



Russia between transition and globalization

Olga Garanina

► To cite this version:

Olga Garanina. Russia between transition and globalization. Sixth Pan-European Conference on International Relations "Making sense of a pluralist world", European Consortium for Political Research-Standing Group of International Relations, University of Turin, Turin, 12-15 septembre 2007, Sep 2007, Turin, Italy. halshs-00182820

HAL Id: halshs-00182820

<https://shs.hal.science/halshs-00182820>

Submitted on 29 Oct 2007

HAL is a multi-disciplinary open access archive for the deposit and dissemination of scientific research documents, whether they are published or not. The documents may come from teaching and research institutions in France or abroad, or from public or private research centers.

L'archive ouverte pluridisciplinaire **HAL**, est destinée au dépôt et à la diffusion de documents scientifiques de niveau recherche, publiés ou non, émanant des établissements d'enseignement et de recherche français ou étrangers, des laboratoires publics ou privés.

Russia between transition and globalization

Olga GARANINA

PhD student

University Pierre Mendes France of Grenoble (*France*)
St Petersburg State University of Economics and Finance (*Russia*)

Mailing address: LEPII, UPMF- BP47 38040 GRENOBLE Cedex 9 France

Telephone: +33 (0)6 15 82 50 27 Fax: 33 (0)4 56 52 85 71

Email: olga.garanina@upmf-grenoble.fr

The research aims to understand the impact of the internal factors on the formulation of a policy of selective opening of the Russian economy since the beginning of the transition. We study the politico-economic configuration in Russia in terms of (i) its "vertical" dimension (relations federal centre - regions) and (ii) the "horizontal" one (relations between state and firms). We show the fragmentation of the central state as regards to both dimensions during the first period (1991-1999). During the second period (since 2000), the reforms aim to reinforce the "vertical of power" and to institutionalize the state-enterprises relations. Nevertheless, questions emerge as to the effectiveness and continuity of the state's return strength. This evolution also appears through the study of Russian trade policy, which has submitted to private interests in 1991-1998 and stabilized afterwards. Meanwhile, the economic (and hence political) equilibrium in Russia remains extremely dependent on hydrocarbons exports.

Introduction

In the beginning of the 1990s, Russia had to deal with a double challenge. Firstly, it was moving from the command system to a capitalist market economy, and secondly, from a relatively closed economy towards integrating the globalizing world economy. This double challenge raised questions relative to the allocation of property rights over assets and of the configuration of relations between the state and the private sector. The main objective of this research is to understand the impact of the internal factors on the formulation of a policy of selective opening of the Russian economy since the beginning of the transition.

We use the approach of international political economy. The decisions related to the opening of the Russian economy should be analysed in light of internal factors (i.e. dominant groups of interests). The latter reflect factor (Rogowski, 1989) or industrial (Milner, 1988) preferences upon the trade policy outcome. Further, as policy demands pass through public institutions, the institutional structure of the decision-making process should also be considered. In this paper, we study the link between politico-economic configuration in Russia since the beginning of the transition reforms and mode of its international integration aiming to apply the international political economy analytical framework.

In section 1, we study the general configuration of relations between executive and legislative power and civil society. We show the dominance of individualised relations between economic agents within executive bodies, thus invalidating political economy models based on hypothesis of promotion of collective (group) interests.

In sections 2 and 3, we present a political economy view of Russian state in terms of (i) its "vertical" dimension (relations federal centre - regions) and (ii) the "horizontal" one (relations between state and firms). We distinguish two periods, that is, 1991-1999 and 2000-present, the political changes (notably, the arrival of the Putin administration in 1999) being considered as a breaking point. During the first period, we observe the fragmentation of the central state as regards to both dimensions. With the ability to exercise influence over the regulatory decisions of central and regional public authorities within an uncertain institutional context, firms may implement strategies of asset stripping and cash stripping. This distribution of forces is questioned at the end of the 1990s with the post-crisis recovery and the arrival of V. Putin into power in 1999. During the second period (since 2000), the reforms aim to reinforce the "vertical of power" and to institutionalize the state-enterprise relations. The private strategies are submitted to the realization of the "national" interest. The state reinforces control over natural resources and other strategic industries, *i.e.*, automobiles. Nevertheless, resistances persist, and questions emerge as to effectiveness and continuity of the state's return strength.

In section 3, we observe these tendencies through the evolution of the Russian trade policy, weakened by private interests in 1991-1998 and being stabilized since 1999-2000. Nevertheless, as proven by international specialization indicators, until present, Russia has not succeeded to diversify its international specialization based on hydrocarbon exports.

1. Individualized lobbying within the executive power

Russian political-institutional system is characterized by the dominance of executive power and a weakly-developed civil society.

The role of the Parliament has been weakened since the 1993 crisis (Roche, 2000). At that period, the Parliament (Supreme council of the RSFSR, elected in the soviet period)¹ was opposing to radical economic reforms. It denounced privatization as a form of asset stripping and criticized monetarist approach (restricted budgetary expenses) of the government. The culmination came in summer 1993, while the inflation peaked at 30% rate on a monthly basis, the workers' discontent was growing and the International Monetary Fund (IMF) suspended a credit tranche by arguing that the reforms were too slow. One can note that the Parliament was composed mainly from *intelligentsia* (53,5% of the RSFSR Supreme Soviet of 1991 according to the sociologist O. Krychtanovskaya, 2005), while *nomenklatura* mostly searched access to the executive bodies where main power resources had been concentrated².

Paradoxically, at that moment, the President possessed strong public popularity. The revocation of the Parliament (September, 1993) provided him Occidental support and promise of financial assistance³. The confrontation was solved in October by the assault of Parliament, the latter not accepting to resign.

In result, the Constitution adopted by referendum of December, 1993 granted large power to the President, hence consolidating the personal power of B. Yeltsin⁴. Also, in this way, radical reforms could be re-launched according to the IMF prescriptions and that, without the mandate from the population. One can consider the reformist party of Ye. Gaidar gathered only 15% of votes at the parliamentary elections hold on the same day with the Constitution referendum⁵. The regional leaders' elections were suspended *de facto* until 1996⁶. So, Roche (2000) evokes a "confiscated democracy".

In theory, such situation reveals the link between political regimes (democracy or authoritarian state) and the pursuit of reforms. The J-curve model describes the distribution of

¹ RSFSR stands for Russian Soviet Federative Socialist Republic.

² Krychtanovskaya (2005: 148). The *intelligentsia* means the social class engaged in complex mental or creative labor, while the *nomenklatura* occupied various administrative positions in the Soviet Union.

³ The coincident victory of the Communist party in parliamentary elections in Poland could possibly contribute to the IMF decision to support Yeltsin (Reddaway, Gliniski, 2001: 417).

⁴ That is, not only legal competences of the President face to the Parliament (the right to dissolve the Parliament if it doesn't accept for the third time consecutively the candidature of the Prime Minister, the right to dismiss the government and to nominate federal ministers, etc), but also increased personal power of B. Yeltsin. While fixing in Constitution the end of the presidential mandate for June, 1996, he withdraws his decision to run the presidential campaign in June, 1994. In fact, the popularity of Yeltsin was decreasing. In November, 1993, 48% of the population were unsatisfied by the performances of the President since the October events, only 25% were satisfied and 27% had no answer. Roche (2000: 209-210).

⁵ In total, liberals receive about 30% of votes (of which 7,83% for "Yabloko" of G. Yavlinski opposing to the shock therapy), the left wing gets 28% (of which the Communist Party 12,35%), and the liberal-democratic party of V. Zhirinovsky (extreme right) gathers 22,79%. The remainder is shared between several parties of lesser importance. Roche (2000: 219).

