

POLITICAL CENTRALIZATION AND INTER- GOVERNMENT PROPERTY CONFLICTS IN RUSSIA

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Executive Summary

Delineating control over key assets located in the regions became one of the building blocs of Russia's asymmetrical federalism that emerged out of negotiations between the federal center and the regions in 1991-1996. This process benefitted particularly the more resourceful ethnic republics that had a higher administrative status in the complex institutional framework of the Soviet and then Russian Federalism. As a result of separate deals with the center, the rich ethnic republics and other well-placed federal units (such as Moscow) obtained control over major economic assets and created relatively autonomous systems of political economy and property regimes within their territories. The evolving relations between the federal and regional governments driven by the centralizing reforms instituted under Vladimir Putin have resulted in the redistribution of property rights from one set of actors to another and transformed, in some cases, the nature of regional political economic systems and property regimes that have been established earlier. This paper examines the most conspicuous changes in regional property relations that have (or have not) occurred in the last ten years in three resource-rich ethnic republics. The findings pertain not only to the changing nature of regional property regimes but, more generally, to Russia's political economy and property rights system.

Introduction

Delineating control over key assets located in the regions became one of the building blocs of Russia's asymmetrical federalism that emerged out of negotiations between the federal center and the regions in 1991-1996 (Bahry 2005; Kahn 2022; Lapidus 1999). This process benefitted particularly the more resourceful ethnic republics that had a higher administrative status in the complex institutional framework of the Soviet and then Russian Federalism (Solnick 1995). As a result of separate deals with the center, the rich ethnic republics and other well-placed federal units (such as Moscow) obtained control over major economic assets and created relatively autonomous systems of political economy and property regimes within their territories (Sharafutdinova 2011, Alexander and Graevingholt 2002, Brie 1998). The evolving relations between the federal and regional governments driven by the centralizing reforms instituted under Vladimir Putin have resulted in the redistribution of property rights from one set of actors to another and transformed, in some cases, the nature of regional political economic systems and property regimes that have been established earlier. This paper examines the most conspicuous changes in regional property relations that have (or have not) occurred in the last ten years in three resource-rich ethnic republics. The findings pertain not only to the changing nature of regional property regimes but, more generally, to Russia's political economy and property rights system.

This paper brings together concerns from the recent literature on Russian federalism and the literature on Russia's property rights system. The issue of political centralization in Russia has been an important theme for scholars working on Russian federal evolution in the last ten years. The centralizing impulse underpinned a series of federal reforms instituted under Putin's presidency starting in 2000 (Reddaway and Orttung 2004, 2005) and drove other political

processes such as the dominant party-building in Russia (Gelman 2006, Konitzer and Wegren 2006, Hale 2005). The overwhelming focus on institutional, organizational and legal changes observable in this literature is both justified and understandable. The administrative reforms, legal reconfiguration and political organization-building enabled by and contributing to a pliant State Duma represented the main political tool of political transformation in Russia. The economic component of these reforms was directly observable only as the first steps of fiscal recentralization occurred in 2001-2002. The changing regional property relations did not attract much attention initially because these processes are less public and less visible. Yet they also represent part and parcel of political centralization, on the one hand enabled by political changes and further strengthening them, as will be argued in this paper.

The paper's empirical observations also contribute to the scholarship concerned with property rights. Insecure property rights are deemed to be one of the major obstacles to Russia's sustainable economic growth, development, and arguably even political democratization. They result in wasting resources, inhibiting capital accumulation and production, and preventing autonomous political action by linking property owners' rights to their political loyalties (Sonin 2003, Frye 2004, Buiters 2000). Most studies of Russia's property rights regime have been focused on either private-private or private-public dimension of the problem. When examining Russia of the 1990s, most observers focused on the 'private-to-private' conflict over property, as economic agents invested in private protection of property rights and the mafia and racketeers filled the power vacuum left by the weakened state (Sonin 2003, Varese 2001, Volkov 2002). The state was 'captured' by powerful individuals with close connections to the president (then Yeltsin) and his family (Hoffman 2002, Freeland 2002, Goldman 2003). The examinations of Putin's Russia have inevitably drawn attention to the private-public nature of the property rights

problem as Russia's new president reconfigured the balance of power, wrestling the state away from previously powerful economic actors and defining the 'new rules of the game.' The new power configuration resulted in the rise of a fresh cycle of instability with regard to property rights but this time the threat originated from the state, not from societal forces. The infamous 'grab' of Yukos (a privately owned oil company) by the state and its complete destruction represented one of the defining incidents of Putin's presidency starting the phenomenon of 'state raiding' (*gosudarstvennoe reiderstvo*) in Russia (Sakwa 2009, Thompson 2005). Government-led attacks on big businesses continued in Putin's second term in power and even after he assumed the post of the prime minister in March 2008.¹ At the same time, Putin's presidency is sometimes credited with establishing a semblance of stability in the country and even encouraging collective action on the part of business-holders vis-à-vis the state, suggesting a more optimistic outlook on property rights in Russia (Markus 2007).

