
Russia: Business and State



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Abstract

Business in Russia today is closely intertwined with the political sphere. But the forms of business's involvement in politics have differed radically at different stages in history. Initially, business played an active role, displacing the government from its position due to its vigorous expansion. Subsequently, the state began to regroup, reinforcing its positions not just in politics but in the market too. Despite increased economic uncertainty and enormous changes in Russia's foreign policy positions, the government currently remains the central actor in both Russian politics and the economy. That state of affairs is unlikely to change significantly in the short term.

Given the domestic economic crisis and tensions in relations with the West, the Russian business community is currently falling back on the development of its own individual strategies. These are aimed not so much at growth as at survival in the new conditions. At the same time, Russian experience shows that private initiative is capable of survival in the most unfavorable of circumstances. A new "leap forward" of the kind seen in the 1980s and 1990s is unlikely thanks to the fact that the main players are older than they once were, the underlying economic structures have ossified in the meantime and there is no longer the same drive (though this has not disappeared altogether). Nevertheless, the possibility of private enterprise being reenergized should not be ruled out.

Introduction

In Russia today business is closely intertwined with the political sphere. But the forms business's involvement in politics have taken have differed radically from one stage of Russia's history to the next. Initially, business played an active role, displacing the government from its position due to its vigorous expansion. Subsequently, the state began to regroup, reinforcing its positions not just in politics but in the market too. Despite increased economic uncertainty and enormous changes in Russia's foreign policy positions, the government currently remains the central actor in both Russian politics and the economy. That state of affairs is unlikely to change significantly in the short term.

Since Russia shifted to a market economy following the breakup of the Soviet Union, business has developed in a number of different various stages.¹

The first stage—1987 to 1996—saw the establishment of private enterprise. This had already begun in the Soviet era. An entrepreneurial class developed during this period that hailed from the most diverse backgrounds—from academics to former party and Komsomol functionaries, from factory engineers to black marketeers who had been carrying on their illegal activities even before Gorbachev's perestroika. If we take the new business mainstream, these were people for whom the strict hierarchy of the Soviet regime was limiting. These were “liminal” personalities (from the Latin “limes” meaning “threshold” or “threshold value”) i.e. they were in a “transitional” state, less connected to traditional hierarchical structures than were their colleagues, and as a result were prepared for radical change even if this included the risk of losing the social status “earned” during the Soviet era. It was easier for a postgraduate student to go into a business than it was for a professor, for example. All this occurred at a difficult juncture in macro-economic conditions (including low oil prices). This had left the traditional sectors of the economy reeling, but at the same time had provided an opportunity for new market-led sectors, from banking to the media. The impetus

Translated from Russian by Siriol Hugh-Jones.

¹ For more about the recent history of Russian business see I.M. Bunin *20 let spustya. Portret otechestvennogo biznesa*. [20 Years On: A Portrait of Domestic Business], April 2015, pp. 17-23.

in these areas was huge. Personal fulfilment went hand in hand with the possibility to earn money.

Phase two—1996 to 2000—clearly belonged to the “oligarchs”. By this time, basic market institutions had already been set up. The initial selection process had already occurred within the business community; the less dedicated and the con artists who had participated in the creation of the infamous “Ponzi”-style pyramid structures had fallen by the wayside. Of those still in business there was a class of leaders, known as “oligarchs”, who sought not only to expand economically but also to occupy key political positions. The 1998 crisis acted as a purge as far as business was concerned. Companies who survived the crisis became more resilient and stable. More sensible business strategies, specialization in specific areas, and a care for one’s reputation—all this enabled the business community to become more “civilized” in nature. During this period oil prices remained low, having hit bottom in 1998, at which point the debt default announced by the government triggered rapid economic recovery.

Phase three—2000 to 2003—can be regarded as marking a transition. This period saw (albeit relatively modest) growth in oil prices, which had a positive influence on the country’s economic situation. During the same period, the government dismantled the oligarch system, but an absolute majority of those engaged in big business retained their position on the market (the exception being a number of major players who had become politicized and had come into conflict with the government).

A feature of phase four—from 2003 to 2014—was the evident economic prosperity. Oil prices peaked during this period and a sharp fall in 2008 was followed by almost as impressive a rebound. Financial performance within business reached a new high but simultaneously gradually lost momentum, becoming more sluggish. This phase can be divided into two distinct parts.

