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The international expansion of Russian enterprises. Looking at Italian targets

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- ***Introduction:***

Investment activity by Russian enterprises is a relatively recent phenomenon that is meeting with mounting interest among analysts and researchers, as has occurred for the other emerging economies. Brazil, Russia, India and China - the so-called "BRIC" nations - are affirming themselves at the international level for their ability to invest considerable resources in both developing countries and industrialized economies (Sauvant, 2005; 2008; Ramamurti R., Singh, 2009; Goldstein, 2009). For these nations, foreign direct investment (FDI)[1] represents a fundamental means of achieving economic growth as well as political affirmation at the global level. FDI allows highly accelerated, and often unbalanced, growth processes to be adjusted at the national level. At the same time, individual enterprises, particularly through acquisitions, enjoy access to energy sources and commodities, advanced technologies, brands, skills, know-how and distribution channels to be used to expand and conquer new markets, including in the West (Sauvant, 2005; Spigarelli, 2009).

Some aspects make the case of Russia wholly dissimilar to the experiences of the other BRIC nations (Panibratov, Kalotay, 2009). Investors are limited in number and belong to large groups that are either state-owned or the result of privatization after the fall of the Empire. Each transaction involves enormous financial resources. In addition, the main area of interest is the primary sector, and specifically oil, natural gas, metallurgy and electricity (Kalotay, 2008).

This paper aims to analyze the primary characteristics of the phenomenon, with a

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[1] Foreign direct investment is defined as the purchase of physical assets (plant and machinery, in particular), or business in a foreign country, run by a parent company resident in another country. These are investments with a typical medium-/long-term holding period. They aim at achieving “industrial” rather than financial profits. The control over the capital (through voting rights) of the foreign firms must be more than 10%. Cf. OECD, 1996; IMF, 1993.

specific focus on the Italian scenario. The goal is to investigate the intensity of Russian FDI, the main players and the underlying motivations. The work is part of a larger research project aimed at comparing the investment activity of BRIC nations in the West and identifying their distinctive traits so as to arrive at a possible key to interpreting the phenomenon in the context of international investment theory (Buckley, 2002) and to understand its consequences in the fields of economics and industrial policy (Spigarelli, 2009). As mentioned above, special attention is devoted to the Italian economy[2]: the passive internationalization generated by emerging economies creates interesting research opportunities and raises questions, some of which relate to the possible impact on its avenues of development, the ongoing transformation of industrial districts and the processes of reconfiguring knowledge and allocating value at the local level.

This study represents an initial exploratory analysis of the case of Russia that aims to answer several questions that in turn ought to provide further stimulus for research activity: what are the aspects, critical issues and prospects currently associated with the investment flows and transactions undertaken by Russian enterprises at the global level? As compared to global trends, do the initiatives in Italy show any peculiarities in terms of the sectors involved, the underlying motivations and the modes of entry? Is their impact on the Italian economy relevant, particularly in prospective terms, and in which sectors is it most critical?

The methodology of analysis employed is of the descriptive type owing to the limited availability of up-to-date, reliable data series. The foreign investment phenomenon is new and statistical surveying systems have only recently been revamped by the Federation. Accordingly, sophisticated, broad analyses are not possible.

The first part of the study places Russian investment activity in the context of foreign direct investment theories. The second part initially examines the main channels of Russian FDI at the global level through a review of both flow and stock figures and the most significant greenfield and non-greenfield transactions undertaken. In addition, the strategic goals pursued by Federation operators are then analyzed. Finally, the paper discusses the Italian scenario, commenting on FDI

[2] The research activities have focused, thus far, on the case of China. We have analyzed the characteristics of the Go Global policy developed by the government to encourage the globalization of its companies (Bellabona and Spigarelli, 2007), as well as the peculiarities of the investment of Chinese MNEs (Bellabona and Spigarelli, 2006, Boffa et al., 2008), with a focus on the Italian case (Spigarelli, 2009).

trends at the sector and regional level, followed by an examination of specific cases of investment through the acquisition or incorporation of new business assets. The analysis ends with some general considerations.

1. *Russian investment activity: a theoretical overview*

The theme of Russian foreign direct investment has only recently become the subject of analysis by scholars. The available contributions involve studies of Russian enterprises' international expansion activities in general terms (Bulatov, 1998, 2001; Liuhto, 2001a,b; 2005; Liuhto, Jumpponen, 2003; Vahtra, Liuhto, 2005; Filippov, 2010) or with a focus on specific sectors and segments (Elenkov, 1995a,b; Heinrich, 2001, 2003, 2005), the problems inherent in measuring flows and stocks (Gusev, 2004) and comparisons of Russian investment trends with their global counterparts (Andreff, 2002, 2003). Other interesting contributions are devoted to management and business issues (Kets de Vries et al., 2004; Shekshnia, 2001).

Another highly interesting area of analysis involves placing the Federation's trans-national activity in the context of foreign direct investment theories (Bevan, Estrin, 2004; Kalotay, 2003, 2005, 2008). The entire question is part of the ongoing intense scientific debate concerning the need to adapt and re-read such theories to reflect the typical situation of many emerging economies (Buckley et al., 2006; 2007). At the macroeconomic level, the presence of considerable capital flows towards industrialized nations, as well as, in more microeconomic terms, the internationalization strategies pursued by companies (timing, entry strategy and goals) seem to run counter to the expectations deriving from the application of the principal classical and international business theories of economics[3]. As regards the specific case of Russia in particular (Kalotay, 2008), doubt is cast on the Heckscher–Ohlin–Samuelson (HOS) paradigm (Heckscher, 1919; Ohlin, 1933; Samuelson, 1948, 1949), Dunning's Investment Development Path (IDP) (Dunning, 1981, 1986), the Upssala School's Stage Theory (Johansson, 1975; Johansson, Vahlne, 1977, 1990) and Dunning's eclectic paradigm (Dunning, 1977, 1993).

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[3] For an analytical overview of theories related to the economic determinants of FDI, see Valdani, Bertoli, 2006, pp. 45-69. For a review of the main theories on internationalization that could serve as a background for the recent literature on MNEs from emerging countries, refer to Spigarelli, 2009. As for the strategic management literature related to MNEs from emerging economies, refer to the work of Yamakawa, Peng, Deeds, 2008.