The blurred boundaries between what is private and what is public in Russia's crony capitalist political economy makes the 'private-private' and 'public-private' categorizations of property conflicts inaccurate and unable of capturing the full complexity of property relations in Russia (Sharafutdinova 2011). Furthermore, an interesting new development in the evolution of both, Russia's federal and property relations, is concerned with a number of intra-state conflicts that intensified under Putin and continued under Medvedev's presidency. In a state with more clearly defined public-private boundaries, such conflicts would be considered intra-governmental, adding a new category for research on property rights in Russia. However, in the Russian context, the problem of cronyism and the interwoven nature of wealth-power

¹ The conflict among the Russian and foreign shareholders of the TNK-BP, for example, involved active intervention by state structures on behalf of the Russian co-owners (Baev 2008). The investment climate in Russia was also shaken by Putin's verbal attack on Mechel, one of Russia's largest metallurgical companies, accused in July 2008 of charging higher prices to domestic consumers than those charged to foreign buyers. There are also cases of Chichvarkin's Euroset, East Line Group, and Arbat Prestizh.

relationships call for a more nuanced understanding of stakes and consequences implied by these unfolding processes. This paper attempts to reveal some of the nuances involved in these conflicts and examines conditions for a more or less stable framework of property relations in federal Russia.

Empirically, this paper focuses on conflicts over property between the federal government and such resource-rich ethnic republics as Sakha (Yakutia), Bashkortostan and Tatarstan, which in the early 1990s came to control considerable economic assets within their territories. The actions of the federal government and closely aligned economic actors (such as Gazprom) during Putin's presidency had unleashed a series of changes in the structure of ownership of major economic assets in these regions. In the section that follows I describe the economic structure and major economic players in the three selected republics as they emerged from the federal bargain of the early 1990s, their subsequent evolution, and the more recent transformation of property relations during Putin's and Medvedev's presidencies.

The data presented in this paper allows for several observations regarding the effect of evolving federal arrangements on property rights in Russia as well as the nature of property rights regimes established in the ethnic republics in the 1990s. First, the issues related to property distribution between the center and the regions in Russia made up a big item in the federal bargain of the early 1990s. Taking advantage of the fluid political context and institutional privileges some ethnic republics were able to gain control of important economic assets located on their territories and subsequently developed separate regional political economies pursuing their own strategies of privatization and economic and social development. The shifting political context in the late 1990s had enabled the federal center to pursue a centralizing agenda and challenge both the regional autonomy and the property regimes that

were established in the 1990s. The assault on the republican property (both controlled by the republican government and the ruling families) was led by federal officials (the Ministry of Finance and the Ministry of State Property), by the state-controlled monopoly Gazprom and other economic actors sanctioned by the Kremlin. The outcomes were not uniform across different regions and depended on the nature of relations between the Kremlin and regional elites and the different strategies of regional privatization.

The changes in regional property systems that occurred since Putin's presidency reveal the importance of the power balance between the regions and the center. When the balance of power shifted under Putin, the relatively stable property regimes in the republics have been remade in favor of the center. The Republics of Sakha and Bashkortostan lost their most lucrative economic assets. Tatarstan, on the other hand, has so far maintained most of its assets. These three cases also differ in terms of the evolution of property regimes built in the republics. Tatarstan and Bashkortostan established 'closed' property regimes creating obstacles to the outsiders and allowing the insiders to control privatisation. Sakha, on the other hand, was more open to the outsiders (especially in the case of gold mining industry). Tatarstan and Bashkortostan however differed in their privatization strategies. Tatarstan's more subtle approach allowed for the gradual consolidation of republican largest economic assets under the newly created TAIF (closely linked to the family of the first president), while leaving the key republican asset – Tatneft oil company – under the state control. Bashkortostan's elites, driven by political instability prior to 2003 presidential elections, blatantly privatised the entire oil and petrochemical industry transferring the ownership of large republican enterprises directly to the presidential family. This defensive move was not effective and created a backlash from the federal center resulting in a radical remake of property relations in the republic.

This new round of property rights restructuring enabled by the new political context of the late 1990s and early 2000s is revealing of the nature of property rights in Russia. It illuminates the endogenous relationship between political and economic capital in Russia, according to which, the loss of political capital represents a direct danger to the economic capital. As suggested by Gerald Easter (2008), it might be more accurate to talk about concession rights rather than *private property* rights in Russia, especially with regard to strategic economic assets in the natural resources and energy sectors. The analysis presented in this study supports Easter's insight on the nature of Russian capitalism.

The Republican Bargain of the 1990s

The asymmetric nature of Russia's federal relations in the 1990s is well-described in the literature (Lapidus 1999, Walker 1996, Solnick 1995).² Federation subjects were not equal to one another, contrary to the 1993 Constitution proclaiming such equality (Article 5). Paradoxically, the inequality was also embedded in the 1993 Constitution that referred to ethnic republics, the highest-ranking units in the federation, as states (*gosudarstvo*). The rest of the federation subjects (*oblast'*, *krai*, etc.) were referred to as administrative-territorial units. This distinction was very significant in the Federal Treaty signed a year earlier, in March 1992. A separate treaty signed for ethnic republics gave them the right to own the natural resources in their territories. Additionally, the ethnic republics won special concessions from the center as a result of negotiations over bilateral treaties.³ In the end, those federal units that had a republican status, strongest nationalist movements in the early 1990s and the largest pool of economic resources were in the best position in negotiations with the center and were able to secure the

² This feature is a legacy from the Soviet Union that was composed, similarly, of units with different ranking and status.

