Because the Leader Says So:

Political Connections, Internationalization Behavior, and Authoritarian State Capitalism

ABSTRACT

The question of where firms internationalize has concentrated mainly on the institutional attributes of the host country, even though the political institutions of the home country also may play a substantial role in this decision. This paper introduces the concept of authoritarian state capitalism, where authoritarian governance exists but has not yet completely captured state institutions. As in other varieties of state capitalism, political connections are crucial but may create obligations for a specific firm. With regard to internationalization, the political whims of the authoritarian state capitalist may create pressure on firms to internationalize to friendly countries. This paper examines this hypothesis in the context of Russia, which has been implementing authoritarian state capitalism since the 2000s. Using a unique database of political connections and pairing it with firm internationalization data from 2003-2023, our empirical analysis finds that politically connected firms in Russia tend to internationalize into autocracies more than democracies. Additionally, we find that this trend intensified as Russia's state capitalism intensified, with higher levels of authoritarianism presenting more pressure to internationalize to Russia's allies. Our results suggest that political connections in a country sliding towards authoritarian capitalism make private firms more like state-owned enterprises.

Keywords: authoritarian state capitalism; autocracy; internationalization; political connections; Russia

1. Introduction

The question of why and how firms internationalize has been examined *ad infinitum* in the international business (IB) literature (e.g. Elbann et al. 2020; Jiang et al., 2020; Niittymies & Pajunen, 2020; Evers et al., 2023), but it is only recently that the literature has encompassed the importance of political institutions (Xu et al., 2021; Cuervo-Cazurra et al., 2023) on the internationalization prospects of multinational enterprises (MNEs). Political institutions, and in particular the host country's political environment, have been seen as a driver for firm location choice, emphasizing the benefits which come from various political orderings (Amore & Corina, 2021). At the same time, the resurgence of geopolitics as a real threat (Hartwell & Ursprung, 2024) over the past decade has also focused attention on these institutions as a source of political risk (Jimenez et al., 2014; Bussy & Zheng, 2023), with poor institutional quality forcing MNEs to look elsewhere for international success.

However, political risk for MNEs is unfortunately not limited to host country politics, and the emergence of populism and nationalism (Devinney & Hartwell, 2020) in developed countries and the spread of autocracy globally (Del Real & Menjívar, 2024) has provided political risks for MNEs in their own home markets. In particular, the trend towards more autocratic *political* institutions has gone hand in hand with a move towards more intervention in the *economic* sphere, manifesting specifically in the phenomenon of "state capitalism." State capitalism is defined by Wright et al. (2022:4) broadly as "government's direct influence on economic relationships in capitalist economies;" in an autocracy, a special variant of this economic approach, *authoritarian state capitalism* (Kinossian & Morgan, 2023), takes advantage of the fewer constraints on government and results in a willingness for the government to undertake more direct interventions.

Authoritarian state capitalism is, in many ways, the half-way point on the continuum from the varieties of state capitalism (Dolfsma & Grosman, 2019) to the authoritarian capitalism noted by Sallai and Schnyder (2021). In authoritarian state capitalism, the shell of a capitalist economy has been preserved, in that private industry is tolerated alongside state-owned enterprises (SOEs), but businesses have been scrutinized more closely to ensure that they do not become an effective power pole outside of the structure of government, subjected to a tight leash (Maier, 2021) or, in extreme circumstances, removed via expropriation (Haveman et al., 2017). The slide into "full-blown" authoritarian capitalism is likely not far away, as in China (noted in Sallai & Schnyder [2021]) but the economy in authoritarian state capitalism is not as fully geared entirely towards supporting the state and only the state (Li, 2022).

In order to deal with this burgeoning political risk at home, firms have an array of responses available to them (Feldmann & Morgan, 2022), including one tactic familiar to students of nonmarket strategy: the cultivation of political connections (Wei et al., 2023). Political connections in a state capitalist structure - and especially in an authoritarian state capitalist economy - operate in a somewhat different environment than in a less interventionist state and especially than those in a liberal democracy (Sidki Darendeli and Hill, 2016; Hartwell, 2024). Where the state has a much more intensive role in the economy, political connections may provide an "insurance policy" against the relatively unchecked and capricious nature of a powerful government (Keillor et al., 2005). On the other hand, firms facing authoritarian state capitalism may also find that connections can make life more than mere survival, allowing them to live the good life (Hart-Angelo & Portnoy, 1984); that is, given the preponderance of intervention into the economy that characterizes an authoritarian state capitalism, well-connected firms may find that they have advantages which non-connected firms do not (Saeed et al., 2016).

One of these advantages may be internationalization, in that firms under an interventionist government may be given special dispensation to internationalize where other firms may not. The exigencies of authoritarian governance may also rear its head here, however, with the government in an autocracy having a direct influence on the internationalization decisions of firms (Beazer & Blake, 2018), up to and including where and how firms internationalize. This may be especially true for state-owned enterprises (SOEs): as Cuervo-Cazurra and Li (2021:1) summarize, state-owned enterprises in general "are motivated by national strategic objectives, select more challenging countries, and use acquisitions more intensively despite adverse market reactions." Authoritarian state capitalism can then compel state-owned firms to invest in certain countries (or to avoid others) in pursuit of the national interest

(Cuervo-Cazurra et al., 2023), helping attain the "government's motive to conquer power in the international arena and raise the home country's welfare" (Mariotti & Marzano, 2021:122).

Practically, this trend has manifested itself in the growing affinity for authoritarian promotion among autocratic regimes (Way, 2016) preferring to direct trade to other autocracies (Bader, 2015), keeping economic relations "in the family" (Jackson, 2010). There is indeed evidence that state-owned enterprises under authoritarian state capitalist regimes follow the flag, investing in other autocracies rather than democracies (Clegg et al., 2018). In fact, in line with extant theories regarding SOEs, stronger political control results in more internationalization (Estrin et al., 2016) but for a much different purpose than privately-owned firms (Panibratov & Michailova, 2019).

We posit that this pressure in political autocracies to invest in like-minded countries is not limited to state-owned enterprises but also to the aforementioned special class of private firms: highly politically connected firms. Politically connected firms have been shown to be different in general from non-politically connected firms, especially in terms of holding more cash (Boubakri et al., 2013) or less research and development (Xu & Zhang, 2008). There is also a burgeoning literature on the role of political connections among state-owned firms (Tihanhyi et al., 2019) and on how political connections in an autocracy operate (Hartwell, 2024). In reality, privately owned firms face much greater uncertainties in the institutional environment than SOEs and are therefore more dependent on forging political connections in political autocracies (Jia & Mayer, 2017).

This paper brings together these disparate literatures to make the case that, under an authoritarian state capitalist economy, politically connected firms are also more likely to behave like SOEs in their internationalization, taking into consideration (under direct or indirect pressure from the home country government) the political affinity with the home-country government in their decisions. Investing in politically desirable countries is the price of the protection that these firms receive from the state at home, a form of "corporate political obligations" (Hartwell & Devinney, 2022).

Such a strategy would be discernible empirically even if not announced explicitly, as destinations with a high political affinity with the home country would be more likely to be chosen by a politically connected firm under authoritarian state capitalism than destinations which are more neutral or even opposed politically to the home country government. In short, the interventionist nature of authoritarian state capitalism allows for connections to benefit a firm, but this protection often results in draconian obligations, especially when internationalization is considered. The obligation is thus for a firm to invest in friendly countries rather than political adversaries.

This paper explores these questions in the context of a country which has rapidly moved towards autocracy since 2000 and whose descent into authoritarian state capitalism is entirely complete since 2011: Vladimir Putin's Russia. Currently bogged down in a war of its own choosing in Ukraine, Russia has quickly retreated from its first cautious steps towards democracy in the 1990s and now is ranked as a "consolidated authoritarian regime" in Freedom House's rankings.[i] The democratic backsliding under Putin (McFaul, 2021) has gone hand-in-hand with the increase in state intervention in the economy. Not only has the Russian economy stratified, resulting in massive state-owned corporations dominating the landscape (Dabrowski, 2023), all industries, even if not explicitly state-owned, curry favor with the Putin regime (Lamberova & Sonin, 2018). At the same time, the "omnipresence of the state" (Klishevich & Panibratov, 2024) has influenced the internationalization of both private and state-owned firms (Panibratov & Michailova, 2019), as the Russian government has attempted to project "soft power" both into its traditional (i.e., imperial) markets (Sergunin & Karabeshkin, 2015) and new markets abroad. With the advent of sanctions on Russia after its invasion of Ukraine, the Russian government has been more interested in securing markets in friendly territories, a directive which has been targeted especially at politically connected firms.

Using a unique database of political connections in Russia amassed by the authors, we demonstrate that Russian politically connected firms are quantitatively different from non-politically connected ones. More importantly, our results show, unlike Klishevich & Panibratov (2024), that political connections do lead to more internationalization in the authoritarian state capitalism of Russia, but, crucially, that their decisions are almost uniformly towards allied and friendly countries. This result is robust to different specifications and robustness tests, making politically connected private firms in Russia behave just like SOEs. We conclude that political institutions matter for a firm's internationalization decisions but not only in the host country - as we show, the extent of state capitalism practiced by the home country often has a major say in where a firm internationalizes.

2. Theory Development

2.1 Varieties of State Capitalism

The welcome realization that institutions play a major role in multinational firms' investment decisions has expanded in recent years beyond the familiar economic institutions necessary for business, i.e. property rights and the rule of law (Ghauri et al., 2021) to encompass political institutions as well. This has been given impetus by the "return of the state" after the global financial crisis of 2007-09, with government playing an expanded role in the economy beyond the self-limiting principle of subsidiarity; going under the heading of "state capitalism," the world has seen the emergence of a system where economic actors rely on markets as the main coordination mechanism, but the state exerts influence over investment, production, and distribution in the economy (Lee, 2018).

The many forms of intervention that a state can use in a national economy means that, necessarily, state-capitalism is not a unified construct, and there exist significant varieties of state capitalism as well as "regular" capitalism (Hall & Soskice, 2001). In particular, the involvement of the state can take supportive or active forms (Wright et al., 2021): supportive forms include acting as a catalyst for investment by the provision of capital, i.e. through state-owned banks, as well as granting subsidies, tax breaks, and using targeted industrial policies (Musacchio et al., 2015). On the other hand, active involvement is much more interventionist, including wholly state-owned enterprises as well as majority or minority stake investments in companies (Musacchio et al., 2015; Cuervo-Cazurra et al., 2023).

These varieties and the choice of which variant to use at the country level is driven primarily by differences in the dominant institutional frameworks across countries, including political regimes and ideologies (Aguilera et al., 2020; Wright et al., 2021). Different political regimes allow for varying levels of rule-making discretion vis-à-vis other branches of government and, consequently, the power that the state can exert over economic actors (Dolfsma & Growman, 2019; Henisz, 2000). Moreover, ruling elites can shape the role of the state as an economic agent (Evans, 1995; Sun, 2019; Wright et al., 2022) and (mis-) use institutional structures for their own ends (Devinney & Hartwell, 2020).

