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Russia's Economic System: Corporate State's Modified Model

This article is based on a theoretical assumption that while international economic order has become increasingly politicised and political competition strengthened, governments become more and more active in intruding into the sectors of trade, finances, and production. Russia is being used as an example to investigate the way the decisions of cartelisation, export restrictions or stimulations, and similar ones become the most important mechanisms in dividing the markets. The analysis also includes the ways that Russia's economic resources determine its strategic and diplomatic power, as well as how the modern Russian economic system and its developmental tendencies are influenced by a special factor that has emerged in the post-Soviet economies – the factor of the political leaders' striving towards changing the state's economic matters in one way or another for the sake of the stability guarantees for their own positions and financial backing, and for the sake of their own private wealth or that of their close associates.

Introduction

One of the first attempts to analyse the influence of the economy on foreign policy transformations was made by Suzan Strange in her article published in 1970 under the title "International Economics and International Relations: A Case for Mutual Neglect."¹ This analysis was made with the view on not the state alone, but also on other participants of the relationship in assessing the changes in the modern world. S. Strange, a representative of the British academic thinking, who has devoted over 30 years towards the study of modern international political economy, raised a question in her publications about who in fact was responsible for the world's economy. Her statement was that those responsible were not just the governments but also big businesses, drug barons, insurers, accountants, and international bureaucrats – all intruders into so-called state's sovereignty.² Later academic studies, especially in the ones on modern integration, started to observe the influence of economic interest groups and

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¹Strange S., "International Economics and International Relations: A Case for Mutual Neglect", *International Affairs*, Vol. 46. No.2, 1970, p. 304-315.

²Strange S., *The Retreat of the State. The Diffusion of Power in the World Economy*, Cambridge: Cambridge University Press, 1996, p.14.

bureaucratic institutions on inter-state relations and were providing an assessment of the manipulations, by economic means, in order to achieve political goals.

The traditional view of any state's foreign and home policy, usually puts the decisions of the political power above the decisions of the economy participants. However, the alternative that forces state leaders to choose between butter (factor of a population's wellbeing) and cannons (factor of state security or defensive power)³, has become too simple at the end of the XX century. As the world's economy has been under the influence of global tendencies, especially after it has been joined by the post-Soviet economies, a special factor emerged, i.e. the striving of political leaders at changing the state's economic matters in one way or another for the sake of the stability guarantees for their own positions and financial backing, and for the sake of their own private wealth or that of their close associates. In recent years, a new inter-state aspect has become increasingly recognised when more stringent environmental regulations stimulate an increasing demand for cleaner fuel, i.e. natural gas and cutting edge technologies, together with the customers' demand for a higher quality life, provoke an even higher demand for oil products. At the same time, a continuous increase of economic and, most importantly, energy and infrastructural interdependence in common European space elevates the natural competitiveness of Russia and makes it necessary to take into account the activities of the country's local fuel and energy complex companies and their influence on the international arena.

The transformation of Russia's political institutions has become more apparent. In the first post-Soviet years, the country was bubbling with an abundance of parties and lived "from election to election." However, the more recent political system has become much more rigid, and the tendentious strive of the ruling party to dispel the opposition parties as political institutions⁴, employing both formal and informal means, ultimately has overwhelmingly diminished their influence in economic and political matters of the state. Russian analytical commentators have been speaking widely about the tendencies for the birth of a corporate state⁵, indicating the merger of business and bureaucracy together with the search for a single-party system restoration, as the symptoms of the phenomenon. The processes under way in Russia often have been justified by such world-famous examples as the cases of Japan, Taiwan, or South Korea, when highly corporate-driven states had an objective to achieve prominent positions in the world market and have integrated into the world's economy with the industrial and technological achievements of their national economies. Moreover, having successfully transformed their economies, they gradually established democratic societies as well.

³ Kirshner J., "Political Economy in Security Studies After the Cold War", in *Review of International Political Economy*, Vol.5, No. 1, 1998, p. 64.

⁴ By the pole of December 2005 results, more than half of the Russia's population would be satisfied with a single- or dual-party system, and 27% of them do not see any reason in the existence of other parties (source: "Эксперт Урал", No. 21 (238), June 5, 2006).

⁵ Lat. *corporatio* – an incorporation; emerged during the crisis of capitalism after WWI; its goal is to camouflage the dictatorship of monopolies' capital and create the illusion of cooperation and harmony of interests within the state.

Modern Russia clearly demonstrates its drive to become a super-state, utilising the development of its fuel and energy sector and exports of the sector's products. During Q1 of 2006, the export of energy resources reached record levels in Russia's history accounting for 71.1% of overall exports. However, the development process of the industrial countries indicates that economic policies of this trend have never ensured long-term economic growth. Although Russia officially declares its position to curb foreign investment⁶, the news from the stock exchange and stock market show that the Russian energy sector is the most desired transactional subject, and the largest investment capital amounts flow through the companies registered in Luxembourg. The Russian President and his head of administration, Mr. Surkov, often declare the necessity to get rid effectively of the post-Soviet bureaucracy by employing alternatively dynamic people of modern thinking. Nevertheless, the same leaders encourage preserving the dominant position of a "unified Russia" for another 10 – 15 years, thus dragging Russia's economy into the obscurity of monopolism and non-competitiveness, forcing it to be increasingly ineffective.

1. The Logic of the State or That of the Market?

On a theoretical level, economy can be defined as a system of production, distribution, and consumption of wealth and politics, as a totality of rules and institutions regulating social and economic relations.⁷ The investigation of the interaction of these two factors in a specific state against the background of the international and global environment usually employs one of the two methods: either to rely on the assumption that economic resources of the state determine its strategic and diplomatic power; or, conversely, to base the research on the influence of political factors on economic decisions and results. In the case of Russia, the former assumption seems to be rational, namely, that the size and structure of GDP, the amount and structure of the country's natural resources together with the trade balance constitute the social and economic phenomena within the state. It is also obvious that the practical foreign economic policy is only a tool of the Russian home policy.

