Russian Corporations and Banks Abroad*

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The FDI stock of Russia amounted to USD 15 billion at the beginning of 2002. Recorded outward direct investment covers only a small part of the total capital outflow from Russia abroad. Capital flight represents the core of Russian capital outside Russia. During the period 1994–2001 recorded annual FDI outflow was 10% of capital flight. The Russian government should continue fighting against illegal capital flight while simultaneously support the internationalisation, since Russian companies and the Russian economy as a whole cannot become truly global without investing abroad. Via a more active participation in global business Russian corporations can prepare the Russian economy for approaching WTO membership. Moreover, the activities of Russian companies in the EU market facilitate the building of the Common European Economic Space between Russia and the EU.

Die FDI in Russland beliefen sich Anfang 2002 auf 15 Mrd. USD. Die erfassten FDI machten nur einen kleinen Teil des gesamten Kapitalabganges aus Russland ins Ausland aus. Das somit flüchtige Kapital stellt den Hauptteil des russischen Kapitals im Ausland dar. Von 1994-2001 machte der erfasste jährliche Abgang der FDI rund 10% des flüchtigen Kapitals aus. Die Regierung sollte denKampf gegen die illegale Kapitalflucht fortsetzen und gleichzeitig die Internationalisierung unterstützen, da die russischen Firmen und die Wirtschaft im allgemeinen nicht global mitwirken können, ohne im Ausland zu investieren. Durch eine aktivere Beteiligung an der globalen Wirtschaft können russische Gesellschaften die Wirtschaft auf einen Eintritt zur WTO vorbereiten. Außerdem erleichtern die Aktivitäten der russischen Firmen im Markt der EU den Bau einer gemeinsamen Wirtschaftssphäre.

Key words: Russia / capital flight / outward FDI / transnational companies / globalisation

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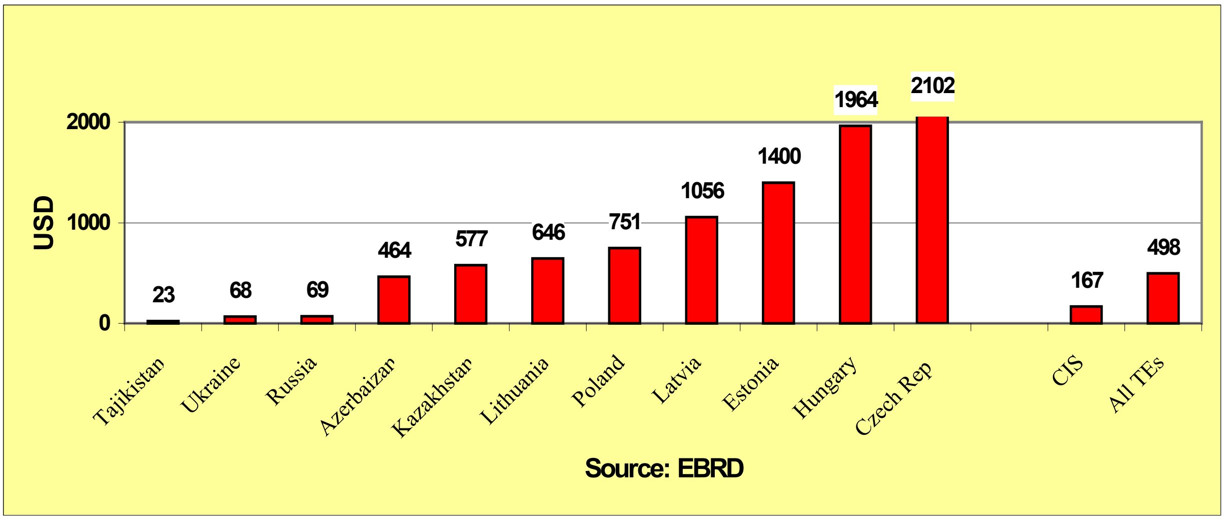
Foreign Direct Investment Flows to and from Russia

Foreign firms have clearly become more active in their operations in the transition economies (TEs) since the mid-1990s. According to UNCTAD (2001), the foreign direct investment (FDI) inflow to all TEs was USD 7 billion in 1994, whereas six years later the FDI inflow exceeded USD 25 billion. By the beginning of 2001, the FDI inward stock in the former centrally planned economies amounted to over USD 150 billion.

Poland, Hungary and the Czech Republic cover a half of the transition economies' FDI inward stock. Russia with her giant natural resources and 144-million-population i.e. approximately 2.5 times the combined population of these three Central East European countries (CEEC) has been able to garner FDI worth less than USD 20 billion i.e. only as much as Hungary with 10 million citizens and modest natural reserves.

The FDI per capita figures are even less flattering for the CIS and Russia, in particular. According to EBRD (2001), the cumulative net FDI inflow during 1989-2000 to Russia was only USD 70, whereas the corresponding indicator for the CIS was USD 170 and USD 500 for all TEs. The most attractive TEs in terms of cumulative net FDI per person are the Czech Republic, Hungary, Estonia, and Latvia.

Table 1. Cumulative Net FDI per Capita in Selected Transition Economies (1989-2000)



All of them have managed to collect over USD 1000 per citizen; the Czech Republic over USD 2000 (see Table 1)[1].The FDI inflow analysis suggests that foreign companies have not entered Russia and the CIS to the same extent they have penetrated the CEEC. If Western corporations have not entered Russia and the CIS as intensively as the CEEC, what is the counter direction of FDI flows i.e. to what extent investments have flown from the East towards the West?