This can be seen most prominently in the democratic-authoritarian divide, the most important ideological bifurcation of political values (Frantz, 2018). Authoritarianism refers to all forms of non-democratic rule, whereby the governing elites limit pluralism and political participation, if necessary, by using violent repression (Linz, 2000; Maier, 2021). While there are several characteristics that distinguish democratic from authoritarian systems, as outlined by Bueno de Mesquita et al. (2002) they differ in two fundamental ways: how political leaders obtain and maintain power. Whether a leader remains in office depends on those in society who hold the power to remove the incumbent and select her replacement, i.e. the *selectorate*. Within the selectorate, a leader can succeed in staying in power when holding the loyalty of the *winning coalition*. In most democracies, the winning coalition is determined by the voting majority. However, in autocratic systems, winning coalitions are composed of a small group of powerful individuals, while the selectorate is composed of those who are in the positions to make or break leaders (e.g. the military or others of the governing elite). While large winning coalitions as in democracy mean that leaders must compete over the provision of public goods to median voter in order to remain in power, autocrats may survive in office by focusing on providing private goods to a small number of members in the winning coalition (Bueno de Mesquita et al., 2002).

This focus on maintaining power means that authoritarian governments tend to become economic actors in their own right, using existing institutional structures instrumentally to favor the elite's economic and political goals (Müller, 2017). Additionally, the private and public spheres become blurred, and rulers use legislative and constitutional changes as strategies to concentrate power (Greskovits, 2015; Müller, 2017). It may also engage in carrot and stick behavior towards firms: firms may receive overt or covert support from the government as in lucrative public contracts (the carrot – see Gao et al., 2022) or the state may enact legislation to make economic actors dependent on the state and prevent them from using legal means to counter its power (the stick).

Creating dominant private investors with ties to the government enables elites to secure key industries and technologies, coordinate resource allocation and secure the support from firms that are "plugged in" to the circles of power (Musacchio, et al., 2015: Wright et al.., 2021). Having appointed government-friendly firms in quasi-oligopolistic positions also constitutes a key element for authoritarian rule to generate rents through market distortions (at the cost of the consumer) as well as proceeds from corruption, as access to lucrative government contracts comes at a cost for firms. These income streams can then be used to distribute private benefits to other coalition members to secure their loyalty. While this may not necessarily be of importance for fully or partially state-owned enterprises, it can significantly alter the playing field for private businesses.

Much as state capitalism is variegated, however, authoritarian forms of state capitalism are also varied, although with not as many varieties as state capitalism per se. Indeed, we can distinguish two different forms of authoritarian economies, depending on the extent to which the regime has consolidated its power over economic actors (Carney, 2018). Sallai and Schnyder (2021) have expanded on the phenomenon of *authoritarian capitalism*, where a political elite have not only ascended the heights of power in a country, but they have also captured the state institutional apparatus, using it to implement their own singular vision of the public good. There are thus no "outside options" for the winning coalition to coalesce with other political actors that do not belong to the ruling party. The states' influence on the economy thus becomes pervasive in the system and businesses need to comply with political obligations for survival. The exemplar of this extreme form of state capitalism is modern day China, with a strong institutional system supporting a broader elite (the Communist Party), which in turn has a leader with a singular vision for how the economy should be run (Li, 2022).

However, a country does not become an authoritarian capitalist economy overnight, mainly because of the need to complete state capture under the elite. We therefore suggest that there is an intermediate step called *authoritarian state capitalism* (Figure 1), a transition phase for a country moving to a fully authoritarian capitalist system, where the state has completely eliminated any potential opposition. Under authoritarian state capitalism, the government still relies on the provision of certain public goods to maintain legitimacy as its power over the winning coalition is not (yet) unified. Moreover, in such contexts, there may exist a façade of electoral competition with a multi-party legislative. Nonetheless, in practice oppositional candidates are silenced, the government can set the agenda through the control of the media, and the electoral system is designed to secure success for the ruling party (such as Russia under Vladimir Putin or Venezuela under Nicolas Maduro). Under such a system – and we would classify populism as authoritarian state capitalism as well – the whims of the leader become the obligation that firms need to satisfy, rather than bowing to the entire state apparatus, as under authoritarian capitalism. Finally, authoritarian state capitalism, as a transitional state, may not inexorably lead to authoritarian capitalism; in fact, any shock which weakens the grip of the regime may result in a reversal of autocratic reforms.

*** Figure 1 here ***

2.2 Political Connections

In order to deal with the multitude of challenges brought by all varieties of state capitalism, firms engage in non-market strategies, which seek to address institutional contexts that make transactions costly or impossible to undertake through the market (North, 1986; Williamson, 2000). Firms thus need to employ alternative strategies to appropriate value in the face of such costs (Dorobantu et al., 2017). Authoritarian countries differ from the traditional view in non-market strategy, since economic or political (or both) institutions are captured, i.e. asymmetrically favoring some actors over others (Acemoglu & Johnson, 2005; Ostrom, 1990). To lower their institutional costs, firms can draw on political ties as a source of comparative advantage (Siegel, 2007). Such corporate political connections (CPC) consist of the relationships developed between firms and governmental authorities that are informal and often invisible to outsiders (Faccio, 2006; Gao et al., 2022). They comprise a broad range of interactions both through legal (i.e. lobbying or campaign contributions) or illegal methods (i.e. corruption) to gain preferential access to information or influence the interpretation of rules in their favor (Sun et al., 2012). Political connections also shield firms against unfavorable regulations, forms of government intervention and a wide range of political pressures (Zhang et al., 2016; Grossman & Helpman, 1994).

The relationship-based view in CPC has most often been conceptualized on the level of individual actors which facilitate the flow of resources and information (Wei et al., 2023). Within firms, top executives such as CEOs or board members as key actors that engage in building political connections (Hillman, 2005). On the side of the authoritarian governments, typical entities that engage in CPC include members of the ruling regime (Ferguson & Voth, 2008) or affiliated organizations (Jia, 2014), government bureaucrats (Liu et al., 2016), as well as legislative authorities (Truex, 2014). Another form of relationship-based CPC is the employment of former officials in management roles, which allows firms to leverage their personal ties and insider knowledge (Duchin & Sosyura, 2012).

Previous studies demonstrated that firms which can leverage CPC are different in terms of performance and other strategic outcomes compared to non-connected firms. Firstly, firms with CPC are more likely to be able to extra profits because the rules of the game are designed to suit them (Ahuja & Yayavaram, 2011). As authoritarian regimes rely on institutionalized forms of top-down systematic corruption with distribution of state funds as a function of loyalty rather than performance, firms connected to the inner circle of power are much more likely to appropriate such private goods (Kang, 2002; Sallai & Schnyder, 2020). CPC also reduces uncertainty in the firms' external environments and offers key resources and benefits such as increased legitimacy which also positively affect their financial performance (Hadani & Schuler, 2013; Liu et al., 2017) and firm survival (Hiatt et al., 2018; Zheng et al., 2015).

This leads us to our baseline hypothesis:

H1: Under authoritarian state capitalism, politically connected firms are different quantitatively and qualitatively than non-politically connected firms

2.3 Political affinity

Political connections in an authoritarian context can be useful for survival and even prospering, but they have a dark side, in particular related to the corporate political obligations that governments demand in return for protection (Hartwell & Devinney, 2022). There is extensive evidence in international business literature that political institutions affect internationalization decisions of multinational enterprises, as they set the opportunities and constraints within which economic activity takes place (Donnelly & Manolova, 2020; Nielsen et al., 2017). Recent advances in this field have shown that in a geopolitical environment that is becoming increasingly multipolar, firms' internationalization strategies may also be influenced by the relations between their home and host countries (Bigili et al., 2022; Hasija et al., 2020; Arikan & Shenkar, 2013). Similar to businesses developing cross-border partnerships, countries resort to alliances that go beyond trade and investment promotion and are often driven by achieving their economic and foreign policy objectives (Buckley et al., 2013). The strength of such relationships is often dependent on common governing structures and political cultures, as well as countries' interests on critical international issues such as human rights and security. Countries that share such similar broad "world views" can thus be classified as having a high level of political affinity (Gartzke, 1998). Hereby, international relations literature has found that countries with political affinity pose a lower threat to each other's interests, which in turn decreases the likelihood of conflict (Kastner, 2005; Kinsella & Russett, 2002) and hostile economic actions (Dixon & Moon, 1993).

This approach contrasts with other measures of institutional or psychic distance between home- and host-country institutions, which ignores the antagonisms or affinities between political actors that reflect the content of politics more than their structure (Hadija et al., 2020). Previous research highlights that political affinity can impact firms' investment decisions, as investments in "friendly" countries are less difficult and expensive and governments are less likely to feel concerned about them (Dixon & Moon, 1993). Bertrand & Bertschinger (2016) found that MNEs tend to pay a higher premium to acquire a target in a country with lower political affinity to dissuade government intervention that opposes the acquisition. Similarly, Hasija et al. (2020) show that MNE investments in host-countries with greater political affinity to the U.S. experience better post-acquisition performance.

We therefore hypothesize that in general and in all types of state capitalist economies, multinational enterprises are more likely to invest in host-countries with a high political affinity to the host-country, as they can reduce transaction costs and are more likely to experience long-term performance benefits.

H2: Firms are more likely to invest in countries that are politically aligned with their host country government

While pleasing the government via friendly internationalization would be pronounced in any state capitalist economy, we argue that it would be higher in authoritarian state capitalism through two channels. The first is via the aforementioned political connections, which firms need to survive in both variants of authoritarian capitalism. Connections with states in authoritarian home countries have also shown to shape the scale and scope of firms' internationalization decisions, as politically connected firms are more likely to benefit from higher financial support, facilitating bureaucratic procedures and aligning trade and investment agreements (Luo et al., 2010). Moreover, connected firms can gain access to relevant information through diplomatic channels and gain first-move advantages (Li et al., 2017), which makes firms less sensitive to potential risks in host-countries (Pan et al., 2014).

As noted, because political connections do not come free of charge in authoritarian political systems, politically connected firms are also more liable to maintain their legitimacy and the competitive advantage that is tied to its connections (Dieleman & Boddewyn, 2012; Zhu & Chung, 2014). Politically connected firms are more likely to be forced to "abide" by the regimes' broader agenda and serve broader geopolitical purposes, which decreases managerial independence in internationalization decisions (Zhang et al., 2016).

H3: Political connections positively moderate the relationship of H2

Another important boundary condition is the concentration of power by the authoritarian government. As previously argued, the further a country moves along the authoritarian state capitalist spectrum, the smaller a regime's winning coalition becomes. The more advanced the democratic backsliding and consolidation of power by the authoritarian regime, the more beholden also non-politically connected firms will be to adhere to the political agenda of the regime to guarantee its survival. We argue that this agenda is directly tied to broader geopolitical objectives of governments, which encourages firms to invest in countries that show higher levels of political affinity.

On the other hand, there can also be reversals in power, where governments have less power to be as authoritarian in the economy as in the political sphere. This can be the result of temporal effects or other exogenous events such as the COVID-19 pandemic and national security considerations, which can weaken the position of the regime and lead to policy reversals back along the continuum of state capitalism. For example, private sector firms may become active to address more immediate security needs such as securing medical technology that has become unavailable because of sanctions.