The question of which direction Russia is heading today has not been unambiguously answered, neither by Russian or foreign observers. Andrej Ilarionov, a former advisor to Mr. V. Putin, stated in his public speeches that Russia, showing a decline of economic indicators in all major spheres of economy in the last four years, is expected to experience economic growth slow down to be followed by economic stagnation at some point in time.⁸

⁶ Back in April 2005, President V. Putin in his annual address noted the importance of legal restrictions on foreign participation in the projects of importance to Russia's security and independence. Russian laws effectively restrict investments in 39 strategic areas.

⁷ Frieden J.A., Lake D.A., eds., *International Political Economy. Perspectives on Global Power and Wealth*, New York: St.Martin's Press, 1991, p.1.

⁸ "Kremliuje galandami energetinio ginklo ašmenys", *Lietuvos rytas*, 2006 05 13.

While the world's newspaper headlines regularly speak of increasing disagreements about the energy policy in Europe and about the emerging restoration of Russia's aggressive policy, sparked by high oil prices on the world markets, it becomes more obvious that the Kremlin leaders are sure they are able to press Western countries to make concessions in any area with the help of their country's vast energy resources. The Russian democrats say that whatever the Kremlin does, the West will just pat V. Putin on the shoulder and sign a contract beneficial for themselves.⁹ The Russian president was repeatedly vocal about the actions of the international community in relation to the Northern European oil pipeline and Russia's natural gas monopolist, Gazprom's intentions to expand its presence in Europe, calling these actions an attack of the West on Russia's intentions to take over a leading role in the world energy market. The representatives of the natural gas giant itself have demonstrated a growing strength of the corporation by such declarations like "Europe will have to fight for larger gas imports from Russia. [...] On the other hand, we will decide where the new flows of gas exports have to be directed. We are ready to meet the growing demand for gas in Europe but then our weight in the European basket must necessarily increase as well."¹⁰

The events of 2006, related to the world-wide growing demand for natural gas and Russia's unilateral possibility to terminate and renew its supply¹¹, reminded us that the acting Russian President V. Putin, while still a modest person in politics, wrote that the key to the restoration of the former might of Russia is with the possibility of becoming the main supplier of energy resources to both industrial and developing countries.¹² Having taken over the reign of power in the country, he made his first decisions that suppressed the efforts of the Kremlin liberals to curb Gazprom's influence in the country's home market. Moreover, at the outset of his career he made sure that at all the management levels of concern, there were people loyal to him. The Gazprom Group's Supervisory Council members, who make the strategic decisions, today include the first deputy Prime Minister of the RF, the Minister of Economy and Trade, the Minister of Industry and Energy, and the Ambassador at Large of the Foreign Ministry.¹³ On the one hand, it means huge individual bonuses for

⁹Norkus A., "Rusijos valdovai surado patikimą skydą nuo kritikos strėlių", *Lietuvos rytas*, 2006 05 13.

¹⁰Daily "Lietuvos rytas" information based on the "Reuters", *Lietuvos rytas*, May 4, 2006.

¹¹ On the first day of 2006, Russia terminated the gas supply to Ukraine over the pipeline crossing its territory and carrying the flow of gas to Western European countries. A little later, the gas flow to Georgia was terminated due to an unspecified explosion in the pipeline. Having been faced with the possibility of a fuel deficit or a considerable increase of its price on the eve of elections, the Ukrainian leaders agreed to transfer the rights to a part of the pipeline on its territory to Russia by transferring it to a very complicated international structure network with a Swiss-registered company RosUkrEnergo at its top; 50% of its shares owned by the Russian Gazprom, it has earned 478 million US dollars from the re-sale of natural gas and is sometimes called a cover for money laundering; due to its business obscure origin and the list of other shareholders, it has turned the attention of the investigators of the USA Department of Justice.

¹² Природный газ: вопросы энергетической и национальной безопасности", <http://www.rambler.ru/db/news/html>, 2006 04 20.

¹³ Годовое Общее собрание акционеров ОАО Газпром, <http://www.gazprom.ru/article20289.shtml>, 2006 09 14.

annual results; on the other, it is a possibility to utilize the ministerial powers and employ the bureaucrats of the relevant state institutions for the private interests of the company's owners. This is why, when Gazprom's share value went up 2.5 times during 2005, according to its Board Chairman, Mr. Aleksey Miller, the company took a firm place among the world leaders of the energy sector by its capitalization indicator. The Chairman also notes that a global competition is going on for the takeover of the world's energy resources, which means that only those producers who are state-owned or have an overall support of the government will be able to win dominant positions on international markets. The annual report of the company's Board of Directors, presented in June 2006, stated that it was only the union of the state and commercial thinking, as well as the perspective of "conquering" all the home state's and foreign energy resources that encouraged the company to undertake long-term planning. Consequently, according to Gazprom leader, having demonstrated all its advantages characteristic of a transnational giant, the corporation effectively made use also of all the aspects of national state companies which turned out to be useful.¹⁴ It is considered a prominent achievement of the company that it was the state that became the owner of the control stake of its shares in 2005¹⁵ and a more brisk achievement expected in the next stage, i.e. in the sphere of vertical integration.¹⁶ With this view, the Gazprom Group's activity is intended to be reformed in two stages by 2008, diversifying the network of the partially-owned companies into profile sectors like natural gas and oil production, gas/oil transportation, etc., which would be managed from a single centre and 100% of their companies' share capital would be owned by the Gazprom Group by that time. It is also expected to become a prominent world supplier of liquid gas by 2010 – the first delivery of the product was delivered to the American consumers at the end of 2005. Further negotiations with the "major market players" for medium-term contracts, competing for the possibility of "taking over three largest markets with the help of long-term contracts, are expected to be carried out by the state - it is believed that only the state can open a solid exports channel for the company which will use it for the flow of its products evaluated on the basis of the oil product basket prices.¹⁷

The development of the world's economy has proved that the question about whether private or state ownership should be dominant in a reasonably well-managed state is wrong in itself with its roots in traditional Marxist-Leninist view. Depending on the goals and tasks which have to be solved

¹⁴ Ibid.