The first part—up until 2008—was typified by increased optimism within society. Despite the Yukos affair this certainly affected business too. It seemed the country had successfully survived the crisis period and it—and of course business—had emerged onto a stable growth trajectory. Belief in the “Russian miracle” was reflected in optimistic forecasts for future growth, both in terms of the country’s GDP (gross domestic product) and the capitalization of individual companies. The second half of this period—from 2009 to 2014—was typically much less consistent. Macro-economic figures might have improved but there was a good deal less optimism. The illusion of crisis-free growth came to an end, systemic problems increased and consequently expectations began to fall.

Phase five began in 2014 when the situation changed radically politically and economically. The conflict with the West, the introduction of—initially modest but then far-reaching—sanctions, the

informal restrictions on contacts with Russia introduced within a series of Western countries and corporations, and the food-related “countersanctions” announced by Russia, all these created a new, unaccustomed reality for Russia's business. And at the end of 2014 oil prices began to plummet. What was more, experts believed that this time there would be no quick “rebound”. As a result, business has to react to the new challenges but must do so extremely carefully so as not to increase the political risks to itself.

Phase One: Business Supplants the State

In this phase the government reduced its presence in the economy while business, on the other hand, increased it. During this period entrepreneurs became increasingly ambitious for economic advancement. Having begun with modest cooperatives, they quickly make the transition to more sophisticated market institutions—banks, joint-stock companies, insurance companies, and law firms. State property passed into private hands, a process legitimized through privatizations.

At the same time, business's political appetites were also growing. This was essential both for the personal fulfilment of entrepreneurs but also—to a still greater degree—for lobbying purposes. As early as 1990 a number of entrepreneurs, including one of the first legal Soviet millionaires, Artem Tarasov, and the no less ambitious president of Kalmykia, Kirsan Ilyumzhinov, were successful in the first free Russian parliamentary elections. In 1991 one of the advisers to Russian prime minister was the young businessman Mikhail Khodorkovsky.² At the first elections to the State Duma in 1993 businessmen stood on different party lists – from the liberal Russia's Choice (Petr Aven had by this time left the post of Minister of Foreign Economic Relations to go into business) to Vladimir Zhirinovskiy's nationalist LDPR (Liberal Democratic Party of Russia) which boasted a whole array of representatives from medium-sized businesses. Even the Communist Party (KPRF or Communist Party of the Russian Federation) had a businessman, Vladimir Semago, which at the time was regarded as unusual. By the late 1990s, however, there were many representatives from the business community standing for parliamentary election on the KPRF ticket.

During that period business played no small role in the corruption of officials and politicians. Nowadays, corruption is regarded by the business community as one of the main obstacles to the development of the market economy. But we should not forget that the corruption in Russia today emerged as a systemic phenomenon at the very time market relations were being established. What is more, it represented a “two-way street”. On the

² “Glavnyy vrug rossiyskoy vlasti: istoriya Mikhaila Khodorkovskogo” [Russian Government Enemy No. 1: the Story of Mikhail Khodorkovsky], RBC, 20 December 2013, <<http://top.rbc.ru/politics/20/12/2013/896017.shtml>>.

one hand, officials extorted money from businesspeople by using their exclusive opportunities. On the other hand, given the sharp fall in the ruble's value in the early 1990s business was often able to "buy" officials and politicians "on the cheap".³

We also note that from the very outset one particular feature of Russian business was that it was geared towards the West. Back in the 1980s one of the forms of "new business" were joint ventures (JVs) between Soviet and foreign (including Western) partners. It was initially assumed that JVs should attract foreign high tech to Russia but in practice they quickly became import/export operations: raw materials were exported from Russia in exchange for expensive technical equipment, including computers. From then on, the West became a multi-dimensional factor for Russian entrepreneurs. They travelled to the West for know-how, receiving prestigious business degrees, working short-term placements and adopting new technologies for the development of the market economy. (This included, for example, work within the banking sector, which in Soviet times had not been open to market competition apart from within the small subsector of "Soviet foreign trade banks" which had operated in a number of different countries). They sought investment and strategic partners in the West. They bought real estate there (a process that increased during the noughties), set up offshore companies and opened bank accounts. In essence, they created emergency "bolt holes" in case Russia was hit by a crisis situation, be this large-scale political upheaval or the emergence of systemic problems within a specific company—including in its relations with the state. Thus, in 1994-1995 the well-known oligarch Vladimir Gusinsky found himself forced to emigrate following a dispute with the powerful head of Boris Yeltsin's security service, Alexander Korzhakov. Once he had sorted out his problems, he returned to Russia.