³ 46 regions signed such bilateral treaties with Moscow during 1994-98. Most of them were scrapped during Putin's presidency with the exception of two republics (Tatarstan and Chechnya).

most degree of autonomy. The Republics of Tatarstan, Bashkortostan and Sakha (Yakutiya) were at the forefront of this process.

Tatarstan

Local experts have noted that by the end of the 1980s the government of Tatarstan possessed only two percent of the industrial enterprises located on its territory (Farukshin 1994). Eighty percent of the republican industry was controlled by the Union ministries and eighteen percent by the Russian Federation ministries (Ibid). The assertion of control over the economic resources started with the Declaration of Sovereignty adopted in August 1990 and stating that ‘the land, natural and other resources belong to the people of Tatarstan.’⁴ Further, in August 1991, the newly-elected President of Tatarstan signed a decree according to which all the enterprises located on the republican territory were transferred under the jurisdiction of the Republic of Tatarstan (Matsuzato 2000a: 33). All enterprises were required to re-register although not all of them complied.⁵ The government also decided to license all the activities related to the exploitation of natural resources (Matsuzato 2000a: 33). According to some estimates, by 1994 the government of Tatarstan obtained control of about 65 percent of the enterprises located within the region (Farukshin 1994).

Oil and petrochemical industries constitute the cornerstone of Tatarstan’s economy providing for 90 percent of republican exports. The oil-extracting sector represented mainly by republican-controlled Tatneft has played the role of the ‘cash cow’ and the main economic backbone of the republic. It provides about 40 percent of the republican budget and plays a very

4 Declaration of Sovereignty, 1990: ‘Deklaratsiya o gosudarstvennom suverenitete Tatarskoi Sovetskoi Sotsialisticheskoi Respubliki’, 30 August 1990, Special publication of Tatarstan-related documents, Kazan: Obrazovanie, 1998, 7-8.

5 Nikolai Bekh – a very well-connected director of KamAZ (the truck-making plant) – refused to reregister and considered the company to be under Moscow’s jurisdiction. The Tatarstani government was able to obtain control over KamAZ only in 1997, when the company faced bankruptcy.

important role in supporting government investment initiatives as well as maintaining significant social obligations (Idiatullin 2001: 55, Garifullina 2000). The oil company became the basis for vertical integration process in the republic. In the course of 2000-2001, Tatneft obtained the government packages of a big tire-maker Nizhnekamskshina, the technical carbon plant in Nizhnekamsk, and Minnibaevskii gas-processing plant and created in 2002 a holding company Tatneft-Neftekhim.⁶ These deals included investment and other obligations from Tatneft that were to ensure a stable resource supply to the plants as well as their re-modernisation financing.⁷ Also, in 2001 Tatneft acquired a blocking stake in the largest republican bank 'Ak Bars,' thus adding to its control of Moscow-located Zenit bank and Devon-credit bank in Almet'evsk (Sharafutdinova 2001).

Besides oil industry and its flagship company Tatneft, Tatarstan's economy depends heavily on petrochemical industry. Nizhnekamskneftekhim and Kazanorgsintez are the two main conglomerates, the former producing the largest amount of synthetic rubber in Russia and the latter leading in polyethylene production. There are other large companies such as KamAZ (a truck-making plant in Naberezhnye Chelny), KAPO (Kazan Aviation Production Combine), KVZ (Kazan helicopter plant), ship-building plant in Zelenodolsk and other companies. Tatneft, Nizhnekamskneftekhim and Kazanorgsintez, however, represent Tatarstan's most lucrative enterprises.

Having a strong industrial base, the republican government had a lot to win from the considerable degree of autonomy it was able to obtain from the center. Thus, Tatarstan was able to pursue its own privatisation program and play a key decision-maker in redistributing its wealth after the fall of the Soviet Union. While the separate republican voucher program that

⁶ For company structure, see www.tatneft.ru.

⁷ In Nizhnekamskshina, for example, Tatneft promised to invest 1.2 billion roubles by 2003.

supplemented the Russian privatisation did not accrue any more success than its national counterpart, the largest pieces of property were handled very differently in Tatarstan. The republican government introduced a three-year moratorium on the sales of privatised enterprises' stocks. This measure was designed to avoid the quick sales of under-priced enterprises, as happened throughout Russia when some of the most valuable enterprises were sold out for absurdly low prices. Even after the three-year moratorium ended, the government controlled the 'golden share' in all the biggest enterprises having veto power over any decision and a direct control over the appointments of the chief managers of these enterprises. Tatneft became a joint stock company in 1994 but, along with other big corporate enterprises in the republic, remained under firm governmental control. The government owns around 34 percent of the shares and has veto power through the 'golden share.'⁸ The company's board of directors includes top government officials.⁹ Nizhnekamskneftekhim and Kazanorgsintez were also under the republican control throughout the 1990s.

The seizure of economic assets in the early 1990s occurred not only in Tatarstan but throughout the entire territory of the disintegrating Soviet state. Inside Russia it was promoted by the actions undertaken by the Russian authorities themselves competing with the Soviet institutions. Russia's steps in actualising its newly-declared sovereignty with the USSR set a model for ethnic republics to follow. Thus, political and economic developments in the neighbouring Republic of Bashkortostan were quite similar to those described in the case of Tatarstan.

⁸ 2009 annual report (www.tatneft.ru).

⁹ www.tatneft.ru.