¹⁵ On June 16, 2005 Gazprom agreed to sell 10.7% of its shares to the state for US \$7.2 billion. The foreign press wrote that the Government sought to raise its share to 50% intending to sell it to Western investors after they would have been listed on the Russian stock exchange (while the shares were not listed, they were offered to Western investors as American depository receipts) (source: *Mixing oil, gas and politics*, The Economist, June 20th 2005).

¹⁶ A new industrial entity emerged, Gazprom Neft, when Gazprom bought 72.66% of Sibneft for US \$13 billion in October of 2005 in its effort to become a multi-profile energy company with annual oil refining capacity of up to 9.5 million tons of oil; the work proceeds further for the development of synthetic liquid fuel production; a 10% stake of a strategically important state-owned electric power supply company Mosenergo acquired.

¹⁷ Годовое (note 13).

by society on certain stages of its development, the private sector is provided with more or less freedom, and decisions are being continuously altered. If the market development logic demands further expansion of economic activity, where it is most effective and yields the highest profits, the state's logic seeks to control the economic growth, take over the accumulation of the capital, control it and channel it in the direction where it would best serve the groups with powerful influence within the state.¹⁸ We know that the market and exchange of goods unite the participants in the economy, but it is important to assess the process when the spirit of ownership and the instinct of wealth accumulation, merging with the production process, may considerably change the principals of existence both on the national and international societal level.¹⁹ Meanwhile, the on-going economic changes in Russia have been disrupting the international *status quo* for some time and raising new problems in both economic and political areas. E. g., Russia openly has been refusing to join the Energy Charter since 2003, this is the EU document that liberalized the energy resources sector. The most disagreements arise from the Transit Protocol, on the basis of which Russia has to provide the possibility for the EU to receive natural gas via pipelines from Central Asia. Another example is when Vneshtorgbank, a state-owned Russian bank, acquired 5.02% of the shares of the European Aeronautics and Defence industry concern EADS, and declared its intention to acquire a 25.1% share package, a blocking stake, the German leadership (the Bavarian Prime Minister Edmund Steuber) started to talk about further curbing of foreign investment. However, the Russian President V. Putin reiterated with unconcealed aggressiveness: "The Russians do not walk around armed with kalashnikovs. They walk around with money in their pockets, and I would suggest you'd better meet them pleasantly."²⁰

The conjuncture situation, economic and political decisions of Russia, provoke the assumption that the state economy tends to isolate itself from the outer world and by providing the state bureaucrats with an ever greater power of control over production, distribution, and pricing, which is creating the background for the revival of the Soviet-type central planning system. The absence of a real market economy and developed private production sector, together with the material interest of the governing elite, more often than not takes the upper hand over the factors of political culture and economic viewpoint, and provides for the formation of the corporate state.

At the academic level, it has been widely reasoned about the traditional model of the corporate state, the name "corporate state" has been associated with the authoritarian system since long ago, as well as about the crisis of

¹⁸ Heilbroner R.L., *The Nature and Logic of Capitalism*, New York: W.W.Norton, 1985, p. 94-95.

¹⁹ Craig G. A., *The Germans*. New York: G.P. Putnam's Sons, 1982, p. 105-106.

²⁰ "Kanclerė atvėsino Rusijos vadovo planus", pagal "Reuters", Newsru.com" ir "Lietuvos ryto" inf., *Lietuvos rytas*, 2006 10 14.

neo-corporativism.²¹ The indicated reason is globalization, which increases the mobility of the labour force, this as well as the increase of the economic influence of the developing countries on the world economy. The corporative theory itself allows us to clarify the way that the state integrates business and labour interests, considering industrial executives, production, agriculture, and trade associations and labour unions as the most important interest groups, including the way the decisions on economic and social strategy of the state are being coordinated among state institutions, business associations and trade unions. Unfortunately, the reality is that the activity of the state's interference into decision-making often fluctuates depending on how intensive is the pursuit of the dominating, creating, and dictating leader's position. The government may choose one officially recognised organisational unit as its tool for disposing of the society's participation in political decision-making, which helped it minimise the power of civil society. The tool can not only be a national labour (professional) or another type of union, but also a separate business group or association, or a large corporation. E. g., a phenomenal case is considered to be the creation of Japan Inc., when large industrial conglomerates and their dependent workforces, being eager to achieve significant growth in the state economy, consciously let the Japanese government manipulate them in the post-war years.²²

Advocates of the modern Russian economy policy often rely on the South-East Asian models of state corporatism stating that the business achievements of four countries in the world economy would not be possible without direct state involvement in formulating the goals for the private sector in implementing the reforms of national economy and politics together with the wide involvement of the private sector in decision making. However, these states managed to avoid the evolving of the corporate state into a dictatorship and the periods of economic stagnation which lasted for decades. Still, the features manifested by the combination of the modern Russian market logic and that of the state, show that an emerged corporatism in that country does not become a challenge to democratic pluralism but a cartel alliance where the elite collaborate rather than compete.²³

²¹ The author follows the thoughts of *Philippe Schmitter, Gerhard Lehmbruch, and Peter J. Katzenstein* about the necessary tri-lateral agreements among the citizens' unions, private sector (the capital), and the government. Such agreements must lead to the honourable distribution of the production growth benefits (profit) in the economy among the social partners, and the management of the level of wages during times of recession and considerable inflation. It is believed that such models exist, in reality, in only small countries with open economies which are very well managed and which have created a strict hierarchal structure of the trade unions, such as Finland, Sweden, Austria, Norway, Ireland, the Netherlands; it allows them to ensure effective relations of national and global economies (source: Schmitter, P.C. and Lehmbruch, G., (eds.), *Trends toward Corporatist Intermediation*, London, 1979.; Katzenstein, P., *Small States in World Markets*, Ithaca, 1985).