As an emerging economy, Russia should be characterized by a scarcity of foreign currency and capital and attract resources from developed nations with a wealth of competitive advantages in complex sectors with high capital requirements (Kalotay, 2008). The Federation ought to find itself in the position of receiving foreign investment (Sauvant, 2005). On the contrary, the available data show that it is establishing itself as a net investor, owing in part to extensive access to currency resources provided by high export flows[4]. As will also be observed in this paper, that position, according to the data source used[5], has already been reached or will be reached in the very near future. In this light, the weakness of the classical approach to explaining Russian trade and international investment flows appears evident.

The IDP approach correlates the level and type of economic development in a country, usually approximated by pro-capita GDP, with its position as an international investor (Dunning, 1981, 1986), measured as the differential between foreign and domestic investment stocks. It is assumed that an economy's development follows a predefined process consisting of structural changes corresponding to modifications in the country's ability to attract/undertake investments[6].

During the initial phases of economic growth, international investment activity is limited to inflows. Outflows begin to occur in a later phase of greater economic maturity when competitive advantages have developed to justify the expansion of national enterprises abroad. It is only during the subsequent steps, with economic growth and the strengthening of distinctive advantages, that international activity intensifies to the point that the country becomes a net investor.

The case of Russia, as seen for other emerging economies (UNCTAD, 2006; Bonaglia *et al*., 2007; Goldstein, Pusterla, 2008), does not seem to match the typical phases identified by the IDP (Kalotay, 2008). This is a result, first and foremost, of the "premature" internationalization of domestic enterprises, which expand rapidly

[4] The trend for the Russian economy is similar to that of many emerging economies that often have imbalances due to an excess availability of foreign exchange produced by high export flows. The case of China, in this sense, is emblematic (Bellabona, Spigarelli, 2006, 2007). Governments are often promoters of corrective measures in response to such unbalanced growth paths. Those measures tend to support foreign investment, not only through tax incentives, financial and administrative incentives, but also through the creation of specific public investment vehicles.

[5] According to UNCTAD data, the value of annual flows and their growth rates should quickly allow the country to become a net investor. In 2008, the inflows into Russia totaled 70,320 billion dollars, while outflows were 52,390 billion dollars. Accordingly, the investment stocks held abroad have already reached values similar to those held by foreign investors in Russia. They amounted to 202,837 billion dollars and 213,734 billion dollars in 2008 (UNCTAD, 2009 b). According to data from the Bank of Russia, the position of net investor has already been reached. See Kalotay, 2008.

[6] For further information on IDP and its applicability to the case of emerging countries, see Goldstein, Pusterla, 2008, pp. 14-15.

and face global competition. Another aspect that interferes with the process identified by the IDP is the more or less formal action by the government, which seeks to establish itself, and not only in economic terms, on the global stage.

The available studies indicate that adopting the schemes developed by the Uppsala School and Dunning requires adjusting, and sometimes some straining, the theories in order to interpret the Federation's situation (Kalotay, 2008).

The Swedish school views internationalization as a gradual process of extending business activity in a process of gradual, predefined steps. This interpretation provides a partial explanation for the behaviour of several of the protagonists of Russian internationalization. As will also be seen below, following the collapse of the Empire, large primary-sector public or privatized companies, faced with the consolidation of their exportation activity, embarked upon strategic processes aimed at acquiring both production bases and high-value assets in distribution and logistics abroad. The choice of target countries initially favoured culturally similar geographical areas such as the CIS nations, to then gradually shift towards more evolved Western countries.

The most significant anomalies with respect to the theories posited by the Uppsala School involve, on the one hand, the prevalent use of non-greenfield investments right from the initial phases of such processes. Acquisitions represent an instrument that is difficult to control. Accordingly, they should only be chosen in the presence of consolidated international experience. Nonetheless, they have been the preferred mode of entry of Russian operators since the outset. In addition, in the more recent past new enterprises have embarked upon internationalization processes, including in the manufacturing, service and telecommunication sectors, exposing themselves rapidly on the most mature Western markets and skipping the typical steps in the expansion process theorized by the Swedish school. One goal of this approach is to acquire competitive advantages on a global scale not possessed in their home countries, but rather established precisely through the internationalization process.[7]

On the other hand, according to Dunning's paradigm, the advantages of ownership, location and internalization theorized by the author explain the behaviour, in general terms, of Russian MNEs, albeit with a degree of strain. The most evident

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[7] This trend shown by Russian companies is similar to what MNEs from emerging countries in general are experiencing (Cfr. Bonaglia, Goldstein, Mathews, 2007; Guille´n, Garcı´a-Canal, 2009).

issue pertains to the advantages of the internal management of activities (I - Internalization). A significant number of initiatives are aimed precisely at the need for internal management of the broadest possible array of complementary activities linked to a core business. Control of upstream and downstream activities fits with Dunning's vision.

The advantages of ownership (O – *Ownership*) possessed by Russian enterprises, specifically those in the primary sector, justify the search for affirmation abroad through extended processes of acquisition and investment (Sauvant, 2005, p. 652). However, it is important to draw a distinction between "Oa" advantages relating to access to intangible assets (technological knowledge, patents, brands, etc.) and "Ot" transaction advantages deriving from management experience and organizational skills (Dunning, Lundan, 2007)[8]. The Federation's enterprises are considered less suited to possessing "Oa" advantages and better able to found their international competitiveness on management skill in the various activities in the value chain (Kalotay, 2008).

In terms of the advantages of location (L – *Locational*), the considerations that may be adapted to the case of Russia pertain to the need to also include the domestic context in the explanation for internationalization processes. Such processes are thought to be driven not only by the attractive qualities of the foreign host countries, but also by the domestic environment, which is sometimes "hostile" to business development (Kalotay, 2008), or by institutional factors that act as drivers of expansion. One should consider, in particular, the role of the government, which more or less openly supports initiatives, some of which may also pursue supra-economic aims. Accordingly, a reading of foreign investment trends must take into consideration the formal and informal rules of the game dictated by the institutional context of reference, as suggested by the literature emerging from the institution-based view of strategy (North, 1990; Peng, 2002; Meyer, Nguyen, 2005; Wright et al., 2005).

2. The Russian Federation and global investments

2.1 The principal trends

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[8] For a more thorough analysis of the Dunning paradigm and its connections to more recent theories on MNEs, see Li et al., 2005.

After having examined the principal characteristics of Russian trans-national activity as identified by scholars, the analysis will now focus on the most recent data regarding Russia's process of international openness. In recent years, the Federation has occupied a highly significant position among global investors: it is second only to Hong Kong of the other emerging economies. From 1995 to 2007, the stock of Russian investments showed the highest growth rate of the BRIC nations (Graph 1). Although in 2008 the financial crisis reduced that value significantly (Connolly, 2009), the trend remains positive (Graph 2): a peak flow of over USD 52 billion was reached this year.

