

# Russian MNCS and international investment paradigm (Before COVID-19)

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**Abstract:** This study examines the relationship between Russian FDI carried out by large MNCs and investment development path (IDP). Although statistical analysis does not establish a significant relationship between outward FDI and GDP, the behavior of Russian outward FDI contradicts traditional models. Two primary factors contribute to this paradox. First, the complex business environment in Russia, characterized by a combination of both improvements and contradictions, has a significant impact on outward FDI behavior. Secondly, the duality of the Russian economy and society plays a decisive role. This segment resembles a high-income country with ample resources, while most face lower income levels, raising concerns about wealth distribution. Historical factors, including Russia's transition from a state-controlled to a market-oriented economy, contribute to the internationalization of Russian MNCs. Both state-owned enterprises and privatized firms are influenced by the state, although to varying degrees. Government involvement in international business strategies increases the knowledge and experience of Russian MNCs, but also raises concerns about political influence.

**Keywords:** foreign direct investment; investment development path; Russian MNCs

## 1. Introduction

As is well known, large industrial businesses, particularly those dependent on natural resources, are the main drivers of outbound Russian foreign direct investment. Rosneft was the largest firm, Sberbank was placed second, and Lukoil was ranked third by market capitalization, according to the RIA ranking of the top Russian corporations of 2018 (**Table 1**).

The energy firm Rosneft has a variety of global assets in its portfolio. In addition to boosting its resource base and efficiency, the company is dedicated to growing its global presence in the world's most attractive oil and gas locations. The Middle East, South America, Asia-Pacific, and North and East Africa are the target regions for presence. With local partners in these areas, Rosneft already conducts activities and actively fosters collaboration for the development of projects that would benefit both parties. In October 2017, a deal was finalized for Rosneft to purchase a 30% stake in the Zokh gas field in Egypt. In December 2017, Rosneft started gas production as part

of a global consortium alongside British BP and Italian Eni. A license was gained in December 2017 for the 30-year development of the Patao and Mejilones fields on the Venezuelan shelf, including the right to export gas. The company is one of the biggest foreign investors in Venezuela as a result. It continually broadens its partnership with *Petróleos de Venezuela S. A.*, the state-owned oil and gas firm of Venezuela (Rosneft, 2019).

**Table 1.** The 20 largest Russian firms by market capitalization, end 2018.

<b>Company</b>	<b>Industry</b>	<b>Capitalization, million USD</b>	<b>Change during the year, %</b>
ROSNEFT	Oil & gas	65286	+22.5
SBERBANK	Banks	57818	-31.4
LUKOIL	Oil & gas	53823	+9.9
GAZPROM	Oil & gas	52240	-2.1
NOVATEK	Oil & gas	49393	+39.0
NORILSK NICKEL	Iron & steel	29633	+0.4
GAZPROMNEFT	Oil & gas	23594	+17.0
TATNEFT	Oil & gas	22859	+27.3
SURGUTNEFTEGAS	Oil & gas	13808	-19.7
NOVOLIPETSK STEEL	Iron & steel	13588	-11.5
SEVERSTAL	Iron & steel	11362	-12.5
ALROSA	Mining	10427	+8.8
POLYUS	Mining	10356	-1.2
YANDEX	IT	8872	-16.8
EVRAZ	Iron & steel	8845	+19.7
MAGNITOGORSK IRON & STEEL	Iron & steel	6909	-15.8
MTS	Telecom	6842	-28.6
X5 RETAIL GROUP	Consumer goods	6729	-34.4
RUSAL	Iron & steel	6728	-36.9
VTB BANK	Banks	6344	-40.1

Source: RIA ranking, 2019.