Entrepreneurs came from the West to Russia with the intention of making money in an "emerging market" and some of them remained in Russia for the long term (these included the investor Boris Jordan and media manager Derk Sauer, founder of *The Moscow Times*). They were followed by managers invited by big business to form mixed Russian/foreign teams. During this period westernization was consistent with government policy, which was aimed at maximum convergence with the West. Even later, when relations with the West began to deteriorate, the ability to attract Western investment continued to be regarded as a significant factor in improving the competitiveness of the Russian economy.

³ Businessman Artem Tarasov tells a memorable story: back in the 1980s it took him three months to register his firm's (cooperative's) articles of incorporation because during this time the official who was looking after the registration used him as a free chauffeur and assistant. But once the articles of incorporation were registered, their content (thanks to the official's incompetence) turned out to be very beneficial for Tarasov as they permitted "any activity not contravening Soviet legislation". See A.M. Tarasov *Millioner* [Millionaire] Moscow, 2004, pp. 138-139.

At first glance, it might seem that during this phase all the weak state was to retreat, surrendering its positions to the advances of the business sector, including in the course of privatizations. But that is not quite true. Analysts Yakov Pappe and Yana Galukhina have identified three interconnected objectives of privatization.⁴ The first is “the transfer of enterprises and other assets to the person who already controlled them in reality while avoiding serious setbacks in the ongoing operation of the national economy i.e. this concerned the formalization of ordinary property rights which had been created in the late Soviet era”. It is clear that in this case business acted as an expanding side. The second objective—also based on this rationale—is to “minimize the acuteness of social conflicts relating to the division and redistribution of ownership”. The reasoning behind the third objective is completely different: this referred to the “creation of political support in the face of an emerging class of property owners”. Here the state (in the person of Yeltsin who had taken all the key decisions despite his worsening health) was a key actor, regarding businessmen not so much as owners of “sacred” property rights as political allies who had been granted assets on certain conditions. In effect they resembled medieval vassals. It is revealing that in the course of the shares-for-loans auctions of the mid 1990s, at which attractive state companies were undersold, the winners turned out all to be players who were politically loyal to the Kremlin of the time. On the hand, Inkombank, then headed by Vladimir Vinogradov, who tended to share his political favors around (he was named as one of the sponsors of the KPRF⁵), came away empty-handed.

⁴ Y.S Pappe, Y.S. Galukhina, *Rossiyskiy krupnyy biznes. Pervye 15 let. Ekonomicheskije khroniki 1993-2008* [Russian big business: the first 15 years, an economic chronicle 1993-2008], Moscow, 2009, p. 87.

⁵ See for example: “KPRF na zapasnom puti rossiyskogo kapitalizma” [CPRF on the alternative route of Russian capitalism] Analysis and criticism from Oleg Shein, 1998, <maxpark.com/user/4295003556/content/1597630>.

Phase Two: the Feast of Victors

In Soviet history the 17th Communist Party Congress, which took place in 1934, became known as the “Congress of Victors” (due to the success of the first five-year plan). Soon afterwards most of the delegates became victims of Stalinist repressions. The “oligarchy” period in the history of Russian business may also be referred to as the “Feast of Victors”. Several powerful businessmen played a substantial role in the politics of the late 1990s—but that period soon came to an end.

For the Russian government, allies from within business were essential in order to fund Boris Yeltsin’s election campaign in 1996. This was not just a question of direct contributions to his election fund but also of topping up the state budget, without which the government would have been unable to fulfil its basic social commitments in the run-up to the elections. A small group of “oligarchs” (given the nickname the “Seven Bankers’ Cabal” after the number of influential commercial banks) found themselves close to the government; they were successful not just in getting Yeltsin re-elected but in defeating the “siloviki” around him.⁶ In return, business asked for favors in the form of state assets and prominent positions within the government: Vladimir Potanin became first deputy prime minister while Boris Berezovsky became deputy secretary of Russia’s Security Council.

But even at this time, business did not dominate relations with the government. Pappé and Galukhina have identified the following key features in relations between big business and the government during this period: they were of vital importance to both sides and there was parity, exclusivity and consultation. Key features of the models included:

- direct involvement of government bodies in setting up specific companies and ensuring their expansion;
- extraordinary methods of funding public needs via private business;
- direct, non-institutional consultation by representatives of government and business, who would, from time to time, conduct economic policy on specific issues outside the normal decision-making process;

⁶ The siloviki came from the security, law enforcement and defense agencies and were headed by Yeltsin’s bodyguard, Alexander Korzhakov and his allies.