In 1995, the party of power ("Our home is Russia" of V. Chernomyrdin) got only about 10% of suffrages, while the left-wing parties received about 32% of votes. Krychtanovskaya (2005: 158).

⁶ Elections were prohibited in November 1991-November 1992, further the moratorium was extended for one year. In 1991-1992, Yeltsin nominated 70 regional leaders and about 50% of regional leaders had to leave their functions. However, while centrifugal tendencies in the regions were getting stronger, the Parliament reduced the presidential competences to influence nominations in the regions. After the assault of the Parliament, governmental elections had been formally prohibited until the inauguration of the new Parliament, but in fact, their organization had been blocked until 1996, with rare exceptions. See Krychtanovskaya, 2005.

gains and losses from the reforms⁷. It supposes that the benefits from reforms are diffused in space and postponed in time, while the losses are concentrated on precise groups (for example, pensioners and public sector workers) and coincides in time with the reforms. So, in democratic regimes, losers are supposed to counteract the reforms. Therefore, radical reforms can be realized only by a government which is autonomous from its electorate in the short term.

In this context, Russian civil society stays relatively passive. Firstly, one should remember the quasi-inexistence of the democratic tradition in Russia which is limited to the constitutional monarchy experience in 1905-1917, and a strong personification of power typical for Russian political system. Secondly, Russia inherited soviet paternalist structures where workers were dependent from their enterprises (notably, for the delivery of social services). Finally, the past totalitarian control – not admitting independent organizations – entailed the atomization of society, the latter being reinforced by the economic troubles. Therefore, the population adapts itself to "top-down" reforms. Moreover, the economic crisis discredits new institutions and entails strategies of individual survival while distancing the populace from political institutions.

While the executive power is dominating over the legislative power, its decisions are highly influenced by firms. Precisely, the emerging system is characterized by *personalized relations* between enterprises (taken in isolation) and public decision makers, as opposed to the collective representation of interests of groups of enterprises (industries). In fact, the high concentration of soviet industry and initial stage of development of private enterprise in Russia in the beginning of the 1990s explain, firstly, a "unitary" representation of economic interests and, secondly, multiplicity of interests (strategies) of actors, not yet achieved convergence of interests on a sectoral basis.

The system of personalized lobbying entails high entry barriers (their monetary content is reflected in the scope of corruption, while their relational content is more difficult to measure), which are practically eliminatory for nascent innovative industries and small enterprises. As shown by Schattschneider (1960: 58), small non efficient organizations are not able to accede a real political activity because of lack of resources (notably, financial resources). They will remain outsiders limited to emitting pressures from outside without access to the initiated circle. In this way, the strongest actors (notably, those related with trading activities or exports of natural resources) are privileged, while the weaker groups (industries having weaker competitiveness and the whole of population) are abandoned to a kind of autonomous survival.

In other terms, the tendency is to (i) private appropriation of public patrimony (ii) creation of club goods⁸ (assets appropriation, security of property rights, economic policy decisions, etc...), iii) quest for immediate rent in the context of high political instability. Correspondingly, transition in Russia authorised a high level of continuity of elites.

In the next sections, we will observe the scope of individual strategies on the two dimensions: i) the weakening of the federal centre face to regions and ii) the growing influence of enterprises over public policy decisions.

⁷ See Przeworski, Adam (1991) *Democracy and the Market*. New York : Cambridge University Press.

⁸ Club goods form an intermediate situation between private goods – goods consumed by one individual and only one – and collective goods – goods consumed by the whole of community and characterised by the non-rivalry (consumption of the good by one individual doesn't hinder its consumption by other individuals) and by the non-exclusion (nobody can be excluded from the consumption). Club goods are non-rival but they are excludable (for example, private TV channel, sport centre).

2. Russian State since 1991: from fragmentation to consolidation?

2.1. Destruction of the common economic space

Institutional failure in centre provides a context where regional-based nationalisms can mobilise themselves for promotion of their autonomy (Przeworski, 1995: 22). In Russia, the "parade of sovereignties" activated by ethnic republics led to a complex and asymmetric relations within the Federation, with immediate implications for economic policy decisions.

2.1.1. Diversity of legal status and "parade of sovereignties"

Russia inherited the territorial complexity of the Soviet Union. Russia is a federal state composed of 89 Federal subjects (regions) having six different categories: republic, *krai* (territory, county), *oblast* (region), cities of federal importance, *okrug* (circonscription) autonomous and *oblast* autonomous⁹. Except if mentioned, we will use a generic term of "region". Russian administrative division presents several problems:

- it doesn't necessarily respond to historico-ethnical criteria (in 1989, Russians form a majority in several ethno-federal unities);
- it is not immutable (for example, Russian republic of Carelia had the status of Union republic until 1956, while the Crimea was transferred from Russia to Ukraine in 1954);
- it is unequal as certain republics of Russian Federation (for example, Tatarstan) are comparable to newly independent Baltic countries in terms of economic size.

Naturally, given such complexity, when M. Gorbachev proposed a new "treaty of Union", autonomous regions of Russia (like republics of Tatarstan and Chechnya) tried to raise their status. In this context, B. Yeltsin, being at that time the President of the Russian Supreme Council and struggling to affirm Russian sovereignty face to the Union authority, would have exchanged regional political support against enlarged competencies of the regions. One can remind his famous declaration pronounced on the middle-Volga trip in August, 1990- "take as much sovereignty as you can swallow". This declaration provoked the so-called "parade of sovereignties". During the four next months, 19 autonomous entities (republics, *oblast*, *okrug*) of Russia proclaimed their sovereignty and 4 others succeeded in December, 1990 – July, 1991¹¹. The independency tendencies soon overpassed the scope of ethnic regions reaching ordinary *oblast* (for example Sverdlovsk *oblast* at the Urals). At the same time, several regions were refusing to transfer taxes to federal budget¹².

⁹ Nowadays (as of April 2007), there are 86 federal subjects as several regions have been regrouped.

¹⁰ While *oblast*, *krai* and *republics* have a "superior" hierarchic rang, *okrugs* have a specific autonomous status within *oblast* or *krai* (except for *okrug* autonomous of Chukotka which is not attached to any territorial entity). Other particular cases are Jewish autonomous *oblast* and two cities of federal importance, Moscow and St-Petersburg.

¹¹ The exception is Nord-Ossetia having declared its sovereignty on July 20, 1990.

¹² For example, Republic of Yakutia was authorized to conserve the totality of perceived taxes (Radvanyi, 2000: 89). In 1992-1993, 10% of budgetary transfers were sent to poor regions, while 90% had been sent to more "independentist" ethnic republics (Smith, 1999: 194). In this relation, Treisman (1999) puts forward that the appeasement of opposition in certain regions by financial transfers was one of the main reasons of the non-desintegration of Russia, as compared to other post-communist federations.

This process was driven by several factors, notably, the quest for control of regional resources and for consolidation of personal power of regional elites. Certainly, beyond these motivations, regional political elites were also looking to maintain the regional budget revenues and protect ethnic populations¹³.

2.1.2. Distribution of competencies between the federal centre and regions

In the Federation Treaty signed on March 31, 1992, Yeltsin accepted the principle of agreements (bilateral treaties) as the basis of the Federation. The Republics making part of Russian Federation were considered as sovereign. Further, ambiguities of relations within the Federation found their place within the Constitution (December, 1993). While it stipulates the exclusivity of federal government competences in numerous domains (establishment of a single market, financial, currency, credit and customs regulation, principles of pricing policy and monetary issues, foreign policy, international treaties and foreign economic relations (art. 71)), numerous issues are submitted to the joint responsibility of the federal government and regional authorities (notably the use of subsoil resources (art. 72)). Second, while the Constitution stipulates the dominance of the constitutional principle of the Federation, it also admits elements of contractual relations (art.66).