Sberbank is one of the largest banks in Central and Eastern Europe. The key vector of its strategy is the active and dynamic development of foreign networks. Sberbank is present in 20 countries. The share of international business is accounted for 14% of Sberbank’s total assets. The first acquisition of Sberbank in the international level was a bank in Kazakhstan in 2006. Sberbank purchased banks in Ukraine and Belarus. The next step was the launching of representative offices in China, Germany and India. In 2012 the portfolio of Sberbank was replenished with assets of the European group of Volksbank International. The deal on the purchase of DenizBank opened the Turkish market for Sberbank (Sberbank, 2019).

Lukoil is the largest Russian multinational company in terms of overseas assets. In the areas of oil and gas exploration and production in Central Asia, the Middle East, Latin America, and Africa, the company places a high priority on the execution of international projects. It has processing and marketing resources in both the USA and

the EU.

These largest companies from the list are responsible for the bulk of Russian capital outflow, even though they encounter difficulties such as the escalation of a “sanctions war” with the West and the deceleration of the global economy during 2018–2019 amid the context of relatively diminished prices for Russian-exported hydrocarbons and other raw materials. It is important to mention that the outward direct investment of the country exceeds inward. Observing the Balance of payment reveals this pattern. Kalotay (2005) indicates that the presence of the Russian Federation with lower-middle incomes in the global top list of outward direct investment in 2005 is an anomaly for standard theories, such as IDP. For the investment development path, the behavior of a net investment position is opposite to what the theory predicts. Instead of IFDI that exceeds OFDI and grows faster than OFDI, OFDI exceeds IFDI and grows faster. Referring to the investment development path and words of Kalotay K., in order to reveal any anomaly in Russian FDI the data on it will be analyzed in more detail in this paper.

Thus, following the IDP model, in this study FDI stocks data have been used to estimate NOIP and GDP has been used to define a level of development. NOIP was calculated according to CBR’s data on inward and outward FDI stocks by Bulatov (2018) which excludes reserve assets, data on GDP and population is derived from Federal State Statistics Service of the Russian Federation.

## **2. Literature review**

Russian MNCs have significantly changed their worldwide investment strategy, reflecting both domestic and international economic and political developments. To offer light on the investment development path taken by Russian MNCs, their involvement in foreign direct investment, and the larger international investment paradigm, this literature review synthesizes findings from many scholarly papers.

In their study, Durán and Úbeda (2010) introduce the Foreign Direct Investment Path Theory, which classifies developed nations into four and five phases. This theoretical framework aids in contextualizing how emerging economies behave while making investments. Comparing newly developed economies to more developed ones reveals a “gap” in their institutional and technological development, which affects their ability to attract direct investment. They emphasize how crucial it is for these economies’ policies to address knowledge-intensive assets. In order to fully comprehend the investment development path, it is important to concentrate on the fourth phase, which is characterized by structural transformation and the multinationalization of enterprises (Ogutu et al., 2023).

The study by Boudier-Bensebaa (2008), which offers insightful knowledge about regional dynamics, analyses FDI-assisted development in Central and Eastern European countries (CEECs). The uneven distribution of FDI among CEECs prompts questions about convergence in terms of FDI-assisted development. The Investment Development Path (IDP) framework serves as a lens to categorize CEECs into stages, demonstrating that while CEECs may diverge from EU15 countries in outward investment positions, they show convergence in terms of GDP. The analysis suggests that the IDPs within sub-groups are converging, particularly among less developed

CEECs in outward investment positions.

The development stages of the MINT (Mexico, Indonesia, Nigeria, and Turkey) emerging market economies are examined in Satoglu's (2017) research in connection to foreign investment. The stage of development of these economies is determined by applying Dunning's Investment Development Path (IDP) theory. The second stage of the IDP is where MINT economies are located, showing their potential to become the "second generation of fast-growing developing countries" after BRICS. The study emphasizes the connection between FDI from within and outside of a country and GDP development in this set of nations, highlighting how international investment paradigms are always changing.

