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# **BUSINESS AND POLITICS IN THE RUSSIAN REGIONS**

Robert W. Orttung  
American University



The National Council for Eurasian and East European Research  
910 17<sup>th</sup> Street, N.W.  
Suite 300  
Washington, D.C. 20006

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## **Executive Summary**

Although generally less visible politically since Vladimir Putin became president in the beginning of 2000, Russia's oligarchs continue to exert an extensive influence over Russia's political and economic life. These powerful businessmen now control a greater share of the Russian economy than they did during the Yeltsin era. Rather than simply focusing on grabbing assets from the state and making enormous profits from Russia's export-oriented industries, however, they are starting to play a major role in center-periphery relations and the development of regional politics. In fact, big business has done much more to change the way that the governors operate than any of Putin's institutional reforms.

## Introduction

Although generally less visible politically since Vladimir Putin became president in the beginning of 2000, Russia's oligarchs continue to exert an extensive influence over Russia's political and economic life. These powerful businessmen now control a greater share of the Russian economy than they did during the Yeltsin era.<sup>1</sup> Rather than simply focusing on grabbing assets from the state and making enormous profits from Russia's export-oriented industries, however, they are starting to play a major role in center-periphery relations and the development of regional politics. In fact, big business has done much more to change the way that the governors operate than any of Putin's institutional reforms.

During the Yeltsin era, the oligarchs played a major role in Russia's political life.<sup>2</sup> Most importantly, in 1996, they helped Yeltsin win a second term in office in exchange for extensive property provided by the Russian state. Despite this influence though, they only took political office personally on rare occasions.<sup>3</sup>

Putin came to power saying that he would hold the oligarchs at "equal distance" and set up similar rules for all players on the economic stage. The idea was to "deprivatize" the government so that various agencies would no longer be under direct control of specific businessmen. In practice, though, the new president effectively cut a deal with the country's largest businessmen at a meeting with 21 of them on 28 July 2000. With the exception of Boris Berezovsky and Vladimir Gusinskii, Putin offered not to raise questions about the way that Russia's largest companies were privatized or challenge their current ownership in exchange for having these companies make their operations more transparent, pay taxes, reduce the amount of money flowing abroad, bring back some of the capital they had already exported,

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<sup>1</sup> Peter Boone and Denis Rodionov of the Brunswick UBS Warburg research department reported, drawing on a 2002 study that "In our sample of 64 companies, we estimate that 85 percent of privatized companies are now controlled by eight large shareholder groups, whose combined revenues in 2001 significantly exceeded total federal government revenues. The contrast is stark -- in 1992 this figure was zero." Peter Boone and Denis Rodionov, "Reformed Rent-Seekers Promoting Reform?" *Moscow Times*, August 23, 2002.

<sup>2</sup> For the most comprehensive analyses of this period, see David E. Hoffman, *The Oligarchs: Wealth and Power in the New Russia*, New York: Public Affairs, 2002, and Ya. Sh. Pappé, *Oligarkhi: Ekonomicheskaya khronika 1992-2000*, Moscow: Higher Economic School, 2000.

<sup>3</sup> These exceptions were Vladimir Potanin and Boris Berezovskii. See Stephen Fortescue, "Pravit li Rossii oligarkhiya?" *Polis*, no. 5, 2002, p. 66.

and, most importantly, refrain from getting involved in politics.<sup>4</sup> This deal largely remained in place until the summer of 2003, when the Putin administration reacted against Yukos' head Mikhail Khodorkovskii's increasingly prominent political role by arresting one of his key deputies and questioning the legality of deals his companies had made in the mid-1990s.

While the oligarchs generally avoided overt participation in national politics under Putin, their economic power grew considerably. By 2003, the seven largest integrated business groups employed more than 2 percent of the national workforce, produced 25 percent of Russia's exports, and generated 33 percent of its total industrial output.<sup>5</sup> Not only did Putin allow them to keep the property they had acquired during the Yeltsin era, he encouraged them to use their financial resources to buy up even more enterprises. Thus, to cite just a few examples, aluminum magnate Oleg Deripaska purchased a string of bus and automobile factories and is moving into the forestry sector. Norilsk Nickel owner Vladimir Potanin is buying large stakes in the agricultural sector, assuming that it will soon be one of Russia's most lucrative growth sectors. The MDM group is doing much the same thing.

Putin meets regularly with Russia's largest businessmen using the forum of Arkadii Volskii's Russian Union of Industrialists and Entrepreneurs. The establishment of this meeting place seems to benefit both sides. Grouping Russia's top executives into such an organization made it easier for Putin to deal with the country's key business leaders in a convenient way. It also gave the business leaders themselves a way to take their ideas directly to the president.<sup>6</sup>

Despite Putin's stated desire to change the way the Russian system worked, its essential features remained much the same as they had been. Under Putin, just as it was during the Yeltsin era, the leading

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<sup>4</sup> See Aleksei Zudin, "Neokorporativizm v Rossii? (Gosudarstvo i biznes pri Vladimire Putine), *Pro et Contra* 6, no. 4, Fall 2001, p. 172.

<sup>5</sup> The groups are LUKoil, YUKOS, INTERROS, Surgutneftegaz, Alpha Group-Renova, Siberian Aluminum-Sibneft, and Severstal. See A. Belousov, "Economic Growth in Russia: Attempts to Overcome Low Levels of Competitiveness," presentation at "Beyond Transition to Modernization and Growth: The View from Russia's Think Tanks," April 10, 2003, Washington.

<sup>6</sup> A. A. Mukhin, *Novie pravila igry dlya bol'shogo biznesa, prodiktovannye logikoi pravleniya V. V. Putina*, Moscow: Center for Political Information, 2002, p. 164, Konstantin Smirnov, "Zachem oni tyda khodyat," *Kommersant Vlast*, May 21, 2002, pp. 9-12, Zudin, "Neokorporativizm..."

businessmen use their political connections to secure the development of their business interests.<sup>7</sup> In many of the most profitable sectors, having access to the key political figures was more important than developing normal business practices. This generalization is not true for all industries, however. In sectors such as beer production, success was and is much more a function of the quality of the product than political connections. However, in key areas such as banking and natural resource extraction, good access to the authorities was critical.

Given the changed economic conditions after the 1998 crisis, Putin's deal with the oligarchs and their increasing economic power, the Russian regions became an attractive place for the oligarchs to invest at the beginning of the new decade. But before examining how the oligarchs entered the regions, it is useful to examine the nature of the relationship between business and politics in the regions in the 1990s.

### **The Relationship Between Business and Politics in the Regions During the 1990s**

During the 1990s, there was a close and mutually beneficial relationship between governors and regional businesses, leading one economist to dub it "an industrial feudalism."<sup>8</sup> Under Yeltsin, governors relied on their close links with important regional enterprise managers and business leaders to maintain their power.<sup>9</sup> The governors used their business connections to put themselves in a strong position on two fronts where they faced challenges: with Moscow and locally. First, local business helped the governors establish strong relations vis-à-vis Moscow because the federal authorities could make little headway against such a united front at the regional level. Second, the interconnections between the regional

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<sup>7</sup> See the comments of Moscow Center for Strategic Research Director Andrei Piontkovskii as cited in Francesca Mereu, "Russia: Putin Presidency at Two-Year Mark -- Do Oligarchs Still Have a Role?" RFE/RL Newline, April 19, 2002.