- regular moves of representatives from big business to government bodies and moves by major politicians and officials in the opposite direction;

- repeated instances of pressure being exerted on the government by major entrepreneurs or their coalitions, which went far beyond the limit of lobbying, however that is defined;

- repeated cases of direct pressure by law-enforcement authorities and special forces on private companies.⁷

We would also note a number of factors which make this model extremely vulnerable and short-term:

- the government regards them as a necessary evil given the limited nature of its own resources. Therefore any player able to stabilize the political situation would begin with a review of this. The question was who would be the subject of the first government attack. Putin's victory meant Gusinsky's banishment (and that of Berezovsky shortly afterwards) at a time when, had Yevgeny Primakov come to power, this would have led to the rout of the "family" group of Roman Abramovich and Berezovsky himself.

- the model was extremely inefficient for the economy. It was incapable of ensuring either efficient growth or adequate funding of the budget.

- the "oligarchs" were unable to reach strategic agreements. The "oligarch wars" between the victors (linked to control over the most attractive assets) commenced as early as 1997.

- the 1998 crisis led to a weakening of the positions of almost all the "oligarch" groups, who were obliged to turn to the government for support.

⁷ Y.S Pappé, Y.S. Galukhina, *op. cit.* [4], pp. 91-92.

Phase Three: Equal Distancing

After Vladimir Putin came to power, the government announced the concept of the “equal distancing” of the oligarchs. Having got rid of media tycoon Vladimir Gusinsky, Putin dictated new *modi operandi* to big business. These involved accepting the government’s prevalence in the political arena and business’s agreement not to engage in actions that could be regarded as being “anti-government”. Up until 2003, apart from Gusinsky, the only person not to fall into line with this approach was Berezovsky, Putin’s former ally in the early days, who had overestimated his influence on government policy and on the president personally. During this phase, the phenomenon of the “oligarchs” ceased to exist. In the course of research carried out in 2006 by the Center for Political Technologies, many entrepreneurs referred to the end of the “oligarchy”. Insurance company CEO Victor Yun said, “These days, figures akin to oligarchs may emerge only with the approval of the government”. Banker Sergey Stoklitsky was of the opinion that, “Whereas the oligarchs used to form the government, nowadays the government does not want the oligarchs to have the same kind of influence”.⁸

Under the new rules consultations between the government and business became institutionalized and took place via business associations, primarily via the Russian Union of Industrialists and Entrepreneurs (RSPP) which the oligarchs were advised to join (RSPP was headed by the politician and experienced business lobbyist Arkady Volsky, and the “oligarchy” came under his direction). At the same time, even during this phase, the government was taking steps to further reduce the influence of big business; it supported the creation of alternative business associations to RSPP such as Delovaya Rossiya (which basically brings together medium-large and medium-sized businesses) and the All-Russia Association of Small and Medium-Sized Business (OPORA Rossii) whose commercial interests were often the diametric opposite of those of the oligarchs. As far as the government was concerned, this made the oligarchs less “exclusive”.

Incidentally, the idea of equal distancing was regarded by those in power (Vladimir Putin and his team) as temporary and not capable of solving the task it had set itself. Here, there was an ad-hoc

⁸ *Biznes nesmotrya ni na chto: 40 istoriy uspekha* [Business Against All the Odds: 40 Tales of Success], Center for Political Technologies, p. 37.

convergence of the interests of the “siloviki”, with their liking for state intervention, and the liberal economists within Putin’s team. While the former had an interest in extending their influence to the economic sector, the latter believed that partial climb-downs by business could not resolve the issue of balancing the budget or reduce the lobbying potential of the former oligarchs.

The result was the “Yukos affair”. This was intended not only as a way of destroying Mikhail Khodorkovsky’s group of businesses but as a sign of a new unilateral change in the rules of the game in terms of relations between business and the government. First of all, added to state dominance in politics was the unacceptability—for business—of making any investment in politics (either on a day-to-day basis or strategically) without the government’s direct approval. (Khodorkovsky was unofficially accused of intending to stand in the 2008 presidential elections). Secondly, strict limits were imposed on business lobbying for changes in legislation, at least where the former oligarch groups were concerned. Thirdly, all key business decisions, including those linked with changes in the structure of ownership and the influx of foreign investors needed not just a formal legal sanction from the state authorities (for example, the competition authority) but the Kremlin’s informal political approval. Khodorkovsky’s attempt to sell a large shareholding in Yukos to America’s Exxon without Putin’s informal approval became one of the many reasons for his criminal prosecution. Subject to a few tweaks, these rules continue to apply today.⁹