The study by Jan et al. (2019) investigated the role of governance in foreign direct investment based on the evidence from Pakistan, India and Bangladesh. The empirical results suggested that Rule of law has negative impact on FDI whereas Government effectiveness, Regulatory quality and Gross domestic product have positive impacts on FDI. The results show that should there be proper governance, the FDI can improve positively for the three countries under this research study, similar to some developed countries who managed their governance and likewise the impact of FDI.

The study by Masca and Vaidean (2010) focuses on Romania's foreign direct investment behavior within the framework of the Investment Development Path theory. The second round of the IDP ranking for Romania points to an increasing external investment presence. Notably, the study finds that FDI inflow growth rates in the early IDP phases are larger than GDP growth rates. This conclusion has significant policy ramifications and emphasizes the importance of comprehending how FDI from abroad supports the economic growth of a nation.

In order to analyze institutional issues, Stoian's study examines the elements that determine outward foreign direct investment from post-communist economies. This study adds institutional variables, which broadens the IDP framework. The results show that institutional issues, such as competition policy and general institutional reforms, significantly affect the levels of OFDI from countries in Central and Eastern Europe. This implies the significance of taking institutional characteristics from the home nation into account when researching OFDI.

In-depth analysis of Russia's FDI behavior is provided by Kalotay (2005), who emphasizes the persistent pattern of Russian FDI outflows exceeding inflows. The importance of oligarchic control is stressed as one of the driving forces behind this phenomenon, along with economic and political concerns. Despite political shifts, Russian businesses' strategic aim in dominating value chains through FDI abroad continues to be a driving force.

Kuznetsov's (2021) examination of Russian FDI outflows from 2018 to the first half of 2020 identifies specific factors influencing the stagnation of Russian foreign investment expansion. A combination of sanctions, global economic slowdown, and the COVID-19 pandemic has impacted both the stocks of outward FDI by Russian MNCs and investments by wealthy Russians in foreign real estate.

Review of the literature by Liuhto and Majuri (2014) underscores the substantial growth in research on Russian outward FDI. From a mere handful of studies on this topic at the turn of the millennium, the field has witnessed over a hundred contributions, revealing the increasing importance of Russian MNCs in the global

investment landscape. This review identifies research trends, gaps, and disputes among scholars, contributing to a deeper understanding of Russian OFDI.

The literature reviewed offers valuable insights into the investment development path, the dynamics of FDI-assisted development in various regions, and the role of institutional determinants. The evolving nature of international investment presents new opportunities and challenges for Russian MNCs and sheds light on the complex relationship between FDI and economic development. Understanding these dynamics is essential for policymakers, scholars, and businesses engaged in global investment strategies.

### 3. Methodology and results

The multiple linear regression analysis was utilized in order to elaborate the IDP for the Russian Federation. NOIP was calculated by Bulatov (2018) based on data from the Central Bank of the Russian Federation on the volume of incoming and outgoing FDI, data on GDP and population are taken from the Federal State Statistics Service of Russia. Time period for the analysis is 2001–2017, yearly data was utilized. The Enter method was used. The aim of the analysis is to determine the extent and character of influence GDP per capita to NOI per capita and to visualize investment development path. Prior to beginning the analysis outliers were identified and eliminated.

To determine and test the correlation between the dependent and independent variables, the Pearson Coefficient was calculated, as well as the statistic test and the corresponding probability for each combination of variables—the results are presented in the following **Table 2**:

**Table 2.** Correlation matrix.

		NOIP per capita	GDP per capita
Pearson Correlation	NOIP per capita	1.000	0.459
	GDP per capita	0.459	1.000
Sig. (1-tailed)	NOIP per capita	0.0	0.078
	GDP per capita	0.078	0.0
N	NOIP per capita	11	11
	GDP per capita	11	11

Correlation matrix is built around three parts in accordance with the significance of the data as follows:

- a) the first part covers the values of the Pearson correlation coefficients;
- b) the second part covers the threshold values of significance (Sig.);
- c) the third part indicates the number of considered observations (in our case N = 11).