In 1994-1998, the federal centre yields ground to regional elites while concluding treaties concerning the distribution of competences with more than half of the regions¹⁴. It led to a differentiation of legal frameworks within the Federation, notably, as for fiscal and budget issues, privatisation conditions, licences for exploitation and exports of raw materials and mineral products. The concluded treaties supposed more extended (Republic of Tatarstan, city of Moscow) or less extended competences (territory of Krasnodar, oblast of Tver) of the regions. In the trade domain, the concerned areas were, mainly, deliveries of authorisations, distribution services, exploitation of natural resources, customs procedures, reglementation of foreign investments (registration procedures, incitation measures), trade facilitation measures and environmental protection¹⁵.

While the federal instances disposed of branches in the regions aiming to homogenize the federal policy, they were influenced by regional and local administration. Moreover, legal norms relative to the distribution of competences could be not respected in practice, as their interpretation and application were left to discretion of regional public officials, and while informal arrangements were playing a very important role, especially at regional and local level¹⁶.

2.1.3. Diversity of regional policy preferences

Fragmentation of political and legal space contributes to the differentiation of economic policies between the regions, the latter consolidated by a strong differentiation of regional economic structures as for the resources availability, industrial structures and income level.

¹³ Gorenburg (1999) studies four Turkish republics and concludes that while concentrating the discourse on issues of economic advantages and sovereignty (in order to maintain Russian population), regional leaders promote series of measures aiming the ethnic revival of peoples.

¹⁴ The first treaty was passed with Republic of Tatarstan in 1994 for the official reason to solve the conflict situation, as Tatarstan had not signed the Federation Treaty and looked for a status of a sovereign state "associated to Russia". Radvanyi (2000: 89).

¹⁵ See OECD, 2003.

¹⁶ *Idem*.

Therefore, regional economic policies in place vary from liberalism (for example, Nijni Novgorod) and strict interventionism (for example, Ulianovsk).

Economic differentiation leads to diversity of regional preferences as for the foreign economic policy. So, Mau and Stupin (1997) point to the role of industrial structures. They distinguish three types of enterprises depending on size and efficiency: i) large non competitive enterprises, ii) large and efficient enterprises and iii) small efficient enterprises having weak political weight. The regions where small efficient enterprises dominate are more prone to market while regions dominated by large non efficient enterprises are submitted to pressures for protection of local producers. OECD (1995: 52-54) also distinguishes extravert and introvert regions. The former encompass i) regions rich in natural resources and situated in weakly populated areas of the North and ii) principal commercial centres and entry points. While benefiting from integration the world market these regions have preferences for economic opening. The introvert regions, at their turn, are dominated by agro-industrial or military-industrial complex. The agro-industrial regions prefer the protection of local producers, while the regions dominated by military-industrial complex and heavy manufacturing may realize different strategies (for example, support of market reforms and attraction of foreign investments in order to restructure local industries, subsidies to local producers or integration with foreign partners or other rich regions).

If economic fragmentation resulted from the weakness of the central state in the 1990s, increasing influence of regional leaders became the alternative coordination mechanism in a failing central state. Mendras (2003) defends that the increasing role of regional authorities let to preserve the continuity of the federal state (even if it was weakened), and to avoid a stronger destabilisation. However, regional political systems were not necessarily based on principles of transparency and rule of law, while functioning rather on *ad hoc* arrangements basis.

2.2. Towards a recentralization of the State

The reforms of the beginning of the 2000s pursued two main goals: (i) the political one aiming to resume powers from regional governors, and (ii) the economic one aiming to eliminate interregional barriers.

2.2.1. Reinforcement of the vertical of power

The idea to modify the administrative division (already present since the Soviet period)¹⁷ re-emerged after the 1998 crisis. In May 2000, the 89 regions are grouped into seven federal circumscriptions, each circumscription being piloted by one of the seven presidential representatives. The latter dispose of large (but weakly defined) competences in order to look after the realisation of the governmental policy at the regional level and are submitted to the President. They replace presidential representatives in each region which disposed of reduced competences and hence were inefficient to promote federal interests in regions.

Other measures aim to reduce the influence of regional leaders:

- modification of the representation of the regions in the Upper chamber of the Parliament. Two delegates (representing the governor and the regional legislature

¹⁷In the 1980s, Yu. Andropov proposed to divide the Soviet Union into 13 districts. In autumn 1998, the Prime Minister E. Primakov declared that 89 federal subjects is really a lot. Radvanyi (2000: 91).

respectively) will rule henceforth instead of the governor and the Head of regional legislature. In this manner, regional leaders loose not only their direct influence but also their parliamentary immunity (officially, this measure is called to restore the principle of division of powers);

- introduction of the possibility for the President to revoke regional leaders and dissolve regional legislature in cases of violation of competences foreseen by federal legislation or violation of personal rights.

Finally, in order to ease the governors' discontent, the newly created State Council of the Russian Federation regroups the President and governors in order to discuss issues of centre-regional relations. Moreover, the governors are granted the right to revoke local leaders (previously submitted to the presidential powers).

However, the results of this reform are ambiguous. While the new system ameliorated the communication and coherence between the different levels of the federation, the competences of the presidential representatives are uncertain while the governors remain powerful. They maintain control of regional business networks and local medias. At the same time, the conditions for the dismissal of governors are very restrictive, and the Kremlin interventions in regional and local electoral campaigns met several defeats. Moreover, it seems that the links between regional power and enterprises became even closer during the Putin presidency (Raviot, 2003). For example, several oligarchs got sieges in the Federation Council (Upper chamber of the Parliament)¹⁸ and tried to occupy the posts of governors.

Continuing reforms produced persistent opposition at the regional level. The hostage taking at Beslan school in September, 2004 opened a window of opportunities for the renewal of federal assault on the regions. A new law eliminated direct elections of the governors, being henceforth nominated by regional legislatures upon presentation of candidates by the President¹⁹. So, even if most governors conserve actually their posts, the influence of the centre is consolidated. In parallel, new modifications concern the administrative division. This time, the issue is of mergers between border regions (notably, of *okrugs* autonomous with their "parent" regions").

Finally, another dimension of political reforms consisted to form a pro-presidential majority at the Duma (Lower chamber of the Parliament). The "party of power"²⁰ of Yeltsin period was weak from organizational and ideological point of view, and even its loyalty towards Kremlin was sometimes dubious. At the 1999 elections, the pro-presidential bloc "Edinstvo" (Unity) gathered 23,32% of votes, that is more than the precedent "parties of power" and, after merger with other fractions of the Duma, succeeded to control 54% of voices and 80% of the Committees. The elections of 2003 confirmed this success²¹. Further, a reform of the electoral system hardened the conditions of political representation (aiming to eliminate small parties, limit the possibilities for creation of new parties, etc.) and replaces the mixed parliamentary system²² by a proportional system with the passage threshold for the Parliament fixed at the level of 7% of votes compared to 5% previously.

¹⁸ Which is becoming a "lobby chamber" as qualified by L. Nevzlin (as cited in Raviot, 2003).

¹⁹ Law 159-FZ, December 11, 2004.

²⁰ The weakness of political representation in Russia traduced a weak ideological consistence of political parties, having support of their leader for principal objective, hence the Russian expression "party of power". In the 1990s, it changed name and leader before the elections and was designed to represent the executive in the Parliament.

²¹ "Edinaya Rossiya" (United Russia) gets 37,6% of votes and the constitutional majority at the Duma, while the Communist party gets only 12,6% and right-wing opposition doesn't pass over the limit of 5% authorizing the representation in the Parliament. Krychtanovskaya (2005: 246-254).

²² Half of deputies represented individual districts without any conditions of party affiliation.

