As already mentioned, FDI seems to be one of the most successful areas of regionalization in the FSU. Investments are difficult to capture statistically. Nevertheless, abundant anecdotal and indirect statistical evidence suggest that Russian and Kazakh multinationals have indeed expanded their presence in the FSU in the last two decades. This process has been, as with almost all other elements of post-Soviet regionalization and regionalism, unequally distributed across various sectors and countries. In this chapter, we take a closer look at the dynamics of outward direct investments of the largest post-Soviet countries in the economies of their neighbours.

Industries and countries

We start by considering primarily Russian multinationals. Companies in two industries in particular seem to be successful in acquiring assets in the FSU. Firstly, as one would expect, mining multinationals (oil and gas, ferrous and non-ferrous metals) are among the leading companies in the FSU. The Russian state-owned gas giant Gazprom controls some extraction assets in Kyrgyzstan and Tajikistan and transportation assets in Belarus, but its main focus of interaction with FSU countries is the establishment of long-term treaties ensuring control over the gas supply and gas transit. In fact, Gazprom faces significant difficulties in its international expansion because of its strong political connections: the acquisition of Beltransgaz (Belarus) has been subject to many years of debate and disagreements between the leaders of the post-Soviet countries; and several attempts to merge with Ukraine’s Naftogaz failed in 2010 even under the Yanukovich administration which attempted to improve relations with Russia. LUKoil, the largest private oil-mining
company in Russia, has been much more successful in exploring the FSU. It made its first acquisitions in Azerbaijan in the early 1990s (but ultimately failed to reap significant gains due to the overestimation of the Azeri oil reserves). Currently LUKoil controls oil and gas extraction in Kazakhstan and Uzbekistan and in an oil refinery in Ukraine.

An even more successful and perhaps the most striking example of Russian FDI in the FSU is the state-owned electricity monopoly Inter RAO UES. In the first half of the 2000s, Russia’s RAO UES was among the most active investors in the FSU – partly because of the interdependencies existing in this market and partly because of the political and economic power of the CEO of this company, Anatoliy Chubais. Chubais, an influential Russian politician and one of the architects of privatization in Russia in the 1990s, proclaimed in the 2000s the idea of a ‘liberal empire’, that is, re-integration of the post-Soviet space based on Russia’s domination – not by political or military means but rather through economic control. Whether Russia in fact used its ‘soft power’ in its relations with the FSU is controversial: some observers lean towards this belief; however, there is a significant body of evidence that foreign investment by Russian companies did not really reflect the geopolitical objectives of the Russian government. In the case of RAO UES, political and economic rationales did not contradict each other. We provide a more detailed account of the Russian investment in the electricity sector in Chapter 13.

The expansion of oil, gas, metals and mining and the power utilities in the FSU was entirely predictable. Perhaps more surprising is Russia’s business success in the service sector: retail, IT, mass media and especially mobile telecommunications service providers. Russian business success in the field of telecoms is so significant that we devote a chapter of this book to this topic (see Chapter 14). Russian companies’ cross-border investments in the service sector are generally much less politicized than in the resource sectors (which the post-Soviet countries usually regard as crucial for their national security and independence) and rely heavily on two key advantages which Russian businesses enjoy: cultural similarity and the fact that these sectors are relatively advanced in Russia (as opposed to most FSU countries). In fact, the expansion of mobile service providers in the FSU followed almost instantaneously after the mobile phone boom in Russia – in some senses, Russian companies were looking for a ‘second Russia’ in the FSU.4

Observers recognize the advantages Russian investors have in terms of cultural similarity. For example, D. Kopylov, CEO of the Ukrainian investment company INEKO, commented that ‘with Europeans one has