Table 2. Outward and Inward FDI Stocks of Transition Economies by the Beginning of 2001 (USD billion)

Outward FDI	**-Inward FDI stock**	**-Out-/Inward FDI stock**	**-stock ratio (%)**
All transition economies	**19.8**	**150.3**	**13**
Commonwealth of Independent States (CIS)	12.5	41.9	30
Central and East European countries (CEEC)	7.3	108.4	7
Some selected transition economies (ranked by the amount of the outward FDI stock)			
Russia	**11.6**	**19.2**	**60**
Hungary	2.0	19.9	10
Poland	1.5	36.5	4
Croatia	1.1	4.9	22
The Czech Republic	0.8	21.1	4
Slovenia	0.7	2.9	24
Azerbaijan	0.7	4.5	16
Estonia	0.4	2.8	14
Slovakia	0.3	4.9	6

Source: Authors' calculations on the basis of UNCTAD data (2001).

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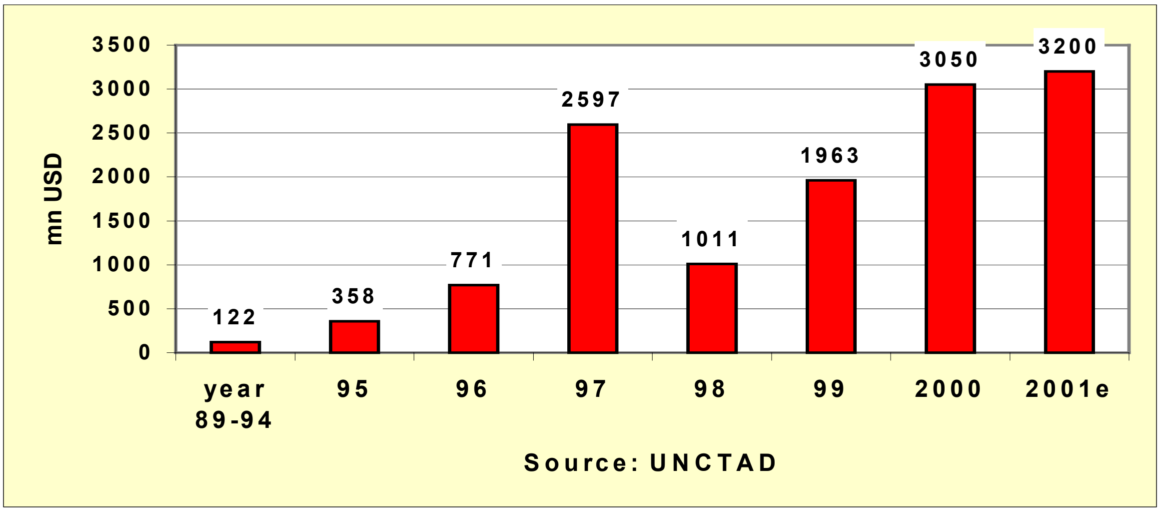
[1] EBRD gives the FDI stock data on a net basis, and hence, its figures are considerably lower than data offered by UNCTAD or the Vienna Institute for International Economic Studies (WIIW). According to EBRD, the cumulative FDI inflow to Russia is some USD 10 billion, whereas UNCTAD indicates that the FDI stock in Russia is some USD 20 billion. WIIW suggests that the FDI inward stock of Russia is USD 23 billion. Russian sources sometimes report even higher FDI figures than WIIW due to fact that they misleadingly include trade/other credits and portofolio investments into the FDI figures.

The recorded FDI outflow from Russia has multiplied since the mid-1990s. In fact, the FDI outflow in 2000 was almost 10-fold the mid-1990s amount. According to non-confirmed estimate, the recorded FDI outflow from Russia exceeded USD 3.2 billion last year. The growing FDI outflow suggests that the financial position of some Russian companies has significantly improved, making them increasingly interested in expanding abroad. The outflow is expected to increase along with more active participation of Russia in globalisation (see Table 3).

Table 3. Recorded Annual FDI Outflow from Russia



It should be stressed that recorded FDI covers only a small part of the total capital outflow from Russia abroad: capital flight, which represents the core of Russian capital outside Russia, has to be taken into account in trying to reach an accurate estimate of outflows. A rough calculation shows that during the period 1994–2001 recorded annual FDI outflow was approximately 10% of capital flight (see Table 4).

This article aims at answering the following two questions: (1) where has the Russian FDI landed; and (2) which corporations are behind the FDI outflow from Russia. In order to answer these questions, this research describes the foreign operations of Russia's most internationalised corporations, and discusses the role of their foreign activities in integrating Russia into the global economy.

Where Has the Russian Eagle Landed?

At the end of the 1980s, less than 500 Soviet enterprises operated abroad. A decade later, a multitude of Russian companies had been established beyond Russian borders (Jumpponen, 2001; Liuhto & Jumpponen, 2001).

Goskomstat (2000) data indicates that the overwhelming majority of Russian direct investment in 1999 went to the USA and the EU, especially the UK.

Goskomstat offers much lower figures for Russian investments in ex-socialist states than some Western sources. For example, the PlanEcon Report (2001) suggests that at least 1/3 of the Russian FDI has landed in the former socialist block (see Table 5).

Table 4. Recorded FDI Outflow, Capital Flight and Russia's Exports (USD bn)

	1993	1994	1995	1996	1997	1998	1999	2000	2001
Recorded FDI outflow	0,1*	0,1	0,4	0,8	2,6	1,0	2,1	3,0	3,2
Capital flight	n.a.	15,0	7,5	26,0	11,0	21,0	21**	25**	21,6**
Exports	59,7	68,1	81,3	88,4	86,7	73,9	74,3	105,2	105,1
FDI outflow/ capital flight	…	0,7%	5,3%	3,1%	23,6%	4,8%	10,0%	12,0%	14,8%
FDI outflow/ exports	0,2%	0,1%	0,5%	0,9%	3,0%	1,4%	2,8%	2,9%	3,0%

*1988–1993 annual average. **EIU, 2001/2002.
Sources: IMF (2001); UNCTAD (2001); Bank of Finland (2001/2002); authors' calculations.