Analysts and international institutions emphasize that the considerable growth of investments may be attributed as much to new data surveying systems as to the actual expansion of initiatives. The Russian government has recently taken some important steps to improve the system for gathering and disseminating information regarding direct investments, which are thought to be extensively underestimated in historical series (Bulatov, 1998; Kalotay, 2005, 2008; Kuznetsov, 2008).

Moreover, the reduced reliability of the data is exacerbated by the number of cases of round-tripping, which are especially high for Cyprus (Pelto et al., 2003), Holland and the British Virgin Islands (Kalotay, 2008; Connolly, 2009)[9]. Investments are channelled through companies based in third countries in order to benefit from the subsidies provided to foreign investors. The anomalies generated in surveying FDI are thus considerable.

Rather than merely observing investment flow and stock figures, a better way of capturing the peculiarities of Russian trans-national activity could thus be to also examine some data concerning greenfield transactions and mergers and acquisitions undertaken in recent years.

Compared to the other BRIC nations, Russia is in second place in terms of the opening of new production and commercial facilities abroad (Table 1) with significant growth rates in the 2004-2008 period (+72%). International expansion through M&A initiatives has been especially intense: from 2001 to 2006, the Federation increased the value of FDI through this mode of entry by more than 300% (Table 2). In 2009, the crisis reduced deals, as also seen in the cases of Brazil and India.

[9] According to recent estimates, roundtripping totalled approximately USD 7 billion between January 1997 and June 2008, representing 10% of total Russian investments (Panibratov, Kalotay, 2009, p. 2).

Concentrating the analysis specifically on merger and acquisition transactions[10], it is useful to reflect on their distribution by sector (Table 3) and by target geographical area (Table 4).

During the period from January 2005 to June 2008, the value of M&A deals increased significantly compared to previous years. In terms of the sectors affected, most transactions involved the primary sector, which represented more than 60% of resources invested between 1997 and 2008. In manufacturing, which attracted 20% of resources, the mechanics, metals and motor vehicles segments prevailed in the interests of Russian investors. Finally, telecommunications accounted for almost all M&A deals in the service sector, which remains highly penalized in terms of investment flows.

In addition to the strong concentration of initiatives in the primary sector, a further peculiarity of Russian foreign investment activity that distinguishes it from the other BRIC nations emerges from an examination of the geographical distribution of initiatives (Table 4) via M&A deals. The most common targets are in industrialized Western nations rather than in developing areas in Africa, Asia or Latin America. Europe and the United States are the priority targets of M&A initiatives, after members of the Commonwealth of Independent States (CIS).

In the former, Russian enterprises seek vast target markets as well as strategic assets fundamental to their global affirmation. On the other hand, CIS nations represent a "natural" target for internationalization processes (Liuhto, Jumpponen, 2003). These areas have highly similar cultural and social characteristics and are near in geographical terms. Consider, first and foremost, Ukraine, Kazakhstan e Byelorussia[11]. In these countries, commercial penetration strategies may be undertaken with the aim of achieving positions of leadership without excessive competition from Western enterprises or as “testing ground” for innovative products to be sold in the home country (Filippov, 2010, p. 318). In addition, there is access to natural resources: this makes the CIS the object of great interest for Russian investors, which are, as discussed above, especially active in the primary sector. Russia's extensive presence in the CIS may also be explained by economic and political reasons dating back of the period of transition to the capitalist

[10] This figure should be used with caution, considering that it refers to announced transactions that could result in financial disbursement only in the medium term, or may even never be finalized due to cancellation.
[11] Analysing Russian investment outflows, Kuznetsov (2008, p. 4) states that 30% goes to the CIS. 80% of resources in the CIS goes to Ukraine, Kazakhstan, Byelorussia.

model. The fall of the Empire was followed by a dispersion of ownership of publicly controlled enterprises in the various independent territories. In order to solve the problems of coordination between companies that had been formally separated, yet remained substantially linked by production and commercial dealings, Russian enterprises undertook numerous mergers and acquisitions aimed at re-establishing control of the fragmented "branches" in the various independent states (Kalotay, 2008, pp. 10-11).

2.2 Protagonists and strategic motivations

The protagonists of Russian trans-national activities are public enterprises or larger privatized companies created through the privatization process that involved primarily domestic investors (Kalotay, 2001; Locatelli, 2006; Kets de Vries et al., 2004). They include Gazprom, Lukoil, Surgutneftegas, Rosfnet Oil, Sberbank, Rusal, Evraz, Norilsk Nickel, Russian Aluminium, Severstal, Youkos and GMZ (Kalotay, 2008)[12]. They operate in four main industries: oil and natural gas, metallurgy, finance and telecommunications (Kuznetsov, 2008), all of which are still characterized by strong government interests and interference (Liuhto, 2007). In parallel, new protagonists have also been establishing themselves both in the traditional sector of energy resources and commodities (ChTPZ Group, Koks, Metalloinvest and Magnitogorsk Iron & Steel Works) and in industries that have only recently embarked upon internationalization processes (Kuznetsov, 2008). These include machinery (Rostelmash and Transmash Holding), paper (Investlesprom), food (Russian Solod, SPI Group, Russian Vine Trust, Wimm-Bill-Dann, Mezhrespublikanskij Vinzavod and Natiusha) and perfumes (Kalina).

In terms of the motivations that inspire the protagonists of Russian expansion, especially during the initial phases of the opening of the economy, FDI has been a tool for finding a safer and more favourable business environment than provided by the domestic market (Guille´n, Garcı´a-Canal, 2009), which features a high level of uncertainty and offers little protection of property (Sauvant, 2005, p. 662; Kalotay, 2002; Bulatov, 1998). Strengthening their domestic images and increasing their negotiating power in the motherland continue to represent relevant factors for many

[12] In the Fortune Global 500 ranking, there were 47 MNEs from BRIC countries at the end of 2008. Five of them are Russian (Gazprom, Lukoil, Surgutneftegas, Rosfnet Oil, Sberbank). Gazprom is 47th in the ranking and 4th among MNEs from the BRIC nations, behind three Chinese companies.

enterprises (Kuznetsov, 2008). However, more recently enterprises have begun to follow motivations symptomatic of "active" expansion aimed at obtaining the resources and strategic assets required to operate on Western markets (Liuhto, 2005; Kheifets, 2008). In particular, the investments pursue, first and foremost, goals relating to efficiency-seeking. The broadest possible control of the value chain is sought, typically in the primary sector. In the oil and natural gas industry, Russian companies engage in upstream acquisitions of refineries to process raw materials. At the same time, downstream acquisitions involve distribution chains, natural gas pipelines and crude oil distributions lines, storage networks and service stations. There thus tends to be access to a high level of the value generated in the production and distribution process, in addition to more extensive control of foreign demand (Sauvant, 2005, p. 662) by reaching the end consumer directly (Connolly, 2009, p. 7).