The Yukos affair showed that the government controls the situation in the country and is able to make decisions while ignoring the position of individual businessmen and the business community as a whole. The attempt by RSPP to defend Khodorkovsky thus ended in failure and led to the resignation of its founder and first president Arkady Volsky. This reality was acknowledged not just by the Russian business community but also by Western investors with investment interests within the Russian economy in conditions of a rapid growth in oil prices. At the same time, Western players (from both commerce and politics, Gerhard Schröder, Jacques Chirac and Silvio Berlusconi), who embraced the new Russian political and economic “model” as perfectly acceptable, treated Russia as a “non-Western” country in which the rules one played by were completely different from those that existed in their own countries. Their long experience of working with authoritarian regimes helped them in this: in their eyes Putin differed little from Arab sheiks (except perhaps for the better—after all, Russia had retained its liberal 1993 constitution, elected parliament and multi-party system).

⁹ For more on the Yukos affair see: V. Chelishcheva, *Zakluchenny No. 1, Neslomlenny Khodorkovskyy*. [Prisoner No. 1. The Unbroken Khodorkovsky] Moscow, 2011; V. Panyushkin, *Mikhail Khodorkovskyy. Uznik tishiny*. [Mikhail Khodorkovsky, Prisoner of Silence] Moscow, ed. Sekret firmy, 2006.

The new system restricted business's potential by severely curtailing its independence from the state. However, it permitted business not just to maintain its positions but also to develop, provided it kept to the new rules. Khodorkovsky's company was crushed, but other major players remained untouched, such as Vagit Alekperov, founder and President/CEO of Lukoil. Unlike Khodorkovsky, he had no political ambitions of his own and Lukoil therefore avoided violent conflict with the government, although in 2002 the company did voluntarily pay the government compensation of USD 103 million it had saved through the use of offshore schemes (despite the fact that Lukoil had won the case in the commercial courts). Soon after Khodorkovsky's arrest, a Lukoil spokesperson announced that the company's management was deliberately eschewing any tax avoidance schemes—even those legally permitted.

In 2004 Alekperov achieved one of his greatest successes. In July of that year three-way talks took place at the Black Sea resort of Gelendzhik between Vladimir Putin, Alekperov and the head of ConocoPhillips, James Mulva. A basic framework was agreed there for the American company to acquire shares in Lukoil. As a result, the Russian government was able to demonstrate that foreign investors were attracted to the country despite the Yukos affair, and what was more, they were doing so on terms that suited the Kremlin. The 20% stake the Americans bought was a long way from a controlling shareholding in Lukoil, but this subsequently became a benchmark for investors in other companies such as Rosneft and Novatek. For its part, Lukoil had gained a Western strategic partner with no ambition to be directly involved in the management of the company and which consequently did not encroach on Alekperov's prerogative. Admittedly, when the global economic crisis occurred in the late noughties ConocoPhillips sold the shares in Lukoil as part of a cost-cutting policy.¹⁰

¹⁰ *Neft' i kapital* [Oil and Capital] No.8, 2015.

Phase Four: The Unique Features of Government Domination

After 2003 the government's economic policy became more interventionist in nature but preserved some liberal tendencies within the macro-economy (for example, in 2006 the mandatory sale of foreign currency earnings from exports was repealed). State intervention was manifest in several areas.

First of all, part of the business sector became subject to *de facto* nationalization. This involved not just Yukos but a series of other entities which the government regards as strategically important. Thus the state-owned military industrial corporation Rostekhnologii (now known as Rostec) acquired the titanium VSMPO-AVISMA corporation. Businessman Kakha Bendukidze sold Gazprombank a controlling shareholding in Atomstroyexport, a company which was the main contractor in the construction of nuclear power stations abroad (though the bank then sold the government enough shares to make up a controlling shareholding). Gazprom acquired Sibneft which was renamed Gazprom Neft. Rosneft, which is now headed by the president's influential adviser, Igor Sechin, bought 100% of the shares in the TNK-BP oil company. Incidentally, *de facto* nationalization in these cases occurred not in the form of Yukos-style confiscations but in the form of purchases. What is more, in a number of cases these were on very lucrative terms for the former owners. However, this approach still leads to reduced market competition and to an increasingly state-run corporate culture.

Secondly, a new legal form was introduced which enabled the government to increase its intervention in the economy. This was the "state corporation" which had extensive commercial-sector rights. Very different companies acquired state corporation status—from Olympstroy (incorporated in preparation for the 2014 Sochi Winter Olympics) to Rostec and Rosatom, which are strategically key for the government. During Dmitry Medvedev's presidency a *de facto* moratorium was introduced on the creation of new state corporations (many experts considered these insufficiently effective), but since President Putin returned to his post the bar has been removed and a decision adopted on the creation of new state corporation Roskosmos.