These facts bring us to our last hypothesis:

H4: Increases in the power of the authoritarian state positively moderates the relationship of H2.

3. Brief overview of research context

The march of the Russian Federation from communist autocracy to quasi-democracy and then to crony authoritarianism provides an excellent venue to test these theories. The tale of democracy in Russia is unfortunately a brief one, as Russia began to move away from democratic governance as early as 1993, a mere year and a half after the collapse of the Soviet Union. From Boris Yeltsin's shelling of the democratically elected parliament (Duma) in October of that year, leading to concentration of powers in the executive (McFaul, 1994), to an election in 1996 that saw an improbable comeback for Yeltsin and was shrouded in (perhaps overblown) allegations of fraud, Russia never appeared to make the full transition to a liberal democracy (Myagkov & Ordeshook, 2008). This partial transition began a gradual rollback with the ascent of Vladimir Putin as Yeltsin's last Prime Minister, winning the Presidency in his own right in 1999 and immediately sending Russian soldiers back into Chechnya (Ichkeria), where the Russian army had suffered a humiliating loss in 1994-96.

Putin's 25-year reign began with some hope for continuation of democratic reforms (Leahy, 2000) but, beginning in 2003, this hope was dashed as Putin simultaneously moved against political opponents while also refocusing the economy on the state's needs. The prosecution of oligarch Mikhal Khodorkovsky in 2003 (Goldman, 2004) satisfied both of these objectives, beginning a process of bringing the oligarch class to heel under the power of the executive but also wresting control of the company Yukos from Khodorkovsky, breaking it up, and transferring its assets to the state (Sakwa, 2014). As Putin consolidated his political power (by, for example, eliminating the direct election of regional governors in 2004), Russia began a slide from a conventionally state capitalist economy towards authoritarian state capitalism: resources were directed towards state-owned companies for their strategic importance (and a list of 42 sectors was promulgated which the Russian state considered crucial for "national security"), while even private firms were "encouraged" to consider their operations abroad as a facet of Russia's geopolitical power (Bremmer, 2008). Despite the unrealistic dreams of some that Russia's state capitalist urges be used to redress inequality (Klimina, 2014), the move towards authoritarian state capitalism instead put pressure on small and medium enterprises and resulted in a major stratification of the Russian economy (Clarke, 2007), as shown in Figure 2. At the same time, successful private sector firms which did not threaten the status quo had CEOs which either saw windfall gains as the state acquired their assets or which were rewarded with lucrative government contracts (Djankov, 2015).

*** Figure 2 here ***

After mass protests in 2011 surrounding the parliamentary elections and the suspiciously overwhelming victory of Putin's "United Russia" party, mass arrests and crackdowns signaled that Russia was entering a new autocratic era (Orttung, 2022). This democratic backsliding accelerated the move towards authoritarian state capitalism and made business in Russia - already a difficult prospect - even harder to handle, both internally and externally. Internally, as Gans-Morse (2012) noted, businesses went from facing "the mob to the man:" that is, the early period of transition had businesses confronting organized crime until the state took over and became the key source of organized crime in the country (Adomeit, 2016). In many ways, this comported with the long sweep of Russian history, where the state always had a heavy hand in the economy. Because of this, political connections were always necessary (Hartwell, 2024), whether to secure the blessing or patronage of the Tsar, to get coveted status under the Bolsheviks, or to navigate the thicket of licenses and permissions needed post-communism. Under Putin, tighter political connections to the Kremlin have resulted in windfalls for companies and oligarchs, especially given the emphasis of Putin on "mega-projects" such as the Kerch Strait Bridge or the Northern Sea Route (Kinossian & Morgan, 2023). Political connections have also acted as an insurance mechanism (Kubinec et al., 2024) for Russian businessmen, although the preponderance of Kremlin-connected individuals "falling from open windows" has also shown the dark side of such connections (Edele, 2023).

The external environment also made political connections necessary for two key reasons: first, a creeping paranoia about the West and a desire for Russia to reclaim its status as a "great nation" led Putin to start wars in Georgia and Ukraine (twice) and intervene on the side of dictators in Syria, Belarus, and the Central African Republic. The military adventurism pursued by Putin led to several rounds of sanctions on the country, its businesses, and its political leaders (Hartwell & Zadorozhna, 2024), forcing Russia to do business with other pariah states (North Korea, Iran) and attempt to expand its so-called BRICS bloc (Brazil, Russia, India, China, South Africa) as an alternative to the liberal order led by the West (Nuruzzaman, 2020). The gradually increasing sanctions regime from the West and the siege mentality that sanctions engendered bound the oligarchic elite together more tightly but also made the nature of informal connections crucial for understanding who was "with" the Kremlin and who was "against" it (Siegel, 2022). With fewer outlets to go abroad, the Kremlin has taken a much more active policy towards who was crucial for remaining international and who was necessary for import substitution at home (Rodionova & Yakovlev, 2024).

The second reason that connections were necessary was also related to government policy, as the obsessive desire to "make Russia great again" meant that external business was conducted on behalf of Russia rather than to benefit the particular firm, with SOEs such as Gazprom and Sberbank becoming an instrument of Russian soft power (Hill, 2006). External commerce became a national security issue, responsible for the health of the state, and thus companies trading and working abroad needed to be either state-owned (Libman et al., 2022) or at the very least tied into the state via a web of connections (Klishevich & Panibratov, 2024). As part of this, not only was the act of commerce abroad important, but so was *where* a company went - in particular, trading with countries that were valued as Russian allies (Silaev, 2022) or in arenas where Russia wished to exert particular influence (Dorosh & Voiat, 2022). As Libman et al. (2022) noted, Russian state-owned enterprises specifically tended to follow Russian foreign policy imperatives, even as private sector ones were more autonomous (they do not control for political connections, however). And with the advent of sanctions, once again, the venues for even the mega-companies of Russia were limited, shut out of European markets and forced to both safe markets (the former Soviet states of Central Asia) and ones where ties existed but were not extensive (China, Iran, Brazil, South Africa). In this sense, the Russian government had forced firms towards specific markets by dint of its policies, in addition to the active work it had done pre-2022 in pushing firms in various specific directions.

There have been two major hiccups in the march towards fully completing authoritarian capitalism in Russia. First was the Covid-19 pandemic, a global trade disruption which forced a substantial re-think of supply chains and their fragility. While Russia went a similar route as other state capitalist countries, in particular in pumping money into the economy even as commerce was frozen, the growing reliance on its natural resource extraction industries also caused problems for the finances of the Russian government; in particular, the plummet in oil revenues occasioned by global lockdowns - coupled with an oil price war with Saudi Arabia done entirely at Putin's behest - lowered Russian growth forecasts and made it more difficult for the government to dispense largess in the short term (Åslund, 2020). Internationalization also became more difficult in the wake of Covid-19 in general (Kuznetsov, 2021), as the difficulties with the Russian ruble continued to make business abroad expensive for all but the most well-capitalized companies.

The second hiccup, of more consequence in the longer term, is the aforementioned sanctions regimes after 2022, which has severely constricted the opportunities abroad - while firms are now forced towards China, India, and other BRICS and/or Eurasian Economic Union (EaEU) members, this space is crowded with the highest priority firms, i.e., SOEs. Private sector firms, even those politically connected, may see their opportunities for internationalization dwindling and thus may go it alone in securing foreign markets (hoping that the gaze of the sovereign is distracted elsewhere). More plausibly, however, is that the jaws of the war machine need to be oiled (Harris, 1984), and these parts may best be sourced from Russia's enemies rather than its allies (such as the USA or the European Union), firms may also be encouraged to go "sanctions busting" in the West (Borozna & Kochtcheeva, 2024). Indeed, the reality that much of Russian military equipment relies on Western technology (MacKinnon, 2024) means that the desire of the Russian government to press for investment only in "friendly" countries has been sidelined by more immediate national security needs.

4. Empirical strategy

The combination of growing authoritarian state capitalism with the pressure by the Russian government for businesses to trade with "favored" countries makes Russia an ideal case study for understanding the effect of political connections. In this section, we will detail our strategy for testing this effect empirically.

4.1. Data

To undertake this examination, we collect data on Russian business from several sources. Data on mergers and acquisitions and foreign direct investment announcements comes from ORBIS Cross-Border Investments and fDi Markets, with firm-level control variables obtained from the ORBIS database. This sample consists of 534 firms over the period of 2003-2023, allowing us to have a panel structure of the dataset with 6,017 observations on a firm-year level. We also use data from Bloomberg on the finances of Russian public firms (that are not owned by the state). This sample consists of 959 companies over the period of 1991-2023. We use the Bloomberg sample in addition to ORBIS Cross-

Border/fDI Markets as it provides rich firm data for the time period before 2003 and broader coverage of financial variables such as net income, revenue, long-term debt, EBITDA, total assets, and R&D expenditure. This sample consists of 15,544 firm-year observations and we use it to compare politically connected and not-connected firms (H1).

The true data innovation in this paper, however, is that we created a database on political connections of Russian firms. This data was collected in several stages. Firstly, we obtained historical data on the composition of management boards and CEOs of all Russian public firms from Bloomberg. Secondly, we collected historical data on election results in all Russian regions since 1991 which included elections to the State Duma and regional parliaments, as well as gubernatorial elections from the Central Elections Commission of Russia and regional councils' websites. Thirdly, we matched the two lists using the names[ii] of management board members/CEOs and elected officials. Once a name matched, we double-checked manually if this is the same person. Therefore, all firms with at least one person ever elected to public office and that ever served on the management board/has been a CEO of a firm in our sample, are classified as politically connected.

Political affinity between Russia and other countries comes from Bailey et al. (2017) and is measured using the voting decisions of Russia and host countries made in the UN General Assembly in a given year. It provides a fine-grained measure of the similarity of countries' national interests and covers almost the total universe of countries over a long period of time (Hadija et al., 2020). We use the ideal point distances (IDP) between Russia and host countries that measure the degree of divergence of foreign policies between a set of countries. Furthermore, in our analysis we split our sample based on whether a host country is a democracy or autocracy. The country classification comes from Lauth & Schlenkrich (2021).

Finally, as controls in our various models below, we also use the control of corruption index from the World Bank (2024), trade flow statistics between Russia and host countries, host country entry time, common religion index, common language dummy, and common legal origin dummy from Conte t al.

(2022) which is a part of CEPII Gravity dataset. Table A1 in the Appendices provides more details on the definitions of variables used in this paper and their sources.

4.2. Descriptive statistics

Overall, our Orbis Cross-Border/fDI Markets dataset records 1,112 Russian foreign investment deals that constitute 18.5% of all firm-year observations. Moreover, 19.5% of investments were conducted by politically connected firms, while 41% of all deals were to host countries that are classified as autocracies. In the Bloomberg dataset, on the other hand, politically connected firms constitute 55% of the overall sample. Table A2 in the Appendices provides more details on the descriptive statistics of all of the variables.