2.2.2. Homogenization of the legal space

Concerns about the growing heterogeneity of economic and legal space take a real form since the mid-1990s. Among 52 000 laws examined between 1995 and April 2001, 1000 were considered incompatible²³. The promulgation of laws in domains out of regional competences and amendment of federal laws were among the most frequent infractions^{24,25}.

Since 2000, the efforts to homogenise the economic and legal space are intensified through following measures:

- suspension of regional legislation in contradiction with the Constitution;
- reinforced inspection of regional laws and creation of a federal database of regional laws;
- redefinition of the distribution of powers and responsibilities between federal, regional and local authorities. So, the law 95-FZ (July, 2003)²⁶ stipulates the dominance of the Constitution and the federal legislation for in the distribution of powers (notably, in cases of incompatibilities in Treaties distribution of competences and regional legal acts). The law 199-FZ (December, 2004)²⁷ precises the competences of the regions. The modifications concern social services, forest management and the protection of the environment.

However, even if the major part of regional acts is now compatible with federal law, some discrepancies remain (Chebankova, 2005), both for the legal acts adopted in the past and also for newly adopted texts. Second, numerous critics concern the divergence between the written law and the real practice in Russia. Finally, one should note that in some cases, regional acts aimed to fill the legal vacuum and clarify the situation in case of internal contradictions to the federal law (OECD, 2003).

3. Firms and the State

3.1. Privatisation and emergence of business elites

The conditions of the privatisation in Russia were pre-determined during the time of Perestroika. Since 1985, were authorized trade intermediation, private and cooperative trade and lease of industrial capacities to employees. Several advantages were granted to *komsomol* – managed commercial enterprises²⁸, notably, in terms of their autonomy (for example, authorisation to realize intermediation and foreign economic operations) or taxes applied²⁹. In

²³ OECD, 2003. According to other sources (S. Kirienko, Presidential representative in the Volga district), only in the Volga district, about 2000 local laws were contradicting the federal legislation. See "Russia's Presidential Districts: A Representative's View", *Meeting Reports, Woodrow Wilson International Center for Scholars*, 2002.

²⁴ OECD, 2003.

²⁵ Another example, law of Yakutia established two national languages, Yakutian and English, without mentioning Russian! See "Russia's Presidential Districts: A Representative's View", *Meeting Reports, Woodrow Wilson International Center for Scholars*, 2002.

²⁶ Law 95-FZ of July 4, 2003 relative to the amendment of the federal law on general principles of organization of legislative (representative) and executive bodies of the subjects of the Russian Federation (184-FZ, 1999).

²⁷ Law 199-FZ (December, 2004) on the amendment of the legislation of the Russian Federation relative to the extension of competences of bodies of subjects of the Russian Federation in domains of joint competences of the Russian Federation and subjects of the Russian Federation, and on enlargement of the list of questions of local importance for municipal districts.

²⁸ *Komsomol* stands for Communist youth.

²⁹ *Komsomol* economy embraced about 1 million individuals in 1990. Krychtanovskaya (2005: 296-307).

this way, the first stage of privatisation was latent and led to creation of commercial structures on the basis of state assets while granting specific economic rights to certain individuals (firms). For example, the reform of 1987-88 transformed the monobanking system into a two-level banking system. Each territorial department of the former State Bank became a commercial bank, while its managers and main customers became later owners of these commercial banks³⁰. As for industrial enterprises, commercial structures were created within factories in order to sell produced goods at market prices.

Officially, the privatisation started in 1992.

3.1.1. Mass privatisation (1992-1994)

The privatisation program privileged a rapid approach of reforms, aiming to guarantee the irreversibility of the transition to market. The speed of privatisation is theoretically based on the Coase theorem which provides that once the property rights are private, they will be exchanged (sold) unless they find the most productive use (even if the initial allocation was irrational)³¹. In practice, in order to be accepted, the privatisation program had to satisfy the most important interests, that is industrial ministries, directors of industrial enterprises, workers and regional administrations. In order to conciliate the opposition, the process is two-staged, the first stage being addressed to the employees while the second stage addressed to public at large.

During the first stage, several options for capital acquisition were proposed, and about 75% of enterprises preferred the option allowing the acquisition of 51% of the ordinary shares by the employees of the enterprise because it offered most possibilities to preserve internal control over the enterprise³².

The second stage of the privatisation consisted in public emission of remaining assets through free distribution of privatisation cheques (vouchers) to all the citizens. Vouchers could be exchanged for stakes in capital, invested in "voucher funds" or sold. However, hyperinflation reduced the real value of the vouchers, while half of voucher funds became bankrupt in a few months³³.

³⁰ Except for *Vnechekonombank* and, partially, *Sberbank* which remained in state property.

³¹ Under condition of zero transaction costs. Coase, Ronald H. (1960) 'The Problem of Social Cost', *Journal of Law and Economics* 3: 1-44.

³² The Program of the privatisation (1992) proposed three options :

i) 25% of privileged shares (without voting right) are transferred to workers free of charge; up to 10% of ordinary shares may be sold to workers with concessions (price 30% under nominal, payment delayed up to 3 years); the administrative staff dispose of the right to buy up to 5% of ordinary shares at nominal price;

ii) all the employees can buy up to 51% of ordinary shares;

iii) if there is a group of workers who takes the responsibility to respect the plan of privatisation, and declares itself responsible for the prevention of bankruptcy, and for that, disposes of the mandate of the employees, then, the members of the group obtain the option to buy 20% of ordinary shares at nominal price after one year. At the same time, all the employees (of which the members of the group) can buy 20% of the capital with 30% discount from the nominal price, with payment delay going to up to 3 years.

In all the cases, the workers were to receive 10% of revenues from sales of shares to outsiders. The choice offered initially only the first option, rather limiting from the point of view of managers interests. I was enlarged under pressures of Russian Union of Industrials and Entrepreneurs. See Goldman (2003: 81).

³³ In February 1994, 620 funds held 60 million vouchers (Goldman 2003: 88). Their massive bankruptcy can be explained not only by an inappropriate fiscal regime but also, by insufficient control over their activity from the State and investors.

The privatisation process was not uniform. Firstly, modes of privatisation diverged between regions³⁴. Secondly, according to the Report of the Accounts Chamber of the Russian Federation (2004), by summer 1992 (that is, before the start of the privatisation program), about two thousand enterprises had been privatized spontaneously preceding the legislative process.

In result, by June, 1994, about 60% of industry was privatised. A major part of assets was transferred to insiders at minimum cost. In April 1994, insiders hold 62% of the capital of privatised enterprises (workers 53%, direction 9%), outsiders hold 21% and the state controlled 17% of the capital³⁵. The assets were priced at pre-inflation prices (at the book value of July 1, 1992 multiplied by 1,7, while the hyperinflation reached its peak level)³⁶. Rapid privatisation allowed to bureaucracy and managers to obtain assets at cheap prices and to exchange their political power in a hierarchic system against economic power in a market system. In doing that, they benefited from their influence in political sphere and within public authorities (also at the regional level).

3.1.2. Monetary privatisation (1994-1999)

Monetary privatisation started in 1994. Formally, at this stage, privatisation had to raise budget revenues and attract investments for industrial restructuring. In fact, this stage is considered as period of emergence of oligarchs through the *loans for shares* programs. These programs supposed organising of calls for credit for the government, the latter using shares – notably of the extracting sector enterprises – as guarantee, and permitted banks to obtain attractive enterprises at low prices.