Thirdly, a new class has been created of businesspeople with ties to the government. They are given informal economic preferences but less genuine political influence than the oligarchs of

the 1990s. Experts have named Sergei Pugachev, the owner of the now-insolvent Mezhprombank, as the first of these entrepreneurs. He has since emigrated and joins in the criticism of the Russian regime from London.¹¹ It would seem that, like Berezovsky before him, Pugachev overestimated his abilities and ignored the fact that there is no call for “kingmakers” in Putin’s Russia. On the other hand, the president’s Petersburg friends (Yuri Kovalchuk, Gennady Timchenko and Arkady Rotenberg) make a point of keeping a distance from politics and in public do nothing to bring attention to their closeness to Putin. This has turned out to be the right strategy, enabling them to enjoy economic success. Two of the three largest companies in the pipeline construction market, Stroytransgaz and Stroygazmontazh, belong to Timchenko and Rotenberg respectively. Kovalchuk’s sphere of influence covers not just Rossiya Bank but also Gazprombank, the Sogaz insurance company and major media assets.¹²

It is typical that the “Petersburg friends” were people who had started out in business in the 1990s and whose careers have been given an enormous push in the last decade. Unlike Sechin, they are not supporters of state expansion. On the contrary, their business continues to be privately-owned. The appearance within a company of a businessman with links to government might also allow it to embark on a new level of growth. This is what happened in the case of Novatek, an independent gas producer who in the early noughties found itself defending against Gazprom expansion. An attempt by the head of the company, Leonid Mikhelson, to sell some of Novatek’s shares to France’s Total ended in failure—the competition regulator did not prohibit the deal but did not allow it either. Once Timchenko became a shareholder, the situation changed dramatically. Gazprom’s expansion did not just cease, Novatek even acquired shares in it. Novatek is also actively developing a gas project on the Yamal peninsula, including the construction of the Sabetta port in the north-east of the peninsula. Relations with France soon recovered. As early as March 2011 Mikhelson and the then head of Total, Christophe de Margerie, signed a memorandum in the presence of Vladimir Putin concerning the French company becoming a shareholder in the Russian one. Total also bought a 20% holding in the Yamal LNG project. By 2014 Total already owned 18.2% of the shares in Novatek—and the competition regulator experienced no misgivings in relation to this transaction.¹³

¹¹ On the history of Sergei Pugachev see: A. Novak, “Pugachev zashchishchaetsya mediaatakoy” [Pugachev Defends himself with a Media Attack], Polit.ru, 2 July 2015, <polit.ru/article/2015/07/02/pugachev/>.

¹² For more detail see: A. Makarkin, “2011 god: legitimatziya sobstvennosti” [2011: the legitimisation of private property], Politcom.ru, 30 March 2011, <<http://politcom.ru/11679.html>>.

¹³ *Nef’ i kapital* [Oil and Capital], No.8, 2015.

The alliance between Mikhelson and Timchenko is thus mutually beneficial. It helped Mikhelson acquire strong lobbying support which allowed him not only to keep Novatek afloat but to stimulate further growth. For Timchenko Mikhelson is an experienced businessman in the gas sector who is able to manage the expanding asset portfolio professionally.

It is typical that the Yukos affair was the only conflict between the government and a successful big businessman that was as extreme and irreparable as it was. That does not mean there will be no more, at times highly charged, conflict situations between the government and entrepreneurs. RussNeft owner Mikhail Gutseriev was forced to emigrate but later returned and regained his position among the business elite. Founder and head of Sistema, Vladimir Yevtushenkov found himself under house arrest even after sanctions were introduced against Russia. His case was linked to the struggle for control of Bashneft, which is long over. The result was that Bashneft was, to all intents and purposes, nationalized, but Yevtushenkov's other assets were not adversely affected. What is more, he was released from house arrest and invited to a meeting with Putin, which in Russian terms means political rehabilitation¹⁴.

In this situation, many Russian entrepreneurs have found places within government bodies as representatives loyal to the Kremlin (while at the same time keeping de facto control of their business). Against this background, the number of entrepreneurs who maintain links with the opposition is, given the increased risk, extremely low. One exception is the leader of the Green Alliance party, billionaire Gleb Fetisov, who was investigated and held in custody in 2014-2015. Some observers believed that this was a result of his party activity while others took the different view that his political status was not enough to protect the businessman¹⁵. Whichever is correct, it remains the case that his example inspires little enthusiasm among other entrepreneurs.