Timewise, the number of foreign investment deals from Russia fluctuated between 3 and 12 per year during 2003-2012 in our dataset but experienced almost an exponential growth after that, reaching its maximum of 173 deals in 2021 right before the full-scale invasion into Ukraine (see Panel A of Figure 3). There was, however, a significant drop in the number of investment projects during Covid-19 pandemics in 2020 and after the Russian full-scale invasion into Ukraine in 2022. Finally, regarding capital expenditure (CAPEX), it has been steadily increasing between 2010 and 2017, experiencing a significant drop during the Covid-19 pandemic. It recovered slightly in 2021 only to drop again next year when Russia committed to a full invasion of Ukraine.

*** Figure 3 here ***

The majority of Russian investment deals have occurred in the United Kingdom (primarily in the retail and banking/financial services sectors), Germany (in the computer software sector), Kazakhstan (in textile and clothing manufacturing), and Cyprus (in business services) (see panel B). This distribution is unsurprising, as the UK has long been a favored destination for Russian oligarchs to store their assets. In response to Russia's war in Ukraine, the United Kingdom has frozen over $20 billion in Russian assets, making it the third-largest country by the amount of frozen assets. Cyprus, meanwhile, has long served as a tax haven for Russian businesses, including those involved in money laundering activities (El Idrissi, 2023).

When it comes to political affinity and the number of investment deals, panel C of Figure 3 shows the distribution of top 15 host countries that have the least divergent foreign policies with Russia (below p25 of the ideal point distance distribution) by the number of investment deals. Not surprisingly, these are the countries that are close political allies of Russia, especially the former Soviet republics that oftentimes depend on Russia politically and financially. Serbia being one of the most favorite destinations for Russian investments serves Russia's geopolitical interests, helping it maintain influence in the Balkans, counterbalance NATO and the EU, and securing energy routes through the region (Zweers & Drost, 2023). There are also China and India on the list, the two countries that not only did not impose sanctions on Russia after it invaded Ukraine, but also continued supporting its war economy by buying Russian oil and, according to some reports, helping it circumvent sanctions and build new weapons to use in Ukraine (see, for example, Atwood [2024]).

As for the differences between politically connected and non-connected Russian firms, panel D of Figure 3 suggests that up until 2011-2012 the number of investment deals announced by connected and non-connected firms was similar. After that the number of deals by non-connected companies increased to around 73 deals per year on average reaching its peak in 2021, while the number of deals by the politically connected firms was on average 3 times lower. Interestingly, however, politically connected firms on average tend to be significantly richer (in terms of net income and EBITDA), bigger (in terms of sales revenue), and have more long-term debt (see Table I). Moreover, they spend twice as much on R&D as non-connected firms. And even though they have a significantly lower number of investment deals per year, on average, their CAPEX per deal is significantly higher than that of non-connected firms. This suggests that even though politically connected firms invest abroad less, once they do, their capital expenditure per investment project is much higher, on average. This points to the greater availability of financial resources at the disposal of politically connected firms if compared to non-connected ones.

*** Table I here ***

4.3. Model specification

Difference-in-difference approach

The main empirical strategy we use in the paper is the difference-in-difference approach. To investigate the differences between politically connected and non-connected Russian firms after the democratic backsliding in Russia has been complete (H1), we use the following panel regression model with time and firm fixed effects as well as robust standard errors:

$$Financials_{it} = \alpha + \delta(Treatment \times After)_{it} + \gamma \Gamma_{it} + \lambda_i + \theta_t + \varepsilon_{it} \qquad (1)$$

where $Financials_{it}$ is a vector of our main financial variables such as net income, sales revenue, long-term debt, EBITDA, and R&D expenditure of a Russian firm *i* in year *t*. $Treatment_i$ is a dummy equal to one if a firm has political connections, and zero otherwise. $After_t$ is a dummy equal to one over 2011-2023 after autocracy was complete in Russia, signaling a new era of state capitalism. Γ_{it} is a vector of controls that includes the logarithm of total assets of firm *i* in year *t*. λ_i are firm fixed effects. $\theta_t$are year fixed effects. $\varepsilon_{it}$is a robust error term.

As a way to alleviate potential concerns regarding 2011 being the year of acceleration of authoritarianism – and, by extension, authoritarian state capitalism - in Russia, we also estimate the dynamic effects of it on financials of Russian firms by alternating the year when the democratic backsliding took place. In those models, $After_t$ dummy in model 1 is equal to one over 2003-2023, 2004-2023, 2005-2023, …, 2022-2023, and zero otherwise. We do not go further back in time than 2003, because before that time some political opposition was still present in Russia that allowed small but at least some balance of power. By the end of 2003, however, arrests of political opposition leaders began with Mikhail Khodorkovsky, and in 2004, gubernatorial elections were abolished at the initiative of Vladimir Putin. All of these signaled the start of Russia's slide towards autocracy and, in particular, its move towards authoritarian state capitalism.

Moving to Hypotheses 2 through 4, we analyze whether political connections and increases in the power of the authoritarian state positively moderate the probability of Russian firms to invest into politically aligned countries via a probit regression model with sector and time fixed effects and standard errors clustered at the firm level:

$$Investment\ Dummy_{it} = \alpha + \delta(Treatment\ \times After)_{it} + \gamma\Phi_{it} + \rho_i + \theta_t + \varepsilon_{it} \qquad (2)$$

where $Investment\ Dummy_{it}$ is equal to one if a Russian firm *i* invested abroad in year *t*, and zero otherwise. Φ_{it} is a vector of firm specific controls that includes ROE, ROA, and natural logarithm of operating revenue of firm *i* in year *t*. ρ_i are sector fixed effects. We also estimate dynamic effects[iii] of state capitalism and autocracy in model 2 by alternating the year it took place.

Model 2 is estimated for different sub-samples of countries. First of all, we split the sample based on the ideal point distances between Russia and the host countries. The higher the index, the more divergent foreign policies are. We use three main boundaries for the sample split, based on percentiles: p25, p50, and p75 of the ideal point distance distribution. Host countries with values of ideal point distance above 1.1 (=p75) have the most divergent foreign policies with Russia. We also split the sample based on the regime type of the host countries where Russian firms invest. We assume that autocratic countries like Russia tend to invest into autocracies more than into democracies (Oneal, 1994; Ledyaeva et al., 2013).

Sample selection bias

Given we observe the investment decision only if it takes place, model 2 may potentially suffer from sample selection bias. To address this concern, we estimate the Heckman selection model where model 2 is observed if:

$$\gamma_0 + \gamma_1 \Psi_{jt} + \delta(Treatment \times After)_{it} + \gamma \Phi_{it} + \theta_t + \vartheta_{ijt} > 0 \qquad (3)$$

where Ψ_{jt} is the vector of exclusion restriction variables in the selection equation that consist of control of corruption index of country j in year t, religious proximity index between Russia and a host country j in year t, common language spoken by at least 9% of population in Russia and a host country j in year t dummy, and common legal origin between Russia and a host country j in year t dummy, trade flow between Russia and a host country j in year t, number of days required to start a business in a host country j in year t, and ideal point distance index between Russia and a host country j in year t. ϑ_{ijt} is an error term. Our choice of exclusion restriction variables is consistent with prior research that shows that degree of corruption, cultural and religious ties, common language, legal origin between two countries, trade flows between them and velocity of starting a business in host countries affect foreign investment decisions (Cuervo-Cazura, 2006; Ly et al., 2018; Fontagne, 1999; Anderson & Gonzalez, 2013). Furthermore, if Inverse Mills Ratio is insignificant, this would suggest our outcome equation results (model 2) are free of selection bias.

As a robustness check, we also estimate the Heckman selection model substituting the dependent variable in the outcome equation (model 2) for CAPEX of the investment project. Finally, we also substitute $(Treatment \times After)_{it}$ in both model 2 and 3 for the political connections dummy in order to estimate the differences in likelihood of foreign investment by politically connected and non-connected firms in Russia.

4.4. Results

We begin with an examination of our first hypothesis, namely if politically connected firms are substantively different from non-connected firms after state capitalism has accelerated in Russia due to the full transition into autocracy. Figure 4 supports the findings presented in Table 1. Politically connected firms after 2011 have significantly higher net income, revenues, and EBITDA and are characterized by higher amounts of long-term debt. Compared to politically non-connected firms, they are bigger, richer, and have substantial financial resources for investment projects. It is possible that political connections provide advantages (e.g., favorable regulations, government contracts) that boost their financial metrics. Additionally, the higher long-term debt could indicate better access to credit, possibly due to perceived stability from political connections. However, politically connected firms have had, on average, 19.3 million USD lower R&D expenditure after the acceleration of state capitalism in 2011 compared to non-connected firms. There may be several reasons for that, including that abundant financial resources available to politically connected firms allow them to acquire innovations (via mergers and acquisitions or other forms of partnerships) rather than develop them themselves.

*** Figure 4 here ***

To investigate this issue further, we estimate the dynamic difference-in-difference effects of the acceleration in state capitalism and political connectedness on R&D Expenditure. The results are plotted on Figure 5. We find statistically significant coefficients of *Treatment x 2010, Treatment x 2011, …,* and *Treatment x 2015,* the window around the complete transition to autocracy in Russia and its first invasion into Ukraine. Up until 2009, politically connected firms spent more on R&D compared to their non-connected peers, although the trend was negative with the R&D Expenditure of politically connected firms being lower and lower each year. This trend coincides with the establishment of Putin's autocratic regime and the turn towards state capitalism. Furthermore, wide confidence intervals suggest this was the period of high uncertainty. The last year when we find a positive treatment effect on the innovations is 2008, the year of the Russian invasion of Georgia. Starting in 2009, the treatment effects on R&D Expenditure turned negative, then reached their peak in 2011, recovered slightly in the subsequent years, but never crossed the zero-line anymore. Results presented on Figures 4 and 5 seem to suggest that politically connected firms may be less agile, investing less into innovations and having more long-run debt, nevertheless they still internationalize.

*** Figure 5 here ***

According to Figure 6, internationalization decisions of politically connected firms may depend upon the political affinity between Russia and host country governments. The probability of foreign investment by politically connected Russian firms after 2011 is lower, the more divergent foreign policies a host country has with Russia. The probability of investment into host countries with ideal point distance above 1.1 (p75) is 2.25 times lower than the probability of investment into a friendlier pool of countries.

*** Figure 6 here ***

However, political affinity matters not only for politically connected firms but also for their non-connected peers which may be observed on Figure 7. As we include less Russia-friendly countries into our sample (from IDP > 25 to IDP > p75 samples), both the baseline probability of investment for non-connected firms before 2011 (at treatment = 0) and the treatment effect (the increase in probability from 0 to 1) decrease. The diminishing steepness of the lines across the three panels of Figure 7 can be viewed as an illustration of diminishing returns: as divergence of foreign policies between Russia and host countries becomes higher (less-friendly relationships), the incremental benefits of political connections after 2011 in terms of increasing the probability of investment become smaller.

*** Figure 7 here ***

When examining the dynamic difference-in-difference effects of the acceleration of state capitalism on politically connected firms (see Figure 8), we observe the same pattern: the more divergent the foreign policies between Russia and host countries, the lower the probability of investment by Russian firms. Interestingly, the COVID-19 pandemic had a negative impact on the probability of investment, while the full-scale invasion of Ukraine in 2022 had a positive effect, bringing investment levels back to those seen before the pandemic. Post-2022, the probability of investment by politically connected firms in more hostile countries is lower compared to investment in more friendly host countries, however.