²² Unger J., Chan A., "China, Corporatism, and the East Asian Model", <http://www.usc.cuhk.edu.hk>, 2006 05 14.

²³ Dunleavy, Patrick and Brendan O'Leary, *Valstybės teorijos, V.: "Pradai"*, 1996, p.173.

2. The Axis of Russian Economy or “The Process of Creative Destruction”

It has been noticed in the theory of economy that every economy is a hierarchic structure composed of a dominating centre or an axis of growing economy where accumulations of capital, industry, and economic activity take place, and a periphery which is being involved in the economic system as the centre expands. Although a lot of options of such inter-dependence are known, the work distribution between the dynamic centre and the periphery is considered by the theory of economy as a universal, the most important feature characteristic of every economy.²⁴ It has been noted that economic activity in the periphery is expanding very unevenly due to the lack of raw materials, business skills or other factors. E. g. a regional area or an economic branch that has never been in the forefront may become the centre of the national economic development, while the relatively stagnating economic areas become an obstacle for the development of the rest of the economy – the state is undergoing “the process of creative destruction.”²⁵

The first actions of the Russian President V. Putin, in the process of forming the “vertical of power” back in 2000, has shown, according to Russian annalists, that the past, which was supposed to be scrapped in the preceding decade, “is under rehabilitation” and the modern Russian state is in the third stage of “challenge – response”²⁶ with the new unique modernisation concept “to catch up and become a Western state” and the only obstacle is “the unfinished social pyramid of the state.” In such an environment, even the most absurd economic statements are being tolerated, e.g. well-known Russian economists are reasoning that that even when there are no guarantees that the projects initiated by the state will be successful, still it is worth “promoting and implementing them” as it is more beneficial for the people than absence of any strategy. There are attempts to justify family relationships within the highest structures of power by world examples, and the fusion of business and state power by historic examples of state development.²⁷

The country’s statistics experts and commenting annalists are hilarious²⁸

²⁴ Friedmann J., “A General Theory of Polarized Development”, in Niles M. Hansen, ed., *Growth Centers in Regional Economic Development*, New York: Free Press, 1972, p. 95-99.

²⁵ Schumpeter, J.A. *Capitalism, Socialism and Democracy*, New York: Harper and Row, 1950, p. 369.

²⁶ The combination of “nature – collectivism” is recognized as the first stage, “Mongol conquest - long-term slippage and Christianity” as the second, “Western influence – modernisation taking Russia out of the traditional state” and as the third (source: “Презентация книги А.Ахиезира, И.Клямкина, И.Яковенко “История России конец или новое начало?”, <http://www.liberal.ru/sitan>, 2006 09 21).

²⁷ E.g., it is stated that this trait was characteristic of Middle-age Germans, and 60 percent of the modern Swedish economy belong to the Wallenberg family. Excavations in historic places like Novgorod, Moscow, Suzdal, Tver and others are taken as a basis to prove the existence of boyar conglomerates, comparing them to allegedly similar ones in England, the Netherlands, Germany and other countries, with the difference that those managed “to get rid of irrelevant” features, so Russia should study and take over the experience of those countries (source: Презентация, (note 25).

²⁸ E.g., if the projection for Q1 was 4.7% of GDP growth, the actual achieved growth was 5.5%; the announced consumption index growth of June was at record level in the last 5.5 years (4.7%), which was estimated as the turn to “the first acceleration stage” (source: Центр развития, “Обозрение Российской экономики”, <http://www.dcenter.ru>, 2006 09 11).

about the officially announced indexes of the Russian economy for 2006. However, all the positive tendencies are interconnected by a few related reasons. As far as the first half of 2006 is concerned, the main factors to influence the economy, as it seems, were the oil prices that rose by 33% compared to H1 of 2005 and the mass of cash in circulation as well as the decrease to 5.4% of the real exchange rate of the national currency, the rouble, to the American dollar, compared to 7.6% at the end of the relevant period a year ago. It was noticed that the monetary policy of the Bank of Russia was changing due to the growing inflation within the countries – Russia’s trade partners and the decreasing inflation rate in Russia “the dual-currency basket” is in need of supplying it with the foreign exchange of other countries.

A new tendency can be observed when the development of small business in the country is slowing down and the investments of own capital into production are diminishing, but Russian financial investments in foreign countries have doubled. If the usual tendency was to point out to the inappropriate Russian tax policy which was blamed for lack of investment, the comments at the middle of 2006 point out to the unacceptably high business risk in the country and infrastructural restrictions on the investment capital penetration. However, after the resounding shock recollections of the Jukos case had been dimmed in 2006, the former branch investment structure has been gradually revived. E.g., during Q1 of 2006, the investments into oil production and other areas of fuel/energy sector increased 17.4%, while the investment even went down by 2.6% in 2005. Although the tendency for investment diversification, which arose in 2004–2005, still has a positive reflection on the capital indexes of the manufacturing industry (compared to 2004, after Q of 2005 the share of investment into manufacturing reached 47.1% of the total amount, i.e. the increase was 7.1 percentage points), the country’s oil industry again is being called the axe of Russia’s economy.²⁹