The Pearson coefficient level provides information about the value and intensity of the correlation between the variables being analyzed. This coefficient can take the value in the interval  $[-1, 1]$ . When assessing the intensity of correlations between variables, threshold values of significance are also taken into account (Sig.). Considering the minimum threshold value of 0.05, below which the coefficients are

considered to be significant from a statistical point of view. In other words, Sig. values below 0.05 for each calculated coefficient suggest a significant correlation between the variables being analyzed. In the results of analysis, it can be concluded that correlation between the variables is not significant.

**Table 3** contains the values of the R correlation coefficient at the level of variable. The chosen variable is related to NOIP by 45.9%. Only 21.1 % of the fluctuation in the NOIP is explained by the variable.

The analysis of the model’s parameters was carried out based on the results in **Tables 3** and **4** below:

**Table 3.** Correlation coefficient (R).

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.459 <sup>a</sup>	0.211	0.123	177.945403100000000

**Table 4.** ANOVA table.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	76146.115	1	76146.115	2.405	0.155 <sup>b</sup>
	Residual	284981.098	9	31664.566	-	-
	Total	361127.214	10	-	-	-

a. Dependent Variable: NOIP per capita.

b. Predictors: (Constant) GDP per capita.

Using the ANOVA test, a significance threshold is calculated. The registered value is above the significance threshold (0.05), which means that the independent variable does not explain the change in the dependent variable. The model is not significant.

**Table 5** includes the analysis of the results of evaluation of the parameters of the regression model and checking their significance. In the table the coefficients of the regression model, the value of the t-test statistic, standard errors and the value of the threshold of significance (Sig.) can be found.

**Table 5.** Coefficients.

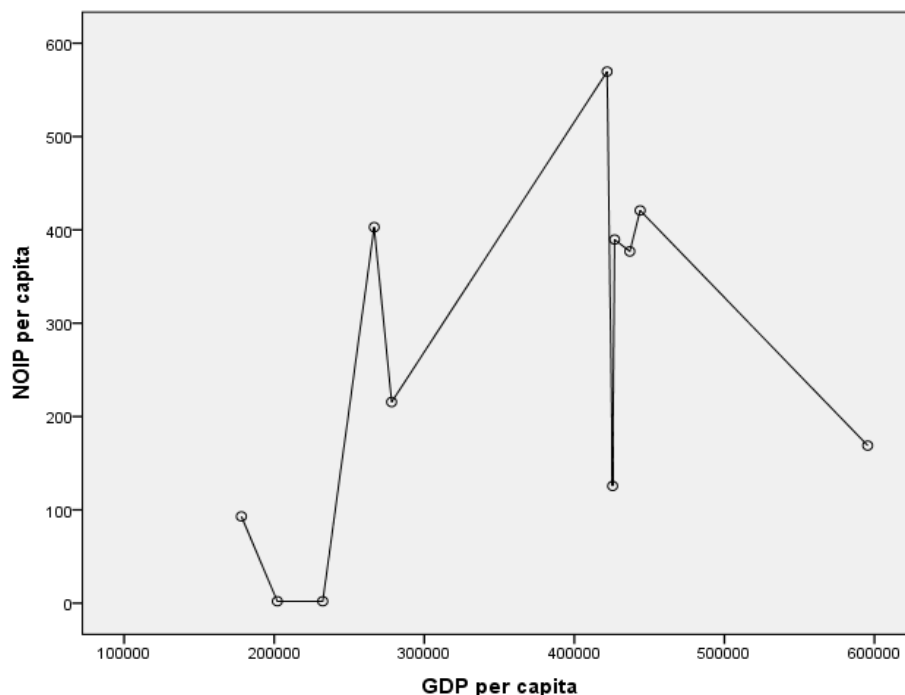
Model	Unstandardized Coefficients		Standardized Coefficient	t	Sig.	Correlations			Collinearity Statistics		
	B	Std. Erro	Beta			Zero-order	Partial	Part	Tolerance	VIF	
1	(Constant)	14.092	162.256	-	0.087	0.933	-	-	-	-	-
	GDP per capita	0.001	0.000	0.459	1.551	0.155	0.001	0.000	0.459	1.551	-

a. Dependent Variable: NOIP per capita

Thus, the model of linear regression is:

$$NOIP = 14.092 + 0.001 GDP$$

It is visualized in the following **Figure 1**:



