foreign Direct Investment from Emerging Markets: The Challenges Ahead, Palgrave Macmillan, New York.

Kalotay, Kálmán, Gábor Hunya (2000): *Privatization and foreign direct investment in Central and Eastern Europe.* Transnational Corporations 9(1), 39–66.

Kuznetsov, Alexei V. (2008): *Pryamye inostrannye investitsii: "effekt sosedstva"* [Foreign direct investment: the "neighbourhood effect"]. Mirovaya ekonomika i mezhdunarodnye otnosheniya 2008(9), 40–47.

Liuhto, Kari (Ed.) (2005): *Expansion or Exodus: Why Do Russian Corporations Invest Abroad?* Haworth Press , Binghamton, NY.

Liuhto, Kari (2008): *Genesis of Economic Nationalism in Russia.* Electronic Publications of Pan-European Institute 3/2008, Turku: Turku School of Economics, www.tse.fi/FI/yksikot/erillislaitokset/pei/Documents/Julkaisut/Liuhto_32008.pdf (accessed on 5 March 2009).

Livshits, Alexander (2001): *Vernis', ya vse proshchu: Zametki ob utyochke kapitala iz Rossii* [Return, I beg you. Remarks on the capital flight from Russia]. Izvestia 21(7), 25859.

Locatelli, Catherine (2006): *The Russian oil industry between public and private governance: obstacles to international oil companies' investment strategies.* Energy Policy 34(9), 1075–1085.

Radygin, Alexander (2002): *Sliyaniya i pogloshcheniya v korporativnom sektore (osnovnye podkhody i zadachi regulirovaniya)* [Mergers and takeovers in the corporate sector (basic approaches and tasks of regulation)]. Voprosy economiki No. 12/2002, http://vopreco.ru/rus/archive.files/n12 2002.html (accessed on January 10, 2006).

Rosati, Dariusz, Witold Wilinski (2003): *Outward Foreign Direct Investments from Poland.* In: Marjan Svetlicic, Matija Rojec (Eds.), Facilitating Transition by Internationalization: Outward Direct Investment from Central European Economies in Transition. Ashgate, Aldershot, pp. 175–204.

Sauvant, Karl P. (2005): *New sources of FDI: the BRICs. Outward FDI from Brazil, Russia, India and China.* The Journal of World Investment & Trade 6(10), 639–709.

Shekshnia, Stanislav V. (2001): *Troika Dialog founder Ruben Vardanian on building Russia's first investment bank.* The Academy of Management Executive 15(4), 16–23.

Moscow School of Management Skolkovo (Skolkovo), Vale Columbia Center on Sustainable International Investment (VCC) (2008): *Russian multinationals' foreign assets up 4 times in 3 years.* Press release on the Skolkovo–VCC 2008 ranking of Russian multinational enterprises, Moscow/New York, 11 November.

Svetlicic, Marjan (2004): *Transition Economies' Multinationals - Are They Different From Third World Multinationals?* In: Chakraborty, Chandana (ed.), Proceedings of the 8th International conference on Global Business and Economic Development, 7–10 January, Guadalajara, Mexico, Montclair State University, Monclair, 2004.

Svetlicic, Marjan, Matija Rojec (Eds.) (2003): *Facilitating Transition by Internationalization: Outward Direct Investment from Central European Economies in Transition*. Ashgate, Aldershot.

Tolentino, Paz Estrella (2008): *The determinants of the outward foreign direct investment of China and India: Whither the home country?* Working Paper Series #2008-049, United Nations University – Maastricht Economic and Social Research and Training Centre on Innovation and Technology (UNU-MERIT).

United Nations Conference on Trade and Development (UNCTAD) (1999): *World Investment Report 1999: FDI and the Challenge of Development.* United Nations, New York/Geneva.

United Nations Conference on Trade and Development (UNCTAD) (2006): *World Investment Report 2006:FDI from Developing Countries and Transition Economies. Implications for Development.* United Nations, New York/Geneva.

United Nations Conference on Trade and Development (UNCTAD) (2008): *World Investment Report 2008: Transnational Corporations and the Infrastructure Challenge.* United Nations, New York/Geneva.

United Nations Conference on Trade and Development (UNCTAD) (2009): *Assessing the impact of the current financial and economic crisis on global FDI flows.* United Nations, New York/Geneva, www.unctad.org/en/docs/webdiaeia20091_en.pdf (accessed on 5 March 2009).

Varblane, Urmas, Tõnu Roolaht, Ele Reiljan, Rein Jüriado (2001): *Estonian Outward Foreign Direct Investments.* Working Paper Series No. 9, Tartu University.

Zemplinerová, Alena, Marie Bohatá (2004): *Investice českých firem v zahraničí* [Investment of Czech Firms Abroad], Politická ekonomie 1/2004, 35–47.