

The Role of Business in Russian Foreign and Security Relations

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Since the collapse of the Soviet Union, Russia has developed a powerful business community and a potent network of transnational organized crime groups. These new actors are having a significant impact on the evolution of the Russian state and its foreign relations. The scope of these firms is enormous, from well-known gigantic energy and metals companies to small-scale businesses involved in exporting logs illegally across Russia's porous borders.

What is Russian Business?

I conceptualize "business" here in the widest possible meaning as including legitimate companies and organized crime since the division between the two is often blurred in Russian reality. When Russia became an independent country, it had essentially no independent business community. However, through an extremely controversial process of privatization during the early part of the 1990s, Russia formed powerful business groups that now influence key areas of state policy. These groups have evolved considerably through the economic crisis of 1998, the ascent of Putin to Russia's presidency, and the arrest of Mikhail Khodorkovsky, Russia's most successful businessman, but they remain key players. At the same time, organized crime has grown dramatically as a separate entity and through links to legitimate business.

Two key issues define the nature of Russian business: property rights and ownership. The way that the Russian business sector developed is extremely important for understanding the role that business plays in Russian foreign policy. In this sense, the country's foreign policies and behavior abroad are "path dependent." What is important about the Russian process of privatization and new business creation is that the transition from a socialist economy took place in a largely lawless environment. Successful businesspeople accumulated large sums of capital using methods which may or may not have been legal. Since the legality of the methods used to acquire this money was never confirmed, the owners of this property have no security in the belief that they will be able to hold on to their assets. Their property rights depend entirely on the whims of the state and whether it will simply leave the status quo or decide to prosecute a certain number of the most successful businesspeople active during the first part of the 1990s. As a result even apparently legitimate businesses exist under a cloud of uncertainty about their origins.

In short, Russian corporations developed in a way that deprived them of a solid legal institutionalization. The lack of clear property rights makes Russian corporations vulnerable to attacks by the state and other corporations seeking to grab their assets. This evolutionary path predisposed the firms to certain kinds of behavior. They seek to protect themselves from the Russian state. They are also inclined to aggressive behavior abroad to further buck up their position.

The second key issue is ownership. Many of Russia's private firms are in fact state owned. In key examples like Gazprom, it is hard to define where the state ends and the private sector begins. Even in such cases where the state owns a controlling stake, state officers do not necessarily do a good job managing state assets. Accordingly, state-owned companies are often able to pursue purely corporate interests that are not necessarily in line with state interests. Likewise corporate officers can siphon off assets for their personal benefit since there is little control from outside.

Corruption and organized crime play a major role in most aspects of Russian business, particularly businesses operating in lucrative export areas. Such crime groups are particularly visible, for example, in the forestry sector in the Far East. In regions like Irkutsk, they organize the illegal cutting of trees and then ship the raw timber to buyers in China by gaining access to the railroads. Such activities violate Russian interests by sending abroad raw materials to Chinese factories near the Russian border when those same materials could be used by Russian factories to create jobs for Russian workers in making furniture and other wood products.

Business-State Relations and Foreign Relations

While Russia is no longer a superpower, it remains an extremely important factor in the security environments of Europe, the Caucasus, Central Asia, and the Far East. The evolution of Russia's business community and its relationship with the state shapes how the country behaves in these areas. Business potentially could influence traditional security players in ways that reduce levels of international conflict and promote stability, particularly by increasing trade. However, legitimate business's constant pursuit of profit in a lawless environment and the rising role of crime groups often increases conflict both within Russia and along its borders.

Russian state and corporate interests overlap in that both want to expand markets for Russian business and increase the power of Russian companies to operate abroad. However, Russia's specific conditions give its corporations a set of interests that are not necessarily shared by transnational firms based in other countries. For example, Russian energy companies have a huge incentive to export because usually they can charge much higher prices on the world market for their product than they can get for similar sales at home.