According to Poland's statistics, some USD 1.3 billion of Russian capital has been placed in Poland, roughly 10% of Russia's outward FDI stock. Russia is the 10th largest investor in Poland with her 2%-stake. The five biggest foreign companies in Poland are: (1) France Telecom (USD 3.20 billion), (2) Fiat (1.64), (3) Daewoo (1.55), (4) Citibank (1.30), and (5) Gazprom (1.28).

Gazprom has equity investments at least in two Polish companies: Gas Trading and Europol Gaz. The overwhelming majority of Gazprom's investments in Poland have been placed in Europol Gaz. Gazprom holds a 48%-stake of Europol Gaz. This company owns the gas pipeline, Yamal-Europe, inside the Polish territory. Bulgaria has attracted over USD 200 million of the Russian FDI. The biggest single investments in these countries have been placed in the gas and oil industry. For example, Lukoil, the biggest Russian oil company, has bought an oil refinery in Bulgaria[2].

Russian corporations have invested over USD 130 million in Latvia. The three biggest Russian investments in Latvia are: (1) Latrostrans (Investor: Transneftprodukt; Investment: USD 62 million; Field of operation: transit of oil products), (2) Latvijas Gaze (Gazprom; USD 19 million; gas supply), and (3) Lukoil Baltija (Lukoil; USD 15 million; the transit of oil products and their

[2] It should also taken into consideration that Lukoil currently plans to invest USD 65-67 million to modernise refinery Neftechim, in which it has a 58% stake.

trade). These three investments cover over 70% of the Russian FDI in Latvia. Russian energy companies have also been active in Lithuania. Lukoil is the biggest Russian investor in Lithuania. It has invested some USD 25 million in Lithuania through Euro Oil Invest, an investment company based in Luxembourg. In addition to Lukoil, Yukos has invested in Lithuania. It acquired a stake in the Mazeikiu oil refinery in June 2002[3]. If one includes this USD 75 million-investment of Yukos, the total Russian FDI in Lithuania will jump from the current level to close to the Russian investments in Latvia. Energy companies are behind the majority of Russian FDI also in Estonia. The biggest Russian investor is Gazprom, which holds almost one third of the Estonian gas company, Eesti Gaas.

Besides equity stakes in the Baltic States, Gazprom is eyeing gas companies all over CEEC and the CIS. Gazprom aims at buying new stakes of Central East European gas companies (for example, Bulgargas in Bulgaria, SPP in Slovakia, MOL in Hungary, Lietuvos Dujos in Lithuania and petrochemical companies in Romania) or increasing its share in companies, where it already possesses a foothold[4].

Currently, the researchers are not able to provide a comprehensive picture on the foreign nests of the Russian eagle. A further study concerning Russian investments in the CIS might contribute to the knowledge of Russia's outward FDI. A further study might reveal that significant Russian investments can also be found in Azerbaijan, Belarus, Kazakhstan, Turkmenistan, and Ukraine. Moreover, a closer investigation of Russian business expansion in the current EU member states and EU applicant countries would show to what extent the Russian enterprises have already been integrated into the enlarging European Single market.

Who is behind Russian Business Expansion Abroad?

Oil and Gas Corporations

UNCTAD (2002) provides a list of the largest non-financial transnational companies based in Central and Eastern Europe.

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[3] On August 2002, Yukos acquired a further 27% stake in Mazeikiu Nafta, thereby increasing its ownership to 54%. The price paid for the another 27% stake was USD 85 million. The deal still needs the approval of the Lithuanian government, which has a one-month option to buy a 16% stake for USD 53 million.

[4] Together with Ruhrgas and Gaz de France, Gazprom is a partner of the consortium, which has acquired a 49% stake in Slovak natural gas monopoly Slovensky Plynarensky Priemysel (SPP). At the end of June 2002, The Baltic Times (2002, 8) reported that "*Ruhrgas is reportedly interested in sharing ownership [in Lietuvos Dujos] with Russia's Gazprom, which is likely to be a bidder for the second stake*".

Table 5. Russian FDI Stock in Selected Transition Economies

Target country [5]	-FDI stock share	-Rank among inv. countries (USD mn)	-(%)
EU candidate countries			
Bulgaria (as of 12.2001)	205	4.6	8.
Poland (as of 12.2001)	1286	2.3	10.
Latvia (as of 12.2001)	131	5.3	7.
Hungary (as of 12.1999)*	53	0.6	12.
Lithuania (as of 12.2001)	48	1.6	13.
Estonia (as of 12.2001)	44	1.4	9.
Czech Republic (as of 12.2000)	15	0.07	27.
Slovakia (as of 9.2001)	9	1.6	n.d.
Romania[6](as of 9.2001)	4	0.05	n.d.
Slovenia (1996-2000)	1	0.04	28.
Other transition economies			
Belarus	>581	>40	n.d.
Kazakhstan [7]	>500	>5	n.d.
Ukraine	>314	8.1	4.

* The figure comprises the FDI inflow from all the ex-USSR.
Sources: National sources; Goskomstat.

Four Russian companies, namely Lukoil, Novoship, Primorsk Shipping and Far Eastern Shipping, are on the list. In fact, Lukoil was ranked the largest transnational corporation, based in ex-socialist countries, by its assets abroad. Its assets abroad exceed USD 4 billion. The foreign assets of the other three Russian companies are considerably smaller; Novoship USD 963.8, Primorsk Shipping USD 256.4 and Far Eastern Shipping USD 236.3 million.

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[5] Russian companies have also indirectly invested to many transition economies. Russian firms may be detected behind significant investments from Cyprus, Luxembourg or Panama to transition economies.

[6] The amount of Russian FDI stock in Romania seems to be rather modest, when taking in the account that Lukoil owns a controlling stake in a refinery there.