<sup>8</sup> See Richard E. Ericson, "The Post-Soviet Russian Economic System: An Industrial Feudalism? Revised May 1999" <http://www.columbia.edu/%7Eere3/rus-eco-sys.PDF>, accessed September 16, 2003.

<sup>9</sup> Timothy Frye found similar "elite exchange" in his survey of 500 firms in eight cities in October and November 2001. See his "Capture or Exchange? Business Lobbying in Russia," *Europe-Asia Studies*, 54:7, 2002, pp. 1017-1036. Peter Rutland also notes that "fearing social protests or communist revanche, business and the state leaned toward mutual cooperation, especially in times of crisis." See his "Introduction: Business and the State in Russia," in Peter Rutland, ed. *Business and the State in Contemporary Russia*, Boulder: Westview Press, 2000, p. 22.

political and economic elite also helped them to preserve the status quo and block the rise of any potential opposition groups within their home regions.

A closely interwoven regional political and economic elite was able to seize most local power and property as soon as the Soviet Communist system collapsed.<sup>10</sup> Thanks to the 1992 privatization scheme, enterprise managers were often able to become the owners of their factories. Governors liked this arrangement because it assured that no outsiders could interfere in the regional economy and thereby threaten their political power. Overall, the regional political and economic elite made an effort to protect the power and wealth that they had accumulated by cutting their region off from the rest of the country to ensure that no outsiders could interfere with the system.

The governor and directors had common interests. The directors needed capital from the central government to keep their often loss-making enterprises afloat and potentially invest in renovating their facilities. Until the rise of big business in Russia, the state was the only source of such capital.<sup>11</sup> The governors helped obtain these federal resources for the major enterprises in their region and provided other aid in exchange for the political support of the enterprise directors. Good ties with the governors also allowed the businessmen to win favorable legislation when necessary and buy off the law enforcement agencies.<sup>12</sup> The authorities also provided business with reduced prices for electricity, gas, water, and debt restructuring. Kathryn Stoner-Weiss presents evidence suggesting that the regions that complied the least with federal policy were places where business interests had the greatest influence within gubernatorial administrations.<sup>13</sup>

In exchange for this support in lobbying the state for financial resources and administrative non-interference, the businessmen helped the governors win elections. Most importantly, they used their

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<sup>10</sup> See Philip Hanson, "Administrative Regions and the Economy," Paper prepared for the conference 'Ten Years Since the Soviet Union,' SSEES, November 9-10, 2001, revised draft, December 20, 2001, p. 9.

<sup>11</sup> For a discussion of the way the Soviet system worked, see James R. Harris, *The Great Urals: Regionalism and the Evolution of the Soviet System*, Ithaca: Cornell University Press, 1999.

<sup>12</sup> See the discussion in Irina Slinko, Evgeny Yakovlev, and Ekaterina Zhuravskaya, "Institutional Subversion: Evidence from Russian Regions," manuscript, second draft, 25 March 2003.

<sup>13</sup> See particularly "W(h)ither the Central State? The Regional Sources of Russia's Stalled Reforms," <http://www.princeton.edu/%7Ekesw/pubs.htm>

control over local enterprises to provide jobs to regional workers, thereby keeping social tensions at a minimum. Since the factory directors had access to state subsidies, they were less interested in the profitability of their factories than businessmen functioning in a normal market economy would be. In other words, to make the governors happy, they maximized employment rather than profits. Additionally, because of the way that the Russian tax system is set up, the governors had very little control over their own revenue sources. Accordingly, the governor favored maintaining ties with large regional enterprises as the most reliable source of income, whether through formal tax revenue or informal side payments.<sup>14</sup>

Of course, such a system was not very stable because keeping afloat unprofitable enterprises ultimately created a huge drag on regional economies. The most extreme version of this scenario played out in Ulyanovsk Oblast, where Governor Yurii Goryachev blocked economic reform while imposing strict price controls. Ulyanovsk ran huge deficits and had to resort to non-cash forms of payment since it simply had no money to meet its social obligations to local residents. The failure of this model became most apparent when Goryachev failed to win reelection in 2000. Subsequently, Putin's Presidential Envoy to the Volga Federal District Sergei Kirienko described the region as bankrupt.<sup>15</sup>

To cite just a few examples, the close links between business and the governors were visible in a number of regions:

- **Siberian resource regions.** In several Siberian resource-rich regions, governors came to power with the backing of key business interests. In Krasnoyarsk, local aluminum magnate Anatolii Bykov provided financial backing for Aleksandr Lebed's gubernatorial campaign, but they ultimately had a falling out and Lebed severed ties with his erstwhile supporter, leading to a

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<sup>14</sup> On this point, see Laura Solanko, "Why favor large incumbents? A Note on lobbying in transition," Bank of Finland, Institute for Economies in Transition (BOFIT), no. 6, 2003.

<sup>15</sup> Gul'naz Sharafutdinova and Arbakhan Magomedov, "The Volga Federal Okrug," in Peter Reddaway and Robert Ortung, eds., *The Dynamics of Russian Politics: Putin's Federal-Regional Reforms*, Lanham: Roman & Littlefield, 2003.



bitter conflict that was extremely damaging to both sides.<sup>16</sup> Siberian Aluminum (now called Base Element) brought Alexei Lebed to power in Khakasia, where it owns a key aluminum factory. In Tyumen Oblast, former Governor Leonid Roketskii served as the chairman of the board of the Tyumen Oil Company. When he lost his reelection bid, the company took on his successor Sergei Sobyenin as chairman of the board. Numerous other governors are on the board as well.<sup>17</sup> In the Yamal-Nenets Autonomous Okrug, Yurii Neelov naturally has very close ties to Gazprom, which extracts most of the natural gas it sells in the region.

- **Primorskii Krai.** Former Governor Yevgenii Nazdratenko came to power with the support of the PAKT alliance of local businesses (and the backing of criminal gangs).<sup>18</sup> As governor, he worked hard to prevent outside big businesses from coming into the region. These big business groups were strongly interested in removing Nazdratenko from office and ultimately, in alliance with President Putin, used the krai administration's chronic inability to prepare for winter as an excuse to push him out of office in February 2001, according to State Duma member Viktor Cherepkov, a longtime Nazdratenko opponent.<sup>19</sup> The new governor, Sergei Darkin, has much less support among the local business elite because he is willing to allow the oligarchs to operate in his region.
- **Rostov Oblast.** Vladimir Chub backed the creation of Doninvest, the most powerful local business group in Rostov. The governor placed the oblast's bank accounts in Doninvest Bank, giving the group the resources it needed to establish itself.<sup>20</sup>

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<sup>16</sup> See Andrew Yorke, "Business and Politics in Russia's Regions: the case of Krasnoyarsk kray," M.Phil Thesis submitted to St. Antony's College, Oxford University, 2002.

<sup>17</sup> They include Ryazan Governor Vyacheslav Lyubimov, Khanty-Mansii Governor Leonid Filippenko, and Kareliya's Sergei Katanandov. See Aleksei Makarkin, "'Al'fa-Renova': Kollektivnyi portret lobbistov," [http://www.politcom.ru/aaa\\_c\\_econ5.php](http://www.politcom.ru/aaa_c_econ5.php), March 13, 2002.

<sup>18</sup> Peter Kirkow, *Russia's Provinces: Authoritarian Transformation versus Local Autonomy?* New York: St. Martin's Press, 1998, p. 116.