*** Figure 8 here ***

As a next step, we look at the destination of Russian investments based on the regime type of host countries. The probability of investment into autocratic host countries by politically connected Russian firms is almost 1% higher than the probability of investment into the democratic host countries (see Figure 9). Moreover, the dynamic effects analysis in Figure 10 reveals an interesting picture. The probability of investment into autocratic host countries is always positive for Russian politically connected firms. However, when it comes to the probability of investment into the democratic countries, it started to decrease right after the first Russian invasion into Ukraine and annexation of Crimea in 2014, becoming negative in 2018, and reaching its peak in 2021 right before the full-scale invasion into Ukraine.

*** Figure 9 here ***

*** Figure 10 here ***

Sample selection bias

We also estimate a Heckman sample selection model in order to alleviate potential concerns about the presence of sample selection bias in our models. Its results are presented in Table II below. Inverse Mills Ratio is insignificant in our estimations suggesting that there is no evidence of selection bias, and the selection process does not affect our outcome variables (*Investment dummy* and *CAPEX*). Therefore, estimation results presented in Figures 4 to 10 are consistent. We also find significant effects of political connections in general and after 2011 in particular on both the *Investment dummy* and *CAPEX* which is in line with our previous findings. Political connections increase the probability of investment by a Russian firm by almost 2%. They also increase CAPEX of an investment project by more than 62%.

*** Table II here ***

5. Discussion and conclusions

This paper has examined the effects of political connections in an authoritarian state capitalist economy, with reference specifically to a firm's decision to internationalize. Our theoretical development posited first that authoritarian state capitalism is a transition point between various varieties of state capitalism and the full authoritarian capitalism evidenced in today's China (Sallai & Schnyder, 2021). Such a transitional phase may be plagued by its own form of reversals (Cuervo-Cazurra et al., 2019), meaning that authoritarian capitalism is a logical but not inevitable next step, especially if the state's capacity is vitiated in some way. However, authoritarian state capitalism has much higher levels of intervention and pressure on firms, both state-owned and private, and governments are often loath to give up power voluntarily absent any exogenous shock.

Our second theoretical development was to note the different role of political connections in an authoritarian state capitalist economy. While all forms of state capitalism rely on political connections and abilities in the political marketplace to compete in the economic one, the increasing concentration of power in the hands of the state makes such connections almost necessary under authoritarian state capitalism. Politically connected firms would thus be different than non-politically connected firms, finding a way to operate in a difficult environment but also possibly securing new business. But even as the forging of such connections may mitigate some political risks (expropriation), it may create others, in particular corporate political obligations demanded by the state (Hartwell & Devinney, 2023). These two theoretical points led into our third and final theoretical supposition, namely that this pressure would be felt under authoritarian state capitalism specifically in the internationalization decisions of firms, with a focus on *where* to internationalize. The extant literature has already shown that SOEs in autocracies prefer to trade with other autocracies (Clegg et al., 2018); we instead argued that the nature of authoritarian state capitalism made politically connected firms behave less like private, profit maximizing firms, and more like state-owned, national interest-maximizing firms. The very traits of authoritarian state capitalism which required political connections led to the state demanding favors in return for those connections, a reality which would manifest in private firms moving into other similar and like-minded countries.

Empirically, we demonstrated this theoretical construction by focusing on Russia, a country which has reverted from a partial democracy to a consolidated authoritarian structure over 20 years. Our examination showed how Russian firms with political connections are indeed different from their non-connected brethren, able to survive the tightening noose of authoritarian state capitalism and even thrive. Perhaps more importantly, our econometric modeling extended the findings of Libman et al. (2022) in showing that firms with connections to the government - and not just SOEs - follow Russian foreign policy and invest in countries that are either outright allies of Russia or at least tacit supporters. These findings were robust to several different specifications and controls, but also revealed some surprising patterns: in particular, the move towards harmonizing with Russian foreign policy (and in particular in terms of internationalization into other autocracies) increased as Russia became far more autocratic after 2011, but the Covid pandemic and second Russian invasion of Ukraine interrupted this trend. We surmise that these two events made the state less able to undergo its full transformation from authoritarian state capitalism to authoritarian capitalism, by vitiating the state's power and keeping its attention occupied elsewhere.

Our results contribute to the extant literature regarding political connections but also, importantly, to research in the impact of various political institutional orderings, i.e., democracy versus autocracy. We conjecture that firms with political connections in an autocracy are built differently, a result which we find empirically. And in terms of theory, we push forward research in the area of political affinity, a common area of inquiry in international relations but one which only has begun to be utilized in business and management (e.g., Hasija et al., 2020; Hartwell & Zadorozhna, 2024). In particular, we show how autocracies can structure incentives so that firms internationalize more in friendly countries than dissimilar countries (similar to Clegg et al. [2018]). However, unlike previous research, we add in the important dimension of political connections, a crucial adjunct to business in Russia, where the state is pervasive (Klishevich & Panibratov, 2024). Political connections make firms beholden to the state, an effect which we believe is amplified in an autocracy, where restraints on intervention are far fewer; the practical effect is for politically connected firms in autocracy to basically act like state-owned enterprises when it comes to internationalization.

We wish that this insight did not have much practical relevance, but, alas, it does. Russia is unfortunately not an outlier in terms of its descent into authoritarian state capitalism over the past two decades (Power, 2023), and even in developed economies the “grabbing hand” of the state has re-entered economic life via industrial policy and central planning (Juhász et al., 2023). Additionally, in countries where populism has triumphed, i.e., Hungary and Argentina before December 2023, the need for political connections has become more apparent, either to escape the glare of the sovereign or to curry favor with a state that now controls more of the economy. This global trend towards more authoritarian governance provides businesses with additional challenges in their home markets and can have - as we show - a major influence on where they choose to internationalize. This decision may become much less freely chosen depending upon their level of connectedness to the government.

While we believe these results stand as a key example of the effect of political connections under authoritarian state capitalism, we acknowledge that our work has some limitations. In the first instance, Russia is a somewhat special case given its long history of and affinity for autocracy, meaning that the need for political connections is not a new phenomenon. While this gives us a longer time under various varieties of authoritarian state capitalism to work with, the fact of the matter may be that businesses in Russia have a long institutional memory for surviving in an autocracy and would automatically follow the Tsar’s/President’s foreign policies. This point could also be an area for future research, to see if persistence of autocracy makes firms more likely to play follow-the-leader *without* any extrinsic prompting. Similarly, our time-series of data in this paper was limited to the 21st century, while (as noted above), Russia’s descent into autocracy began again at the end of the 20th century. A more comprehensive examination of the democracy/autocracy divide and along the continuum of authoritarian state capitalism would require more business data from the 1990s, which can be difficult to find.

Despite these shortcomings, we believe that our examination furthers research into internationalization more broadly, but especially in an environment where the state is preternaturally interested in nearly all aspects of commerce. We encourage other researchers to continue work in this field, expanding beyond China and (here) Russia to examine other autocratic countries, map their political connections, and see the effects on internationalization. And of course, taking this research forward can also go beyond internationalization into other areas of interest for MNEs, including talent sourcing, supply chain integration, and strategy determination. The possibilities are limitless, but we believe that the results may be the same. That is, political connections in an authoritarian state capitalist economy are indeed the ties that bind, and too many connections to the state may mean firms are led in the direction that the autocrat desires, no matter what aspect of firm operations is considered.