Bashkortostan

The government of Bashkortostan adopted its Declaration of Sovereignty in October 1990, only a few months after it was done in Tatarstan. The republican ownership over the natural resources located on its territory declared in this document was significant because Bashkortostan also has oil reserves and valuable metals. Most of the republican oil (around 84 percent according to some estimates) has been already extracted with oil production starting in the 1930s and peaking in the 1960s, with almost 50 million tons of oil extracted in 1967 (Grammatchikov). Presently, oil production averages around 12-13 million tons of oil annually.

While oil production decreased, the republic's oil-refining and petrochemical complexes built in the Soviet period have acquired greater economic significance. Bashkortostan processes about 13 percent of total oil produced in Russia, produces almost 20 percent of Russian gasoline, 16 percent of diesel, and various other petrochemical products. One of the complexes includes four oil-processing plants located in the capital city Ufa ('Ufaneftekhim,' 'Ufaorgsintez,' Ufimskii and Novoufimskii plants). The core of the other complex is 'Salavatnefteorgsintez' that operates in the business of oil-processing, petrochemicals and mineral fertilisers.

The republic also has a sizeable chemical industry concentrated in Sterlitamak. It involves such plants as 'Kaustik,' 'Soda,' 'Sintez-Kauchuk' which control about a third of the Russian market in many products they produce. The soda-producing plant 'Soda' controls over a half of the Russian market in soda. Another direction still pursued in the republic is machine-building. Among the high-tech sectors is the motor-building plant UMPO (Ufa motor-building production combine) that produces plane engines. There are also three other plants producing parts for aviation and Kumertau aviation plant producing helicopters 'Kanov.' Neftekamsk automobile plant produces buses, trucks, auto-parts and agricultural equipment.

As in Tatarstan, oil and petrochemical industry made-up the real economic basis of the republican power and the political regime dominated for many years by president Murtaza Rakhimov and the predominantly ethnic Bashkir elite. Similar to Tatarstan, Bashkortostan pursued a path of privatisation aimed at maintaining most valuable economic assets under the republican control. At the same time the privatization strategies in two republics differed in some respects as addressed below.

Sakha

The Republic of Sakha in the early 1990s found itself in a situation similar to the ones described above. Most of its economy was controlled by various ministries in Moscow. According to some accounts the republican government controlled only four percent of industries and one percent of revenues generated mostly by the extraction of its minerals and especially diamonds, gold and coal (Khazanov). Negotiations between the republican government and the federal center allowed Sakha in February 1992 to market ten percent of its diamonds (keeping the revenues in the republican budget). In March 1992 the two governments reached a more detailed agreement that recognised the republic's claim over its natural resources. Sakha was given control over 20 percent of the diamonds (this proportion was increased to 25 percent in 1995) and 11.5 percent of the precious metals extracted on its territory. Additionally, a joint stock company *Almazy Rossii-Sakha* (Alrosa) was created by presidential decree in 1992 for mining, sorting, grading, cutting and marketing diamonds from Sakha. The republican and federal governments were given 32 percent of company's shares each, 23 percent of shares were kept in the hands of the employees, eight percent given to local governments (*ulus*) and five percent to a special fund 'Guarantee.' Taking into account the eight percent that belonged to

local governments that essentially represented the republican government's branches and the workers' shares, the company fell under the republican control, while the federal government was sidelined. Most analysts agree that such beneficial policies to the republic were due, in large measure, to personal relationships between Boris Yeltsin and Sakha's president Mikhail Nikolaev (Bahry 2005). Nikolaev supported Yeltsin unequivocally at several crucial points including the presidential vote in the Russian Congress in 1990 and the August 1991 coup during which many other regional leaders, including Tatarstan's and Bashkortostan's presidents, reacted much more cautiously, adopting a 'wait-and-see' position (Bahry 2005). From Nikolaev's side, this was a well-calculated step taken with the expectation that Yeltsin would return a favour by supporting Nikolaev's policy of Sakha's self-government and control over mineral resources (Argounova 2001: 169). Indeed, Nikolaev is well-known as a regional leader who persistently tried to secure Sakha's economic sovereignty and control over a share of republic's natural resource revenues (Bahry 2005, Giuliano 2005, Argounova 2001).

The creation of a single diamond company under the shared control of the federal center and the region was Nikolaev's preferred strategy from the beginning.¹⁰ The world's second largest diamond company after DeBeers, Alrosa quickly became the dominant economic player in the republic contributing up to one half of the republican budget. Besides diamond industry, Sakha also relies on gold mining as well as the agricultural sector and such traditional activities as hunting and gathering. The restructuring of gold mining in Sakha will be discussed later in this chapter but it differed considerably from the diamond industry. The attempts to diversify the economy away from diamond extraction attempted under president Nikolaev did not prove very successful. Alrosa remained the main economic backbone of the republic.

¹⁰ Other alternatives were to divide the industry between the federal centre and the region (Argounova 2001).

Two Scenarios of Privatization: “Creeping” vs. “Grabbing”

While all three republics have pursued similar goals in the process of privatisation in the 1990s, trying to introduce market economy in a more gradual and controlled fashion, their paths differed importantly in how they dealt with major economic assets they controlled. As I illustrate below, the path followed in Tatarstan and Bashkortostan could be referred to as ‘controlled’ privatisation that resulted in the transfer of republican property into the hold of the families controlling the political regimes in these two republics.