**Figure 1.** Visualized regression analysis model.

From the previous figure it can be concluded that there is nothing like IDP in Russia. The results of the analysis are not significant and there is no strong correlation between outward direct investment and GDP. It can be explained by the paradox and special features of Russian OFDI. However, the data utilized in the analysis can be a limitation of the model. The GDP data was obtained on official page of Russian Statistics Service, but it mentioned that data from 2011 to 2016 in 2011 prices do not correspond to similar data in 2016 prices. Moreover, data on net outward direct investment was taken from the work of professor of Department of World Economy in Moscow State Institute of International Relations, instead of CBR. Hence, the model cannot be considered as a reliable proof of not applicability of IDP for Russia. Further comprehensive analysis is necessary to address these issues. Additionally, alternative theoretical frameworks can be applied to further understanding of Russian foreign direct investment.

However, talking about the Russian outward FDI paradox, even though the results of the regression analysis are not proper evidence, it still takes place and is at odds traditional theories and models such as IDP of Dunning. Kalotay (2005) explains it by two ways: the first is by introducing an analysis of the economic and business environment into the analysis of the international investment position, and the second is by introducing the picture the duality of the Russian economy and society as an explanatory factor.

The first way to explain this paradox is to analyze the economic and business environment. Assuming that, *ceteris paribus*, the more difficult the environment is, the more the net investment position shifts towards OFDI. The business environment in Russia remains difficult, despite recent improvements. The government elaborated alternative ways to create more effective areas such as special economic zones or other mechanisms. However, they do not seem to work effectively. Shifts in the business

environment have sent conflicting messages to foreign and domestic investors. On the one hand, several impressive measures were taken to enhance the Russian business climate that include the rationalization of taxes. On the other hand, tax administration was used to reach certain non-economic, non-fiscal goals.

Another way the author used to explain the Russian paradox is to assume that there are two radically different economies and societies in the country. The majority of society has a middle income or even low. They do not have capital. However, there is a rich in capital and resources segment of society and the economy. It behaves like a country with a high level of income. This dualism causes two problems. First, the excess capital of the resource-rich segment is not necessarily intended for the poor segment of society, but rather for abroad. Another problem is that this situation can create much social tension and become unstable. This may partly explain why government actions are aimed at one of the leading outward investment companies.

Russian businesses' desire to dominate the global value chain of natural resources is one reason for the outflow of FDI. Russian natural resource MNCs started their international expansion by exporting their products. The pricing disparity between the domestic and international markets was what made these exports profitable. Russian energy corporations have started forming overseas affiliates and acquiring enterprises abroad in an effort to expand into global markets and diversify their production. These subsidiaries are also employed in tax planning strategies that are more profitable and avoid export tariffs (Kalotay, 2005).

The eclectic paradigm (OLI paradigm) links outward FDI with the ownership advantages and internalization of MNCs and the locational advantages of host countries. Ownership advantages include the "Oa" advantages, which consist of intangible assets and property rights, and the "Ot" advantages such as advantages of governance, learning experience and organizational competence. Russian MNCs base their international expansion on the O advantages, which are not so much connected with technology, as with organization and management (Ot). Although in recent years, a company like Lukoil has been actively investing in new technologies. Russian companies have the Ot advantages in the iron and steel industry. Moreover, the fact that foreign investment companies are more profitable than companies without foreign expansion can be considered as additional indirect evidence that the organizational and common governance-type ownership advantages are used for international expansion. As already emphasized, most of Russian companies investing to foreign country is in the energy, mining and metallurgy industries. These industries usually generate tremendous cash flows. It was natural to look for opportunities for investment abroad for this excess capital. This excess of capital can be considered as a special case of Ot advantages. Another advantage, for example, for post-Soviet countries is familiarity with local businesses and the regulatory framework. Sometimes companies can entrust personal connections inherited from the times of the Soviet Union. It is easy to entry the country of CIS, because of the general regulatory legacy and the small language barrier. The aspect of the internalization of MNC strategies can be used to explain the behavior of Russian firms (Kalotay and Sulstarova, 2010). Companies are moving to an international expansion, developing their ownership advantages. With regard to the locational advantages of host economies, the main motives of investment for main Russian capital exporters companies are resource and market seeking. Thus,