<sup>19</sup> Nazdratenko resigned following a phone call from Putin, who subsequently appointed him to a lucrative federal position in charge of the country's fishing industry. Yeltsin and his allies had tried unsuccessfully to remove Nazdratenko from office during the 1990s.

<sup>20</sup> N. Lapina and A. Chirikova, *Strategii Regional'nykh elit: ekonomika, modeli vlasti, politicheskii vybor*, Moscow: Russian Academy of Sciences, 2000, p. 108.

In several cases businessmen even served as governors in the 1990s, even before this trend became more pronounced after 2000. Kirsan Ilyumzhinov was the first such example, converting the fortune he made in the early 1990s into control over his native republic, Kalmykiya. In the Nenets Autonomous Okrug, Vladimir Butov won the governorship after launching his business career by setting up a cooperative in 1988, when the Soviet regime first legalized such activities. Sergei Katanandov worked a long time in the construction industry before becoming mayor of Petrozavodsk and then governor of the republic of Kareliya. The scandal-plagued tenures of Ilyumzhinov and Butov suggested that they had other goals besides the economic development of the territories they governed.

Regional business people control a large number of seats in regional legislatures.<sup>21</sup> This trend is particularly obvious in regions like Vologda, where one company, Severstal, dominates the regional political and economic landscape. Here Severstal has won the election of an ally as governor and has filled the regional legislature with its people. These politicians then help the enterprise solve problems associated with its business activities.<sup>22</sup>

### **The Evolution of Russian Business: A Reorientation to the Regions**

After the 1998 financial crisis, such giant Russian companies as Russian Aluminum, Severstal, the Alfa group, and others dramatically intensified efforts to purchase key enterprises across a wide variety of Russian regions far from the base of their original activities.<sup>23</sup> While Russia's federal government faces real financial constraints limiting its influence on the ground outside Moscow, Russia's large national companies have access to considerable resources that allow them to be much more active in

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<sup>21</sup> Alla Chirikova and Natalia Lapina, "Regional Elite: A Quiet Revolution on a Russian Scale," Working Paper no. 4, February 2001, Center For Security Studies and Conflict Research, Zurich, <http://www.isn.ethz.ch/russia/>, p. 21.

<sup>22</sup> Francesca Mereu, "Russia: Putin Presidency at the Two-Year Mark -- Do Oligarchs Still Have a Role?" RFE/RL Newline, April 19, 2002.

<sup>23</sup> Of course, some of Russia's major companies, such as LUKoil, had extensive regional operations before 1998. By 1999, LUKoil had signed agreements with 30 regional administrations. See Sergei Peregudov, Nataliya Lapina, and Irina Semenenko, *Gruppy interesov i rossiiskoi gosudarstvo*, Moscow: Editorial URSS, 1999, p. 116.

the regions. Moreover, by the end of the 1990s, much of the property at the federal level had already been divided up, while regional enterprises presented tempting targets for the oligarchs' expansion.<sup>24</sup>

The 1998 crisis changed the situation for Russia's big business because it became more profitable to invest in Russia.<sup>25</sup> During the earlier part of the 1990s, Russia's oligarchs made their initial fortunes by taking advantage of the chaotic conditions of the new market economy. Later, they acquired exported-oriented industry from the state at cheap prices, secured enormous profits selling raw materials, and exported the profits to safe havens abroad. After the crisis and the devaluation of the ruble by 75 percent, however, it became profitable for the companies to reinvest some of their profits in Russia. With the devaluation of the ruble, Russian goods became much more competitive on the domestic market and somewhat more attractive abroad. The oligarchs began bringing some of their money back, helping to spark the first growth in Russian industry in almost a decade. This trend accelerated after Putin's election because he provided assurances to the country's most prominent businessmen that he would not confiscate their assets as long as they remained out of national politics.

Effectively, Putin formed an alliance with the oligarchs in which he provided them the political stability and state blessing they needed to continue making money, while they agreed to support Putin's policies. In this alliance, Putin and the oligarchs had a common opponent in the governors. Putin wanted to limit the excessive gubernatorial power that had developed in the 1990s so that he could impose effective federal control over the country. The oligarchs needed to break the close links between the governors and local business in order to expand their own business operations.

At the same time that the oligarchs were working with Putin, they also wanted to protect themselves from him. Business people of all stripes naturally want to reduce the risks they face as much as possible. Given the often unpredictable nature of Russian politics, the oligarchs live in constant fear that the state, or various groups within the Kremlin or government, might attack them. By building up

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<sup>24</sup> A. A. Mukhin, *Novie pravila igry dlya bol'shogo biznesa*, p. 24.

<sup>25</sup> During the 1990s, some of the big Russian banks had bought up regional enterprises, usually purchasing shares from the workers who received them as part of the privatization process, but generally with the purpose of quickly selling them for a profit.

regional empires, Russia's biggest businessmen have been able to buy themselves insurance against a situation in which they might fall out of favor with the president. Thus, with the desire to seek profit, maintain good relations with the president, and develop protection if those relations deteriorated, the oligarchs had many good reasons to move into the regions.

The oligarchs' decision to expand their regional holdings spurred a transfer of property from one set of owners to another. One illustrative example is Siberian Aluminum's purchase of the Gorkii Automobile factory in Nizhnii Novgorod, in which an outside oligarch displaced members of the local business elite. Siberian Aluminum purchased the plant for a variety of reasons. One was to curry favor with Putin by reinvesting profits derived from the export of raw materials into Russia's ailing manufacturing sector.

However, from a purely economic point of view, it seemed odd for a highly profitable Russian aluminum company to invest in Russian automobile production, which has traditionally been unprofitable and faces withering foreign competition when Russia realizes its plan of entering the World Trade Organization. But the deal has a certain economic rationale. If Siberian Aluminum head Oleg Deripaska is able to make the plant run more efficiently, it will create a larger domestic market for Russian aluminum than exists now, increasing the demand for the product of his core business.

The oligarchs' move into the regions divided the regional elite into two camps: isolationists and globalists, as Sergei Porshakov has pointed out.<sup>26</sup> Isolationist governors and key business elites opposed the arrival of big business because it pushed them out of their traditional domain and sharply limited their previous power and access to wealth. In some cases Tula's Vasilii Stroductsev has worked to keep the "Moscow oligarchs" out of local factories.<sup>27</sup>

On the other hand, some "globalist" members of the local elite welcomed the wealthy outsiders because they saw them as the only source of capital to expand the local economy, especially given the state's weak financial situation. When billionaire Roman Abramovich became governor of the depressed

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<sup>26</sup> *Izvestiya*, February 18, 2002.

<sup>27</sup> *Kommersant*, December 1, 2001.

Chukotka Autonomous Okrug, he used his personal wealth to stimulate the region. However, he also was able to use his position as governor to grant tax waivers to three trading firms his company Sibneft set up, allowing Sibneft to pay the lowest taxes among the large Russian oil companies.<sup>28</sup> In Kemerovo, Governor Aman Tuleev helped Yevrazkholding chief Aleksandr Abramov gain control of two bankrupt steel mills. The governor secured good management, investment and new jobs for local factories, while Abramov was able to add valuable components to his empire.<sup>29</sup>

### **The Variety of Russian Regions and Their Business Relationships**

Except for the relationship between the central government and a handful of oligarchs, most of state-business interaction in Russia today takes place at the regional level.<sup>30</sup> There is an enormous amount of variety in the relationship between business and politics in Russian regions. Table 1 and Map 1 describe this variety by dividing the regions into corporate, pluralist, state-controlled, foreign-influenced, and neglected categories. Of course this typology glosses over many differences, but it is useful in highlighting the key trends.