By the mid-1990s, the republican elites both in Tatarstan and Bashkortostan have been able to eliminate any significant political opposition and consolidate their political regimes (Alexander and Gravingholt 2002; Sharafutdinova 2011). In the words of one member of the republican economic elite: ‘In the Republic of Tatarstan all is managed from one center... Sometimes even small questions are decided only by the President of Tatarstan. In Tatarstan, nothing is done without Shaimiev’s consent’ (McMann 2005, 51). Similarly, in Bashkortostan, President ‘Rakhimov always gets his way’ (Franchetti 1998). Due to a more complex ethnic structure Bashkortostan’s regime was a bit less secure and stable as manifested in more contested elections of 1998. However, both regimes could be described as authoritarian systems characterised by the domination of a titular ethnic group in state institutions (Tatars in Tatarstan and Bashkirs in Bashkortostan).

Both political and economic systems were crony. Informal relations and networks provided a key resource for getting access to wealth and power in both Tatarstan and Bashkortostan. A bit more subtle in Tatarstan and more visible in Bashkortostan is the process by which major sources of wealth were privatised, flowing very selectively and, indeed, directly into the pockets controlled by presidents’ families and thus mirroring the political domination of

the president. The process of privatisation of the republican wealth in Tatarstan could be best viewed following the expansion of the TAIF group (Tatar-American Investments and Finances). This is the most significant new business structure that sprang up in the republic during the 1990s.

A public joint stock company TAIF was created in 1995 on the basis of a trading company 'Kazan' and involving private, state and foreign capital ('Vnedrenie...', 2001). Over the period of several years TAIF expanded at an unprecedented rate and became a diversified holding structure composed of over 40 subsidiary firms. Although starting with an eclectic list of activities that involved investment, telecommunications, construction, customs services, and various other revenue-generating venues, TAIF gradually 'swallowed' up the most strategic assets in Tatarstan's petrochemical industry. The company started by renting oil-processing equipment from Nizhnekamskneftekhim and investing in its shares. It later joined one of the most ambitious republican projects - the construction of a new oil-processing plant in Nizhnekamsk (NNPZ) to only ultimately take it away from its largest investors and stakeholders – Tatneft and Nizhnekamskneftekhim. By the end of 2005 TAIF became the primary owner of the NNPZ ('Tatneft' sdala...', 2005), a deal that was undoubtedly manufactured with a strong government backing and despite the discontent it caused in Nizhnekamskneftehim and Tatneft.¹¹ It undermined Tatneft's reputation to a certain extent because the republican oil company was the biggest investor in this oil-processing plant. After selling its shares to TAIF, Tatneft' immediately initiated a construction of a new oil-processing plant known presently as TANECO project (Gazizova 2006). TAIF's aggressive expansion into petrochemical industry

11 From an interview with former general director of Nizhnekamskneftehim (August 2009).

continued in 2005 as the company secured a controlling package of Kazanorgsintez.¹² Then, even more strikingly, in 2006 the company obtained control over Nizhnekamskneftekhim after the republican controlled holding company Sviazinvestneftekhim entrusted TAIF with almost 30 percent of Nizhnekamskneftekhim's shares for five years ('TAIF budet...', 2005). Such a remarkable expansion of this privately-owned company into the most strategic sectors of the republican economy of course was not accidental and did not originate in the dynamics of the market-dominated economy. It could not have happened without the republican government's active participation and collusion with key shareholders of this company directly linked to the first president of Tatarstan, Mintimer Shaimiev.¹³

Not only has TAIF operated with direct presidential clout but it has also enjoyed direct entitlements from the government including privileged access to oil and considerable tax breaks (Mukhamadiev 2001, 2). In its expansive potential TAIF had no rivals in Tatarstan and, with an annual capital turnover of over one billion dollars, is comparable to the biggest Russian enterprises (Postnova 1999). In contrast to the infamous Russian oligarchs, TAIF and its owners were never well known to the public. The story of TAIF's expansion in Tatarstan illuminates one aspect of the political-economic system that emerged in the republic during the 1990s. While in the early 1990s the most important economic assets have been placed under state control as the republican elites delayed the privatisation of major enterprises, the transfer of resources into selected private hands (those in and close to the president's family) started in mid-1990s. The early stages of this process were characterised by exceptional opportunities for wealth-acquisition given to TAIF as the company expanded into profitable sectors. This process

¹² www.taif.ru

¹³ Radik Shaimiev, president's son, occupies a key position in TAIF. In 1998, for example, he was the chief of company's board of directors.

culminated with an actual reallocation of the formerly state-controlled enterprises into TAIIF in the 2000s, as the company obtained control of two key republican petrochemical conglomerates and the newly-constructed oil-processing facilities.

The privatisation of key republican enterprises by the President's family in Bashkortostan occurred in a more open and brazen way than in Tatarstan. In 1998 the government created a state holding BTK (Bashkir Fuel Company) composed of major oil and petrochemical enterprises in the republic such as Bashneft, Bashkirenergo, Bashneftekhim, and Bashkirnefteproduct. The President's son, Ural Rakhimov, who earlier headed Bashneft, was placed in the position of the chair of BTK's Board of Directors. In August 2002 Rakhimov issued a decree according to which BTK could be privatised; then, in April 2003, in a chain of trading transactions, the state-controlled shares of these companies were gathered in a new privately-owned company Bashkir Capital that was controlled by Ural Rakhimov. Importantly, this transfer occurred several months prior to presidential elections in Bashkortostan and was viewed by many analysts as an indication of uncertainty with regard to Rakhimov's future as President.