The procedure of loan for shares was subject of multiple frauds putting doubts on the real motives of this process³⁷. It seems that other factors intervene, notably the political ones related to the presidential campaign. In fact, in 1996, Russian bankers created a pact bringing their support to B. Yeltsin having a disastrous rating at that time. At the end of the campaign, the bankers received considerable economic or political privileges. For example, Oneximbank of V. Potanin, the author of the idea of loans for shares, got through this program Sidanko oil company and Norilskiy Nickel metallurgic giant; the Menatep bank of M. Khodorkovsky acquired Yukos oil company. Also, V. Potanin became the first Deputy Prime Minister just after the presidential elections of 1996, and B. Berezovsky (one of the main organizers of the electoral campaign) was nominated Head of Security Council in 1996-1997 and the Executive Secretary of the Community of Independent States (CIS) in 1998-1999. So, the loans for shares program contributed for ascension of several fortunes, basing on the principle of personal arrangements. However, Guriev, Rachinsky (2005) underline that the majority of

³⁴ For example, according to the 1994 results, the Mayor of Moscow, benefiting from exoneration from state control, collected more funds than the whole of Russia (USD 344 million against USD 230 million). However, his activity doesn't avoid numerous critics for favouring family and friends. Goldman (2003: 90-91).

³⁵ Yasin (2003: 232).

³⁶ Another "opportunity" was granted by the right to buy assets leased according to the law of 1989, the price being calculated as the capitalisation of leasing payments (fixed before the hyperinflation of 1992).

³⁷ The credit amount was only slightly higher than the initial assets value (only in four calls from twelve, the credit amount sensibly overpassed the initial price). The assets were granted at very low prices. For example, in result of the 1996-1997 sale of 7,97% of the capital of the Slavneft oil company, the State got USD 48,8 million, compared to the market capitalisation of this stake reaching USD 358,1 million.

The credit amount was very close to the temporarily available funds of the federal budget deposited by the Ministry of Finance in the banks participating in the loans for shares program. In other words, banks used budget funds to credit the government. Moreover, these funds were not transferred to the Central Bank but were reserved on special accounts in the commercial banks (Accounts Chamber of the Russian Federation, 2004).

oligarchs (at least, from the list established by these authors) have different origins than the loans for shares program.

3.1.3. Results of the privatisation

While the major political objective of irreversibility of reforms was realized, the economic results are disappointing. The revenues were very limited (see table 1), while the production continued to fall. The privatisation program didn't integrate any mechanism for enterprise restructuring.

Table 1. Results of the privatisation

Years	1992	1993	1994	1995	1996	1997	1999	1999	2000
Revenues from privatisation (cumulative, % of GDP)	0,8	1,1	1,3	1,5	1,7	2,7	3,3	3,4	3,8
Part of private sector in GDP (%)	25	40	50	55	60	70	70	70	70

Source: EBRD (2001: 188).

In terms of political economy, it was expected that the mass privatisation would create incentives for the rule of law (notably, protection of property rights), but that didn't happen. On the contrary, numerous imperfections of the legislative base and systematic corruption facilitated the appropriation of assets. Meanwhile, the mode of acquisition of assets is of prime importance. In fact, the stability of an economic and political system based on property rights which are perceived as illegitimate by the majority of population is uncertain. In turn, the lack of legitimacy of property rights necessitates a special (thus, personified) mode of protection of acquired assets.

3.2. Evolution of the business-state relations

Today, the capture of the state by private interests seems to leave its place to the primacy of "national" interest over private strategies.

3.2.1. Concentration of property and "state capture"

Russia is characterized by highest levels of property concentration in the world. According to the World Bank, the 22 largest private owners control at least 20% of employment and 39% of sales³⁸. According to the study by Guriev and Rachinsky (2005) concerning 32 industrial sectors (mining and manufactory activities) which provide 76,5% of Russian industrial production or 50% of GDP in 2001, oligarchs contribute for 39% of sales in studied sectors (of which 92% of sales of non ferrous metals except aluminium, 80% of aluminium, 78% of ferrous metals, 73% of ore, 72% of oil and 71% of automobiles). The concentration of property contributes to increase influence of individual firms on public authorities' decisions related to the economic policy.

Oligarchs constitute a narrow group searching to acquire practical advantages for their firms. In order to characterise the relations between firms and public authorities in transition countries, Hellman et al. (2000) propose a measure of the "state capture" phenomenon, which is defined as the capacity of firms to influence the formation of the legislative basis by means of informal payments to public officials or politicians. Captor firms search to acquire

³⁸ World Bank (2005a: 131), study realized in 2003.

advantages from the state, such as individualized protection of their (weak) property rights by means of illicit payments. According to Hellman et al. (2000), Russia figures among the transition countries with highest level of state capture³⁹. However, only 9% of firms can be considered as captors⁴⁰ (roughly at the average level in transition countries). That supposes a high concentration of the state capture in Russia. That corresponds to a strong concentration of capital.

3.2.2. Distancing the oligarchs?

The 1998 crisis modified the Russian political economy. Firstly, difficulties of the financial sector to overpass the crisis and reinforcement of industrial enterprises thanks to the rouble devaluation had repercussions for the political weight of the corresponding groups. Further, the popularity of the newly elected President V. Putin, the end of confrontation with the Parliament and economic revival authorized a reorganisation of relations with business towards a more equilibrated system based on the dominance of state interests over private interests and institutionalisation of the dialogue.

In 2000, V. Putin proposed the so-called "equal distancing" of the oligarchs. During his first meeting with oligarchs in July, 2000, he offered a pact in the following terms: fiscal discipline and abstention from political interference against non-revision of privatisation results. The consequent adherence of oligarchs to the Russian Union of Industrials and Entrepreneurs (RUIE, employers' lobby)⁴¹ can be considered as their response to the growing control of public authorities over the economy. Hence, RUIE becomes a club of oligarchs, designed to represent their collective interests within public authorities. In 2000, were also created Business Russia (*Delovaya Rossia*) and Support of Russia (*Opora Rossii*), representing interests of middle and small enterprises respectively. So, clientelism and state capture by private interests in the 1990s seemed to leave their place to an institutionalised dialogue with groups of enterprises.

However, the institutionalisation of the dialogue state-firms is not yet achieved. Firstly, except for the RUIE which represents about 60% of Russian GDP⁴², the unions' activity is still weak. Secondly, its members' interests diverge and certain oligarchs continue to look for direct access to the President⁴³. Finally, the size of firms puts obstacle for equalization of their role within groups.

The Yukos affair marks a retreat of oligarchs from the political scene. However, while demonstrating the dominance of state interests, it raised questions related to property rights protection, the independence of branches of power, and also of the efficiency of political system based on selective justice. Even if the main assets have already been distributed, economic actors are still engaged in a struggle for ownership and are still powerful to manipulate governmental decisions (Barnes, 2003). Barnes (2003) insists that assets in Russia

³⁹ The unweighted average of the state capture index for transition countries is 20. The index is calculated as unweighted average of the percentage of firms affected by corruption in the following domains (indicators for Russia are provided in brackets): parliamentary votes on laws (35%), presidential decrees (32%), Central Bank mishandling of funds (47%), court decisions for criminal (24%) and commercial (27%) cases, illicit contributions of private interests to political parties and electoral campaigns (24%). Having the final capture index of 32, Russia shares the third place with Ukraine and is placed behind Azerbaijan (41) and Moldavia (37).

⁴⁰ Captor firms are identified according to their answer to the question "How often do firms like yours nowadays need to make extra, unofficial payments to public officials to influence the content of new laws, decrees and regulations?". A firm is classified as captor if the answer is "sometimes" or "more frequently".

⁴¹ RUIE was created in January, 1992 but lost its importance in the next years.

⁴² Favarel-Garrigues, Rousset (2004: 100).

⁴³ Barnes, 2003.

present more than a simple economic value. They can serve to dissimulate profits using different financial schemes, to protect oneself against concurrent firms (notably, strategies of diversification towards upstream or downstream activities), and are also an instrument of political power. According to the study by INDEM (2005), the scope of corruption considerably increased in 2005 compared to 2001. At the same time, enterprises maintain their influence at the regional level. Firstly, certain regions inherited mono-industrial structures of the Soviet Union. The economy of certain cities, towns or regions depends on one enterprise, hence, their social importance. Secondly, representatives of enterprises are present not only in regional legislatures, but also in the executive power.