**Corporate Regions.** In today's Russia, it is now possible to speak not just of "company towns," but of "corporate regions."<sup>31</sup> In fact, an increasing number of regions are falling into this category. They range from the small isolated resources regions like Chukotka, where Roman Abramovich's Sibneft holds sway, to Russia's wealthiest region, the city of Moscow, where Mayor Yurii Luzhov's Sistema controls much of the action. This phenomenon is not exactly new because many of these corporate regions existed in similar form during the Yeltsin era. However, the phenomenon is becoming more widespread as the oligarchs continue to expand under Putin.

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<sup>28</sup> *Economist*, July 3, 2003.

<sup>29</sup> *Financial Times*, August 27, 2003.

<sup>30</sup> Solanko, p. 11.

<sup>31</sup> One-company towns exist beyond Russia. For a list of such places in the US, see *New York Times Magazine*, September 22, 2002, p. 20.

In these regions, the magnates themselves have generally become the governors. Beyond Moscow, this trend first became apparent in isolated regions with abundant resources, but small and poor populations (Chukotka, Evenkiya, Taimyr, Sakha). The firms want one of their representatives as governor to ensure close cooperation with the regional elite. Voters who elect such businessmen generally hope that the magnate's individual wealth will help the entire region.

The trend of oligarchs in power seemed to reach its limit when the Kremlin successfully blocked an effort by Novolipetsk Metallurgical Combine General Manager Vladimir Lisin to seek the governorship in Lipetsk's 14 April 2002 election. However the election of Aleksandr Khloponin as governor of Krasnoyarsk in the fall of 2002 suggested that it would continue. With Khloponin's election, a corporate executive is now taking over a region with a much larger population and a more diversified economy than a place like Chukotka. Accordingly, Krasnoyarsk can more logically be classified as a pluralist region.

**Pluralist Regions.** A much more healthy situation exists in the pluralist regions, where there are several major companies operating. A typical example of this type of region is Nizhnii Novgorod, where many of the main oligarchs have extensive business interests. Other examples include well-developed regions like Perm, Sverdlovsk, and Rostov. In these regions, the governor generally plays the role of arbiter among the various interest groups. Of course, the danger exists that some outside group may be able to take over and exert more extensive control. The "in play" regions in the chart and map are places where such a takeover is likely.

The case of Krasnoyarsk Krai provides an interesting, and evolving, picture of what can happen in a pluralist region if one of the major groups is able to strengthen its political position at the expense of the others. Traditionally, several big business groups have been active in Krasnoyarsk, including Vladimir Potanin's Interros, Mikhail Khodorkovskii's YUKOS, and Oleg Deripaska's Base Element, among others. In the September 2002 gubernatorial election, Aleksandr Khloponin, a representative of Interros, defeated Aleksandr Uss, the chairman of the regional legislature, who was aligned with Base Element. Deripaska's group tried to prevent Khloponin from taking power by having the election declared invalid, but this

attempt ultimately proved futile. Despite Khloponin's victory, Interros does not monopolize the region. Now, one business group controls the executive branch while another has extensive influence over the legislative branch.

The consequences for Deripaska of losing the gubernatorial election could be quite costly, though it remains unclear how the battle will play out. Until the election, Deripaska's Krasnoyarsk Aluminum Factory (KrAZ) paid a relatively small share in taxes given the size of its operations and may face higher tax bills in the future, especially since Interros's Norilsk Nickel plant already contributes a large amount to the krai budget. The aluminum factory may also lose its current access to cheap electricity.

**State-Controlled Regions.** In several regions, the state basically remains in control, itself acting in some ways as a monopolistic corporation. In Udmurtia and Khabarovsk, defense enterprises dominate the local economy and set the tone for the way politics work. The governors there have extremely authoritarian styles.

A different form of state control exists in Tatarstan and Bashkortostan. Here the governors control the main companies in these republics, especially the energy companies that generate most of the locally produced revenue. Tatarstan's Mintimer Shaimiev has extensive control over the Tatneft oil company, while Bashkortostan's Rakhimov has brought that republic's key energy companies together into one holding company called the Bashkir Fuel Company (BTK). Rakhimov's son is the chairman of the board of the republic's main energy companies, the BTK, the Bashkir Petrochemical Company (Bashneftekhim), the Bashneft oil company, and the Bashkirenergo electricity utility - effectively turning the entire industry into a family business.<sup>32</sup> This particular style of business-political relations may not last much longer however.

Rakhimov's regime is clearly under pressure in the run-up to the republic's presidential election in December 2003. In August 2002 the republican president announced that he would sell up to 50 percent of the shares from four refineries that are part of Bashneftekhim, as well as shares in Bashneft and

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<sup>32</sup> Igor Rabinovich, "Bashkortostan's Rakhimov Sells off Oil Companies," *Russian Regional Report*, September 18, 2002.

Bashenergo.<sup>33</sup> One year after this announcement, though, Bashkortostan's authorities continued to hang on to these resources, developing ingenious ways to ensure that their control remained intact.

**Foreign-Influenced Regions.** In several regions of Russia, foreign companies have a major presence and exert a strong influence on regional politics. Most notable is Sakhalin, where many of the world's major energy companies are actively developing the region's oil and gas deposits. Other regions with a powerful foreign presence include Novgorod, Leningrad, Moscow Oblast, and Samara. In recent years, Novgorod Oblast has received a considerable amount of attention for its foreign-investor friendly policies that have attracted several non-Russian corporations to build production plants there.<sup>34</sup>

More recently, however, Novgorod's luck seems to have run out. Its governor is extremely authoritarian and many of its people continue to live in poverty, with the Akron fertilizer company dominating much of the local economy. Now, Leningrad Oblast, which essentially copied Novgorod's innovative laws, is attracting much more attention from foreign companies than either neighboring Novgorod or the city of St. Petersburg. Leningrad Governor Valerii Serdyukov is using the rapidly growing influence of the foreign investors to diversify the region's economy away from its previous reliance on Surgutneftegaz's refinery in Kirishi.<sup>35</sup>

**Neglected.** Russia's big business groups have neglected a large number of regions where they see no easy means of making money. These regions were not selected for development during the Soviet era and there is little industry based in them. With investment flowing to the already developed regions, the yawning gap between Russia's richest and poorest regions is likely to continue to accelerate.<sup>36</sup> Unfortunately, many of these neglected regions are in the troubled North Caucasus and along Russia's vulnerable southern

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<sup>33</sup> *Vedomosti*, August 23, 2002, p. 1.

<sup>34</sup> See Nicolai N. Petro, "Regional Democratization in Russia: Some Lessons from Novgorod," in Cameron Ross, ed., *Regional Politics in Russia*, Manchester: Manchester University Press, 2002, p. 121.

<sup>35</sup> See Robert Orttung, "Investors Flock to Petersburg's Rural Neighbor," *Russian Regional Report*, August 12, 2002.