The process of stabilizing relations between business and government has also occurred at regional level. According to Rostislav Turovsky, what emerged in the end was "a model of relations you might call functional", based on the fine-tuning of relations at governor level and within the limits of the governors' real powers. "Political conflict arises in two cases. Firstly, if a governor succeeds in using his power and imposes serious limits on companies' economic opportunities. Secondly, if for some reason a

¹⁴ For more on the Yevtushenkov affair see "Sistema podavilas' neft'yu" [Sistema choked over oil] Polit.ru, 22 June 2015, <polit.ru/article/2015/06/22/evtushenkov>.

¹⁵ For more on the Fetisov affair see: *Forbes*, 23 September 2014, <<http://m.forbes.ru/article.php?id=268435>>.

member of the business community [...] decides to depart for or make a partial transfer into politics”.¹⁶

Hence, the Russian version of state dominance in the economy is a complicated structure which differs fundamentally from a European free market economy. Instead of well-defined legal procedures there is a system of informal arrangements. Of course, most businessmen prefer minimum state intervention in the economy, but they have been unable to change the situation. It is something else again when all that distinguishes an entrepreneur from an ideologically “inspired” politician is the ability to make a pragmatic adjustment. That is why the businessman does not protest but rubs along with the government. What is more, he will find a way of developing in the new situation too, even if it is less comfortable than before. That said, there is a certain impetus that is often lost in these situations, though this may also be for other reasons.

Specifically, these reasons may include a loss of prestige for the business community. Following the “collapse” at the end of the 1980s/beginning of the 1990s the number of new active players fell significantly. On the other hand, the first generation of businessmen within the new Russia are still wondering about who will inherit their assets, and some of them seem to be at something of a loss. “There is... a dangerous trap – comfort, stability,” comments Andrei Gusarov, chair of Satori’s board of directors.¹⁷ CEO of MM-Class, Marina Meliya refers to a “crisis of objective” and an “existential vacuum”.¹⁸ At the same time, the view of major venture capitalist Yuri Milner is typical; he believes that entrepreneurial drive in Russia is “on average higher than in Europe”.¹⁹ Such a comparison allows room for optimism.

¹⁶ R.F. Turovsky “Vlast’ i biznes v regionakh Rossii: sovremennyye protsessy obnovleniya regional’nykh elit” [Power and Business in Russia’s Regions: Current Ways of Renewing the Elites], p. 24. <bastion.ru/files/eb/regelite-business.doc>.

¹⁷ I.M. Bunin, *20 let spustya. Portret otechestvennogo biznesa*. [20 Years On: A Portrait of Domestic Business.], April 2015, p. 169.

¹⁸ *Ibid.* p. 306.

¹⁹ See *Forbes*, 3 November 2013.

Phase Five: Life under Sanctions

The sharp deterioration in relations between Russia and the West has coincided with a new reality to which business has to adapt on the hoof. A whole host of Russian companies have become subject to industry-wide sanctions. In the case of Novatek, for example, its proximity to government resulted in its inclusion in the sanctions list due to the figure of Timchenko (in this way, competitive advantages become problems). But the problem is somewhat wider than that. The Russian government used to be geared towards engagement with the West (albeit with varying degrees of enthusiasm) and demanded of companies only that they reduce their involvement in offshore arrangements, though even this was not done particularly industriously. Former first deputy head of the presidential administration (and now an aide to Putin) Vladislav Surkov brought the negative term “offshore aristocracy” into the public domain,²⁰ but this has not been followed up with any penalties against the “aristocrats”.

At present, Russia is trying as much as possible to isolate itself from the West and regards the latter as a threat in a number of different areas—politics, the economy, culture and ideology. By its very nature, entrepreneurship is cosmopolitan. For that reason, reaction to any isolationist trends are varies between, serious concern to complete rejection. This is all the more so given that the government’s actions, in its “besieged fortress” mindset, also affect a small number of businesspeople officially considered “suspect”. For example, the charitable fund Dinastiya (Dynasty), founded by Russian business veteran, 82-year-old Dmitry Zimin, has been declared a “foreign agent” by the government, following which it announced the cessation of its activities.

It is worth noting that there is a sector of Russian business which takes seriously the idea of “business nationalization”, coming out in favor of the government’s marked positions. The clearest, and in some respects rather extreme, example is the “Russian Orthodox” businessman, Konstantin Malofeev who is actively involved in the dramatic events in Eastern Ukraine and who has had Western sanctions imposed on him as a result. That said, in many cases support for state control is a matter of mere lip service. For example,

²⁰ L. Radzikhovskiy, “Yevropeytsy sverkhu” [Europeans on Top], *Nezavisimaya Gazeta*, 7 March 2006, <www.ng.ru/ideas/2006-03-07/11_elita.html>.

back in 2007 Oleg Deripaska stated that “If the government says we have to surrender our companies, then we will surrender them. I do not separate myself from the government. I have no other interests”. But in the event he remained the owner of his business²¹.