Resource-seeking motivations also characterize the primary sector, in relation to access to natural resources such as oil, metals and minerals, through the acquisition of oil companies, aluminium refineries and gold producers.

The need for further expansion of target markets and the achievement of additional market share represents another strategic goal pursued by Russian investments, especially in the service sector. The most significant cases involve the main mobile telephone operators, especially those active in CIS nations[13], in addition to giants in the financial sector (Connolly, 2009).

Another type of goal relates to strategic-asset seeking, which is aimed at, among other targets, foreign infrastructure services or the elimination of barriers to operation in protected markets[14], as well as the search for technological innovation, know-how and marketing and management skills. Russian enterprises are showing increasing interest in this latter area due to the strong international competition that places them in constant comparison with Western standards and practices.

3. Investments in Italy

3.1 Investment flows and stocks

[13] Relevant examples are the acquisitions by MTS of 74% of the main Uzbekistan operator (Uzdunorbita) and by VimpelCom of one of the largest operators in Kazakhstan (Kar-Tel).

[14] The American steel market, for example, is characterized by import quotas. Through acquiring the U.S. company Rouge Industries, Severstal has succeeded in overcoming barriers to that market.

The study will now shift from a global analysis to the case of Italy. The goal is to understand whether the initiatives undertaken in the country show peculiarities in terms of the sectors involved, underlying motivations and modes of entry compared to global trends. An initial source of information that may be used relates to surveys conducted by the Bank of Italy according to the statistical logic of the balance of payments[15].

The available data show that the uptrend in Russian investments is considerable: it rose from approximately €3 million in 2005 to over €80 million in 2007. Even when the effects of the financial crisis are considered, the phenomenon is rapidly evolving and highly dynamic. Resources even reached a peak in 2009, with over €1 billion for an enormous investment in Sicily.

In geographical terms, with the exception of an anomalous investment in Friuli Venezia Giulia in the Household sector in 2007 and the deal in Sicily of 2009 mentioned above, the regions most affected by investment transactions are Tuscany, Emilia Romagna, Veneto and Lombardy (Table 5). During the period 2004-2009, 75% of cumulative flows were intended for Sicily. At the sector level, there are considerable problems inherent in surveying and interpreting flows, also associated with the anomaly dictated by "Households." This class, which represents the greatest weight (Table 6), includes artisans, sole proprietorships and consumers. The item's contents, which are highly heterogeneous, do not permit a significant examination of the true target of investments. If this item is excluded, the main targets of investment flows are financial and commercial services, transportation and mechanics (80% of the resources invested by the Federation in 2008). However, energy attracted the greatest flows during the previous year.

3.2 Russian enterprises with investments in Italy

An additional perspective to that afforded by the macro-view provided by the Bank of Italy's flow data involves an analysis of Russian-owned enterprises incorporated or acquired in Italy. This is a fundamental aspect in identifying the country's international expansion policy (Cantwell, Barnard, 2008).

[15] This figure, as emphasized in the literature (Mori and Rolli, 1998, Lipsey, 2001, Federico and Minerva, 2007), is not significant if considered in isolation, given the problems of timeliness and completeness inherent in this kind of survey. However, it may offer some interesting food for thought.

The available data show that there are 53 Italian enterprises with Russian investors employing approximately 11,000 and generating total turnover of €4.9 billion[16]. Of these enterprises, 45% are fully or majority-owned, whereas 30% are joint ventures and 25% minority investments. The prevalent mode of entry in Italy is acquisition, which accounts for 80% of the cases.

The geographical distribution of these enterprises (Figure 1) shows that the presence of Russian investments is highly concentrated: as many as 38 companies are located in Lombardy, Emilia Romagna and Veneto. In any event, it is interesting to note that Russian initiatives also extend to areas not typically "industrialized" yet rich in natural resources (such as Sardinia or Puglia) or infrastructure, logistics and distribution networks (such as Sicily).

More than one-half of enterprises with Russian capital are related to the machine tools and equipment industry and metallurgy.

The interest in mechanics is strong, which is certainly justified by the strong competitive position enjoyed by national enterprises: the sector offers a wealth of companies with distinctive advantages founded upon knowledge and know-how, in addition to intense ties and relations with specialized suppliers and sub-suppliers at the local level.

Metallurgy and steel in particular have attracted extensive capital in Italy as well, as also seen at the world level. This is a physiological phenomenon, given that Federation investors typically belong to the primary sector.

The levels of investment in energy are equally high: many transactions involve renewable sources and the associated plant and equipment. Acquisitions involve in particular large Russian groups whose interest in this market niche appears singular: these are subsidized markets, in which an investor could seek to obtain the benefits of foreign support for demand. However, the expected impact on the profitability of such large groups might not justify direct investments in such specific business segments. Rather, the goal may be to seek strategic assets in the acquired enterprises in terms of specialist skills and know-how. Or the acquisitions could be part of a larger scheme of arrangements with Italian partners involved in the energy sector.

[16] The analysis of Russian investment in Italy is based on Invitalia data drawn from the R&P-Politecnico Milano database. Data are updated to October 2010.

Delving into the details of the protagonists of initiatives in Italy, Renova and Severstal are the largest investors: they control 35 enterprises and are characterized by a high degree of diversification in the areas of interest (Table 7).

Renova

Renova is one of the largest Russian conglomerate groups with interests primarily in metallurgy and aluminium, oil, energy, chemicals and nanotechnology, in addition to finance, telecommunications and real estate. In 2007 it acquired Energetic Source, a company based in the province of Brescia founded in 1999 following the liberalization of the national electricity market and currently one of Italy's main operators (Vegezzi, 2008 a). Through its Swiss subsidiary Avelar Energy, the group has also entered the solar energy segment in Italy by acquiring an interest in the Emilia Romagna-based group Kerself, a leader in the fields of engineering, designing, manufacturing, installing and distributing photovoltaic plants. In addition to supplying and installing panels and plants in Italy, Greece and Spain, the agreement reached with Kerself calls for the Italian firm to play a relevant role in researching and developing new manufacturing technologies for the photovoltaic sector. In this regard, the strategic-asset seeking aim of the Russian investment is clear: Italy is a fundamental point of access to the European and Mediterranean market, as well as a source of distinctive knowledge and skills in an area of strong interest such as that of renewable energy. In 2007 a 30% interest in the San Severo natural-gas power plant in Puglia, constructed as a joint venture with the Swiss firm Atel, was also acquired through Avelar (Vegezzi, 2008 a; Giliberto, 2007).