<sup>36</sup> Phil Hanson notes that "regional inequality increased from 1992 through 1998, dropped after the crisis of August 1998, and has on balance increased since 1999, but without a clear trend." See Philip Hanson, "Federalism with a Russian Face: Regional Inequality and Regional Budgets in Russia," in Peter Reddaway and Robert Orttung, eds. *The Dynamics of Russian Politics: Putin's Federal-Regional Reforms*, vol. 2, Lanham: Roman & Littlefield, 2003.



border with Central Asia. Without better prospects for economic development, in a worst case scenario, these regions may become bases for various crime groups who can take advantage of the pervasive poverty to generate funds used to finance terrorist activities elsewhere.

### **Consequences of Big Business's Entry into the Regions**

How did the entry of big business into the regions affect the relationship between the governors and regional business that existed before big business arrived? The arrival of Russian big business into the Russian regions is comparable to the arrival of foreign direct investment (FDI) in developing economies. It is an outsider that comes into an established setting with existing relationships and starts to shake them up.

In many ways, the arrival of outside big business in the regions had beneficial effects. This is what one would expect from the traditional economic literature extolling the benefits of foreign direct investment on recipient countries. Such theories suggest that FDI will bring additional competition, which ultimately leads to such happy outcomes as improved management quality, beefed-up safety standards, and better met consumer needs.

However, there were also many negative consequences. Often corporations entered regions with the goal of capturing the state. Once such companies established monopoly power, they sought to prevent other companies from working in the region. Thus, in contrast to what economic theory would suggest, the arrival of outsiders had the consequence not of increasing competition, but of raising new barriers to other companies seeking to work in the region. World Bank researchers have found similar results in their analysis of the role of FDI in transition economies.<sup>37</sup> In short, big business had a mixed impact on the regions.

On the positive side of the ledger, Russian big businesses often send more than just capital to a region when they purchase a factory. In most cases, they replace the old directors of the factories they buy

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<sup>37</sup> See Joel S. Hellman, Geraint Jones, and Daniel Kaufmann, "Far From Home: Do Foreign Investors Import Higher Standards of Governance in Transition Economies?" draft for discussion and comments, <http://www.worldbank.org/wbi/governance/pdf/farfromhome.pdf> (accessed September 3, 2003).

with young specialists who are much more adept at working in the new economic conditions. The new owners are interested in running their businesses to make a profit, rather than maximizing regional employment or reducing social tension, goals that remain important to the governor.

Initially there were questions about how the new managers would work with the regional political authorities. In the past, the factories had supported the region's social sphere, providing things like day care and health services. The new managers often have shed these functions from the factories and placed the burden on municipal governments. Where the old managers sought to preserve as many jobs as possible, the new ones focus on the bottom line and are willing to let unnecessary workers go. One of the main problems under the old system was that the factories did not have enough resources to pay local taxes and therefore accumulated huge debts.

The new factory owners have set up a different kind of relationship with the authorities. Rather than working in close concert with the governors, the new managers have established more institutionalized ties.<sup>38</sup> They pay their taxes and promise to pay off accumulated factory debts over time. Rather than directly supporting the governor, they prefer to maintain political neutrality. Thus, the authorities can never confidently say if the factory managers are with them, against them, or simply apolitical. As one LUKoil official in Perm described explained, "we want to be in a position where it does not matter who the governor is" for us to continue doing business.<sup>39</sup> In this sense, the oligarchs moving in to regions are often better managers than the governor/local business alliances they displace. They are able to produce profits where none existed before. They also make regional economies function more like normal market systems than they had in the past.

The extent to which these benefits are felt, however, depends on kind of region involved. In the pluralist regions, the presence of many competing companies encourages the spread of best practices. In

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<sup>38</sup> Mukhin notes this change as well, pointing out that the beginning of the new decade "krishas" (roofs of protection) began to take on a less personalized nature. See, A. A. Mukhin, *Novie pravila igry dlya bol'shogo biznesa*, p. 26.

<sup>39</sup> Lapina and Chirikova note on the basis of their 1999 interviews in Rostov and Perm that "the question of who is stronger - business or the authorities - did not arise, rather the partners generally preferred not to use open pressure against each other." N. Lapina and A. Chirikova, *Strategii Regional'nykh elit*, p. 129.

the state dominated regions like Tatarstan and Bashkortostan, the arrival of big business from outside helps to break up the existing monopolization of power by the incumbent republican presidents.<sup>40</sup>

However, in some corporate regions, the arrival of big business has not proved so fortuitous. Since the single corporate rulers are able to exert monopolistic control, they often use their extensive influence to block other groups from working in their regions. Governors in these regions want to control the major factory that served as their initial base and the rest of local business as well. "The monopolistic power this gives you allows you to earn even more return on your capital than if you simply fix the local economy and allow free competition for local business," Journalist Ben Aris has noted.<sup>41</sup> Researchers at The Center for Economic and Financial Research (CEFIR) have come to similar conclusions, pointing out that state capture in regions with a large concentration of big business leads to high administrative barriers to entry for other firms.<sup>42</sup>

While many companies try to institutionalize their relationships with regional authorities, personal ties remain extremely important. For example, in Komi the MDM Group was able to place three of its employees on the governor's staff, strengthening its position in the region.<sup>43</sup> Such personalization of corporate influence indicates that, in many cases, rather than bringing new practices to the regional level, big business simply recreates the traditional poor practices of the past. Regardless of the overall changes in the Russian political environment, these personal relationships remain extremely important.

Another problem is that monopolist control is likely linked to increased crime and corruption. In corporate regions (and other kinds of regions as well), business groups are often able to use local courts, police units, the procuracy, and local politicians in their efforts to gain control of various property

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<sup>40</sup> See the analysis of Natalia Zubarevich, "Big Business in Russia's Regions and Its Role in the Federal Reform," in Peter Reddaway and Robert Ortung, eds., *The Dynamics of Russian Politics: Putin Federal Regional Reforms*, Boulder: Rowman & Littlefield, forthcoming.

<sup>41</sup> See, for example, Ben Aris's comments in his Russia Business List, no. 430, November 5, 2002.

<sup>42</sup> Presentation by Ekaterina Zhuravskaya at "Beyond Transition to Modernization and Growth: The View from Russia's Think Tanks," April 10, 2003, Washington, and CEFIR, "Monitoring the Administrative Barriers to Small Business Development in Russia: The Second Round," no date. The paper notes that "The presence of very large firms in a given region slows down the reform in licensing, but accelerates the reform in inspections. Entry barriers are removed at a relatively slow pace, but burdens on existing firms become lighter relatively quickly."

<sup>43</sup> Yurii Shabaev, "MDM Group Assumes Larger Role in Komi," *Russian Regional Report*, February 18, 2003.

holdings.<sup>44</sup> The blending of politics and business has led to many contract killings, with various federal, regional, and local public figures becoming targets (for their business activities) as businessmen were in the past.

### **The Role of Business in Center-Periphery Relations**

The entry of big business into the Russian regions has major implications for Russia's center-periphery relations. On one hand, business can help Putin implement his plans for strengthening the authority of the federal state and reducing the power of the governors. On the other, the establishment of ties between business and the governors could create a potentially powerful source of opposition to Putin.

Each of the key players - the federal government, business groups, regional leaders, and society at large - have different sets of interests that sometimes, but not always, overlap. Putin wants to expand the power of the federal state while establishing a flourishing common market in Russia. Business is focused on making money and is only interested in the power of the federal or regional government to the extent that it can help in this process.<sup>45</sup> In cases where expanded federal power will open up closed regions, business supports federal goals.