In September of 2006, an annual list of the largest Russian companies was published³⁰ and compared to 2005, the list was renewed by 25%. If the main sensational news of the previous year’s list was the fall of Jukos out of the first ten on the list, the surprise of 2006 was the state-owned Rosneft climbing from 19th to 6th place, having managed to increase its own capital by the share of the dismantled Jukos – the oil-producing unit Juganskneftegaz, and the disappearance of Sibneft, usually present as No7 in previous years, which went into the consolidated financial reports of Gazprom. According to the compilers of the list, the first 5 companies on the list for three recent years present obvious “example of stability and the stagnation familiar to us from previous Brezhnev years: we can the names of energy holdings like Gazprom, Lukoil, Russian Union Energy System (Russ. PAO „ЕЭС России”), ТНК-ВР and Russian Railways. The oil holding company Jukos is coming back after having been crushed and partially nationalised. Its daughter company Tomskneft turned

²⁹ *Ibid.*

³⁰ The list is published for the third consecutive year by the “Финанс” magazine according to the complex system of indexes; the main rating “threshold” of the “Финанс-500” – amount of sales – was increased in 2006 by 34% - up to 4.8 billion roubles (source: <http://www.rambler.ru/db/news>, 2006 09 18).

up No 33 on the list and Samaraneftgaz – No 49. A special mini list of 25, the main criterion of which is company effectiveness, includes 11 companies out of 25, i.e. nearly half of the Russian mighty ones, which are involved in oil-gas production or its transportation via their pipelines. Two of them, Transneft and the Consortium of Caspian pipelines, increased their operational profit by 41% – 50% during the period concerned.³¹

The changes in the distribution of the Russian capital before June 2006 showed the tendency that was called “the ever shorter hand of the Kremlin” by the authors of the ratings list. According to them, although “kilograms of paper have been written about how the state is eager to attain private property and influence,”³² the state’s share in those 500 most important companies is decreasing, albeit at a slow pace, and accounts for just 35.39% calculated on turnover index. Nevertheless, 80% of the sales of all 500 companies belong to 10 state-owned holdings active in all the most important sectors of economy. The Russian oil-gas sector is controlled by the groups of Gazprom and Tatneft, the activity of which completely depends on the decisions of the Tatarstan government. On the other hand, the Russian President V. Putin personally approved the proposal of the management of the “United Energy System”³³ in June of 2006 to increase the share of private capital in the energy sector of the country, and his “opinion” swiftly has been turned into the Programme of Energy Investments of huge proportions reaching 2010, together with two decrees by the Government on wholesale and retail electricity power market liberalisation by bilateral agreements with the regulated consumers.

These facts and statistical indexes lead to the conclusion that the universal theoretical statement about the existence of the hierarchic economic structure and growth axe in any economy, where capital, industrial, and economic activity is being accumulated and in the Russian case it amazes us by its impudence. In this case, there is money and power to influence its flows at the top of the pyramid, and the axe for the economic growth is the profit from the oil and gas production, its transportation and distribution business. It is the centre for the development of the national economy, while other branches, currently under relative stagnation, are gradually becoming the obstacle for the economic development. The question about whether the state or market logics underline the economic decisions in Russia is meaningless as the facts show that they are inspired by group financial interests alone, which are serviced not only by separate society groups for the sake of some worthy leftovers from the feast table, but by the state as a whole. If the strive for the reestablishment of a single-party system and crush any trade-unionist dissatisfaction is being reported by the country’s news agencies reports, the merger between the big business and bureaucracy is openly demonstrated both by the state and private

³¹ *Ibid.*

³² The most often-mentioned facts pertain to the nationalised Juganskneftegaz, a subsidiary of Yukos that was given to the state-owned Rosneft to be managed, the take-over of management in “Avtovaz”, and the new purchase of Rosneft, the corporation Avisma.

³³ The need for the swift reform in the Russian energy system was expressed by Anatolij Chubais in the meeting of June 2nd 2006, and the Government approved the Programme a few days after (source: <http://finanmag.ru/33853>, 2006 06 18).

sector's leaders. A good example is the Gazprom leader's words on the state being the worthy manager of the work in "taking over the markets through long-term contracts" simply due to the state having the power "to open a unified channel on the basis of the price basket."³⁴

At the background of the events of 2006 - confrontations and agreements, falls and rises in stock exchanges - an award was granted to the Russian finance minister, Aleksey Kudrin, at the autumn session of the World Bank and IMF in Singapore recognising him as the best minister among the ones of developing European countries.³⁵ Speaking at the award ceremony, the Russian finance minister promised that the annual growth of the economy will be at 6% and that Russia will insure "a transparent" banking system and ease the conditions for investment into the country's economy.

It is quite easy to notice the relationship of this event with the content of the letter sent in May by Austria, holding the EU presidency at the time, to the Russian Government. The letter had it that the EU will not make any obstacles for the Russian natural gas supplier Gazprom to be involved in the European energy network if Russia, and on its side, will provide for the opportunity for the European companies to participate in its oil and gas business. The question of whether one can rely on the company which ignores the rules of the free market and has political ambitions has become not the problem of protectionism but the issue of a principal viewpoint. A concern and mistrust was expressed in "The Guardian" of May 4th, 2006 by a prominent economist George Soros who stated that Gazprom's intention to acquire the British company Centrica³⁶ needs political involvement as the trust in free market rules has reached absurd level – one day the Brits, as he says, may realise that their energy is managed by the methods freely chosen by the Russians who purchased the shares in open market. When reports appeared on the gas distributing company, Centrica, shares went up by several points due to the rumours and a new wave of commentaries arose on the distrust in the Russian business climate and the partisanship of the courts, poor reputation of Putin's Government on democracy and human rights, and open Gazprom's associations with the Russian Government. On the one hand, fear was expressed that once in Gazprom's possession, the British company may be serving the interests of the Russian Government. On the other, Britain's eagerness was defended to set an example for the other European states of economic openness in liberalising the markets, noting that except for the much exaggerated incident with the Ukraine Gazprom had always been a

³⁴ Годовое (note 13).