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Tables and Figures

Figure 1. The Sliding Scale of the Varieties of State Capitalism

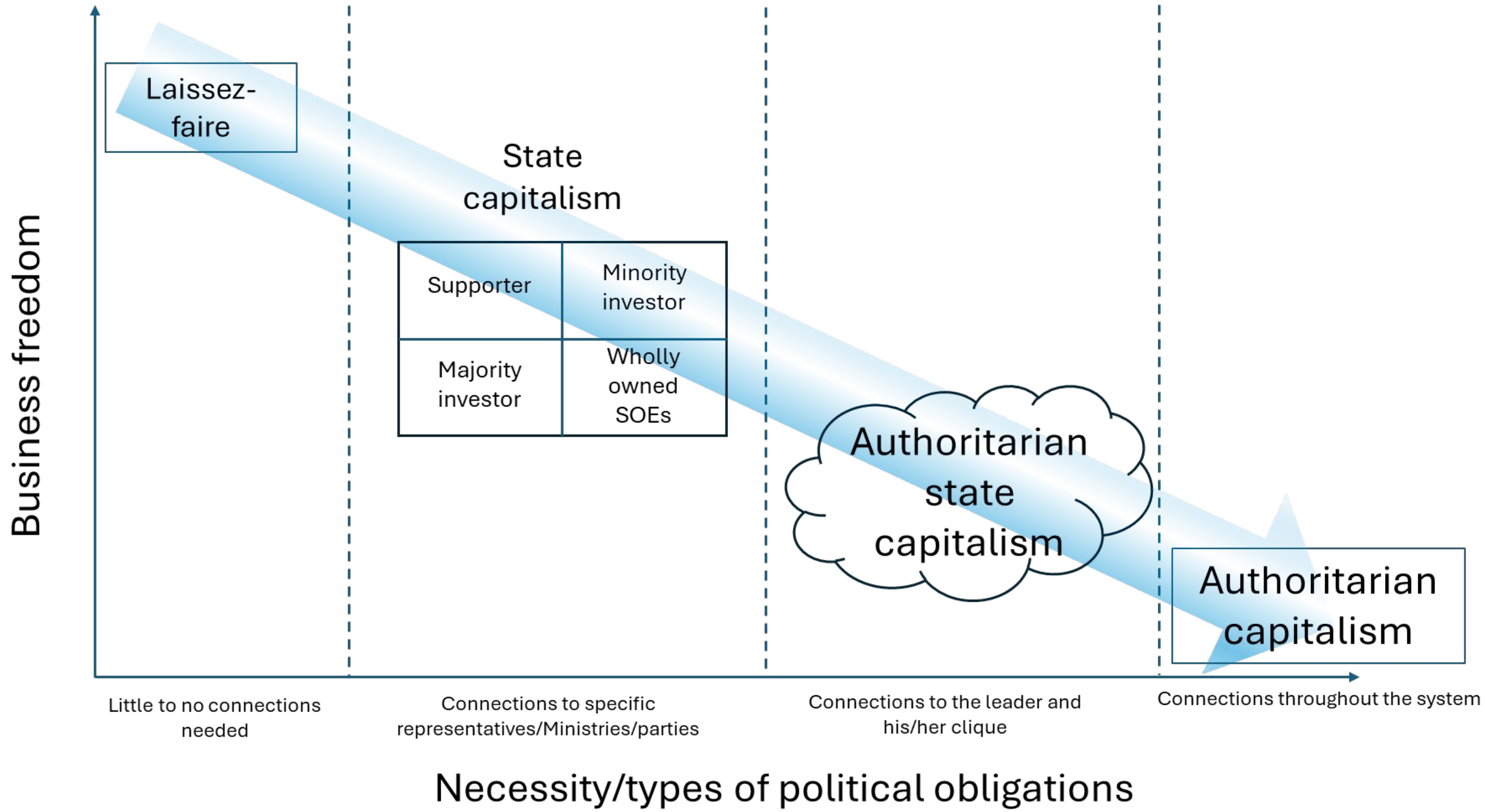
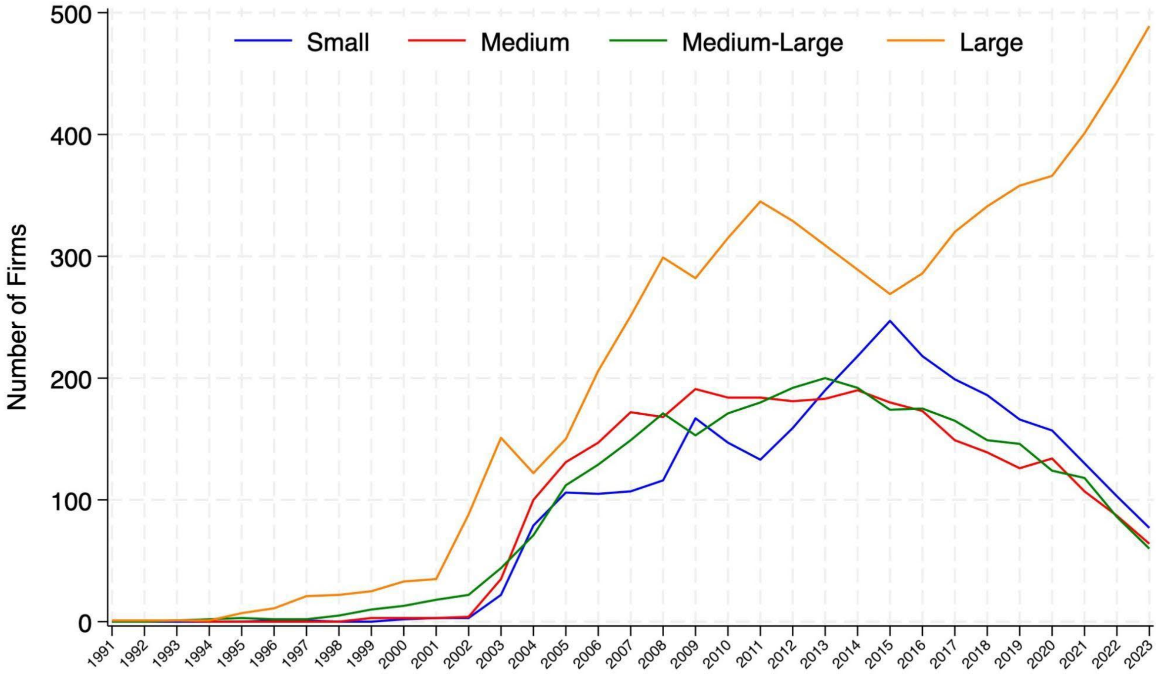
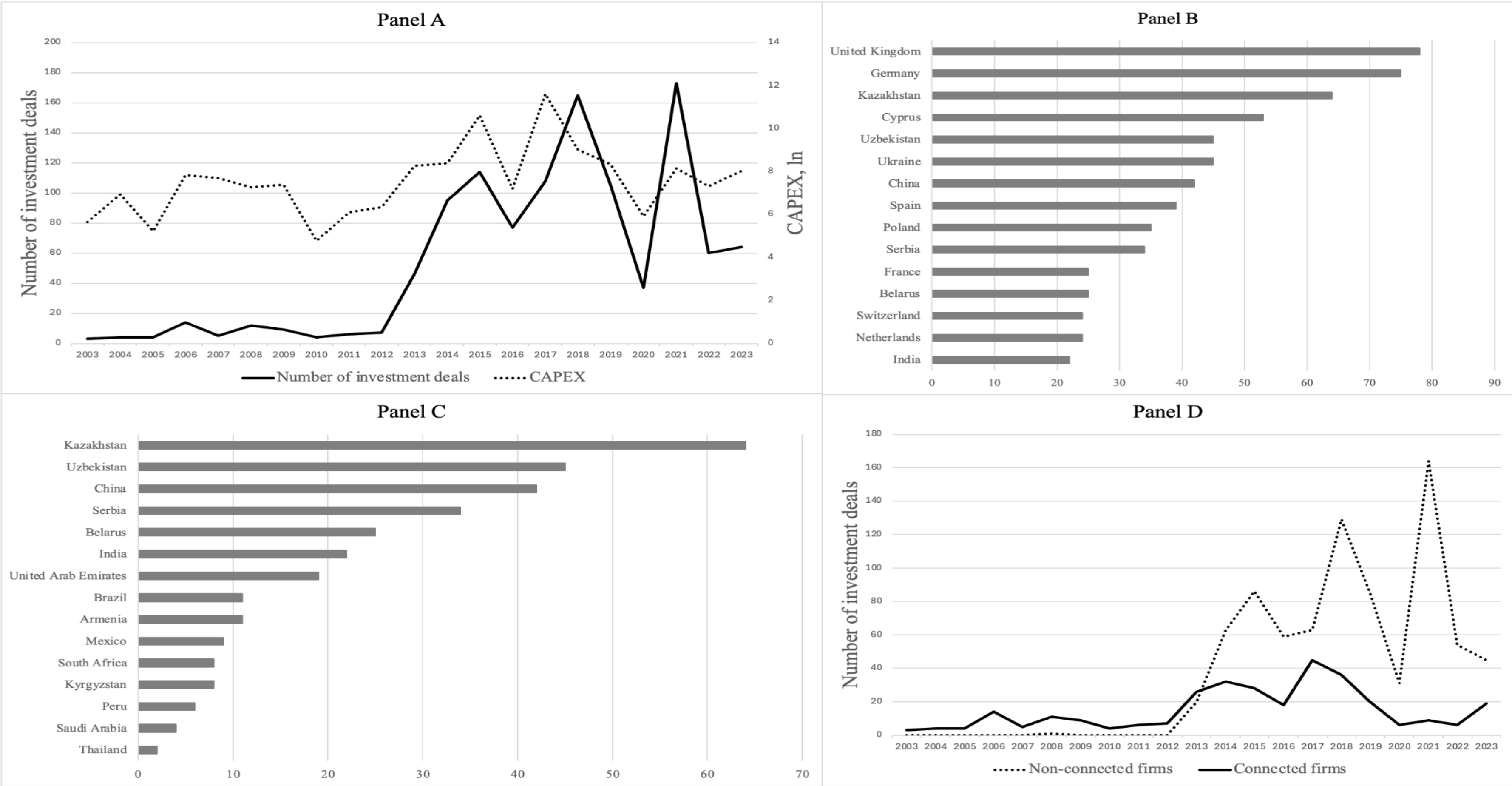


Figure 2. Firms in the Russian Economy by Size, 1991-2023



Source: Authors' calculation from Bloomberg data. Size categories are based on the quartiles of revenue, with "small" firms at the first quartile (q1), medium at q2, medium-large at q3, and large firms in q4.

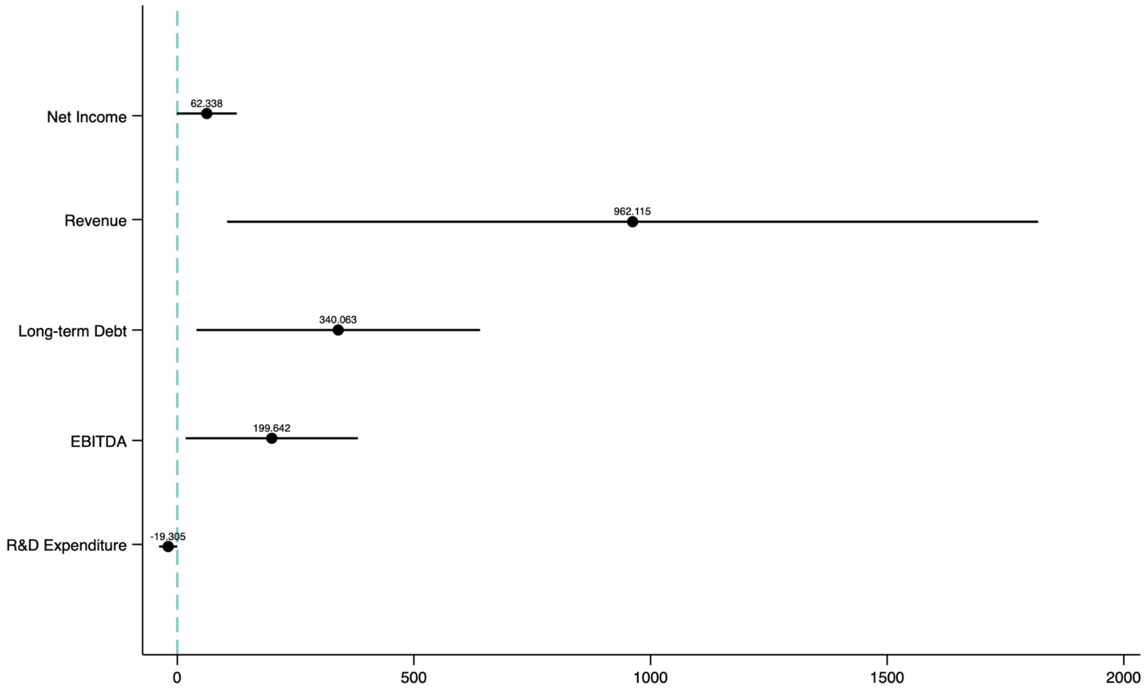
Figure 3. Number of Russian foreign investment deals and their capital expenditure (CAPEX).



Source: ORBIS Cross-Border investments, fDi Markets, own compilation.