Where business needs the backing of the governors to proceed, it is not necessarily interested in the same thing as the federal government.<sup>46</sup> Regional leaders naturally oppose the extension of federal power at the regional level. While the arrival of big business puts constraints on the powers of governors in their regions, the relationship is not a zero-sum game. Regional leaders and business can find ways to work together to pursue common goals, such as expanding the local economy. Of course, sometimes governors would prefer to have a smaller local economy that they can control, than a larger one where

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<sup>44</sup> See the analysis of Vadim Volkov, "The Selective Use of State Capacity in Russia's Economy: Property Disputes and Enterprise Takeovers After 2000," PONARS Policy Memo No. 273, October 2002.

<sup>45</sup> Russian classical liberals complain that the state places a heavy burden on business. See Yevgenii Yasin, ed., *Bremya gosudarstva i ekonomicheskaya politika: liberal'naya alternativa*, www.liberal.ru/issue01.asp, October 22, 2002.

<sup>46</sup> In May 2003, the shadowy National Strategy Council caused a furor when it issued a report entitled "State and Oligarchs," that claimed that the oligarchs were preparing a coup, see "V Rossii gotovitsya oligarkhicheskii perevorot," 26 May 2003, www.utro.ru. Some observers claimed that the document laid the ground work for the federal government's July attack on Mikhail Khodorkovskii's empire.

their power is greatly diluted. All three groups naturally have an overriding interest in working for Russia's common good in establishing a vibrant, well-managed economy. However, the desire of the federal, regional and business leaders to maximize their immediate personal interests can overshadow the pursuit of this common good.

Putin has sought to mobilize big business as a partner in his larger efforts to constrain the powers of the governors. Russia's largest companies often have much more economic clout than the federal government or regional leaders and therefore can bring enormous resources to bear on Putin's side against the governors. Except in the corporate regions, the arrival of big business means that governors have much less direct influence over the economic situation in their regions. Since the governors no longer have such close ties with the people who control the major local factories, they must contend with alternative sources of power that did not previously exist. They can no longer count on the financial and electoral support of such enterprises.

In order to take further advantage of such large economic actors and extend the area where they play an active role, Putin is combining regional defense plants into a small number of large inter-regional holding companies. Thus, for example, the Irkutsk airplane manufacturer (IAPO) is no longer mainly under the governor's control, but part of the larger Sukhoi Aviation Military Complex, which stands above any one governor.<sup>47</sup>

Big businesses have used a large number of strategies in establishing their relations with the governors. We have noted that in corporate regions, businessmen have chosen to secure election as governor personally. In other areas, business has chosen to set up impersonal law-based relations. These two alternatives, whether taking personal control or relying on impersonal institutions, represent the extremes of what can be done. However, there is a range of options in between. Perhaps the most popular is "domesticating" the incumbent governor.<sup>48</sup> Companies provide campaign contributions and other aid to

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<sup>47</sup> *Vek*, June 29, 2001.

<sup>48</sup> This analysis and terminology follows Nataliya Zubarevich, "Russia's Big Businesses in Regional Elections," *Russian Regional Report*, January 30, 2002.

governors. In exchange, governors in places like Tomsk, Irkutsk, Komi, and Samara have included big businesses representatives on their staffs.<sup>49</sup>

Likewise Putin's seven presidential envoys, established in May 2000, are also playing a role in using business to assert federal aims in regard to the regions. The presidential envoys are slowly inserting themselves into the relationship that previously existed between the governors and businessmen. They have brought several limited, but important, changes to the regions. The envoys are strong supporters of outside investors in the regions under their purview. In the Southern Federal Okrug, for example, Envoy Viktor Kazantsev has helped bring in investors associated with Moscow Mayor Yurii Luzhkov's Sistema and LUKoil, while the Volga's Kirienko helped set the ground rules by which numerous big business entered the okrug.<sup>50</sup>

Unfortunately for the envoys, however, they often lack the resources to help businesses solve their problems at the regional level or in Moscow. The governors continue to control the use of land, the issuance of permits, and the allocation of budgetary funds, giving them powers that the envoys simply don't have. Thus, the businessmen are often forced to deal with governors and mayors. Often what matters most for the envoys is personal connections. Here, Kirienko is at an advantage over his colleagues, most of whom come out of the military and security services. As a former prime minister and businessman, Kirienko has extensive contacts in the capital and in his home region.

Despite the gains Putin has achieved against the governors in these ways, the use of the business community for these purposes is a two-edged sword. By bringing big business and the regional leaders together, Putin is creating a potential source of opposition for himself. Eduard Rossel, the governor of Sverdlovsk Oblast who won another term in office in September 2003 elections, is a good example of a

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<sup>49</sup> Sergei Porshakov, "Vrashchayushchayasya dver" ustanovlena," *Izvestiya*, February 18 2002 and *Delovaya khronika*, May 7, 2002.

<sup>50</sup> See Natalya Zubarevich, "The Southern Federal Okrug," and Gul'naz Sharafutdinova and Arbakhan Magomedov, "The Volga Federal Okrug," in Peter Reddaway and Robert Ortung, eds., *Dynamics of Russian Politics: Putin's Federal-Regional Reforms*, Boulder: Roman & Littlefield, 2003.

governor who has relatively frosty relations with the Kremlin, but strong relations with business groups which helped him secure reelection.<sup>51</sup>

The desire of major corporations to control governors' offices across the country shows that despite Putin's reforms of the federal system and his substantial centralization of power, the governors' office remains very powerful. The governors' enormous influence over regional budgets, licenses, electricity prices, and the overall conditions in which businesses operate mean that any business seeking to work in the regions must take them into account.<sup>52</sup>

Ironically, one of Putin's most successful federal reforms, the removal of the governors and regional legislative chairmen from the Federation Council and therefore from a direct role in federal politics, also provides the governors with a chance to find common cause with business leaders and work together with them. According to the new system, governors and regional legislatures appoint representatives to the Federation Council. While the overall impact of the reforms remain unclear, about 20 percent of the senators appointed under the new system have strong ties to big business in Russia.<sup>53</sup>

Governors nominate such senators because they want to improve their ties with the companies and seek economic benefits for themselves and their regions. The companies use their senatorial position to lobby regional and federal governments for their particular interests.<sup>54</sup> Such positions can be valuable to companies. *Moskovskii komsomolets* cites "well-informed and trustworthy" sources who say that senatorial status cost \$500,000 at first, but rose to \$4 million when seats became rare.<sup>55</sup>

In order to pursue their corporate interests most effectively, such senators are likely to back the Kremlin's overall political goals in order to avoid any political controversy. Thus, the Federation Council that took office at the beginning of 2002, with its powerful business lobby, is likely to be more supportive

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<sup>51</sup> See the interview with Rossel in *Ekspert Ural*, no. 48, December 23, 2002 and *Delovaya khronika*, May 2, 2002.

<sup>52</sup> See the analysis in Tsentr politicheskikh tekhnologii, *Politika v regionakh: gubernatoriy i gruppy vliyaniya*, Moscow, 2002.

<sup>53</sup> *Kommersant Vlast*, February 26, 2002. For lists of business ties to Federation Council members, see *Kommersant*, June 6, 2002, p. 3.

<sup>54</sup> For a list of the various industries represented in the Federation Council, see Aleksei Makarkin, "Sovet Federatsii: Novyi sostav, novye problemy," in Tsentr politicheskikh tekhnologii, *Politika v regionakh: gubernatoriy i gruppy vliyaniya*, Moscow, 2002. pp. 59-68.