[7] "Lukoil has invested about USD 500 million into oil projects in Kazakhstan over the last six and a half years ... Lukoil is producing just over one million tonnes of oil per year in Kazakhstan but intents to raise that to 3.5-4. million tonnes annually ... Lukoil has a five percent interest via LUKArco joint venture in the Tenghiz deposit, 50 percent in the Kumkol deposit, 15 percent in the Karachaganak oil and gas condensate field and 12.5 percent, again via LUKArco, in the Caspian Pipeline Consortium" (NE, 2002, 46).

Lukoil, the largest Russian oil company, company has been purchasing stakes in foreign oil fields, especially in the Caspian Sea region and in Egypt. Besides participating in the development of oil fields, Lukoil has acquired controlling stakes in foreign refineries (in Bulgaria, Romania, and Ukraine). Lukoil has also been involved in retailing petroleum outside Russia. At the end of 2000, Lukoil acquired the US company, Getty Petroleum Marketing. This was the first step by Lukoil towards US expansion and also the first time when a Russian firm acquired a publicly traded US company. The acquisition of Getty shows that Lukoil not only orients towards post-socialist markets. In July 2001, Lukoil acquired a Canadian exploration and production company, Bitech Petroleum, which has operations in Colombia, Egypt, Morocco, and Tunisia[8]. Currently, Lukoil is eyeing, for example, Rafineria Gdanska in Poland with Rotch Energy and a 25% stake of INA in Croatia, and the Talara oil refinery in Peru.

According to UNCTAD, Novoship is Russia's second most transnational firm. The firm has a subsidiary network (Intrugue Shipping Inc.) in Liberia, USA, Sweden, Malta and the UK and another subsidiary (Transbosphore) in Turkey. All in all, Novoship has some 70 ship, 45 of which have been registered either in Liberia or Malta. Primorsk Shipping is the third most transnational Russian firm. Primorsk Shipping has a fleet of 45 tankers and one dry-cargo vessel, 30 of which are registered in Cyprus and Singapore. The fourth most international Russian enterprise, Far Eastern Shipping, has around 100 vessels, registered both in Russia and abroad. The company has agencies in Australia, China, New Zealand, North America, and the UK.

It is likely that more Russian corporations would appear on the list if they disclosed all their assets abroad. The biggest Russian company missing from the list is indisputably Gazprom. The company has equity investments in approximately 20 countries. Gazprom's equity investments outside Russia have mainly been conducted to support the corporation's exports and to improve its position in the global gas business. Gazprom is the world's biggest natural gas exporter, exporting some 175 billion cubic metres (bcm) of gas to over 25 countries. (Liuhto, 2002; see Appendix 1).

Besides Gazprom, it is surprising that only one Russian oil company appears in the list. Yukos has subsidiaries in the Baltic States and in the USA. In the Balkans, Yukos has been working with a Croatian company, Jadranski Naftovod, to modernise the Adria pipeline. In the beginning of 2002 Yukos also completed acquiring a 49% interest in the Slovak pipeline company Transpetrol, which operates at the Druzhba pipeline. In October 2001, Yukos acquired a

[8] In March of 2002, Lukoil gave a press release, in which it was indicated that the company aims at selling its assets in Morocco.

stake in a British-Norwegian engineering firm, Kvaerner, and purchased its London-based subsidiary, which is involved in engineering services in on-shore oil and gas projects. In addition, Yukos took over Kvaerner Process Technology's units in France, Italy, Switzerland and the UK. The last big acquisition of Yukos was buying of a 26%-stake in a Lithuanian refinery in summer 2002.

Surgutneftegaz, the third largest Russian oil company, has only domestic subsidiaries but nevertheless, it is heavily focused on export. Their exports represented almost 80% of the company's total revenues in 2000. Recently, Surgutneftegaz has announced plans to buy oil and petrochemical processing facilities in Belarus and Ukraine in alliance with Slavneft.

Also, the Tyumen Oil Company (TNK) has activities abroad. TNK acquired the Lishichansk refinery in Ukraine through its subsidiary, TNK-Ukraina, in 2000. During 2002, TNK intends to invest almost USD 8 million to modernise its Ukrainian refinery. TNK also owns a filling station chain in the Ukraine. TNK has signed an agreement with Petrol (Slovenia) to co-operate in marketing oil products in Bosnia and Herzegovina, Croatia, Macedonia and Yugoslavia.

Rosneft, a state-owned oil company, already participated in international operations during the Soviet era. In Ukraine, the company manages a quarter of the Black Sea Kherson oil refinery under a two-year agreement with existing shareholders Kazakhoil and Alians. In Kazakhstan, Rosneft has agreements with the Texas-based First International Oil Corporation (to explore oil fields) and with the Florida-based Itera (to form an oil and gas extracting holding). Rosneft operates a petrol station network in Bulgaria and Romania jointly with the Russian-Belarus company, Slavneft. Moreover, Rosneft is currently showing interest in the Eastern European market and is particularly considering participation in the privatisation or purchase on the secondary market of shares.

In June 2001, Rosneft signed a contract with Colombia’s state oil company Ecopetrol and two other Colombian companies to launch oil extraction at a block in southern Colombia. In Algeria, Rosneft has made a similar agreement with a local state-run oil company, Sonatrach, on the development of an oil field. In Iraq, Rosneft has signed an agreement to develop oil fields, but implementation depends on the United Nations sanctions policy. Rosneft is expected to launch projects also in Sudan.

In summer 2001, Slavneft signed a joint-venture deal to develop an oil field in Sudan[9].

[9] Slavneft informed on August 2002 that the company is ending its operations in Sudan owing to high risks and low profits.