Indeed, in 2003 elections Rakhimov's position was very shaky. The Kremlin at that time was interfering in regional elections and therefore the results were not predetermined even in such authoritarian system as that of Bashkortostan. He had two strong competitors among the candidates running against him – Ralif Safin (one of the top-managers in Lukoil) and Sergei Veremeenko (managing director of Mezhprombank), who was widely seen as a candidate supported by the Kremlin. Unable to win in the first round, Rakhimov had face Veremeenko in the second and won, in the end, presumably after some closed negotiations with the Kremlin.

In short, in both republics the most attractive enterprises have over time been transferred

into private hands closely associated with the families of republican presidents. While more gradual and subtle in Tatarstan and more abrupt and visible in Bashkortostan, the end result of this process was quite similar in both republics. Ural Rakhimov ranked 488th in the 2007 World's Billionaires list prepared by Forbes, while Radik Shaimiev was ranked by Forbes among the 100 richest men in Russia in 2005. Such an outcome was, on the one hand, a logical product of the autonomy that republics were able to obtain in the Yeltsin era. On the other hand, the abrupt and bold transfers of republican property into private hands in 2003 in Bashkortostan and 2004-6 in Tatarstan could also be seen as a reaction to political recentralisation that occurred under Putin. Putin's policies aimed at integrating state institutions in a single power pyramid threatened the entrenched positions of republican elites. The danger of power loss by the elites also meant wealth reallocation. The potential power shift was expected to be accompanied by the replacement of those economic actors that had most access to wealth-creation. Confronted by such concerns, the political elites were more decisive in privatising the key pieces of republican property.

The Fate of Diamonds

The two key industries in Sakha are related to gold mining and diamond mining. The fate of these two sectors in the republic differed radically. The gold-mining industry was controlled by the federal center in accordance with the special 1995 bilateral agreement (Mandelstam-Balzer 1996). It was privatised and split into a variety of smaller firms (about 600) many of which went bankrupt (Yakovleva 2005: 131). By 2000 gold-mining industry in Sakha was controlled by 78 companies (Yakovleva 2005: 131).

The diamond industry was on the other hand incorporated fully in Alrosa which centralised all stages of production including mining, sorting and sales. Its control was formally shared between the federal center and the republic though the republican government got an upper hand because of the shares controlled by local governments (ulusy). The diamond industry and, particularly, Alrosa did much better than the gold-mining firms. Gold production was falling in the 1990s, while the diamond industry grew. Alrosa's tax contributions to the local budget were crucial for the republic's economic well-being. Particularly, the republican government reached an agreement with Alrosa about the lease of facilities necessary for company's operation. The payments for the use of these facilities between 1993 and 2000 made up anywhere between 12 percent and 37 percent of the republican budget (Yakovleva 2005: 175). Alrosa's share in GRP (gross regional product) in the same period was anywhere between 30 percent and 58 percent (Yakovleva 2005: 174).

In short, Alrosa was the single main contributor to the republican economy in the 1990s. As opposed to Tatarstan and Bashkortostan, where most strategic and profitable sectors were privatised by the ruling families, Alrosa was kept under republican control. There is some evidence of private financial wrongdoings in the SAPI foundation that controlled Alrosa's 'two percent' contributions for environmental and socio-economic development programmes between 1995-1999 (Yakovleva 2005: 231). Faced with unaccountable conduct of this foundation, however, the government incorporated these resources into the state budget.

The president of Sakha, Mikhail Nikolaev, thus stayed away from the policy of 'creeping privatisation' of the diamond industry maintaining it under the control of the republican authorities. It seems plausible to suggest that the initial split of this industry between the federal, the republican and the local authorities prevented any one-sided privatization, with different state

levels (and particularly the federal level) serving as a check on the actions of the republican government. The creation of the natural revival fund and the target fund for future generations as well as the establishment of the system of specially protected natural areas in Sakha under the leadership of Nikolaev earned him the reputation of a statesman concerned first and foremost with the interests of the republic.

Under Siege

The politics of recentralization initiated by Putin relied mostly on administrative, legal, and institutional changes aimed at shifting the power balance between the federal center and the regions (Konitzer 2006, Gelman 2009, Redaway and Orttung 2005, 2004). Re-negotiating property relations with some of the regions that were able to place their hands on considerable economic assets in the 1990s became one of the less-publicized side-effects of this politics. This process was driven not only by the federal government (as in the case with Alrosa) but also by state-controlled and privately owned corporations (as in the case with Tatarstan and Bashkortostan), revealing that it was not a well-designed consistent policy on the side of the center but was rather driven by the same centralizing impetus.

The War Over Diamonds

The decision to return Alrosa under federal control was made by Putin in 2001. Federal authorities were issued an order to consolidate control over Alrosa and consequently various federal agencies, including the Ministry of Internal Affairs and the Accounting Chamber initiated investigations of Alrosa and its privatisation. The Accounting Chamber completed its investigation in 2002 concluding that the federal government lost its control over Alrosa and

proposed that the company shares that belong to eight *ulusy* (local governments) and the fund ‘Guarantee’ (eight and five percent respectively) be returned to the federal government. The alleged aim was to get control over 50 percent plus one of company’s shares. As a next step, the federal Ministry of State Property filed a suit in Moscow Arbitrage Court demanding the five percent of shares controlled by the Guarantee fund but it lost that suit.