<sup>55</sup> *Moskovskii Komsomolets*, March 26, 2002.

of the president than the body that existed from 1996 through 2001, when the governors and regional legislative chairmen themselves served as senators. However, it will also be much more sophisticated in extracting federal state resources for purely corporate gain. In some cases specific regions may benefit from these actions more than the federal government.

## **Conclusion**

Business has become a powerful new player in Russian politics that can work with either federal or regional authorities. What does this change mean for the evolution of Russian reform? How will the combination of the largest companies' economic power with regional political power affect the evolution of Russia's political and economic systems?

Despite Putin's federal reforms, the governors' office remains influential, as evidenced by the fact that Russia's largest companies think that it is important to control, or at least maintain good relations, with the governor. Putin's institutional reforms of his presidential administration and the Federation Council have not radically reduced the governor's power at the regional level. However, the decision of Russia's largest companies to expand their operations in the regions has had a powerful impact on center-periphery relations and the way politics works at the regional level. Governors no longer have extensive control over their local economies as they did in the past. They must now contend with powerful economic players who own some of the key assets in their regions.

In aligning himself with the corporations against the governors, Putin has transferred a lot of power to the companies. This development could have considerable negative consequences for Russia. Novgorod Governor Mikhail Prusak, who naturally wants to protect gubernatorial power, has warned that the on-going processes could ensure the continued dominance of the five or six financial industrial groups that seized a great portion of Russian industry during the 1990s. "There is a risk of monopolization; not of



one resurrected Gosplan, but of five groups that would own the entire economy, each group controlling a broad array of sectors within the economy."<sup>56</sup>

Allowing Russia's largest companies to convert their economic resources into political power at the regional level could limit Russia's ability to implement consistent and effective market reforms. As noted above, such powerful companies may use their growing economic and political clout to block the introduction of real competition in the Russian regions, creating a situation in which they dominate the market and block other groups from entering it. Such abuses would lead back to the kind of problems that existed in the 1990s, when the governors used their own extensive influence to block the evolution of real market reforms and built a number of trade barriers between regions.

While Putin speaks frequently about the need to build a strong state in Russia, his actions could in fact ultimately be weakening the Russian state and handing power to rapacious corporations. As a small number of corporations gain control of larger regional empires, Russia's federal state may not be able to provide the kind of regulatory oversight that is necessary to keep markets functioning.

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<sup>56</sup> Quoted from Prusak's February 7, 2002 presentation at the Woodrow Wilson Center as summarized in the Kennan Institute Meeting Report for March 2002.

Table 1 Big Business in the Russian Regions

<b>Region</b>	<b>Label</b>	<b>Big Business</b>
Adygeya	Neglected	Rosspirtprom, LUKoil
Agin Buryatia Autonomous Okrug	One Company Predominant	BINBank
Altai Krai	Plural	Local business, Alfa-group, Kemerovo investors, Sibneft, Neftekhimprom
Altai Republic	Neglected	
Amur	Neglected	Alyans Group, Sistema, Base Element
Arkhangelsk	Plural (In-play)	Lukoil, Rosneft, Tatneft, Ilim Pulp, Base Element (Sibneft and Sibal), St. Petersburg Bank (Kogan), Titan, Promstroibank, ALROSA
Astrakhan	Plural (two companies - Gazprom, LUKoil)	Gazprom, LUKoil, Rosneft, YUKOS, North-West Steamship Line, Rosspirtprom
Bashkortostan	State ownership	Republican authorities (energy companies, Ural-Siberian Bank), TNK/Alfa Group, SIBUR, Mechel, Rosvooruzhenie, LUKoil, Mezhprombank
Belgorod	Plural (In-play)	Metalloinvest, Interfin or Gazmetal, YUKOS, Rosspirtprom, Rusagro, Cherkizov Meat Factory, Energomash, Yelena Baturina group (Luzhkov's wife), Novolipetskii Metallurgical Combine, Stilteks
Bryansk	Plural (In-play)	Sibal/Ruspromavto, P. Fedulev, YUKOS, Rosspirtprom, Stern-Cement (close to Luzhkov)
Buryatia	Neglected	Base Element, MDM, YUKOS
Chechnya	Neglected	Rosneft
Chelyabinsk	Plural	Magnitogorsk managers, Ob"edinnye metallurgikal zavody (Kakha Bendukidze), UGMK, Sibal/Ruspromavto, LUKoil, Minatom
Chita	Neglected	MDM, UGMK
Chukotka Autonomous Okrug	One Company Predominant (Sibneft)	Sibneft, LUKoil, Alyans Group
Chuvashia	Neglected	LUKoil
Dagestan	Neglected	Rosneft
Evenkia	One Company Predominant (YUKOS)	YUKOS

Ingushetia	One Company Predominant (BINBank)	BINBank
Irkutsk	Plural	Base Element, SUAL, MDM, YUKOS, TNK/Alfa Group, Sukhoi, Ilim Pulp
Ivanovo	Neglected	Rosspirtprom, SIBUR, Slavneft
Jewish Autonomous Oblast	Neglected	Alyans Group
Kabardino-Balkaria	Neglected	Rosneft
Kaliningrad	Plural	LUKoil, Mezhrefion Invest Bank
Kalmykiya	One Company Predominant (Tatneft)	Tatneft, TNK
Kaluga	Neglected	Interros, TNK, Slavneft
Kamchatka	Neglected	Rosneft, Impeksbank
Karachaevo-Cherkesia	Neglected	Rosneft
Karelia	Plural	Alfa, TNK, Severstal, SUAL, Polimetall
Kemerovo	Plural	Yevrazkholding, Novolipetsk Metallurgical Combine, Belon, Magnitogorsk, Severstal, Base Element, Koks, Yuzhnii Kuzbass, SIBUR, Amtel, Sibneft, MDM
Khabarovsk	State Defense Companies	Sukhoi, Rosneft, Alyans Group
Khakasia	One Company Predominant (Base Element)	Base Element, YUKOS, MDM
Khanty-Mansii Autonomous Okrug	Plural	Lukoil, YUKOS, Surgutneftegaz, TNK, Slavneft, Rosneft, Alyans Group (Bazhaev)
Kirov	One Company Predominant (LUKoil)	LUKoil
Komi	One Company Predominant (LUKoil)	LUKoil, Severstal, SUAL Sistema
Komi-Permyak Autonomous Okrug	Neglected	
Koryak Autonomous Okrug	Neglected	
Kostroma	Neglected	Slavneft
Krasnodar	Plural (in play)	Rosneft, LUKoil, YUKOS, Alfa/TNK, Novoship, Stern Cement, Ochakovo brewery
Krasnoyarsk	Plural	Interros, Base Element, YUKOS, MDM/SUEK, SIBUR, Yevrazkholding, Sibmashkholding, Slavneft, Baltika
Kurgan	Neglected	Sibal/Ruspromavto, Rosneft, UGMK, Sverdlovsk groups
Kursk	One Company Predominant (Metalloinvest)	Metalloinvest, Novolipetskii Metallurgical Combine,