So, the inertia of structures and comportments puts a serious constraint on the passage from clientelism to corporatism in State – firm relations. A recent renewal of state "attack" proposes a more direct mode of intervention.

3.2.3. Towards a "business capture"

Two tendencies become visible nowadays. Firstly, one can note a political and decisional consolidation of the central state. Secondly, it is the economic consolidation within a "developmental" state and retreat from liberal economic doctrine which was yet dominant during the first Putin mandate⁴⁴.

The state increases the scope of direct intervention in economy letting glimpse the emergence of the developmental state (Durand, 2007), state capitalism (Radyguine, 2004), or even "business capture" (Yakovlev, 2005). Since the Yukos affair, the State has restored control of the sectors considered as strategic. The latter include not only hydrocarbons, but also automobile industry, aeronautics, shipbuilding etc... The part of capitalisation of Russian stock market held by the state increased from 20% in mid-2003 to 30% in the beginning of 2006⁴⁵. Finally, the system is consolidated as strategic industries are nowadays managed by persons close to V. Putin (like S. Chemezov for *Rosoboronexport*), and politicians of high rang participate in the Boards of Directors of large enterprises (for example, the Deputy prime-minister D. Medvedev is the Chairman of the Board of Directors of Gazprom)⁴⁶.

Economic consolidation engaged by the State consolidates investment capacities for modernisation projects. However, several questions remain. Firstly, are we assisting the emergence of a new oligarchy, the virtuous engagements of the developmental State being in fact a simple redistribution of assets between old and new elites? Secondly, the question is about the efficiency of public manager as compared to the private owner. Finally, uncertainties concern the pursuit of reforms after the end of the Putin presidential mandate in spring 2008.

4. Integration into the world economy

The discussed political situation creates conditions for Russia's integration into the world economy.

⁴⁴ Recently confirmed by the nomination of S. Ivanov (minister of Defence) for the post of the Deputy Prime Minister for the development of military-industrial complex and innovations in civil production.

⁴⁵ Data OECD.

⁴⁶ Noted by Orttung (2006: 3).

4.1. Evolution of the trade policy: towards an administered opening of the Russian economy?

Liberalisation of foreign trade is an integral part of the transition reforms in Russia. However, the liberalisation process is rather chaotic and doesn't reveal any coherent strategy. In fact, it was tributary of internal (lobbying activity) and external (demands of international organizations, restrictions applied on Russian exports by foreign countries etc...) pressures. In result, government arbitrated between sectoral protection demands, budget revenues considerations and demands of international organizations.

At the first stage, trade policy is characterised by *punctual arrangements* between different interest groups and public authorities concerning not only the level of applied protection measures, but also, the *derogations of these norms*, which are on a massive scale.

4.1.1. Trade policy in 1991-1998: individualized "*laissez-faire*"

The monopoly of foreign trade was broken during the Perestroika. However, despite the abundancy of legal acts, the process of opening lacked of coherence and developed rather by trials and errors than on the basis of a clear strategy. Subsequent amendments made obsolete precedent laws, while containing imprecisions themselves. Perestroika engaged a decentralisation dynamics without giving a clearly orientation to this process, thus consolidating rent strategies. For example, in the beginning of 1991, despite softening of the control over foreign trade, the rouble exchange rate(s) was administered creating incentives for a flight of exportable production given the differential of domestic and foreign markets prices⁴⁷, and for the exchange rates arbitrage⁴⁸.

In general, with imports and exports, the evolution went in opposed directions: increasing import protection and gradual liberalisation of exports (Vercueil, 2002).

At first, imports were brutally liberalized. All restrictions and tariffs on imports were suspended already since January 15, 1992. Further, starting in July, 1992, import protection was gradually reintroduced, driven by growing pressures from industries⁴⁹. In 1992-1994, tariffs were reviewed upward four times. In total, average non-weighted tariff passed from 0% in the first semester 1992 to 5% in the second semester 1992, 9,5% since April 1, 1993 and almost 15% starting from July 1, 1994⁵⁰. Average weighted tariff was lower and varied between 8% and 12%⁵¹.

Further, the increase of tariffs continued in May and June 1995 (introduction of specific and mixed rates) and in May 1996. However, it was operated rather through the enlargement of the tariff base than through a direct increase of rates in order to meet the demands of

⁴⁷ However, a tax was applied on the exports revenues in order to guarantee supplies for the internal market (98% on oil, exported only by public enterprises, 70% for agricultural goods, but only 10% for manufactured goods). Vercueil (2002: 123).

⁴⁸ Obtaining a credit in foreign currency was very advantageous. There were three exchange rates: official rate (0,65 roubles for 1 dollar), tourist rate and commercial rate (10 roubles for 1 dollar). O. Krychtanovskaya quotes a following example: the Centre of scientific and technical creation of youth "Menatep" (headed by M. Khodorkovsky) received from the State a currency credit for 1 Mn doll. The dollars were exchanged at commercial rate and the credit was repaid in roubles at the official rate. Krychtanovskaya (2005: 305).

⁴⁹ V. Chernomyrdin (Minister of gas industry in the Soviet Union and Head of Gazprom in 1989-1992) is nominated in Ye. Gaidar government in May, 1992. He becomes Prime Minister in December, 1992, revealing a declining influence of liberal economists in formation of the Russian economic policy.

⁵⁰ ECE (1994: 77).

⁵¹ According to Konovalov (1994: 40), average weighted rate increased up to 11% at the end of 1992, diminished to 8% at mid-1993 and further increased to 12% at mid-1994.

international organisations (for example, the average maximum was fixed to 13% in the framework of the agreement with the IMF)⁵².

Moreover, since February 1993, imports were subject to 20% VAT, an excise tax for certain products (alcohol, tobacco, cars...)⁵³, and, in 1994-1996, a special tax designed to protect essential sectors of the national economy⁵⁴.

At the same time, in 1996, certain enterprises or public organisms continued to benefit from tariff exemptions, despite numerous declarations stating renouncement from such exemptions since 1993⁵⁵. Lack of coherence, instability of legal framework and especially corruption and numerous exemptions offered to enterprises and regions limited the efficiency of imports protection. In 1993, only USD 2,7 billion from USD 41,4 billion of imports were imposed by tariffs. The effective rate (ratio of customs revenues to import value) did not overpass 6% in 1994. That is about a half (!) of the average weighted tariff rate.

This leads us to conclude that, in contrast to endogenous trade policy theories which relate the structure of protection to industrial lobbying activity and action of the public decision-maker while supposing collective demands for protection and uniform application of law to all concerned actors, in the Russian case, we observe *pressures emitted by particular agents in order to get exceptions to the general norm*. The scope of tariff evasion leads to consider rather the *individualised laissez-faire (individualised liberalism)*, than the selective protection discussed in trade policy theories. At a more general level, this corroborates the hypothesis by Hellman et al. (2000) on the state capture. Punctual arrangements satisfied interests of the trade sector to the detriment of non-competitive manufactory sectors, the latter being unable to validate their protection demands. Moreover, tariffs were largely used for fiscal reasons and thus, lost their role of trade (and industrial) policy instruments.

As for the export regime, several restrictions (taxes, quotas and administrative controls) remained in order to provide supplies for the internal market in the context of price differentials favouring exports, and also to increase budget revenues. Export tax was gradually abolished only in 1995-1996.