An additional line of federal attack was concerned with ‘Yakutalmaz’ – the actual production complex based on which Alrosa was created. These assets that remained under republican control were not transferred to Alrosa but instead rented out to the company for 25 years, with rent payments contributing to over 20 percent of the annual republican budget. The federal government attempted to return these assets (at least partially) and use them as a payment for the newly issued company shares with the aim of increasing the proportion of its shares to the controlling package. However this also proved to be a difficult task. In 2005 the republican and federal governments came to an agreement and signed a protocol N68 –GG (‘About protecting state property in Sakha’s diamond complex’) that proposed a legal resolution to the conflict. This protocol stirred debates in the republican parliament (Il Tumen) that adopted a statement about the dangers such ‘legal’ resolution presents to the republic’s economy and the people’s welfare. In 2006 the federal Ministry of State Property once again filed a suit in the Arbitrage Court seeking to return ‘Yakutalmaz’ into federal property. At the same time, acting on behalf of the federal center, in 2006 Vneshtorgbank acquired 10.5 percent of Alrosa’s shares.

While the legal actions as well as the market transactions concerned with Alrosa are publicised and reported in the newspapers, it is clear that the resolution of this property conflict involved behind-the-scene negotiations between the federal officials and the republican president Vyacheslav Shtyrov. Thus, Shtyrov was reappointed as Sakha president in December 2006 and it

seems plausible to suggest that his reappointment would not have happened without the agreement reached a month earlier, in November 2006, between the republican and federal authorities authorizing the increase in federally-controlled shares to over 50%.

The project of Alrosa's 'federalisation' ended in November 2008, when the ministry of state property (Rosgosimushchestvo) finally obtained control over 50.9 percent of Alrosa's shares.¹⁴ However, the center-republican conflict over this company did not end with that. Up until recently Alrosa represented a closed joint-stock company and this 'closed' status was formalized through the republican law "On managing Alrosa's shares" aimed at preserving the republican influence over the company. To raise company's capitalization, the federal authorities decided to turn Alrosa into a public joint stock company and issue IPO, which meant issuing new shares and diluting the republican stake in Alrosa. Sakha's president Shtyrov opposed this move and, in the end, resigned from his post in June 2010. It was then up to the new republican president, Yegor Borisov (a former speaker of Sakha's legislative assembly), to persuade the deputies of Il Tumen to pass a new law turning Alrosa into a public corporation. The informal agreement between the republican and the federal authorities was reached in September and was based on the understanding that even after opening the company the republic would still hold a blocking stake in Alrosa of 25% plus one share. The new law allowing to turn Alrosa into a publicly traded corporation was passed in October 2010 and opened a path for Alrosa's privatization.

'Petrochemical' Conflicts in Bashkortostan

The Republic of Bashkortostan has also lost control over its major economic assets as a

¹⁴ gazeta.ru (November 1, 2008)

result of state-initiated actions in the last few years. Gazprom became at first involved in a tag of war with Bashkortostan over Salavatnefteorgsintez (SNOS), a major petrochemical conglomerate that uses raw material supplies from Gazprom. From 1998, in exchange for the company debt, Gazprom was entrusted with the management of this company; however, in 2002 the republican government attempted, unsuccessfully, to break this arrangement. In 2003 the republican government agreed again to entrust the controlling stake in SNOS to Gazprom and also promised Gazprom two chemical plants in Sterlitamak (Kauchuk and Kaustik). Presumably, the government had to surrender under the pressure from the Kremlin in anticipation of the 2003 presidential election. As discussed above, the incumbent president Rakhimov was in a very shaky situation in this election and could have easily lost his seat to the challenger supported by the Kremlin. The loss of SNOS to Gazprom was widely viewed as a price Rakhimov paid for maintaining his presidential seat in 2003.

Gazprom, however, was not satisfied as an entrusted manager of SNOS and initiated an acquisition process of this company. In 2007, NPF Gazfond, a pension fund affiliated with Gazprom, acquired the controlling stake (about 54 percent) in SNOS and, in May 2008, Gazprom's Board of Directors approved the acquisition of 50 percent plus one share (the controlling stake) from Gazfond. Thus, Bashkortostan in the end had to give up the possession of one of Russia's largest petrochemical conglomerates to the national monopoly Gazprom.

Besides the struggle over SNOS, the republican authorities experienced an increasing pressure from the center over the 2003 privatisation of the major republican enterprises. In 2005 the Audit Chamber investigated the privatisation deals and deemed the whole chain of transactions that resulted in the transfer of key republican enterprises into Bashkir Capital illegal. It appeared that Bashkir Capital was able to get these enterprises without a public auction and,

furthermore, 13.5 billion rubles promised to the republican budget as the price of this transaction was never paid (although to be accurate this sum was supposed to be paid over a period of ten years).