		Rosenergoatom
Leningrad	One Company Predominant (Surgutneftegaz) (foreign influence)	Surgutneftegaz, Slavneft, Rosenergoatom, LUKoil, SUAL, MDM Group, YUKOS, numerous St. Petersburg groups, Energiya, VSM
Lipetsk	One Company Predominant (Novolipetskii Metallurgical Combine)	Novolipetskii Metallurgical Combine, YUKOS, Shtern Cement, Norilsk Nickel, foreigners coming in
Magadan	Plural (in play)	Rosneft, IST, Russkoe zoloto, Sberbank, Vneshtorgbank, Rosbank/YUKOS, Alfa-Bank, MDM Bank, Lanta-Bank, Zenit, Avangard
Marii El	Neglected	Lukoil
Mordovia	Neglected	YUKOS, Sibal/Ruspromavto
Moscow City	One Company Predominant (Luzhkov's Sistema)	Sistema, Alfa-group, Moscow Oil Company, Sibneft, Tatneft, LUKoil, Vimm-Bill-Dann, Krasnyi Oktyabr, Surgutneftegaz, Tatneft, Rosneft, Zil, YUKOS, Shtern Cement, Slavneft, Rosspirtprom
Moscow Oblast	Plural (foreign influenced)	Vimm-Bill-Dann, Cherkizov Meat Factory, MIG, Sibal (Ruspromavto), Energomash, SIBUR, YUKOS, EastLine, Sibneft, Alfa-cement, TVEL, ALROSA, Energiya, Moscow Oil Company
Murmansk	Plural	Interros-Norilsk Nickel, LUKoil, Rosneft, MDM-group, YUKOS, SUAL, Rosenergoatom, TNK, Severstal
Nenets Autonomous Okrug	One Company Predominant (Severnaya nef't)	Severnaya nef't, LUKoil
Nizhnii Novgorod	Plural	LUKoil, SIBUR, Sibal/Ruspromavto, Severstal, Ob"edinnye mashinostroitel'nye zavody, Alfa Group
North Osetia	Neglected	
Novgorod	One Company Predominant (Akron); (foreign influence)	Akron, Surgutneftegaz
Novosibirsk	Neglected	YUKOS, Alfa
Omsk	One Company Predominant (Sibneft)	Sibneft, SIBUR,
Orel	Plural	Metalloinvest, YUKOS, Severnaya nef't, Roslegprom, Severstal, Zil, Krasnyi oktyabr,

		Shtern Cement
Orenburg	Plural	TNK, Sibneft, Sibal, Mechel, Uralsk Mining and Metal Company (UGMK - Sverdlovsk)
Penza	Neglected	YUKOS, Cherkizov Meat Factory
Perm	Plural	LUKoil, SIBUR, Mezhdunarodnaya kaliinaya kompaniya, Interros, Rosvooruzhenie, Alfa-group
Primorskii krai	Plural (in play)	Interros, MDM, Alfa Group, Severstal, Vimm-Bill-Dann, YUKOS, Alyans Group, Rosneft, Dalmoreprodukt
Pskov	Neglected	Surgutneftegaz, Zil
Rostov	Plural	Doninvest, Rusal, MAIR, Sodruzhestvo, MDM, Alfa Group, TNK, Slavneft, BBH-Baltika, Rossirtprom, Cherkizov Meat Factory
Ryazan	One Company Predominant (TNK)	TNK, SIBUR, Shtern Cement, Slavneft, Krasnii Oktyabr
St. Petersburg	Plural	BBH (Baltika), Interros, Novey programmy i kontseptsii, IST-Polimetall, Ob"edinnyye mashinostroitel'nye zavody, Rosvoruzhenie, YUKOS, Promstroibank-StP (Vladimir Kogan), MDM, Sistema
Sakha/Yakutia	One Company Predominant (ALROSA)	ALROSA, YUKOS
Sakhalin	Foreign influence	Rosneft, Alfa Group, Alyans Group, MDM-SUEK, foreign oil companies
Samara	Plural (foreign influenced)	AvtoVAZ, YUKOS, Base Element, SIBUR, local oligarchs (Tolyattiazot)
Saratov	Plural	Alfa/TNK, Alfa Group, LUKoil, Rosenergoatom, SIBUR
Smolensk	Neglected	Akron, Rosenergoatom, Rosneft, Shtern Cement, ALROSA, Alfa
Stavropol	Plural	Rosneft, YUKOS, LUKoil, MDM/Yevrokhim, Rossirtprom, Pioner Pervyi
Sverdlovsk	Plural	UGMK, Yevrazkholding, SUAL, Access Industries, Interros, MDM, Chechen Group (Zlimikhan Mutsoev), Ob"edinnyye mashinostroitel'nye zavody, Uralmash crime group,

		LUKoil, TNK, Sibneft, Itera, Sibneft
Taimyr	One Company Predominant	Interros
Tambov	Neglected	YUKOS, Krasnyi oktyabr, Rosneft, Soyuzplodoimport
Tatarstan	State Ownership	Republican authorities (Tatneft, KamAZ, energy companies, Bank Ak Bars), local business (Krasnyi Vostok), SIBUR,
Tomsk	One Company Predominant (YUKOS)	YUKOS, SIBUR, Alyans Group
Tula	Plural	TNK, Tatneft, Koks (Kemerovo), Rosvooruzhenie, BBH-Baltika, Rosspirtprom, Interros
Tver	Neglected	Alfa group, Metalloinvest, Rosenergoatom, Sibur, Surgutneftegaz, ATON
Tyumen	Plural	SIBUR, Sibneft, TNK, Surgutneftegaz
Tyva	Neglected	
Udmurtia	State Defense Companies	State Defense Companies, Alfa
Ulyanovsk	Plural	Severstal, Rosaviakosmos, Tupolev, Sibal/Puspromavto, AvtoVAZ, YUKOS
Ust-Orda Autonomous Okrug	Neglected	
Vladimir	Neglected	MDM, Novye programmy i kontseptsii, LUKoil, Tatneft, Agromkhimbank, Siberian Aluminum
Volgograd	One Company Predominant (LUKoil)	LUKoil, MDM, SIBUR, Amtel
Vologda	One Company Predominant (Severstal)	Severstal, YUKOS, North-West Steamship Lines
Voronezh	Neglected	ANTK im. Ilyushina, YUKOS, Rosenergoatom, SIBUR, BBH-Baltika, Rosspirtprom, Slavneft, LUKoil
Yamal-Nenets Autonomous Okrug	One Company Predominant (Gazprom)	Gazprom, Rosneft, Sibneft, YUKOS
Yaroslavl	Plural	Slavneft, TNK, SIBUR, BBH-Baltika, Rosspirtprom, Sibal/Ruspromavto, Sibneft

Sources: Natalia Zubarevich, "Krupnyi biznes v sub"ektakh RF - dannye na 20 Avgusta 2002," manuscript, various issues of the journal *Delovaya khronika* ([www.chronicle.ru](http://www.chronicle.ru)) from 2002, Julie Corwin, "Regional Leaders and Their Corporate Sponsors," RFE/RL Russian Political Weekly, 23 January 2003; Alexander Nudelman, "Who is Pulling the Strings in Kalmykia?" RFE/RL Newsline, 1 November 2002.

Notes: The labels in this table are based on expert judgments since information on corporate tax payments to specific regions was not available. The list does not include Gazprom, RAO EES, Transneft, Svyazinvest, which operate in most regions.

Abbreviations: SUAL - Siberian Ural Aluminum Company; TNK - Tyumen Oil Company; UGMK - Ural Mining and Metallurgical Company.

**Map 1 Relationships between Business and Politics in the Russian Regions<sup>57</sup>**



<sup>57</sup> I am extremely grateful to Michael Bradshaw for making this map.