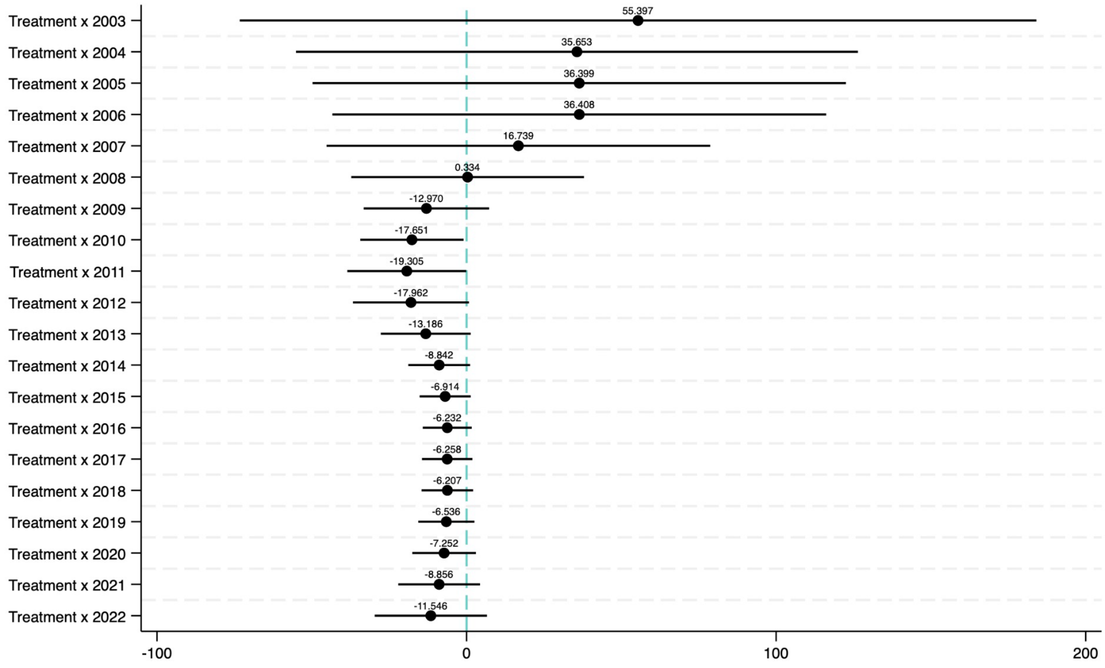
Notes: Panel A is the number of investment deals (lhs) and their CAPEX (rhs) by year. Panel B shows the distribution of host countries where Russian firms invest most often by number of deals. Panel C displays the distribution of host countries that have the least divergent foreign policies with Russia (below p25 of the ideal point distance distribution) and the highest number of investment deals. Panel D shows the number of investment deals of politically connected and non-connected Russian firms over time.

Figure 4. Financial differences between politically connected and non-connected Russian firms after the acceleration of state capitalism.



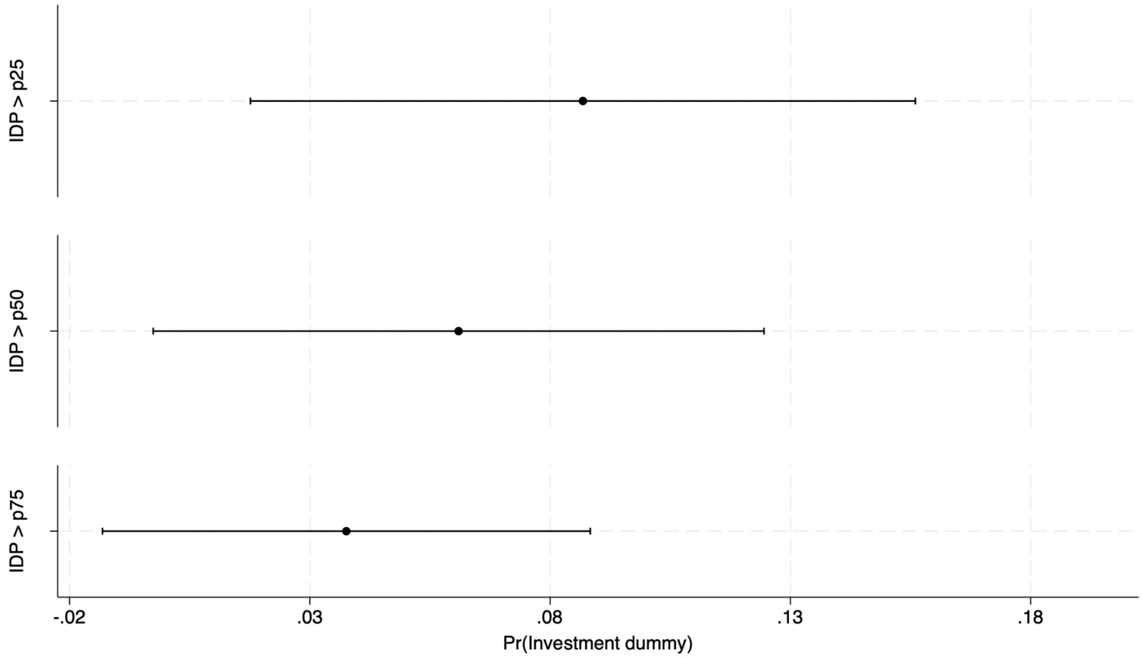
Notes: The figure presents *(Treatment x After)* estimation coefficients of model 1. Each coefficient shows the difference between politically connected and non-connected firms after 2011. The estimation method is difference-in-difference with time and firm fixed effects and robust standard errors. Dependent variables of specific regressions are shown on vertical axes. The full table of results may be found in Table A3.

Figure 5. Dynamic difference-in-difference effects of the acceleration of state capitalism on R&D Expenditure of politically connected vs. non-connected Russian firms.



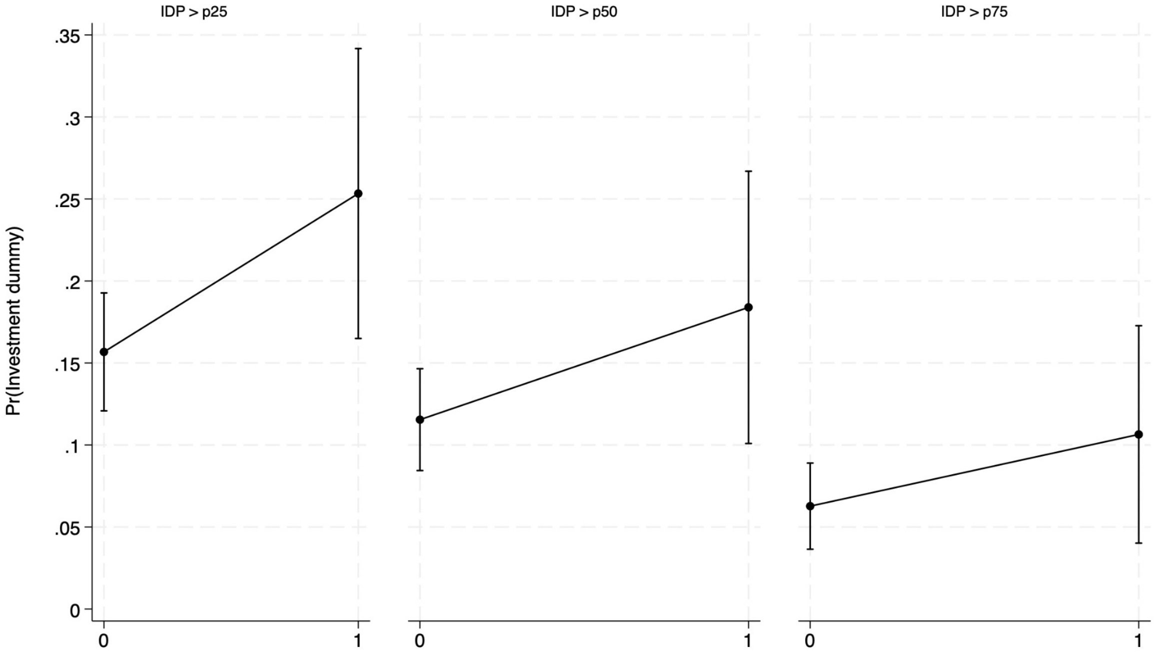
Notes: The figure presents dynamic *(Treatment x After)* estimation coefficients of model 1 for the dependent variable *R&D Expenditure*. Each coefficient shows the difference between politically connected and non-connected firms after the democratic backsliding was complete in Russia in 2011. *Treatment x 2003* dummy is equal to one over 2003-2023, Treatment *x 2004* dummy is equal to one over 2004-2023, …, *Treatment x 2022* dummy is equal to one over 2022-2023, and zero otherwise. The estimation method is difference-in-difference with time and firm fixed effects and robust standard errors. The full table of results may be found in Table A4.

Figure 6. Marginal effects of political connectedness of Russian firms after the acceleration of state capitalism on the probability of investment by political affinity.



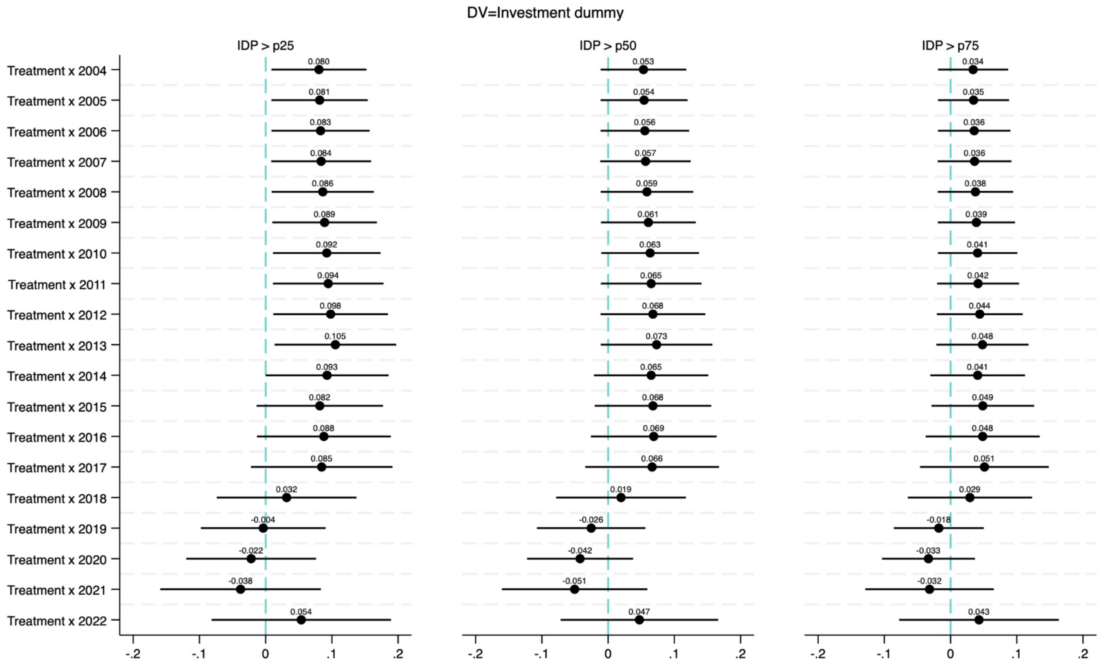
Notes: The figure presents marginal effects of (*Treatment x After)* estimation coefficients of model 2 on investment probability using a probit regression with sector and time fixed effects and clustering at the firm level. Each coefficient shows the difference between politically connected and non-connected firms after 2011. The sample is split based on the *Ideal Point Distance (IDP)* variable that shows political affinity between Russia and host countries. *IDP > p25* means that the sample used for this regression consists of investment projects to host countries with IDP values above the 25th percentile of IDP distribution. Similarly, *IDP > p50* indicates that the sample consists of investments to host countries with IDP above the median, and *IDP > p75* indicates that the sample consists of investments to host countries with IDP above the 75th percentile. The higher the IDP, the more divergent foreign policies are between Russia and host countries. The full table of results may be found in Table A5.

Figure 7. Marginal effects of politically connected vs. non-connected Russian firms after the acceleration of state capitalism on the probability of investment.