Severstal

Severstal is one of the largest Russian industrial groups and operates primarily in metallurgy and extraction. The main deal closed by the company in Italy involves the acquisition in 2005 of the Lucchini Group, a national leader in steel production with twenty establishments in Italy, France, Poland, Great Britain and Sweden (Festa, 2005; Scott, 2009)[17]. In 2008, it acquired Redaelli Tecna, one of Italy's main iron cable manufacturers. The strategic goal pursued was to secure a position in the market for the production of steel cables for use in ski-lifts, industrial lifting and anchor cables for oil platforms, in which Radaelli is the European leader

[17] In 2005, Luccini had approximately 9,000 employees and produced over four million tons of steel per year, consisting of hot-rolled long plates, rail products, cast products, forged products, steel for high-quality tools, cold-processed articles and semi-finished goods.

(Del Barba, 2008). In both cases there are clear market-seeking and efficiency-seeking goals involving the extension of control abroad of phases upstream and downstream from the acquirer's position in the production process.

Rusal

Another protagonist of Russian investment in Italy is Rusal, the world's largest producer of aluminium and aluminium products (Unctad, 2007, p. 64)[18]. In 2006 the group acquired 56.16% of Eurallumina, a company that extracts aluminium at the Portovesme facility in the province of Carbonia-Iglesias (Festa, 2006c). The resource-seeking aim of the initiative is evident.

Evraz

Important deals involved Evraz, one of the world's largest groups active in the steel and mining sector in general. Highly vertically integrated, the group owns both iron and coal mines and assets in metal distribution and logistics. In 2005 the international holding company acquired 75% of Palini & Bertoli, based in the province of Udine (Crivelli, 2005). The latter is one of the largest manufacturers of steel quarto plates for the carpentry, mechanics and naval construction industry[19]. The investor's desire to extend control of the production process abroad is evident in this case as well.

Novolipetsk

In 2006 Novolipetsk, the number-two Russian steel group, formed an alliance in the steel industry by creating a joint venture with the Italian multinational Duferco, one of the world's largest producers, with an output of over seven million tonnes (Festa, 2006a e b). It then further expanded its presence in Italy through acquisitions of foreign groups with Italian subsidiaries, acquiring control of Acciaierie Grigoli in the province of Verona[20].

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[18] In 2008, Rusal produced 4.4 million tons of aluminum and 11.2 million tons of alumina, respectively 11% and 13% of global output (http://www.rusal.ru/en/facts.aspx).

[19] After the deal, the production line was enhanced, resulting in a production capacity of 500,000 ton / year. In 2007, Evraz obtained total control.

[20] Following the transaction, 75% of Acciaierie was sold by the Grigoli family to Duferco and a new company was founded. Acciaierie are characterized by their ability to produce niche products, in particular special steel for tools, and by their high technological potential. An ambitious plan to upgrade the industrial plants was developed, including new facilities and an increase of the workforce in four years (http://digilander.libero.it/campagnola894/_private/Polo_L 27Arena_del_2006-11-01.pdf). Given the type of transaction carried out, resulting in indirect control, Acciaierie do not appear in the map of the 41 companies shown in Table 7.

Lukoil

A relevant investment transaction in Italy involved Lukoil, one of the world's main players in the oil and natural gas sector[21] and number-one in Russia in the oil industry. The company is characterized by strong vertical integration. The main business conducted include, in addition to exploration and extraction, the production and distribution of oil and petrochemical products. In 2008 Lukoil acquired 49% of the ISAB-ERG refinery in Priolo, one of the largest in the Mediterranean (D'Ascenzo, 2008; Giliberto, 2009), characterized by considerable flexibility in terms of the wide range of raw materials it is capable of processing. Its geographical location is strategic. The complex also has a power plant fuelled by the gasification of tar residue from the refining process. Lukoil thus gained access to an important distribution asset to strengthen its presence in Italy and the Mediterranean[22].

Gazprom

As at the world level, Gazprom, the world's leading operator in the natural gas sector with 17% of global production in 2008, also has a significant presence in Italy[23]. The strategy of controlling the entire production chain, from extraction to the sale of fossil fuel, is evident (Kheifets, 2008). In 2006 the partnership agreement signed with ENI allowed the company to enter the Italian natural gas distribution market through the direct sale of quotas. In return, ENI secured access to Russian methane gas and gas prospecting, exploration and production activity in Russia. The agreement extended to many different areas: from oil to natural gas, hydrocarbons and electricity. In this latter sector, the Russian group has plans to become involved in the generation of electrical power in Italy through its presence in Enipower (Giliberto, 2006)[24]. In addition, Gazprom also has two strategic joint ventures in

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21 According to the most recent data, Lukoil controls 1% of global oil reserves and 2.3% of global oil production. For more information on the company and its activities, see: http://www.lukoil.com/static_6_5id_29_.html.

22 The deal consisted of the establishment of a joint venture to manage the Erg Raffinerie Mediterranee. 51% of Erg Raffinerie remained in the possession of the Garrone family, with the possibility for the Russian group to acquire 100% of capital. In the early months of 2009 two new projects were announced. One is related to entering the Italian market for natural gas, in collaboration with Erg. The other is the establishment of a distribution network for Lukoil in Italy. See Gilbert, 2009.

23 Further information on Gazprom's international strategy can be found in Kuznetsov, 2008.

24 The agreement between Gazprom and Eni, signed in 2006, was based on the following key points: 1) Gazprom's commitment to extend the duration of existing contracts for the supply of gas to Eni until 2035 and the possibility to sell an increasing amount of gas directly on the Italian market (possibly with one or more Italian partners) starting in 2007, 2) the identification by Eni and Gazprom of some major projects (companies and assets), both in Russia and abroad, to develop in cooperation, and 3) the signing of strategic cooperation agreements in long-distance gas transportation and in gas liquefaction. See Giliberto, 2006.

partnership with Edison S.p.A. (49% owned by Volta S.p.A.) and Eni itself (50% of Promgas).

