Business and State in the Russian Regions

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Since the 1998 financial crisis, Russian big business has dramatically expanded its operations into Russia's regions and, in the process, transformed the country's political system. During the 1990s, Russia's governors and the regional business community had close and mutually beneficial ties, often giving the governors monolithic control over their regions. The governor provided businesspeople with access to state resources, licenses, favorable legislation, and protection from law enforcement agencies in exchange for electoral support and help dealing with potential challenges from Moscow or local opposition groups.

The arrival of big business at the regional level brought a major change in the way that regional politics worked. Before 1998, most of Russia's big businesses had concentrated on the extractive industries and played little role at the regional level. After the devaluation of the ruble, it became profitable to invest in the regions and the magnates began buying up regional enterprises. This insertion of big business into the regional level shook up the cozy ties that had developed among the regional political and economic elites. With the arrival of big business, the governors faced powerful new players who were not beholden to them and had access to enormous financial resources. Big business could have a much more powerful impact on the governors' authority than the appointment of Putin's seven presidential envoys, because the envoys did not have access to resources remotely approaching those of the largest companies.

Business is now a major player in Russian politics and could play a decisive role in the way that Putin's federal reforms are implemented. In some situations, big business has common interests with the federal government. For example, large companies can make common cause with the federal authorities in opening regions with extensive resources that have previously been closed to them. Tatarstan and Bashkortostan are the most prominent examples of such places, but former governor Yevgenii Nazdratenko also long worked to keep external business groups out of Primorskii krai.

Despite some common ground, however, business interests are not always the same as those of the federal state. Because the governors, despite everything, remain powerful in their own regions, business often must cultivate close ties with the regional leaders to pursue their own moneymaking objectives. Such links between big business and the regional elites can be found in the numerous businesspeople that governors and regional legislators have appointed as their representatives to the Federation Council, the upper chamber of the national parliament.

In this sense, business remains a wild card in the new political system because it has extensive financial resources and interests defined autonomously from the state. Following its own interests, it could side with the federal or regional players, changing positions over time and depending on the situation. Although federal or regional politicians may oppose business interests from time to time, the state is no longer strong enough to simply dictate its demands to the business community.

Business's Influence on the Rule of Law Situation

Business is having a decidedly mixed impact on the rule of law situation in the regions where it has recently launched operations. Russian big business in the regions is somewhat analogous to the arrival of foreign direct investment in developing economies. Although one might expect foreign corporations with international reputations to bring clean business practices with their investments, reality shows something different. Recent World Bank research suggests that such companies pay bribes when doing so can promote their business goals and that such forms of foreign investor corruption are particularly common in situations where there is already significant state capture. Given the negative influence of such transnational corporations, one would expect the oligarchs to bring poor forms of governance to the regions.

These expectations have been partially realized. To protect its operations, big business has sought to gain control over the regional political systems in areas where it operates. If it is not possible to simply replace the governor with one of its own employees, business usually works to "domesticate" the regional leadership. In many cases, business has provided campaign financing to incumbent governors in exchange for the appointment of one of its members as a deputy governor. Where it is feasible to do so, big business tries to establish monopolistic control over regional economies, using its extensive influence to block out other competitors from challenging them. Such actions limit the extent of Russia's internal market and make it difficult to establish a normally functioning market economy.

On the other hand, big business has brought many innovations to the regions. In particular, upon purchasing a company, it often sends in new managers who are much more adept at working in the contemporary economy than their predecessors. In regions with a well-developed business community that has many players, such managers seek to have a more institutionalized relationship with the authorities than existed earlier. These firms are more willing to pay their taxes according to clear rules in exchange for being able to function under a system where they have little fear of political reprisals. These companies have also stimulated local economies by bringing in extensive new capital.

The extent of overall corruption in the evolving regional economies will depend decisively on the nature of the relationship between the state and business. Ideally, a fragmented business community working in an area with a relatively dispersed political system would be the best for maintaining low levels of corruption. The worst situation obtains where imbalance exists, when business is able to capture the state or the state itself behaves as a predator. In many of the Russian regions, both the state and the business community have relatively strong resources and can be currently characterized as "mutual hostages." Largely, they must accommodate each other because they are both strong enough to inflict significant harm on the other. As David Kang has shown in his analysis of South Korea in the book *Crony Capitalism*, a "mutual hostage" situation can lead to successful economic development, though extensive corruption remains an integral part of the system.

The arrival of big business in the Russian regions clearly works to fragment the overall concentration of power at the regional level, shifting regional political systems from highly centralized systems to ones with a greater dispersal of key resources. The ability of these systems to deal with future crises will naturally be a function of their ability to respond quickly while implementing consistent policy over time. Achieving these often mutually exclusive objectives requires a political and economic system that avoids the extremes of concentration or fragmentation. Working in the middle of the spectrum was the most successful strategy for East Asian countries following the 1997 financial crisis there, as Andrew Macintyre argues in *The Power of Institutions*. In the sense that the arrival of big business in Russia's regions moved them away from excessive concentration, its impact has been beneficial. How effective the new systems will be in dealing with inevitable future crises, of course, is yet to be seen.

The Impact of Contract Killings

Commentators on the Russian scene often note the large number of contract killings associated with Russian business. After the media broadcast pictures of victims lying in pools of blood, the (presumably corrupt) authorities fruitlessly search for perpetrators, and the cases usually remained unsolved. However, much more is going on than is apparent from the lurid headlines.

Certainly regions like the Far East have seen contract killings dramatically increase in the last year. As business and politics become increasingly intertwined, more public officials, from governors and Duma members to mid-level bureaucrats, are falling victim to the assassins' bullets.

However, in one resource-rich region with its fair share of business-related murders, the number of businesspeople killed because of their business activities represented only about one-third of all murders of businesspeople. During the three years from 2000 to 2002, 95 Irkutsk businesspeople died violently. Two-thirds of them were killed for reasons unrelated to their business activities. Motives for the slayings included efforts to cover up other crimes and arguments, especially when the parties were consuming alcohol, according to work done by the Irkutsk branch of the Transnational Crime and Corruption Center.

The number of murders was strongly correlated to the size of the business operations. Participants in small and medium business were much more likely to die than those involved in big business. Big business had already divided its spheres of influence and was able to pay for sufficient security forces to deter any attacks on its personnel. Most of the murders occurred in small- and medium-sized businesses with an ongoing struggle for market share and scarce resources—for example, several murders took place in the forestry industry as small-time dealers fought over access to the few providers of raw timber and limited rail services needed to export the logs.

Thus, although there is a common perception that such violence is endemic to Russian business, a more detailed analysis reveals a logic to the killings—they result from specific conditions. Developing a better understanding of when and where murders take place will make it easier to eliminate this scourge.