Table 6. Selected Operations of Russian Oil Majors Abroad (in order of appearance in the text)

Company -Markets	-Operations
Lukoil	
Azerbaijan, Egypt, Iraq, Kazakhstan	Oil production
Bulgaria, Romania, Ukraine	Oil refining
Azerbaijan, Baltic States, Czech Republic, Kazakhstan, Moldova, Ukraine, US	Petroleum retailing
UK	Sales office
Various countries	Oil exports
Yukos	
Lithuania	Refinery
Croatia	Pipeline project
Slovakia	Pipeline company
Latvia, US	Marketing
Various countries	Oil exports
Surgutneftegaz	
Various countries	Oil exports
TNK	
Ukraine	Oil refining
Ukraine	Petroleum retailing
Various countries	Oil exports
Rosneft	
Algeria, Colombia, Iraq, Kazakhstan	Oil production
Ukraine	Oil refinery management
Bulgaria, Romania	Petroleum retailing
Various countries	Oil exports
Slavneft	
Bulgaria, Romania	Petroleum retailing
Iran	Maintaining oil wells
Sudan	Oil production
Various countries	Oil exports
Tatneft	
Iraq	Oil production
Various countries	Oil exports
Sibneft	
Various countries	Oil exports
Bashneft	
Various countries	Oil exports

Slavneft holds a 93% stake in this new company, which is agreed to operate in the region with a 30 million tons determined oil deposit and a 200 million tons estimated volume. The estimated total investment volume made by Slavneft into the geological exploration and development of the deposit is USD 126 million. Also, Slavneft has been screening possibilities for participating in projects in Iran, where it has already been involved in maintaining oil wells. The company has also signed a co-operation agreement in Iraq, although it is restricted by the

UN sanctions. Slavneft, which co-ordinates Russian oil deliveries to Slovakia, intends to acquire filling stations in the country.

Tatneft has a representative office in Iraq, where the company carries out oil drilling. Tatneft is also expected to launch projects in Sudan. The other Russian major oil companies, Sibneft and Bashneft have been less active in internationalisation, except for export activities. Both companies currently export some 30% of their oil production. Table 6 summarises main operations of Russian oil majors abroad.

Russian Metal Conglomerates

Although oil and gas corporations dominate Russian outward FDI, some Russian metal companies have also expanded operations abroad. Alrosa is one of the world's leading diamond mining companies, with one fifth of world raw diamond output and total revenues of USD 1.6 billion in 2001. The company not only exports, but it has opened units abroad, e.g. a representative office in Angola, Belgium, Israel and the UK. In Angola, Alrosa is an equity partner with a 33% stake in the Catoca diamond mine, which produced diamonds worth USD 150 million in 2000. The company has expressed interest in further expanding its operations in Africa, namely in Botswana, Namibia and Tanzania.

Norilsk Nickel accounts for a major chunk of the global production of nickel, palladium, platinum and other rare and semi-precious metals. In October 2000, the firm formed a joint venture, Norgem, with the Belgian company Sogem to sell Norilsk's cobalt products. Norgem was registered in Belgium with Norilsk Nickel taking a 51%-stake. In Cuba, Norilsk Nickel has agreed to invest some USD 300 million to complete a nickel ore plant, which the USSR started to build in 1983. Recently the company announced that it is setting up a joint venture with a Canadian company, Argosy Minerals, to study co-operation in eastern Australia.

Russia is the fourth largest steel producer in the world and 60% of its output is exported. Severstal is the largest Russian steel producer. The company has expanded its sales, especially in North America and Asia, focusing particularly on the export of specialised and value-added steel products in order to avoid anti-dumping disputes. Severstal may face difficulties in the US market since in March 2002 the USA imposed steel import tariffs of up to 30% until 2004.

Russian Aluminium produces about 70% of the primary aluminium in Russia. Asia has become the main market for Russian Aluminium, taking 50% of exports. The USA takes 30% and Europe the remaining 20% of exports. Russian Aluminium has contracted to build a plant in Ukraine, the Pervomaysk plant, during the next three years. In Guinea, the company has signed a deal to manage a local bauxite plant for 25 years and develop the large Dian-Dian bauxite deposit. The company is considering building a smelter in Guinea with an annual capacity of 240 000 tons. The project is expected to go ahead after the firm opens a bauxite mine and aluminium plant in the West African country. Russian Aluminium has also purchased a refinery in Romania and operates in Armenia via a joint venture.

Over 75% of output from the Novolipetsk Metallurgical Combine (NLMK) is exported to the Middle East, North America, Europe, South-East Asia and China. Besides exports, NLMK has expressed interest in international co-operation. NLMK also has plans to participate in the restructuring of Poland’s steel industry (see Table 7).

Table 7. Selected Operations of Major Russian Metallurgical Companies Abroad (in order of appearance in the text)

Company -Markets	**-Operations**
Alrosa	
Angola	Diamond exploration
Angola, Belgium, Israel, UK	Representative office
Various countries	Exports
Norilsk Nickel	
Belgium	Marketing joint venture
Cuba	Building a nickel plant
New Caledonia, New Guinea	Ore plant
Various countries	Exports
Severstal	
Various countries	Exports
Russian Aluminium	
Romania	Refinery
Armenia, Ukraine	Aluminium production
Guinea	Bauxite, aluminium production
Various countries	Exports
NLMK	
Various countries	Exports

The Banking Sector

Russia’s largest privately owned bank, Alfa Bank, was founded in 1990. Today, the bank has more than 70 branches in Russia, Kazakhstan and Ukraine and subsidiaries in the United Kingdom, the United States and the Netherlands. The wholly-owned subsidiary in the Netherlands (Amsterdam Trade Bank N.V.) has a full European banking licence. It primarily serves clients in import and export finance. The London-based unit (Alfa Securities) was set up in 2000 and it provides brokerage, research and investment banking services.

Vneshtorgbank was established in October 1990 as a closed joint-stock company aimed at servicing the foreign economic relations of the Russian Federation. The bank is owned by the Central Bank of the Russian Federation with a share of 99.9%. Vneshtorgbank has subsidiary banks in Austria, Cyprus, Luxembourg and Switzerland and representative offices in China, Italy and Ukraine. In Germany the bank has an associated bank ”Ost-West Handelsbank” located in Frankfurt-on-Main.