Sukhoi

In 2007, Sukhoi Company and Alenia Aeronautica, a member of the Finmeccanica group, formed the joint venture Superjet International, in which the two companies hold 49% and 51% interests, respectively, to conduct, marketing, sales and post-sales support activity for the Superjet 100, a regional transport aircraft, in Western markets (Pasqualetto, 2007)[25]. Market-seeing and strategic-asset seeking goals clearly emerge in this initiative.

Other investors

Other recent transactions have involved the tourism sector: the Russian tour operator Inturist Vao Oao acquired the Italian hotel operator Azzurro Italia, in addition to individual hotel facilities. Other acquisitions have involved the SPI Group in the wine-making field (Tenute di Toscana), Retal Zao in PET preform production (Tobacco S.p.A.) and ABC in logistics and transport (Gondrand). Finally, in 2007 Borodino GK Zao, an alcoholic beverage manufacturer, acquired an investment in Jobs S.p.A. and full ownership of SBC Bottling & Canning S.p.A., companies that produce packaging and bottling machines.

Summary considerations:

The study of the trans-national dimension of the Russian economy proposed in this paper has confirmed academic theory and the results of available empirical studies. Regardless of the area of observation adopted, there has been a rapid acceleration in investments in recent years and the concentration of those investments in terms of the resources invested, the promoting parties and the sectors involved. Priority motivations and targets are also common to the various initiatives. The primary mode of entry is acquisition.

The analysis of the Italian scenario has shown strong analogies with global trends. Russian operators are demonstrating a sharp interest in metallurgy and energy, in terms of both extraction and production, as well as in logistics and

[25] Sukhoi is the largest Russian aviation group. With 28,000 employees, it controls design centers and aircraft factories and manages both engineering and distribution for military and civilian aircraft. Alenia Aeronautica is the Italian leader in aeronautics for the design, development and production of civilian and military aircraft, including unmanned aircraft, and airframes (http://www.disarmo.org/rete/a/23415.html).

distribution hubs and activities. The expansion of these operators upstream and downstream in the value chain is leading investment initiatives in Italy, partly in consideration of the country's strategic geographical position in the Mediterranean. At the same time, in recent months there have been acquisitions in the service and manufacturing sectors, and in mechanics in particular, and new investors have appeared.

The trends examined lead to the prediction of a possible acceleration of investment transactions, also considering the intense political relations between the Italian and Russian governments (Pelosi, 2009; Picchio, 2009).

The expansion of activity in Italy could also be driven by the gradual internationalization of medium-sized Russian manufacturing enterprises, which should increasingly tend to take their places on the global scene alongside the primary-sector giants. Such enterprises could privilege Italy in their expansion strategies due both to the affordability of the acquisition transactions, aimed at small and medium enterprises, and to the availability in Italy of resources fundamental to integration and growth abroad. These resources are the know-how, image and specialist skills and knowledge in the areas of production and management that abound in Italy.

Much will depend on the Russian government's ability to organize forms of direct assistance and support for such operators, which suffer from the absence of an active policy of stimulating internationalization (Sauvant, 2005; Kheifets, 2008). In this regard, imitating the experience of other emerging nations, and China first and foremost, could represent a winning strategy, as also stated on several occasions by Russian leaders (Levy, 2009)[26].

The exploratory study conducted in this paper certainly paves the way for additional scientific inquiries, especially in regards to the case of Italy. In particular, it seems interesting to develop the analysis in reference to logistical and infrastructural assets, considering the strategic nature of those assets to the country's competitiveness and the strong interest shown by foreign investors from emerging economies. In this respect, the case of China is emblematic (Spigarelli, 2009). On the other hand, in the mechanics sector the growth of FDI flows and the number of

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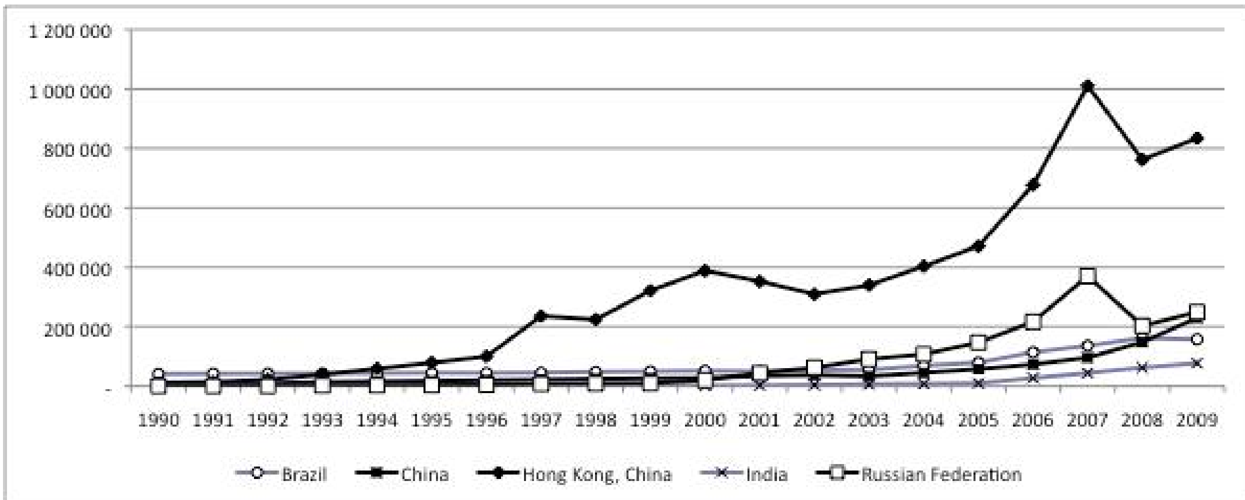
[26] In his first speech to the business community after his election, Medvedev stressed the centrality of support for the internationalization of Russian companies: “Many of them [powerful countries] are very active, like China. And we should be active, too […]. We should quietly and measurably forward our interests and convince people that investments from Russia are effective, transparent and necessary for the countries involved”. Cf. Belton, 2008.

Russian-owned enterprises justify further analysis to understand the impact that the Russian presence is now having and might prospectively have on the national economic fabric. The mechanics sector offers a wealth of companies with distinctive advantages founded on knowledge and know-how, in addition to formal and informal ties and partnerships within local networks. In this regard, it appears useful to conduct a further inquiry to understand whether and how Russian investors are influencing the development patterns of local systems and business districts by entering the production chain. The fact that these are large-scale enterprises that act primary through acquisitions makes the analysis of particular interest. This is in relation both to the bargaining power that such enterprises could exercise over suppliers and sub-suppliers and the possible ability to gradually extend control over the production chain. Another area of great interest is energy, in which numerous Russian acquisitions have been seen, as in logistics, alongside Chinese investments, which are becoming increasingly common in Italy. It will be interesting to monitor the trend of initiatives and examine the impact that they might have on the national energy sector in the event of further expansion.