resource endowment as well as relatively large and/or growing market can be considered as the locational advantages.

However, as Kalotay (2006) suggests, more than in other country, the environment and factors in the home-country play a key role in determining OFDI of Russia. The OLI paradigm does not have the fourth “home-country” factor. There may be sundry arguments in favor of the applicable “OLIH” theorem. One of them is the fact that the absence of home-country factors creates problems of theoretical interpretations of OFDI. It may be needed to consider state-ownership as an additional factor, as in Russia (Kalotay, 2006).

The international expansion of Russian firms is closely related to the reforms undertaken over the past three decades: privatization and attempts to restructure the industry to keep up with technical progress. The state played an important role in the emergence of Russian outward direct investment. State-owned enterprises have a number of advantages such as administrative support, access to loans from the central bank etc. These advantages contribute to their internationalization. At the same time, the influence of the state remains significant even in fully privatized companies. However, influence of the state varies by industry. It directly influences the energy sector and in indirect form to others, stimulating their development (Panibratov and Latukha, 2014).

Panibratov and Latukha (2014) developed a theoretical framework reflecting an influence of two critical determinants on the formation of the competitive advantages (CAs) of Russian MNCs. These determinants are the interest of the state and control by state. They grouped Russian companies according to the state role based on the determinants.

The first group is with high level of both determinants. This group includes companies from industries such as oil and gas, mining, electricity, and the military. The sectors in the group are strategically important from an economic and political point of view for the country. The state interest in these sectors is great. Moreover, the state controls the activities of firms strictly. Capital requirements are high because of the complexity and scale of the infrastructure.

The second group has a high level of state interest but low control by the state. It consists of banking, telecom, metallurgy, IT. The government wants to develop these sectors. The reason is representative nature of their image. Requirements of infrastructure and capital are moderate. Firms can invest in internationalization independently of the state and the government understands that. Consequently, the state does not control the activities of these companies directly.

The third group has a high level of control by the state and low level of the interest. These sectors are media, education, and sport. These industries are more important socially and politically than economically. The state has the opportunity to influence the home country’s population or other countries’ governments. The state controls these companies’ activities. Complicated and extensive infrastructure is not required as well as technology requirements are low. However, the capital requirement can be relatively high to provide growth.

The last group contains the following sectors: automotive, logistics, building, fast food. It is characterized by the low level of both determinants (low interest and control by the state). Capital and infrastructure requirements in these sectors are medium and

even low. The government is not interested in developing these sectors. However, it takes care of companies in a particular industry such as automotive industry but formally. The government avoids control over the activities of these companies. Progressive technologies can compensate for the lack of capital for growth.

The authors developed this framework in order to explain how the multi-level influence associated with government leads to different internationalization strategies. Moreover, this indicates that strategic choice patterns are determined at the industry level and modified according to the characteristics of a particular firm. The results of researcher’s analysis allow to understand the state influence on competitive advantages of Russian MNCs based on their grouping in an empirically grounded framework (**Table 6**).