Russia’s seventh largest bank, by assets, Rosbank, is a part of the Interros Holding Company, which has majority ownerships in several Russian companies, such as Norilsk Nickel. Rosbank owns a subsidiary in Switzerland and has a representative office in China.

The Moscow Municipal Bank - Bank of Moscow was founded on March 7, 1995, at the initiative of the Moscow City Government, which currently holds over 60% stake in the bank’s capital. The Bank of Moscow, a fully-owned subsidiary in Belarus (Moscow-Minsk Bank) - situated in Minsk as well as a subsidiary in Latvia, (Latvian Businessbank).

The “Trust and Investment Bank” (DIB, Doveritel’nyi I Investitsionnyi bank) was formed in 1993. DIB is characterised as being the main settlement bank of YUKOS-Rosprom group and it offers investment-banking services mainly to Russian exporters and importers, industrial companies and regional governments. The first subsidiary of the bank, T&IB Holdings B.V. was registered in the Netherlands in March 2001.

Menatep St. Petersburg, a joint stock bank, was registered in 1995. The bank serves the financial flows of the enterprises in the Yukos-Rosprom group and is also a principal bank for Gazprom. The bank has a subsidiary in Armenia (Menatep-Erevan), in the Netherlands (Menatep Securities BV) as well as in Switzerland (Menatep Finance AS). In September 2001, the bank became the first foreign bank to open a subsidiary in Mongolia. The bank made this decision following the interests of its largest shareholders, Yukos (Fedorin, 2001).

Another oil company, Lukoil, is one of the principle shareholders of Sobinbank. This bank is currently among the 30 largest Russian banks and has a representative office in Ukraine.

In order to promote joint business operations between Russia and the Czech Republic, a “First Russian-Czech” bank was established in 1996. The founders were the Investicni a postovni banka on the Czech side and the Vozrozhdeniye Bank on the Russian side. Currently, the Vozrozhdeniye Bank owns a 26% stake in this joint bank, with which it has offices in both Moscow and Prague.

The Mosnarbank (Moscow Narodny Bank, MNB) claims to be the only Russian-owned bank in the United Kingdom. The company was established as early as 1911 in Moscow, and foreign agencies were opened in London and New York a couple of years later. Between the World Wars, branches were opened in Paris and Berlin, and in the 1970s in Singapore and Canada. Nowadays, the bank is owned by the Central Bank of Russia. The Group head office is located in London, a subsidiary in Moscow and a branch office in Singapore. The representative offices are located in China and Canada.

The International Bank of St. Petersburg has representative office in Finland since the summer of 2000. The representative office is said to have been established in order to serve companies, both Finnish and Russian ones, dealing with Russia - exporting or importing goods or acting otherwise in the financial sphere. The bank has also applied for permission to establish a branch office in Finland, but no licence was given by the Finnish authorities. In Estonia the bank established a representative in February 2002.

Even though large Russian banks have carried out the foreign operations presented above, they are not the only banks with intentions abroad. As an example from smaller banks, the Ugra bank could be mentioned. The bank was originally established in 1990 in the Hanty-Mansiisk autonomous region, and during the next decade it expanded, first to major Russian cities until in 1998, when the company established its first representative office in Belgium (Table 8).

Table 8. The Operations of Russian Banks Abroad

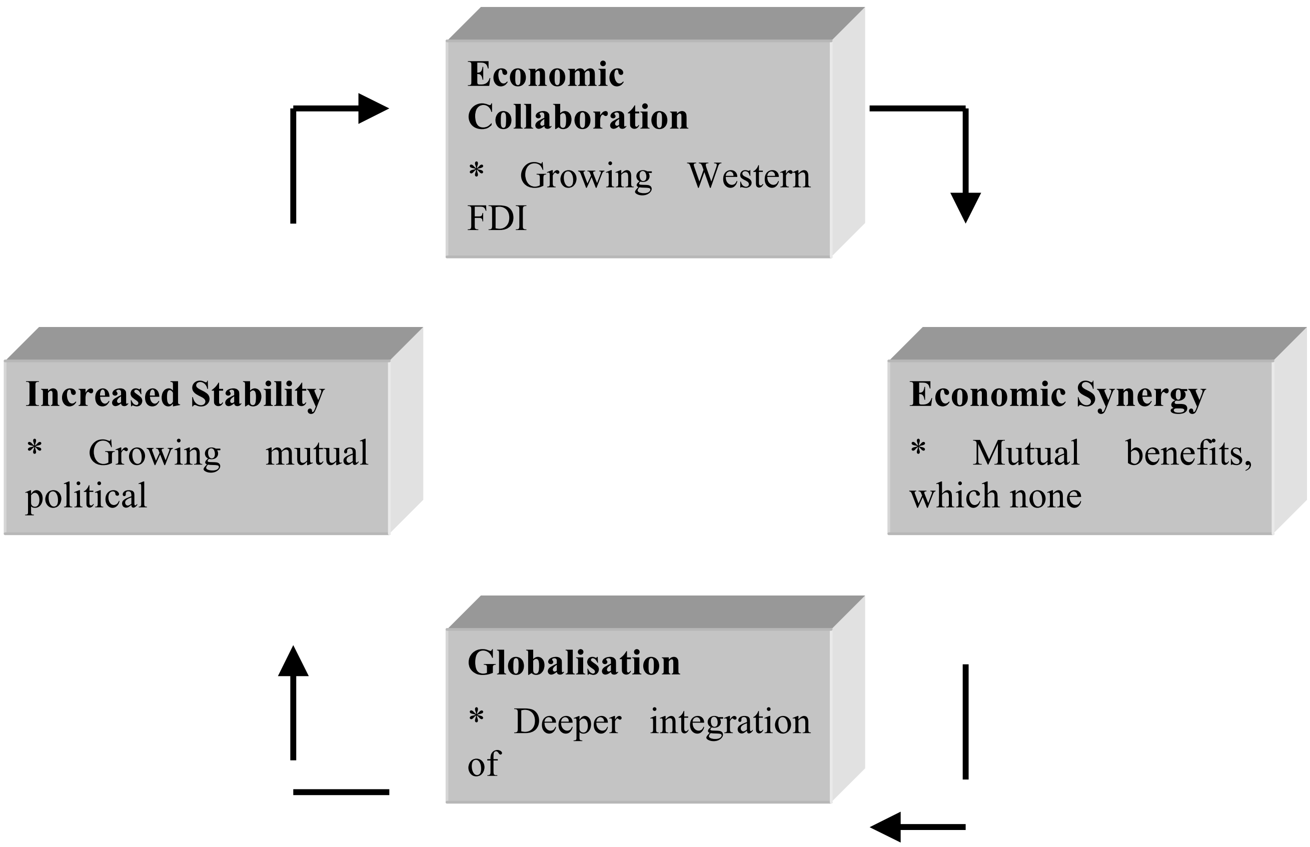
Company	Markets	Operations
Alfa Bank	Kazakhstan, Ukraine	Branches
	Holland, United Kingdom, USA	Subsidiaries
Vneshtorgbank	Austria, Cyprus, Luxembourg, Switzerland	Subsidiaries
	Germany	Associated bank
	China, Italy, Ukraine	Representatives
Rosbank	Switzerland	Subsidiaries
	China	Representative
Bank of Moscow	Belarus, Latvia	Subsidiaries
DIB	Holland	Subsidiaries
Menatep SPb.	Armenia, Holland, Mongolia, Switzerland	Subsidiaries
Sobinbank	Ukraine	Representatives
Vozrozhdeniye	Czech Republic	Representatives
Mosnarbank	United Kingdom	Head office
	Singapore	Branch
	China, Canada	Representatives
International Bank of St. Petersburg	Estonia, Finland	Representatives
Ugra	Belgium	Representatives