³⁵ The award for the most prominent input into home country's economic development is given annually to the best minister of finance and central bank governor by the British daily *Emerging markets*, the founders of which are the WB and the IMF. The Best Central Bank Governor Award of 2006 was granted to the Slovak Central Bank Governor (source: "Кудрин признан лучшим", <http://www.rambler.ru/db/news>, 2006 09 18).

³⁶ A. Miller, head of Gazprom, said in a press conference on April 2006, that if Europe didn't let his concern acquire the shares of the Western energy company, it would do no good for Europe itself. Centrica, the largest British network of utility services with 17 million of gas and electricity consumers, it was alleged, is handy to the Russian Gazprom as the manager of the British company British Gas, through the status of which Gazprom may have a possibility to legalise and trade the shares of the state company's Rosneft on international market, in other words, to trade the shares of Juganskneftegaz taken over from Yukos.

reliable partner in the environment of free market and had always kept to its obligations³⁷. However, in the flow of all the commentaries and information one can quite easily see the tendency for the interests, intentions and declarations of one corporation to be equalised with those of the strategy and decisions of the state as a whole.

3. The Russian Economy in the Phase of Anomaly

As the structure of the modern world economy undergoes dramatic changes, it is often noticed that the domestic priorities of separate states and international norms are in clear conflict and the willingness of making profit at the expense of others is on the increase. While the markets experience structural alterations and the importance of economic policies change, there are attempts to employ economic politics theory in what was earlier considered an isolated economy. The theory states that the governments can, by keeping to fixed policy rules, make the markets function reaching both, the balance at home and international concord. However, an increasing interdependence of national economies and their increasing tendency to lean on a strategically more favourable environment provoke such governmental decisions which necessarily influence the well being of other countries, too e.g. the year 2006 saw a series of decisions by the previously little known Russian state institution Rosprirodnadzor when a new instrument of state policy was used that was more advanced than the traditional mechanism of putting pressure on businesses, i.e. taxation. It turned out that by revoking the licences for raw materials extraction, one can formally get rid of any company which is not favoured by the Government or by the businessmen whom it supports.³⁸

The liberal provision, that trade and a combination of economic interests, is the basis for peaceful international relations that has been stimulating for the world economic thinking for so many years, assuming that people are divided by politics and unified by the economy, has the tendency of becoming an empirical economic science in recent years with its relative and normative “laws,” rediscovered approximately every 25 years. Rapidly developing economic branch protectionist systems, or the branch regimes³⁹, which was discussed purely on theoretical level two decades ago, has become the subject for bilateral

³⁷ *Žinių radijas*, 2006 05 05, 10:00.

³⁸ The company LUK Oil was threatened with the possibility of their licence for oil extraction being revoked in 3-6 months in their 19 oil sites due to non-compliance with environmental requirements; when an offence against Yukos started in 2003; one of its daughter companies was obliged on December 31st to plant greenery on the territory of one of its oil sites in tundra before February 2nd, when the outside temperature at the time was – 59 degrees C; the pretences formulated on the grounds of ecology are always positively accepted on international level, that is why the termination of oil supply for Mažeikių Nafta after the Letter of Intent has been signed with the PKN Orlen, there were no resonance comments on the problem (source: “Эко государево”, <http://www.rambler.ru/news/economy>, 2006 10 16.

³⁹ Aggarwal V.K., *Liberal Protectionism: The International Politics of Organized Textile Trade*, Berkeley: University of California Press, 1985.

discussions on governmental and economic partnership levels as well as the index for the effectiveness of the relative advantage “law.” Cartelisation, conscious restriction, or the stimulation of exports and similar mechanisms, when the markets are being divided or home production are stimulated with the help of foreign capital, this often raises the problems of economic fairness.

Together with Russia, as a new superpower, aiming at its acceptable place in the world’s economic system, an approach towards the origin of international economy, towards the doctrines of nationalism and Marxism are changing, too. Instances of neo-protectionism are becoming recurrent and more often analysed, which are characterised not by a systematic economic or political theory but by a set of certain topics and viewpoints. A traditional definition of economic nationalism is being recalled, which says that economic activity has to serve the strengthening of the state and its interests. The analysis of the Russian economic system reveals a shocking phrase announced by the Russian foundation “Liberal Mission” in March 2006, that the main branch in the Russian “gross domestic product is corruption,” the extent of which allegedly increased 10-fold in four years.⁴⁰

The survey carried out among prominent Russian businessmen showed that the extent of corruption increased from USD 33.5 billion in 2001 to USD 316 billion in 2006, and the average amount of a bribe increased 13-fold, from USD 10.2 thousand to USD 135.8 thousand.⁴¹ While the lawmaking and court system corruption accounts for approximately 5% to 7 % of the total amount of corruption, the Executive Branch takes up around 87% of the “gifts.” The absolute amount of the bribe, considering the changes in the country’s economy, has become a relative notion e.g. if the amount of an average bribe taken from a private business was equal to the price of a 30 sq. metres flat in 2001, the amount was equal to the price of 209 sq. metres dwelling area in 2005. On one hand, these figures show a big mess in the state economic and legal system. And on the other, the assessment on the macroeconomic level leads to the conclusion that the Russian GDP in reality could be much higher than that announced by the official statistics.

The representatives of the Russian economic thinking, the theoreticians, assess the published corruption indexes and state that this kind of situation in Russia has been created by the nationalisation of the public social and economic life, administrative reforms. The reforms instigated the wave of the increase in the numbers of bureaucratic institutions and civil servants, the reforms of civil service stopped the acceptance of new employees from “non-elite” circles. The experts proposed sensational solutions, like Evgenij Jasin, the President of the foundation “Liberal Mission, who thinks that a part of the shadow economy which is not assigned to the services area by the national accounting system and is not included in the GDP, may be equated to “the service of business life saving,” like a patient’s gift to the doctor for the possibility to live. Ac-

⁴⁰ Research has been conducted by public regional foundation “ИНДЕМ” lead by Georgij Satarov, (source: Фонд *Либеральная миссия*, Динамика коррупции”, <http://www.liberal.ru/sitan>, 2006 09 11).