Finally, trade policy was biased by measures applied at regional level (for example, Maritime region at the Far East taxed imports for fiscal reasons while Kaliningrad benefited from fiscal exemptions liberalizing imports). Further, CIS countries could also serve as entry points to Russia at favourable conditions as the tariff regime within CIS was not harmonized. Finally, individuals' trade free of tariff (shuttle trade) accounted for 20% of Russian imports in 1996 putting in question the efficiency of customs border.

4.1.2. Towards an economic opening under control (evolutions since 1998)

If the end of 1998 and the year 1999 were dominated by the emergency logic after the crisis, the State started to restore control over the trade policy since 2000, with the declared objectives of reconstruction of national production structures without isolating Russia from international markets. However, reforms were aimed firstly to limit fraud and corruption and

⁵² ECE (1996).

⁵³ ECE (1994: 75).

⁵⁴ At first, 3%, then reduced to 1,5% in 1995. Vercueil (2002: 157).

⁵⁵ In 1993, Supreme Council announced cancellation of privileges granted to importers starting on July 1, 1993. The Law relative to Customs Tariff of January 1, 1994 abolished specific exemptions for enterprises. In March 1995, Yeltsin signed a decree abolishing customs privileges. Konovalov (1994: 40), Vercueil (2002: 157).

were globally inspired by a liberal approach. The new import tariff of January, 2001⁵⁶ is simplified and globally reviewed downwards. Its declared objectives are to reduce "grey" imports and facilitate imports necessary for the industrial revival in the context of post-crisis rouble devaluation. The main directions of the reform were :

- abolition of a system of 7 levels of ad valorem rates (0, 5, 10, 15, 20, 25, 30 per cent) and adoption of a 4-level system (5, 10, 15, 20 per cent). Tariffs for technological equipments are reduced in order to accelerate industrial modernisation;

- unification of rates within large groups of trade classification. Before 2001, about 25% of imports were realised with infractions (notably, misclassification). Diversity of rates within product groups⁵⁷ left opportunity to classify imported goods into categories submitted to a lesser tariff rate.

The uniform tariff allows for the reduction of potential benefits of lobbying and therefore, reduces motivations for lobbying (Tarr, 1998). Indeed, the tariff reform contributed to increase customs revenues by reducing the scope of "grey imports". According to the Customs Service, in 1st semester 2003 as compared to 1st semester 2000, the increase of tariff revenues was 500% for butter imports, 300% for cut flowers, 450% for clothes, 350% for refrigerators, 1000% for TV sets, 230% for furniture. More generally, in 2001, customs payments increased by 44% compared to 2000 while foreign trade value increased only by 3,8% (exports diminished by 3% and imports increased by 19,8%)⁵⁸.

However, the reform reduced possibilities for selective protection of nascent industries or industries in restructuring. The decrease of the statutory level of protection in Russia was not accompanied by compensating measures for domestic producers neither by sensible institutional improvements favourable for entrepreneurship. Thus, it contributed to lock Russia in a situation of an open non-competitive economy (except for hydrocarbons). One can also question the effectiveness of trade liberalisation in the wake of the WTO accession, as negotiations would take the new tariff as a starting point for the ulterior tariff cuts.

In contrast, on the export side, governmental efforts aim to restore control over raw materials and energy exports. So, since February 2002, the tax on oil exports is dependent on world oil prices, leading to increase the role of exports in customs revenues (33% in 2002, 54% in 2004)⁵⁹. Hence, Russian trade policy plays a strong fiscal role, with customs revenues counting for about 40% of budget revenues.

The tariff reform was based on a favourable domestic conjuncture (notably, restrictive effects of rouble devaluation for imports, and, on the political side, popularity of the Putin administration). Actually, in the context of appreciation of the rouble real effective exchange rate, industries exposed to international concurrence become more vulnerable. At the same time, while the official average tariff is about 11%, the effective rate (import revenues divided by the total imports value) is about 7% because of different preferential regimes⁶⁰, and further cuts are negotiated within the WTO accession. Imports are rapidly increasing, notably those of consumption products.

Therefore, policy outcome doesn't correspond to industry preferences. While hydrocarbons sectors are submitted to export tax, industrial sectors suffer from insufficient

⁵⁶ The tariff reform continues in 2001 and is ratified in the new Customs Tariff of January 1st, 2002.

⁵⁷ For example, chicken could be "disguised" in turkey (the latter being submitted to a lower tariff), while automobiles could be imported as spare parts, etc.

⁵⁸ Data of the Federal Customs Service and Bank of Russia.

⁵⁹ Federal Customs Service, www.customs.ru . Access: July, 2005.

⁶⁰ World Bank (2005b: 18, fn.8).

public support. Recently, the public authorities' response aiming to revive industrial restructuring originated from two contradictory logics, that is a pursuit of liberalisation (for example, introduction of zero tariffs on imports of technological equipments not produced in Russia) and, at the same time, direct state intervention through consolidation of strategic industries under the state control. The last year has shown that the concept of direct intervention in the framework of a strong developmental state would dominate neoliberal policies. However, in the coming years, Russian economy will remain highly dependent on oil and gas exports.

4.2. Unchanged foreign trade structure

The above-discussed political situation and consequent policy decisions contributed to destabilise the economy. One can remind a 40% decline of GDP, 50% decline of industrial production and 80% fall of investments during 1991-1998. While in absolute figures, Russia has currently reached the before-transition production levels, the sustainability of growth is dubious. In fact, it is mostly driven by services which are growing at about 10% a year or more⁶¹, boosted by increased consumption due to export revenues. On the contrary, manufactory industries exposed to international competition are globally decelerating (4,8% growth in 2006 compared to 9,5% in 2003) face to increasing import flows.

Russian export structure remains dominated by fuels which accounted for about 49 % of exports in 2005. Inversely, the part of manufactured products in Russian imports has been increasing up to 72% in 2005 (see table 2).

Table 2. Structure of the Russian foreign trade (percent)

PRODUCT	Exports			Imports		
	1996	2000	2005	1996	2000	2005
Primary commodities, including fuels (SITC 0 + 1 + 2 + 3 + 4 + 68)	58,1	64,7	60,1	25,0	33,0	21,8
All food items (SITC 0 + 1 + 22 + 4)	1,8	1,2	1,6	18,0	20,2	16,1
Agricultural raw materials (SITC 2 - 22 - 27 - 28)	3,3	3,1	2,8	0,8	2,1	1,0
Ores and metal (SITC 27 + 28 + 68)	9,9	9,1	6,6	3,4	6,4	3,2
Fuels (SITC 3)	43,1	51,3	49,0	2,7	4,4	1,5
Non-ferrous metals (SITC 68)	8,3	7,9	5,1	0,6	1,4	0,6
Manufactured goods (SITC 5 to 8 less 68)	26,1	23,0	19,0	44,0	53,9	71,9
Chemical products (SITC 5)	5,9	4,9	4,2	7,2	11,4	12,7
Machinery and transport equipment (SITC 7)	7,0	5,9	4,1	19,9	22,8	39,9
Other manufactured goods (SITC 6 + 8 less 68)	13,1	12,3	10,8	16,9	19,7	19,4
Iron and steel (SITC 67)	8,5	6,0	7,0	4,0	4,2	3,7
Textile fibres, yarn, fabrics and clothing (SITC 26 + 65 + 84)	0,9	0,6	0,3	2,5	4,1	2,6
<i>Total (SITC 0 to 9), per cent</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>
<i>Total (SITC 0 to 9), millions USD in current prices</i>	<i>88703</i>	<i>103093</i>	<i>241244</i>	<i>60613</i>	<i>33921</i>	<i>98577</i>

Source : UNCTAD Handbook of Statistics on-line

⁶¹ Notably, construction (14,1% increase of real production in 2006 compared to 2005), hotels and restaurants (11,2%), financial activities (10,4%), transports and communications (9,4%) and trade (8,7%).