**Table 6.** CAs of Russian MNEs explained by the government involvement.

Sectors in the group	Interest of the state: how it shapes CAs	Control of the state: how it shapes CAs	Other influences of the state on CAs
Electricity; military; mining; oil and gas	<u>Interest is high</u> CAs are based on the domestic monopolistic position of these sectors’ firms, which is supported by the state.	<u>Control is high</u> CAs are based on the prevention of domestic competition and protection of the foreign operation through political tools.	Government representatives often participate in the boards of these companies, which provides these firms with direct ‘contact’ with the state.
Banking; IT; metallurgy; telecom	<u>Interest is high</u> CAs are based on the attempt to develop (or rather initiate the self-development of these sectors’ firms) and limited support (financial or technological) where possible.	<u>Control is low</u> CAs are based on non-intervention domestically and the relatively free market guaranteed at home.	These firms demonstrate the most obvious international results, moving abroad on their own. This is why the state does not prevent their expansion, since their global integration is in line with state policy, while not providing any significant support.
Education; media; sport	<u>Interest is low</u> CAs are based on the development by these sectors’ companies (where significant physical investment is not necessary) of managerial and marketing competencies and skills as opposed	<u>Control is high</u> CAs are based on the willingness of the state to manage what happens in these sectors, and hence on the companies’ chance to benefit from government support (mostly in image-building and management	While the development of these sectors is crucial socially, the state is not really interested in these firms’ development, where short-term profits are low or absent. Internationalization may help to improve these sectors, without the state investing.
Automotive; construction; fast food; logistics	<u>Interest is low</u> CAs are based on the need to develop the companies’ own marketing mix and brands, which may compensate for the lack of state interest.	<u>Control is low</u> CAs are based on the chance to attract investment (which is needed in these sectors) and to co-operate internationally, without any serious government restriction.	These firms are potential profit-makers through partnerships. Domestic investors are not interested (as a rule) in these sectors, and the state promotes the international collaboration of these firms.

Source: Panibratov and Latukha, 2014.

For Russian MNCs the role of state ownership and the political aspects connected with it are stronger than for MNCs from developed countries. For example, Russian embassies abroad usually assist in obtaining of important information, which allows Russian companies to establish initial contacts with foreign companies. Political support from the government is often used to reduce protectionism in countries such as Belarus or Venezuela. In addition, the role of the state for Russian MNEs is fulfilled through such schemes as “investment-for-debts”. It allows companies to borrow money from financial institutions related to the state and then reinvest these funds into their international projects. Such cooperation carries political obligations, since these companies are linked to Russia’s foreign policy and interests. Governments can

stimulate outward direct investment and exports through various economic and financial instruments. It can be tax rebates, legal restrictions and economic diplomacy etc. Government activity is a decisive factor explaining the evolution of Russian OFDI. However, despite the statement of strategic support, the Russian government has not yet developed a successive policy of helping its MNCs in their global expansion. (Panibratov and Michailova, 2018).

Furthermore, historically, international trade and investment was the state monopoly in the Soviet Union, and then in post-Soviet Russia. It can be said that the government has much experience and knowledge in doing business at the international level. Thus, since the government actively participates in the overseas business strategy of companies, this adds the knowledge and experience presented by the government in the international activities of Russian MNCs.

However, worth noting that most of the representatives of the Russian political and business elite come from the Soviet period of Russian history, and they are interrelated. People in the governance structures of both state bodies and corporations are the same and belong to the same interest group. It leads to the development of patronage systems and bribery; thereby public bodies do not take into account the interests of small companies. Moreover, because of this close relationship between the government and the Russian MNCs, management and ownership are often used as a political tool in the international affairs of the state (Mikhailova and Nechaeva, 2014).

As a result, the history of Russia's internationalization and privatization are intimately related. It took place during the fall of the Soviet Union and focuses mostly on the growth of businesses reliant on natural resources, like Gazprom, Norilsk Nickel, Lukoil, and others.