⁴¹ *Ibid.*

ording to his estimates, if the official index of the amount of cash in Russia accounted for USD 46.8 billion in 2005, the amount of "corrupt" cash amount was 6.75 times larger, while the amount of cash for bribery in private business turnover increased to 6.87% in 2005 from 4.0% in 2001.⁴² If a relevant method is found to include the corruption index in the country's GDP, the main index of Russia's economy allegedly would equal those of the economies of industrialised countries, says the scientist and promises to create such a method. According to E. Jasin, if "РосСтат" officially recognised corruption and the existence of the shadow economy as an official process, it would be able to present the Russian GDP as a figure larger by 80%, as the present statistical indexes "show that at least half of the cash in circulation is forged," distort the prices of goods, form a negative index of added value, and create a number of other anomalous effects.

This and other similar assumptions prove that a country's macroeconomic policy is the main arena for the possible political competition and that it needs political coordination, and a successful implementation of the projected policy can be determined not only by the economic structure and the wisdom of the policy itself, but also a comparative power of the state together with political skills.⁴³ The present-day political elite of Russia have isolated themselves from society and are increasing the precipice between the public power and the state structure, which happens not for the first time in the country's history. The real process of the bureaucrats turning oligarchs and their increasing power in the state control mechanism, together with the creation of the clan of the top-ranking civil servants who simultaneously hold highest posts in corporate management structures and the state institutions, gives the possibility to exert influence on the economy both through the shareholders' and governmental decisions, and create the basis for the model of the Russian corporate state.

The perspective of the state economic development in this context is assessed differently by the representatives of the Russian state institutions and those of the society and science. One of the more interesting works⁴⁴ is the attempt to create the scenario of the state development by employing the methods of mathematical modelling. It predicts several local crises in Russia in the near future. The first crisis point in the cyclical graph of economic development according to 6 factor groups is between 2008 and 2010 when allegedly the pace of economic growth will decrease to 3% - 4%, and the Russian economy misbalance, formed after the crisis of 1998 and camouflaged only by high prices of energy recourses, will become evident. The modern Russian economy is characterised by the reticence of the home market and vast unused production capacity as well as labour reserves in the enterprises. Although the average 6.4% growth of economy in 2006 was attained by the forced exports and exceptionally high oil prices in the world, a disproportion

⁴² *Ibid.*

⁴³ Bergsten C.F., Krause L.B., eds., *World Politics and International Economics*, International Organization, 1975, p. 23.

⁴⁴ Белоусов А.Р., "Долгосрочные тренды", *Центр макроэкономического анализа и краткосрочного прогнозирования*, <http://www.forecast.ru/archive/analitics/ancea2005/doklad.pdf>, 2006 06 04.

was created among the most important economy sectors. A large proportion of the Russian economy with more than a half of all the Russian labour force (manufacturing, construction, and agriculture) has become non-competitive by its profitability, extent of investment, level of wages and many other factors. If the mechanism of compensations was quite effective between 2001 and 2004, which allowed to “maintain” a low rate of foreign exchange, low prices of gas, electricity and transport without increasing the wages and putting the budget income burden on the exporters of raw materials, today the influence of the compensation policy seems to be weaker. Certainly, the largest benefits of the policy have always been received by the raw materials exporters⁴⁵ and not by the end users. In other words, the benefits from the state-supported prices were directly reflected in the profit figures of the largest companies. In recent years, a lot has been discussed in Russia about another phenomenon, “the work paupers”, by saying that the earnings of 10% of the best-paid and 10% of the worst-paid employees differ from anywhere up to 26-30 times, and that the second group includes all those employed in health care, education, and also culture, while the category of “the paupers” can be applied to about 40% of Russian population.⁴⁶ A special feature of the Russian social infrastructure is the worsening of its quality and decreasing funding. If it decreased to 69% of the 1993 level during the crisis of 1998, it reached just 98% of 1993 level by 2004, although the volume of services (goods and services for end users) has been constantly increasing – up to 110% of the 1993 level. It shows that with the help of cash, which accounted for just about 6 % of the country’s GDP, “the institution – resources mine-hole effect”⁴⁷ was created together with the funding model for social matters the purpose of which was just “to maintain the budget network” but not to pay appropriately for the quantity and quality of services provided by the sector. Another problem equally bothering the scientists is related to the tendency of the ageing population. Due to this tendency, after 2010 Russia will face the need to ensure at least 3% - 4% growth in labour productivity to compensate for actual 8% - 10% loss in work force in every five-year period.

The works of modern economic theory do not try to prove, they just state, that economic and political motives have always influenced each other in every state, and recently when the trade, financial and technological flows have become so intense, the interdependence of national economies is increasingly greater. Today’s play of economic indexes and the prediction of future consequences prove that as the society understands better the economic content of all political questions, the causes of economic discontent or wellbeing can be related (or are thought to be related) by the citizens to the specific actions

⁴⁵ E.g., the amount of transport tariffs in Russia in 2004 accounted merely for 58 % of the tariffs in force in the USA at the time, and the volume of transport services for raw material exports was 14 times larger than that of the services for home market (manufacturing, construction and agriculture) (source: *Ibid.*).

⁴⁶ Аналитический центр Юрия Левады, *Проект Динамика бедности в России*, <http://www.levada.ru/dynamicabed.html>, 2006 05 08.