Weak competitiveness of domestic production – reinforced in the context of rouble appreciation driven by high energy prices - leads to increase imports. The value of imports has grown by 31,3% in 2006, revealing the vulnerability of the economic equilibrium. The evolution of the political economy and the attempt to create a strong developmental state could they put a strong basis for a sustainable economic development in Russia?

Conclusion

While in theory, a market economy and democracy were two indivisible aspects of the transition process, in practice, reforms benefited elites, while large couches of population were left aside. Dominance of *individual private strategies* lead to the fragmentation of the central state, both on its "vertical" dimension (relations between federal centre and regions) and the "horizontal" one (relations with business), putting in question the effectiveness of public regulation. Therefore, the dominance of *individualised lobbying* as opposed to promotion of collective interests, translates into the *individual laisser-faire* in the trade policy domain.

This order has been put into question since the end of the 1990s. Reforms are underway to homogenise the legal space of the federation, reinforce the federal centre and institutionalise the dialogue with enterprises. However, numerous resistances limit the scope of real changes. While recent years reveal a movement toward a strong developmental state, uncertainties remain as for the effectiveness of its creation (notably, in the context of the end of V. Putin's presidential mandate) and as to the results of this policy in terms of industrial and social policy. Meanwhile, the economic (and hence political) equilibrium in Russia remains extremely dependent on oil and gas exports.

References

Accounts Chamber of the Russian Federation (2004) *Analysis of privatisation process of the state property in the Russian Federation in the period 1993-2003*. Moscow : Accounts Chamber of the Russian Federation [in Russian].

Barnes, Andrew (2003) 'Russia's New Business Groups and State Power', *Post-Soviet Affairs* 19 (2): 154-186.

Chebankova, Elena (2005) 'The Limitations of Central Authority in the Regions and the Implications for the Evolution of Russia's Federal System', *Europe-Asia Studies* 57 (7): 933-949.

Constitution of the Russian Federation. Adopted on December 12, 2003.

Durand, Cédric (2007) 'Entre développementalisme et instrumentalisation de la puissance publique, le retour de l'État producteur en Russie', mimeo, CEMI-EHESS.

EBRD (2001) *Transition Report 2001: Energy in Transition*. European Bank for Reconstruction and Development.

ECE (1992) *Economic Bulletin for Europe*, vol.44. Geneva: Economic Commission for Europe, United Nations.

ECE (1994) *Economic Bulletin for Europe*, vol.46. Geneva: Economic Commission for Europe, United Nations.

ECE (1996) *Economic Bulletin for Europe*, vol.48. Geneva: Economic Commission for Europe, United Nations.

Favarel-Garrigues, Gilles and Kathy Rousselet (2004) *La société russe en quête d'ordre. Avec Vladimir Poutine?* Coll. CERI/Autrement, Paris: Editions Autrement.

Goldman, Marshall I. (2003) *The Piratization of Russia: Russian Reform Goes Awry*. New York: Routledge.

Gorenburg, Dmitry (1999) 'Regional Separatism in Russia : Ethnic Mobilisation or Power Grab?', *Europe-Asia Studies* 51 (2): 245-274.

Guriey, Sergei, and Andrei Rachinsky (2005) 'The Role of Oligarchs in Russian Capitalism' *Journal of Economic Perspectives* 19 (1): 131-150.

Hellman, Joel, Geraint Jones and Daniel Kaufmann (2000) 'Seize the State, Seize the Day : State Capture, Corruption and Influence in Transition', *The World Bank Policy Research Working Paper* 2444.

IET (2002) *Russian economy in 2001. Trends and perspectives*, vol. 23. Moscow : Institute for the Economy in Transition [Russian version].

INDEM (2005) *Corruption process in Russia: level, structure, trend*. Report. Indem Foundation.

Konovalov, V. (1994) 'Russian Trade Policy', in Constantine Michalopoulos and David Tarr (eds) *Trade in the New Independent States*, pp. 29-51. The International Bank for Reconstruction and Development/The World Bank, Studies of Economies in Transition.

Krychtanovskaya, Olga (2005) *Anatomy of Russian Elites*. Moskva: Zakharov [in Russian].

Mau, Vladimir and Vadim Stupin (1997) 'The Political Economy of Russian Regionalism', *Communist Economies and Economic Transformation* 9 (1): 5-25.

Mendras, Marie (dir) (2003) *Comment fonctionne la Russie ?* Coll. CERI/Autrement, Paris: Editions Autrement.

Milner, Helen V. (1988) *Resisting protectionism: Global industries and the politics of international trade*. Princeton: Princeton University Press.

OECD (2003) *Trade Policies in Russia : The Role of Local and Regional Governments*. Paris: OECD.

OECD (1996) *Trade Policy and the Transition Process*, Paris: OECD.

OECD (1995) *Economic Survey of the Russian Federation, 1994-1995*. Paris: OECD.

Orttung, Robert (2006) 'Business-State Relations in Russia', *Russian Analytical Digest* 08/06.

- Przeworski, Adam (ed) (1995) *Sustainable Democracy*. Cambridge: Cambridge University Press.
- Radvanyi, Jean (2000) 'Les relations Centre-régions sous Eltsine et les enjeux du fédéralisme', *La Revue internationale et stratégique* 38: 86-93.
- Radyguine, Alexandre (2004) 'Russia in 2000-2004 : on the way to state capitalism?' *Voprosy ekonomiki* 4: 42-65 [in Russian].
- Raviot, Jean-Robert (2003) 'Les rapports centre-régions en Russie. Rééquilibrage et continuité', *Le Courrier des pays de l'Est* 1033: 4-15.
- Reddaway, Peter, and Dmitry Glinski (2001) *The Tragedy of Russian Reforms: Market Bolshevism Against Democracy*, Washington D.C.: United States Institute of Peace Press.
- Roche, Michel (2000) *Thérapie de choc et autoritarisme en Russie. La démocratie confisquée*. Paris : L'Harmattan.
- Rogowski, Ronald (1989) *Commerce and Coalitions*. Princeton: Princeton University Press.
- Smith, Graham (1999) *The Post-Soviet States: Mapping the Politics of Transition*. London, New York : Arnold Publishers.
- Schattschneider, Elmer E. (1960) *The Semisovereign People. A Realist's View of Democracy in America*. New York : Rinehart and Winston.
- Tarr, D. (1998) 'Design of Tariff Policy of Russia' in Harry G. Broadman (ed) *Russian Trade Policy Reform for WTO accession*, World Bank Discussion Paper, 401: 7-29.
- Treisman, Daniel (1999) *After the Deluge: The Politics of Regional Crisis in Post-Soviet Russia*. Ann Arbor: University of Michigan Press.
- Vercueil, Julien (2001) 'La politique commerciale de la Russie (1992-2000). De la prédation à la reprise en main ?' *Le Courrier des pays de l'Est* 1012: 4-19
- Vercueil, Julien (2002) *Transition et ouverture de l'économie russe (1992-2002). Pour une économie institutionnelle du changement*. Coll. "Pays de l'Est", Paris : L'Harmattan.
- World Bank (2005a) *From Transition to Development: A Country Economic Memorandum for the Russian Federation*, The World Bank Report No. 32308-RU [Russian version].
- World Bank (2005b) 'Russian Economic Report' 10, March.
- Yakovlev, Andrei A. (2005) 'Evolution of Business-State Interaction in Russia: from State Capture to Business Capture?', Working paper WP1/2005/02, Moscow State University, Higher School of Economics.
- Yasin, Evgeny G. (2003) *Russian economy : origins and panorama of market reforms*. Moskva : GUVChE [in Russian].
- Zudin, Alexei (2001) 'Neocorporativism in Russia ? (State and business under Vladimir Putin)', *Pro et Contra* 6 (4): 171-198 [in Russian].