Russian foreign direct investment is notably significant in the oil and gas, metallurgy, and telecommunications sectors. They were quickly and uniquely formed through further nationalization and privatization. The Russian economy's gas sector is the one that is best safeguarded. It was a crucial sector whose opinion the Russian government consistently backed. In 1989, the Soviet Ministry of Oil and Gas granted Gazprom its gas monopoly (Grigoriev, 2007).

In 1993, Gazprom underwent a partial privatization. The company's global initiatives are concentrated on fostering exports, making investments in the processing and distribution of natural gas in Western Europe, and gaining access to industrial and gas electricity markets in Central and Western Europe. Manufacturing, gas equipment, petrochemicals, and banking are among its non-core FDI industries. Other Russian oil and gas firms, including Tatneft and Novatek, have substantial oil reserves but focus mostly on the CIS nations. Norilsk Nickel is the biggest Russian MNE in terms of foreign asset holdings among metallurgical firms. In 1989, it was founded as a state-owned company. Oneximbank later privatized it. With a variety of investments in mining and trading firms in the United Kingdom, the United States, and South Africa, Norilsk Nickel has been expanding internationally. It operates in South Africa, the UK, Switzerland, and Belgium. Severstal is another significant MNC in metallurgy from Russia. In 1993, it underwent slow privatization. The firm chose a strategy aimed at acquiring assets in developed countries. Through a joint venture with an American partner, it started technological production modernization in 2001 (Panibratov and Michailova, 2018).

However, the government continues to play a significant role in the operations and business plans of Russian MNCs. In addition to geographic proximity and shared linguistic traits, the Russian government favors the CIS nations above the rest of the globe due to their extensive political ties. For instance, the government exerts pressure on businesses like Lukoil to invest more money in Kazakhstan than in other nations. However, Russian MNCs prioritize expanding into developed economies (Panibratov, 2017).

#### **4. Conclusion**

It becomes clear that Russia's OFDI behavior presents a special conundrum when the relationship between Russian outward foreign direct investment and the investment development path is investigated. While the regression analysis used in this study did not produce statistically significant results or establish a strong correlation between outward direct investment and GDP, it is important to take into account the unique features and complexity of Russian OFDI that may not follow conventional models like the IDP.

One potential limitation of the analysis is the data utilized, with variations in GDP data and the source of net outward direct investment data possibly influencing the outcomes. Therefore, it is essential to exercise caution in drawing definitive conclusions about the applicability of the IDP to Russia based solely on this analysis. However, the Russian OFDI paradox remains a compelling subject of study. Despite the inconclusive regression results, it challenges established theories and models such as Dunning's IDP. Kalotay's explanations offer valuable insights into this paradox, emphasizing two primary factors: the economic and business environment in Russia and the duality of the Russian economy and society.

Russian MNCs' expansion abroad is intimately correlated with historical events, such as the change from a centrally planned to a market-driven economy. State-owned businesses continue to enjoy benefits including administrative help and easy access to financing from the central bank, which makes internationalization easier. Even fully privatized businesses are subject to state influence, though to various degrees depending on the sector.

Panibratov and Latukha's framework categorizes Russian companies based on state interest and control, revealing that the role of the state varies significantly across industries. Sectors deemed strategically important exhibit high levels of state interest and control, while sectors with a representative image benefit from state interest but have lower levels of control. Additionally, sectors with low state interest and control are influenced by market dynamics.

The Russian government's involvement in international business strategies contributes to the knowledge and experience of Russian MNCs in global operations. However, it also raises concerns about patronage systems, bribery, and the use of business as a political tool in international affairs.

In summary, Russian OFDI represents a complex interplay of factors, including economic environment, dualism in society and the economy, historical legacies, and state involvement. While the IDP may not provide a definitive framework for understanding Russian OFDI, the paradox it presents warrants continued investigation

and the consideration of alternative models to explain the behavior of Russian MNCs in the global arena. As Russian firms increasingly seek to dominate global value chains, the dynamics of their internationalization will continue to evolve, shaping the broader landscape of international investment paradigms.

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