⁴⁷ Rus.: “Ресурсно-институциональная воронка”, the effect explained by the process when the lack of financial resources worsens the work quality of institutions, which creates a continuously decreasing effectiveness of the use of available resources and their increasing shortage.

of the state or of a groups of foreign interests. The state, Russia in our case, is a perfect instrument in defending someone's economic interests, and especially in insuring the distribution of the produced wealth in someone's favour. Consequently, the process of the wealth distribution or the problems of redundancy and inflation in the society are often estimated not as invariable economic laws but as consequences of certain persons' actions. The 2006 survey of the Russian population showed that 22% are not in favour of the well-known oligarchs and their interference in the state's economy and politics, 66% consider alcoholism narcotics as the main problem of the state, 56% are most concerned with the rising inflation and their own survival in the worsening economic situation.⁴⁸

Although politics and the economy are still sometimes considered as separate forces which are changing the modern world, the phenomena of the Russian politics and economy prove that the sources of power are the markets which make a huge impact on the policy of the state, and the social consequences of the process are determined by management of the economic dependence levers with the introduction of own rules which coincide with the concept of individual benefit.⁴⁹

Conclusion

Anywhere from about 20–30 years ago, the representatives of the traditional political economic view projected that capital would be the most migrating element in the world of national states and political borders - the capital tends to have a strong presence in the growing sectors of international economy as the fight for resources and markets is going on. Meanwhile, the states pursue the goal of becoming the sources of technological innovation, and attain industrial advantage over other countries. Once a technological monopoly is achieved in growing branches of the world economy, any state, is able to receive "a technology rent" from other economies within the system and come close to the "innovation edge of the product cycle" where the highest added value is created.⁵⁰ The Russian case allows the "technology rent" concept to be supplemented by the "energy resources rent" concept, and a well-known observation by A. Smith about every businessman's wish to become a monopolist and receive the profit or rent provided by the monopoly is perfectly applicable to the Russian state. Its pursuit for its home priorities in expense of international norms drives a wedge in the interdependent European economy. It would be scarcely possible for Russia to turn to the traditional way of economic liberalisation unless there were such radical changes that the government would be

⁴⁸ According to the data of ВЦИОМ (source: "Цены страшнее преступности", <http://www.rambler.ru/news/russia/statistics>, 2006 10 16).

⁴⁹ Such relationships were introduced back in 1946 by *H.H. Gerth* and *C.Wright Mills* in the publication *Essays in Sociology*.

⁵⁰ Dixit A.K., Kyle A.S., "The Use of Protection and Subsidiaries for Entry Promotion and Deterrence", *American Economic Review*, 1985, No. 75.

willing to exchange its short-term narrow interests in favour of a wider goal of stable international economy and would start changing the provisions of home institutions and business practices.

Modern Russia, with its economy less advanced than that of other industrial nations, seems to be hesitant to recognise itself as a political loser on the ideological arenas of the Cold War, The Soviet Union, and, finally, the Russian Empire itself. In its pursuit of overcoming the advantages of the industrial states, Russia is trying to follow its nationalistic industrial and trade policy. At the same time, it has to actively enter the world markets in order to create an effective economy of scale, acquire necessary resources of foreign exchange and the main capital to finance the imports. Alongside with other states, Russia has always declared its willingness to fasten its economic growth, curb its decline and defend the country's wellbeing. As a dynamic and expanding international economy increases the interdependence of separate countries' economies, the state's interference in Russia's economic matters has long been not in compliance with the norms and requirements of the liberal international economy.

It is feasible that only those theoreticians and analysts are able to assess accurately and correctly modern Russia's loftiness and falls who have known their consequences by experience. According to separate Russian economists, the local crises of the state provoke the increase of chaos and the anarchy in the state management. Obvious facts clearly support their opinion. These phenomena supposedly will cause a new systemic crisis similar to the one experienced back in 1990, which may ruin the state. "The new isolationism" is the term used by the Russian analysts to describe the ongoing processes in the country. They have in mind the technological backwardness, economic and social degradation as well as deepening territorial and social differentiation.

However, the chauvinist virus of national greatness has penetrated even the most progressive thinking of the Russian economists e.g. when they speak of the "windows for new opportunities," they say that the first one of these is continuously growing need of the leading countries for energy resources which is a strong card up Russia's sleeve for many years to come. The second one is the intellectual services, the markets of which are expanding at especially high speed, and Russia allegedly has a strong position in those markets. Thus, the state is able to integrate successfully the elements of its industry, technologies and intellectual potential into the international links of added value creation. Another window is the potential for Russian agricultural production as the country possesses 10% of the world's arable land and even a greater share of the world's highest fertility black earth. Within geo-economic context, according to Russian economists, it would sufficient for Russia to create a common economic area with Kazakhstan, the Ukraine and Belarus, and a reliable and effective energy, transportation and information infrastructure to match that of Europe and Asia. It would be sufficient enough to solve a few problems in the sphere of social-economic issues. The most important thing would be to have "a stable balance between the ruling elite and the public interests" and the legitimization of the capital that would ensure the particularity of the Russian

interests. In today's world economy the relative influence of the crucial factors of economic activity, i.e. the politics and the markets, is not alike in separate activity areas and at different time. Agreements among national states and trans-national corporations become ever so more important for the location of economic activity. The merger of the interests of the Russian government and the first Russian trans-national corporation Gazprom is no exception. In other words, a union of the state and commercial thinking has been born, which was catalysed by a common idea of the prospect of "conquering" of all the energy resources in the home country and abroad. The history of the world economy shows that some countries of weak economies have achieved big successes and advantages with the help of such corporations. At the same time, a complex and controversial model of the corporations and the states has been created, characterised by an intertwined management of the share capital, the mergers and agreements of companies that are authorised and supported by national governments. In Russia, this kind of practise is accelerating and active preparations are being made to gain victories on the world market where the unity of the state and corporate strategies, together with the actions of traditional relative advantage, have repeatedly determined the results of economic competition.

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