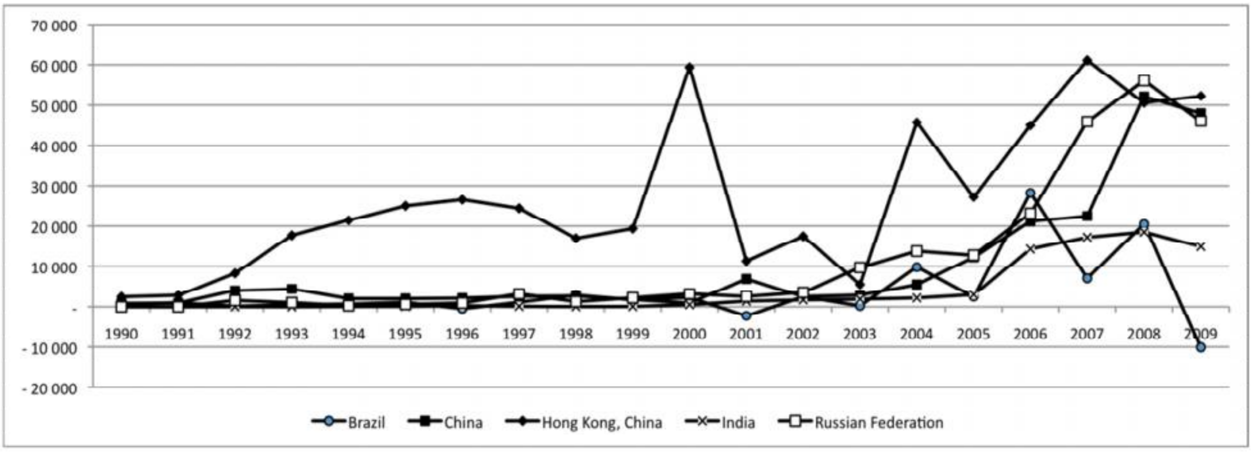
Tables and graphs

Graph 1 Stock of FDI (billions USD)



Source: Unctad, FDI/TNC database (www.unctad.org/fdistatistics)

Graph 2 FDI flows (millions USD)



Source: Unctad, FDI/TNC database (www.unctad.org/fdistatistics).

Table 1 Numb of greenfield deals completed

	2003	2004	2005	2006	2007	2008	2009
Brasil	40	43	34	40	66	101	63
China	108	98	140	131	202	256	303
Hong Kong, China	127	101	100	119	120	170	133
India	173	204	191	296	218	359	260
Russian Federation	120	109	139	155	134	194	150

Source: Unctat, 2009, pp. 212-214

Table 2 Number of cross-border M&A purchases by region/economy of purchaser, 1990-2009

	1990-2000 (av)	2001	2002	2003	2004	2005	2006	2007	2008	2009
Brazil	6	14	8	6	11	15	20	35	50	19
China	14	19	34	31	44	45	38	61	69	97
Hong Kong, China	48	67	83	65	84	117	118	116	110	88
India	8	20	27	50	56	98	134	175	163	56
Russian Federation	5	21	20	19	27	45	54	70	108	65

Table 3 Russian M&A deals, sectoral distribution, January 1992-June 2008 (mln USD)

Sector	**1992-1996**	**1997-2000**	**2001-2004**	**2005-2008**
Primary	45	1.098	2.980	33.485
Secondary	451	146	661	13.430

Services	15	456	1.857	8.935
Total	511	1.700	5.498	55.850

Source: Panibratov, Kalotay, 2009, on Unctad, 2009 a, p. 6.

Table 4 Russian M&A deals, geographical distribution, January 1992-June 2008 (mln USD)

Paese	1992-1996	1997-2000	2001-2004	2005-2008
Europe	311	1.749	2.766	30.575
North America	-	170	1.195	13.247
Other industrialized countrie	200	232	-	465
Africa	-	-	-	250
Asia and Oceania	-	-	-	2.945
Est Europe and CIS	-	61	1.536	9.297
Total	511	2.212	5.497	56.779

Source: Panibratov, Kalotay, 2009, p. 7.

Table 5 FDI flows from Russia to Italy (thousands €) by Region of destination

Region	2005	2006	2007	2008	2009
Abruzzi	-	150	-	379	290
Calabria	-	15	260	381	915
Campania	-	95	120	20	-
Emilia Romagna	450	485	11.552	11.000	1.758
Friuli Venezia Giulia	-	90	50.250	300	42.000
Lazio	326	804	1.838	549	783
Liguria	600	-	906	980	200
Lombardy	632	4.909	6.877	6.612	2.414
Marche	-	-	-	30	140
Piedmont	-	41	4.075	120	20.029
Puglia	-	-	20	-	24

Sardinia	-	629	1.269	163	200
Sicily	-	-	-	1.170	852.706
Toscana	720	749	3.738	25.270	1.217
Trentino Alto Adige	15	-	20	422	-
Umbria	-	60	78	400	2.846
Valle D'Aosta	-	-	-	400	-
Veneto	83	1.023	905	20.757	2.153
Non classified area	516	3.832	66	56	19.968
Total	3.342	12.882	81.974	69.009	947.643

Table 6 FDI flows from Russia to Italy (thousands €) by sector

Sectors	**2005**	**2006**	**2007**	**2008**	**2009**
Other nonclassifiable sectors	160	3.412	1.949	112	411
Other industrial products	170	-	62	-	100
Other services for sales activities	390	1.439	1.920	4.325	2.912
Construction and public works	774	1.652	262	2.534	1.469
Family	214	2.015	58.434	3.850	5.673
Financial services	-	416	147	23.125	19.774
Agricultural and industrial machinery	300	-	15.500	-	40.631
Office machines, machines for processing	-	-	20	-	-
Electrical equipment and supplies	-	-	25	-	-
Transportation	-	-	-	20.316	1.503
Minerals and ferrous and nonferrous metals	-	3.416	-	2.355	
Minerals and other non metal products	-	357	-		75
Chemical products	516	-	-	56	20.002
Energy products	-	-	-	-	852.970
Metal products, transportation excluded	600	-	-	-	-
Textile, shoes, leather, clothing	-	14	33	-	-
Services related to transportation	-	-	-	-	29
Hotels and other pubblic services	-	-	-	795	1.652
Services for commerce, recovery and repay	218	161	3.622	11.541	442
Total	3.342	12.882	81.974	69.009	947.643

Source: Banca d'Italia

Figure 1 Geographical distribution of Russian owened Italian compagnie (n.)