Most important for this analysis is that Russian corporations work to protect their assets and profits from the Russian state. One way of ensuring such protection is through capital flight. However, firms are pursuing a variety of other methods. By expanding operations abroad, Russian corporations can seek to protect their assets by placing them in foreign jurisdictions presumably outside the reach of the Russian state. Establishing foreign subsidiaries is a logical extension of corporate behavior inside Russia. Since

Putin came to power at the beginning of 2000, Russian companies have sought to build up their assets in the Russian regions outside of Moscow in order, among other reasons, to put greater distance between themselves and the main offices of the presidential administration.

In increasing their security, Russian corporations seek to buy up all links in their production chain. They hope to be able to control every aspect of their business, from the early production stages to delivery of the final product to the customer. Thus, for example, Russian metals companies have recently purchased ports in the Far East so that they will have guaranteed access to shipping routes allowing them to send their materials abroad. Likewise, the Russian oil companies have sought to build private pipelines so that they can send fuel to foreign customers. Currently, the state controlled monopoly Transneft controls all of Russia's pipelines. Since the pipelines are operating at full capacity, this monopoly has the ability to determine how much each company can export. Russia's oil companies have sought to increase export capacity through new pipelines via Murmansk to Europe and from eastern Siberia to Asia.

Another way that Russian companies can protect themselves from advances by the state is through hiring foreign nationals to run key operations. The Russian government has frowned on this practice, however, pointing out that the size of Russian oil reserves is a state secret, making disclosure of this information to foreigners illegal.

These business practices have international consequences because Russian firms transfer practices to their foreign behavior practices that are familiar to them from their domestic operations. For example, when a large Russian company moves into a new region, it often seeks to establish a monopoly presence to protect itself and its market position. If a company has such a market position, it can often block out unwanted competition. In moving into the Russian regions, many Russian big businesses thus seek to put in place one of their representatives as the governor of a region where they are operating. If the company cannot secure the election of one of its own employees as governor, then it tries to buy off the current governor. Such practices are similar to the behavior of Russian companies in conflict regions along Russia's borders in Moldova and Georgia. In those areas, Russian soldiers and state officials often provide the lifeblood for keeping alive separatist movements. Russian business, whether legal, illegal, or somewhere in between, can operate in these conditions because it feels that the Russian military presence gives them the necessary protection. As a result, the Russian firms working in these conditions have an interest in keeping the conflict going because it opens markets to them, while closing them off to others.

Different Sectors, Different Relations

The kind of relations established between the state and business has an important impact on the dynamics of conflict and cooperation within countries and among them. Looking at the domestic situation in Russia, the state has not established the kind of stable regulatory framework for business that well-defined capitalist systems have. In Russia, the rules of the game for business frequently change, depending on the balance between key political players.

There is a major difference between the energy sector and the other sectors. In the energy sector, by far the most important for Russia, there is a relatively coherent state and easily identified major corporations. In countries bordering on Russia, state and business can work hand in hand to promote mutual interests. In these cases, the Russian state backs up the expansion of Russian business interests. The expansion of Russia's energy companies into Belarus, Ukraine, the South Caucasus, and parts of Central Asia demonstrate this

However, the Russian state does not always support the purely commercial interests of its companies. Gazprom often sells gas to Russia's neighbors for less than world prices. Russian companies frequently complain that the Russian state does not back them sufficiently in purchasing assets abroad. Russian steel companies, for example, have not secured many assets in Ukraine that they had sought.

In other sectors of the economy, the state often is much weaker and the business community more amorphous. While the state can establish relatively coherent relations with energy and metals companies, large sectors of the economy are beyond its control because of the extensive corruption among state agencies. The customs agency is often cited as one of the most corrupt in Russia.

To cite just one example, until a recent crackdown, the airport in Chelyabinsk was under the control of a crime group with extensive corrupt relations to the local customs officials. The group had set up a large business importing and distributing automobile spare parts to the region from Europe. While this case is now moving through the law enforcement system, the presence of such a ring demonstrates the extensive opportunities for such business to operate beyond the control of the Russian authorities. Such crime groups undermine Russia's formal institutions and efforts to conduct a coherent foreign policy.