Business Expansion Abroad Supports Russia's Overall Globalisation

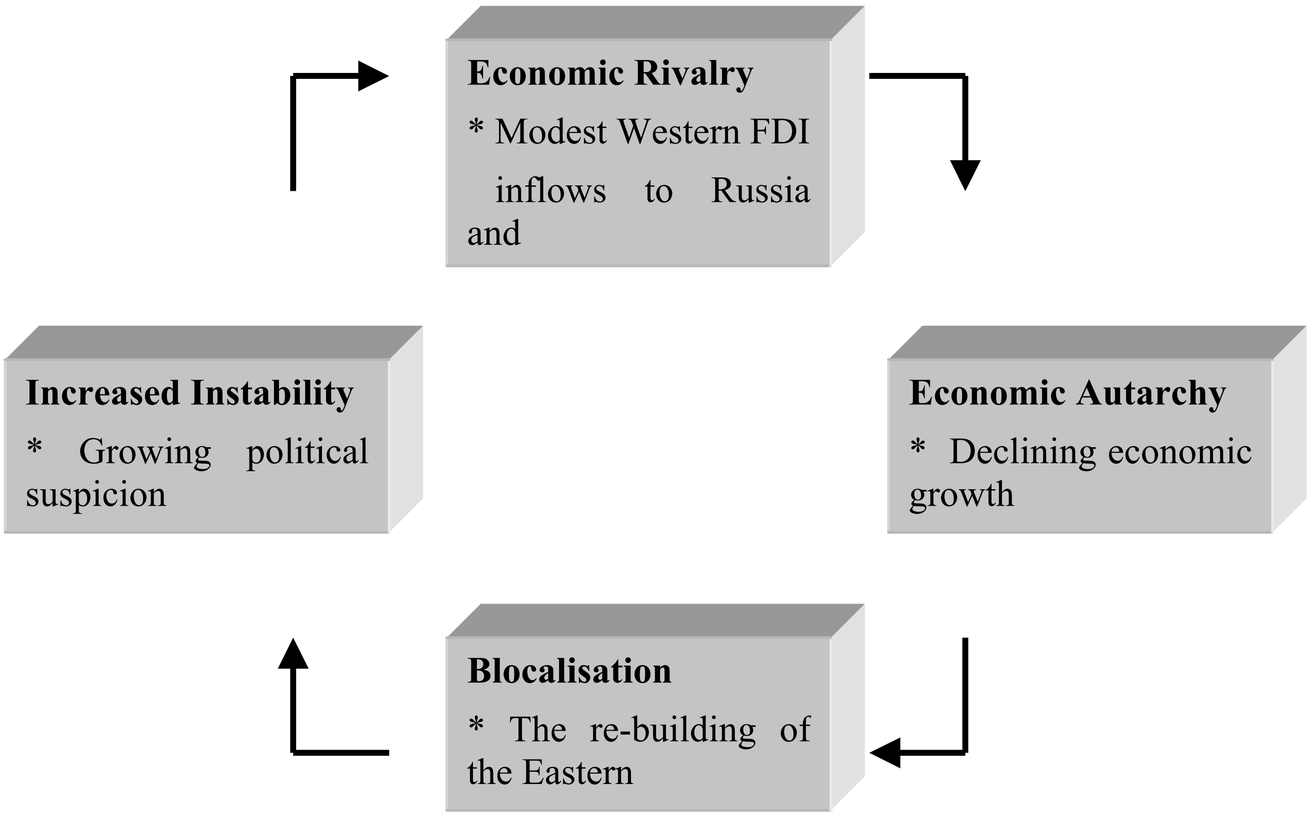
International economic ties provide benefits to all the parties involved, which none of them would be able to gain by acting alone. In addition, economic integration is an effective way of building international stability. Examination of FDI inflow to Russia makes it clear that foreign direct investments have not been able integrate Russia as closely as the CEEC into a Pan-European economic collaboration. The modest FDI inflow to Russia is mainly due to the harsh business environment there: deficient business legislation, the inconsistent execution of laws, heavy bureaucracy, and high corruption have kept many potential foreign investors outside Russian borders.