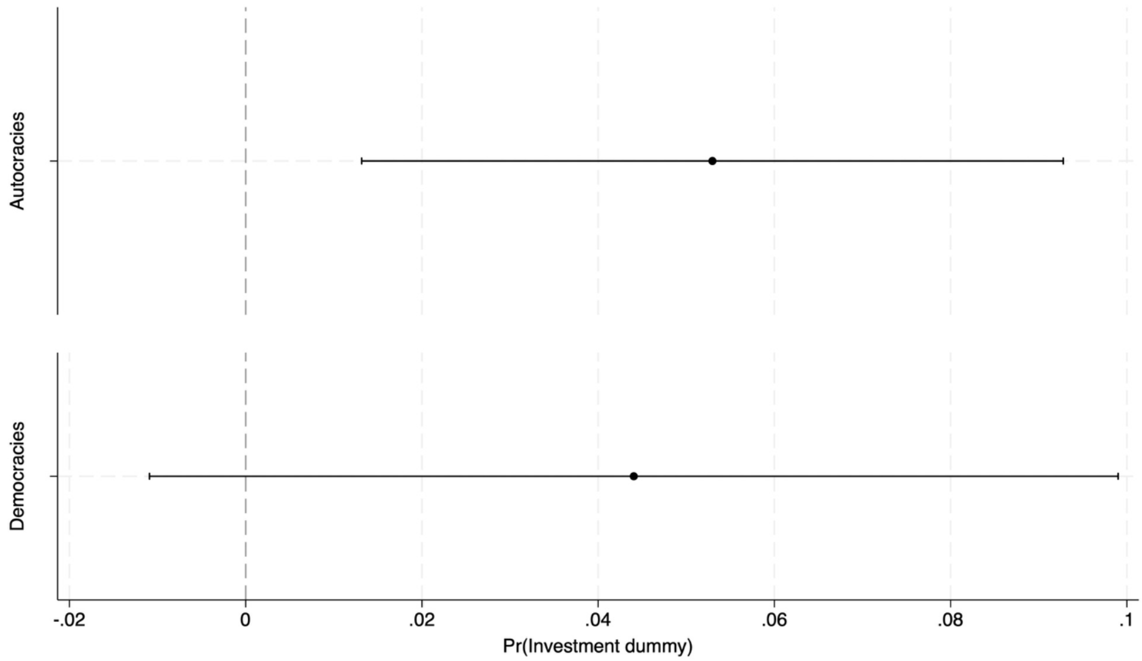
Notes: The figure presents marginal effects of Treatment *x After* estimation coefficients of model 2 for politically connected and non-connected firms. *Treatment x After* dummy is plotted on the horizontal axes. Each coefficient shows the difference in probability of investment between politically non-connected firms before (*Treatment x After = 0*) and politically connected firms after the democratic backsliding (*Treatment x After = 1*) was complete in Russia in 2011. The estimation method is probit regression model with sector and time fixed effects, and standard errors clustered at the firm level. The IDP sample is split as noted in Figure 6. The higher the IDP, the more divergent foreign policies are between Russia and host countries. The full table of results may be found in Table A6.

Figure 8. Dynamic difference-in-difference effects of the acceleration of state capitalism on probability of investment of politically connected vs. non-connected Russian firms.



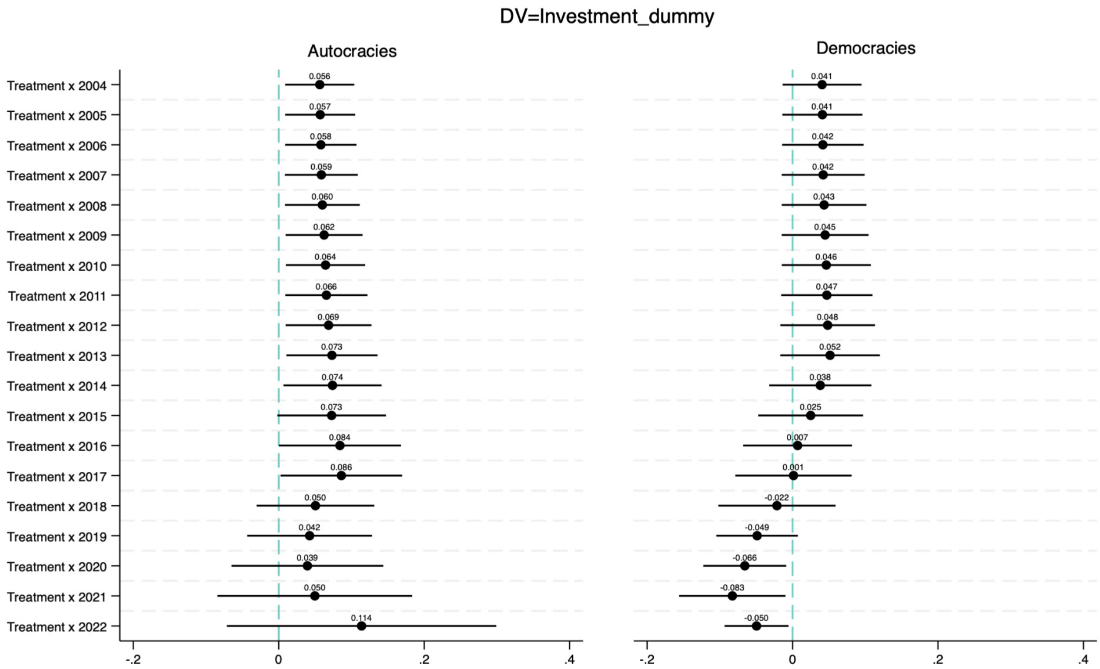
Notes: The figure presents dynamic *(Treatment x After)* estimation coefficients of model 2. Each coefficient shows the difference between politically connected and non-connected firms after the democratic backsliding was complete in Russia, which led to the acceleration of state capitalism, on the probability of investment. Treatment dummies are as noted in Figure 5. The estimation method is difference-in-difference with sector and time fixed effects, and standard errors clustered at the firm level. The IDP sample is split as noted in Figure 6. The higher the IDP, the more divergent foreign policies are between Russia and host countries. The full table of results may be found in Table A7.

Figure 9. Marginal effects of political connectedness after the acceleration of state capitalism on the probability of investment by host countries' regime type.



Notes: The figure presents marginal effects of (*Treatment x After)* estimation coefficients of model 2 on investment probability. Each coefficient shows the difference between politically connected and non-connected firms after the democratic backsliding was complete in Russia in 2011. The estimation method is probit regression model with sector and time fixed effects, and standard errors clustered at the firm level. The sample is split based on whether a host country is a democracy or an autocracy. The full table of results may be found in Table A8.

Figure 10. Dynamic difference-in-difference effects of the acceleration of state capitalism on probability of investment of politically connected vs. non-connected Russian firms by regime type of host countries.



Notes: The figure presents dynamic *(Treatment x After)* estimation coefficients of model 2. Each coefficient shows the difference between politically connected and non-connected firms on the probability of investment. Treatment dummies are as noted in Figure 5. The estimation method is difference-in-difference with sector and time fixed effects, and standard errors clustered at the firm level. The sample is split based on whether a host country is a democracy or an autocracy. The full table of results may be found in Table A9.

Table I. Mean comparison between politically connected and non-connected firms.

Variable	Mean		t-test	p-value
	Politically connected firms	Non-connected firms		
Net Income, mln USD	215.819	24.029	-8.606	0.000
Revenue, mln USD	1872.024	370.720	-11.085	0.000
Long-term Debt, mln USD	563.170	130.027	-9.577	0.000
EBITDA	553.340	73.892	-10.023	0.000
R&D Expenditure, mln USD	5.009	2.439	-2.441	0.015
# of investment deals per year	14.857	38.095	2.165	0.036
CAPEX per deal, ln	3.322	1.941	-8.504	0.000

Source: Own compilation based on ORBIS Cross-Border investments, fDi Markets, and Bloomberg samples.

Notes: Net Income, Revenue, Long-term Debt, EBITDA and R&D Expenditure are available annually.

Table II. Heckman sample selection models.

Variables	(1) Outcome equation Investment dummy	(2) Selection equation Investment dummy	(3) Outcome equation Investment dummy	(4) Selection equation Investment dummy	(5) Outcome equation CAPEX, ln	(6) Selection equation CAPEX, ln	(7) Outcome equation CAPEX, ln	(8) Selection equation CAPEX, ln
Control of Corruption Index		0.144*		0.144*		0.138*		0.138*
		(0.076)		(0.076)		(0.076)		(0.076)
Common Religion		3.853*		3.853*		3.822*		3.822*
		(2.042)		(2.042)		(2.041)		(2.041)
Common language dummy		0.010		0.010		0.019		0.019
		(0.217)		(0.217)		(0.217)		(0.217)
Common legal origin dummy		0.092		0.092		0.095		0.095
		(0.139)		(0.139)		(0.139)		(0.139)
Trade Flow, ln		0.053*		0.053*		0.051		0.051
		(0.032)		(0.032)		(0.032)		(0.032)
Entry Time, days		0.008*		0.008*		0.008*		0.008*
		(0.004)		(0.004)		(0.004)		(0.004)
Ideal point distance		0.129		0.129		0.133		0.133
		(0.155)		(0.155)		(0.155)		(0.155)
Treatment x After	-0.015*	-0.072			0.679***	-0.070		
	(0.009)	(0.139)			(0.245)	(0.138)		
Political connections dummy			0.019**	-0.072			0.619**	-0.070
			(0.009)	(0.139)			(0.244)	(0.138)
ROE	-0.000	-0.003*	0.000	-0.003*	-0.000	-0.003*	-0.001	-0.003*
	(0.000)	(0.002)	(0.000)	(0.002)	(0.003)	(0.002)	(0.003)	(0.002)
Operating Revenue, ln	0.004***	-0.012	0.003***	-0.012	0.185***	-0.011	0.187***	-0.011
	(0.001)	(0.017)	(0.001)	(0.017)	(0.028)	(0.017)	(0.028)	(0.017)
ROA	0.000	0.007	0.000	0.007	-0.015*	0.007	-0.015*	0.007
	(0.000)	(0.006)	(0.000)	(0.006)	(0.009)	(0.006)	(0.009)	(0.006)
Inverse Mills Ratio		-0.035		-0.056		-0.847		-0.802
		(0.035)		(0.036)		(0.964)		(0.962)
Constant		5.039***		10.037***	3.362**	5.073***	2.719**	5.646
		(0.578)		(0.578)	(1.352)	(0.578)	(1.350)	(0.000)
Observations	635	635	635	635	635	635	635	635
Year FE	YES	YES	YES	YES	YES	YES	YES	YES

Notes: *** p<0.01, ** p<0.05, * p<0.1. Robust and clustered standard errors in parentheses. The estimation method is the Heckman sample selection model. The dependent variable of the outcome equations in panels 1 and 3 is the *Investment dummy* while in panels 5 and 7 it is the natural logarithm of *CAPEX*.

ENDNOTES

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[i] Available at https://freedomhouse.org/country/russia.
[ii] Russian names consist of not only first and last (family) names, but also a patronymic - a name based on a person's father's name. This helped to minimize the number of false positive matches among common names.
[iii] To estimate the dynamic effects of the backsliding, we use both probit and OLS panel regressions with fixed effects. Both techniques yield similar results, therefore, we report the results of panel OLS estimates for ease of interpretation. Probit results are available upon request.