At the same time, the founder and CEO of Splat, a company that manufactures oral hygiene products, Yevgeni Demin warned when giving his opinion of the Russia-Ukraine conflict, “Before you find yourself inside a besieged fortress, it is important to understand where you are going to get food from and the other essentials for a comfortable life.”²² He believes that the isolation the country currently finds itself in reveals some pre-existing problems which have long been ignored. For example, the existence of Russia’s own manufacturing industry, “It is surprising we have allowed ourselves to forget how to do the simplest things, we have lost most of our technology and allowed whole industries to collapse”²³. However, at present, such statements are an exception. At a time when society is consolidating around the government, business as a whole cannot “break the general mold”. All the more so given that these days the distribution of assets may remain in state hands, despite there being ever fewer such assets to go round.

²¹ Deripaska: “Ya gotov otdat’ svoyu kompaniyu gosudarstvu” [I am prepared to surrender my company to the state], <<http://grani.ru/Economy/m.124731.html>>.

²² A. Levinskaya, “Sozdatel’ zubnoy pasty Splat napisal pis’mo ob izolyatsii Rossii” [The creator of Splat toothpaste has written a letter about Russia’s isolation], RBK, 15 October 2014, <<http://top.rbc.ru/business/15/10/2014/543e355bcbb20ffa39153d57>>.

²³ *Ibid.*

What Next?

In the current situation business relies on its ability to develop individual strategies aimed not so much at growth as at survival in the new conditions. These include both the domestic aspects (cutting non-essential expenditure, attempting to cozy up to the regime and obtain support from it on concessionary terms) and foreign policy—reliance above all on the growth of foreign assets (as an insurance against potential increased unrest within Russia), individual moves abroad (particularly given that the families of many Russian businessmen have been living in Europe for some time). There is also the option of “raising the flag” of a particular Western state so that the business appears as “European” as possible and its Russian roots are as little evident as possible.

Hence it is not just prudent diversification that is under discussion but in some cases more serious processes affecting Russia’s business climate. Cases have already begun appearing of companies moving all—or virtually all—their activities somewhere abroad that has no political problems that directly affect them. For example, major clothes manufacturer, Gloria Jeans, has moved production out of Russia and Ukraine virtually completely, while its owner, Vladimir Melnikov has announced plans to move the company’s headquarters to Hong Kong in 2015. As he puts it, “The country has decided to follow the path of mobilized state growth. That is not my way”²⁴. Many of these people already spend fewer than 183 days a year in Russia in order not to remain Russian residents for tax purposes. This is because existing legislation aimed at reducing the number of offshore entities in practice encourages businessmen to move abroad. Given a further extension of the conflict with the West, it seems the number of people inclined to move abroad will only increase and business will increasingly “vote with its feet”.

Russian expert Vladislav Inozemtsev believes that Russia today is ever more reminiscent of Alexander Lukashenko’s Belarus, both in the political arena and the economy, including state

²⁴ A. Levinskaya, “Goskapitalizm vynudil “Gloriya Dzhins” perevesti ofis v Gonkong” [State Capitalism has Forced Gloria Jeans to Move its Office to Hong Kong], RBK 15 October 2014, top.rbc.ru/business/15/10/2014/543e5910cbb20f2a4b4c1733.

domination of the latter.²⁵ It is well-known that the Belarus model is incompatible with a free market – and if Russia continues to go down this path then business may find itself at a dead-end. On the other hand, Russia’s experience is witness to the fact that private initiative survives even in the most adverse circumstances. A new “leap forward” of the kind seen in the 1980s and 1990s is unlikely thanks to the fact that the main players are older than they once were, the underlying economic structures have ossified in the meantime and there is no longer the same drive (though this has not disappeared altogether). Nevertheless, the possibility of private enterprise being reenergized should not be ruled out. When the state-interventionist model, based on high oil prices, lands up at a dead-end, then there is a demand for alternatives. Russian society will not tolerate a Soviet-style mobilization scenario, so what remains is a swing towards private enterprise. Only in the medium term will it become apparent how long and what form this will take.

²⁵ V. Inozemtsev, “Strategiya: Vsled za Lukashenko” [Strategy: Following Lukashenko’s Lead], *Vedomosti*, 19 August 2015.