Figure 1. Two Extreme Scenarios of Expansion by Russian Corporations Abroad

Scenario A **Globalising Russia**



Scenario B **'Blocalising' Russia**



If foreign firms have not succeeded in integrating Russia with global business, Russian corporations, via their outward FDI, have integrated their country with foreign markets more intensively than the companies of any other transition economy. Statistical data suggests that Russian corporations have expanded not only in the West but also in CEEC and the former Soviet republics.

The particularly strong expansion towards ex-CMEA countries has created some suspicions about the ultimate goal of integration, focused on whether the expansion of Russian companies abroad will lead to the greater integration of Russia in the global economy or to new block building. Figure 1 clarifies the alternatives. The figure presents the two extreme possible outcomes of expansion abroad by Russian corporations. If business motives dominate their internationalisation strategies, Russian corporations will easily find an appropriate niche in the Pan-European and global business.

Through Russian investment in the current and enlarged EU, Russia would benefit directly from the advantages of enlargement. Moreover, Russian investment in the EU would support EU-Russian trade. Increasing EU-Russian trade would bring Russia closer to co-operation with Western nations, which in turn would ultimately strengthen stability in Europe and beyond.

It can be concluded that with a more active participation in global business Russian corporations can prepare the Russian economy for approaching WTO membership. Moreover, the activities of Russian companies in the enlarging EU market facilitate the building of the Common European Economic Space between Russia and the EU[10].

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[10] Though the president of the WTO Michael Moore stated in January 2002 that Russia's membership could already be reality in the middle of 2003, Russia's vice-minister of economy Maksim Medvedkov, the leader of the Russian negotiation team, is less optimistic. Russia has to implement many changes, such as the reform of Russian customs operations, reducing custom tariffs and cutting subsidies, before the WTO membership can be gained. Correspondingly, the planning of the Common European Economic Space has only started last year. Even if these goals cannot be accomplished overnight, they clearly show that Russia is opening towards the West i.e. she seems to follow the globalisation scenario presented in Figure 1.

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Appendix 1. Russia's 50 Biggest Exporters in 2001

Rank	Company/holding	Industry	Export 2001	Export 2000	countries
1	Gazprom	Oil and gas industry	16400.0	13900.0	27
2	Lukoil	Oil and gas industry	6624.5	6218.1	32
3	Yukos	Oil and gas industry	5682.2	5247.5	40
4	TNK	Oil and gas industry	5597.3	3477.5	40
5	Surgutneftegaz	Oil and gas industry	2356.0	1700.5	13
6	Ruskij Aljumini	Metallurgy	2231.2	2161.6	52
7	Tatneft	Oil and gas industry	2136.0	2629.5	43
8	Slavneft	Oil and gas industry	1762.7	1261.6	25
9	Norilsk Nickel	Metallurgy	1754.5	2246.9	23
10	Sibneft	Oil and gas industry	1650.7	1699.9	29
11	Rosneft	Oil and gas industry	1346.7	1298.5	n.d.
12	Alrosa	Metallurgy	1173.5	883.8	8
13	Bashneft	Oil and gas industry	871.7	858.7	21
14	Magnitogorsk Metallurgical Combine	Metallurgy	827.4	849.2	72
15	Novolipetskij Metallurgical Combine	Metallurgy	697.0	857.0	86
16	Sibur	Chemical and petrochemical industry	690.4	179.3	66
17	Severstal	Metallurgy	667.7	1066.7	98
18	SUAL	Metallurgy	575.3	506.4	40
19	TVEL	Machine building	538.0	458.0	23
20	Evraz Holding	Metallurgy	505.5	470.8	42
21	Itera Holding	Oil and gas industry	435.1	641.9	6

22	Kuzbassrazrezugol	Coal extraction	375.7	205.6	24
23	Niznekamneftehim	Chemical and petrochemical industry	355.4	415.8	44
24	Ural Metallurgical Combine	Metallurgy	352.7	424.3	36
25	Metalloinvest	Metallurgy	328.8	257.6	47
26	Ilim Pulp	Wood processing industry	301.2	340.0	87
27	Fosagro Apatit Group	Chemical and petrochemical industry	257.6	70.1	32
28	RAO UES	Electricity production	254.1	212.3	12
29	Akron	Chemical and petrochemical industry	246.5	222.2	45
30	VSMPO-AVISMA Group	Metallurgy	245.5	155.0	35
31	AvtoVaz	Machine building	242.3	277.0	38
32	Kristall	Metallurgy	220.0	240.0	7
33	Uralkalij	Chemical and petrochemical industry	191.0	242.0	35
34	Evrohim	Chemical and petrochemical industry	187.3	162.2	46
35	Kazan Helicopter Factory	Machine building	170.8	91.9	14
36	Volga	Wood processing industry	164.7	151.6	61
37	Kondopoga	Wood processing industry	161.0	137.3	39
38	Bashkir neftehim	Chemical and petrochemical industry	153.6	442.8	24
39	Volgograd Aljumini	Metallurgy	151.6	189.9	6
40	Azot	Chemical and petrochemical industry	149.7	125.6	50
41	Yakutugol	Coal extraction	135.0	140.0	6
42	Moscow Oil Company	Oil and gas industry	130.7	529.4	11
43	Metsel	Metallurgy	130.2	99.7	30
44	Toljattiazot	Chemical and petrochemical industry	127.4	165.8	5
45	Nosta	Metallurgy	117.3	88.9	28

46	United Metallurgical Combine	Metallurgy	113.4	102.1	37
47	Syktyvkar Wood Combine	Wood processing industry	110.0	110.0	82
48	Polyarno Siyanie	Oil and gas industry	105.7	169.1	5
49	Trubnaya Metallurgical Combine	Metallurgy	105.0	55.8	38
50	Sibirskij Aljumini	Machine building	100.7	190.0	42

Source: Expert (2002).