Source: own calculation on Reprint-ICE data base

Table 7 Russian investments in Italy (at october 2010)

Italian company	**Localization**	**Sector**	**Foreign Investor**	**% share**	**First entry**	**Mode of entry**
A2a Beta Spa	Lombardy	Energy, gas, wather	Gazprom Jsc	Equal	2009	A
Bari Fonderie Meridionali Spa	Puglia	Processing of metals and alloys	Severstal Llc	Control	1999	A
Bi Mec Srl	Lombardy	Metal products	Severstal Llc	Control	2005	A
Cea Centrex Italia Srl	Lombardy	Wholesale	Gazprom Jsc	Control	2008	G
D.E.A. Srl	Lazio	Machinery and equipment	Renova	Minority	2008	A
Ecoware Spa	Veneto	Electromechanics	Renova	Minority	2008	A
Ecowatt Srl	Lombardy	Energy, gas, wather	Renova	Control	2007	A
Energetic Source Green Power Spa	Lombardy	Energy, gas, wather	Renova	Control	2009	G
Energetic	Lombardy	Energy, gas,	Renova	Control	2009	G

Source Solar Energy Spa		wather				
Energetic Source Solar Investments Srl	Lombardy	Energy, gas, wather	Renova	Control	2009	G
Energetic Source Solar Production Srl	Lombardy	Energy, gas, wather	Renova	Control	2009	G
Energetic Source Spa	Lombardy	Energy, gas, wather	Renova	Control	2007	A
Eurallumina Spa	Lazio	Processing of metal and alloys	Renova	Control	1968	G
Evraz Palini & Bertoli Spa	Friuli - Venezia Giulia	Processing of metal and alloys	Evraz Group	Control	2005	A
Flyenergia Spa	Lombardy	Energy, gas, wather	Renova	Control	2007	A
Gazpromneft Lubricants Italia	Lazio	Oil and other energy products	Gazprom Jsc	Control	1986	G
Geogastock Spa	Lombardy	Energy, gas, wather	Renova	Control	2007	A
Glencore Italia Srl	Lombardy	Wholesale	Renova	Control	1976	G
Gsi Lucchini Spa	Tuscany	Metal products	Severstal Llc	Control	2005	A
Helios Technology Srl	Veneto	Electromechanics	Renova	Minority	2008	A
Ircem Srl	Emilia-Romagna	Machinery and equipment	Renova	Minority	2008	A
Isab Srl	Sicily	Oil and other energy products	Lukoil	Minority	2008	A
Jet Spa	Emilia-Romagna	Machinery and equipment	Renova	Minority	2008	A
Jobs Automazione Spa	Emilia-Romagna	Machinery and equipment	Borodino Gk Zao	Control	2007	A
Kerself Spa	Emilia-Romagna	Machinery and equipment	Renova	Minority	2008	A
Lucchini Servizi Srl	Lombardy	Other professional services	Severstal Llc	Control	2005	A
Lucchini Spa	Lombardy	Processing of metal and alloys	Severstal Llc	Control	2005	A
Lukoil Italia Srl	Lazio	Wholesale	Lukoil	Control	2009	G
Mak Mart Italia Spa	Lombardy	Wholesale	Mak Mart Group	Control	2000	G
Marina Blu Spa	Emilia-Romagna	Logistics and transportation	Renova	Control	2007	A
Nizh Yug Italia Spa	Emilia-Romagna	Wholesale	Nizh Yug Corp.	Equal	2005	G

Nuova Thermosolar Srl	Emilia-Romagna	Machinery and equipment	Renova	Minority	2008	A
Oerlikon Balzers Coatings Spa	Lombardy	Metal products	Renova	Control	1984	G
Oerlikon Graziano Spa	Piedmont	Machinery and equipment	Renova	Control	1992	A
Oerlikon Leybold Vacuum Italia Srl	Lombardy	Wholesale	Renova	Control	1950	G
Oerlikon Neumag Italy Spa	Piedmont	Machinery and equipment	Renova	Control	2005	A
Portovesme Srl	Sardegna	Processing of metal and alloys	Renova	Control	1999	A
Promgas Spa	Lombardy	Wholesale	Gazprom Jsc	Equal	1993	G
Redaelli Tecna Spa	Lombardy	Metal products	Severstal Llc	Control	1998	A
Religio Srl	Lombardy	Holding	Renova	Minority	2007	A
Retal Italia Spa	Veneto	Plastic products	Kompanii Retal	Control	2006	A
Russian Laboratory Srl	Veneto	Other professional services	Russian Laboratory	Control	2001	G
Sacchificio Tordera Spa	Lombardy	Paper and paper produtcs	Investlespr om Group	Equal	1981	A
Saem Srl	Puglia	Machinery and equipment	Renova	Minority	2008	A
Sbc Bottling & Canning Spa	Emilia-Romagna	Machinery and equipment	Borodino Gk Zao	Control	2007	A
Setrans Srl	Lombardy	Logistics and transportation	Severstal Llc	Control	2005	A
Sitronic Srl	Emilia-Romagna	Mechanics instruments	Borodino Gk Zao	Minority	2007	A
Sovtransavto-Italia Srl	Piedmont	Logistics and transportation	Sovtransau to Holding	Control	2002	G
Stanutensili International	Lombardy	Wholesale	Stanko Import	Control	1993	
Superjet International Spa	Veneto	Aerospace	Sukhoi Company Jsc	Minority	2008	A
Tecnoenergia Scpa	Lombardy	Energy, gas, wather	Renova	Control	2007	A
Tecnologie Ambientali Pulite T.A.P. Srl	Tuscany	Altri servizi sociali e personali	Severstal Llc	Control	2005	A
Tenute Di Tuscany Srl	Tuscany	Holding	Spi Group	Minority	2006	A

Tmk Italia Srl	Lombardy	Wholesale	Oao Tmk	Control	2000	
Vento Energia - V.Ener Srl	Lombardy	Energy, gas, wather	Renova	Minority	2007	A
Verona Steel Spa	Veneto	Processing of metal and alloys	Novolipetsk	Equal	2006	A
Vision International People Italia Srl	Lombardy	Retail trade	Vision Int. People Group Ltd.	Control	1996	G

* A: acquisition; G: *greenfield investment*

Source: own calculation on Reprint-ICE data base

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