The precise reason behind a series of actions that was taken by Murtaza Rakhimov in 2005 has not yet been clarified. In March 2005, Rakhimov annulled his decree that allowed for the privatisation of the republic's strategic assets and he filed a suit in Bashkortostan's Arbitration Court to return the main assets (controlled by his son) to BTK. Analysts tried to decipher the reasons behind this father-son conflict, some observers disbelieving the sincerity of these actions and others pointing to the political challenge springing from the group of people around Ural Rakhimov. Presumably, part of the republican elite considered Rakhimov-father to be too weak and yielding to Moscow and attempted to shift the power balance starting with the replacement of the Speaker of the Republican Parliament (Migalin 2005). Other observers pointed to pressures coming from the center and especially the findings of the Audit Chamber regarding the privatisation of Bashkir oil and petrochemical assets (Chaika and Vitebskaya 2005). Rakhimov-father responded with tough actions vis-à-vis Bashkir Capital and, therefore, against his son. In May 2005, the Arbitration Court ordered the shares of Bashneft and Bashkirenergo to be returned to BTK. This was not however fully carried out as the republican authorities recalled their court suit in June. The father-son conflict was quickly resolved as Bashkir Capital received its shares back, while promising to pay the republican budget an additional 13 billion rubles (above the 13.5 rubles it must pay over ten years for the initial transaction). To ensure the financing for this, Ural Rakhimov had to sell part of his stake to Evtushenko's AFK Sistema .

While the internal conflict was resolved, the threat to Bashkir Capital emanating from the

center remained. In 2006, Ural Rakhimov divides his stock package into four equal parts and transfers them, first, into four charity foundations and then into the charter capital of four investment funds named after these charity foundations. As claimed by tax authorities, this deal was done without the payment of profit taxes in the amount of 42 billion rubles. In 2007, the tax inspectors filed four suits against these actions seeking to declare these transfers invalid and claim the shares into the federal budget. The Moscow Arbitration Court supported the claims of the tax authorities and ordered the shares to be collected for the federal budget. However, in January 2008, unexpectedly the Ninth Arbitration Appellate Court cancelled the decision of the Moscow Arbitration court with regard to one of the four court suits, thus leaving the fate of some of Bashkir assets still open. Many analysts interpreted this decision as resulting potentially from Gazprom's interference and indicating Gazprom's interest in acquiring these assets. Later it became clear however that the company that benefited from this legal opening was AFK Sistema which, in March 2009, had acquired the controlling stake in all major Bashkir oil and petrochemical companies that were earlier controlled by Ural Rakhimov ('Bashkirskaia neft... 2009).

Tatarstan's Losses

The main potential loser in Tatarstan as a result of Gazprom's policies was Kazanorgsintez (KOS). This petrochemical company also depends on Gazprom for the supplies of ethane used to produce polyethylene, the main product of Kazanorgsintez. Gazprom (more specifically its subsidiary Orenburggazprom) has a near monopoly over the ethane market in Russia and this was decisive for the final outcome of the clash between the two companies. Until 2007 the two companies operated under a tolling scheme as half of the ethane supplied by

Gazprom was processed by KOS for Gazprom. KOS attempted to break away from this unprofitable scheme but met with a stern resistance on the side of Gazprom that, first, filed a suit against KOS in Russia's Federal Antimonopoly Service (FAS) and then halted ethane supplies entirely, thereby causing major losses for KOS ('Davat' bol'she..' 2009). KOS also filed a suit against Gazprom (or more precisely SIBUR holding, Gazprom's petrochemical branch). Initially FAS ruled in favour of KOS, obligating Gazprom to sign a new contract with KOS. However, later Gazprom was able to overturn this decision. Already, in 2007, the two companies started negotiations about Gazprom buying a blocking stake in KOS and, in spring 2008, Tatarstan's Prime Minister Minnikhanov announced this deal as pending (Ponomarev 2008). The final agreement seems to have been delayed by the economic crisis that brought KOS to the point of bankruptcy. Unprofitable in 2008, KOS defaulted on its considerable debts sending the republican government to plea for federal financial help to the enterprise. The main creditors, such major financial institutions as Sberbank, Vneshtorgbank and other creditors, entered negotiations that, so far, seem to have benefited the republican owners.

In September 2009 with mediation from the federal government, KOS and SIBUR reached an agreement about abolishing the tolling scheme (a cause that KOS was fighting for all along). The details about the price levels charged for ethane supplies were still to be determined ('Davat' bol'she..' 2009). The change of main shareholders of KOS has not been ruled out by these developments but the most recent interference from federal authorities, as a result of which KOS and Gazprom signed a five-year agreement on ethane supplies, was interpreted in the press as benefitting the republican enterprise and as a potential sign that the federal government might have at last decided to end the price dictatorship of the suppliers (Ryazanov 2009).

Tatarstan's close defeat with regard to KOS represents a significant precedent

demonstrating the shakiness of present property rights in the republic and potentially encouraging other big players in the Russian economy to pursue the acquisition of other major republican assets, such as Tatneft'. Among the most important players that might mastermind such plans are Rosneft' and Gazprom. Already there were rumours flowing around that Gazprom's successful entry into Tatarstan will place Nizhnekamskneftekhim in the list of enterprises likely to be integrated into Gazprom structures. At the same time, most Russian analysts agree that Tatarstan is much more likely to maintain its hold over major republican assets – the hunch supported by the recent resolution of the problems facing Kazanorgsintez as well as the seamless transfer of power from Tatarstan's long term influential president Miintimer Shaimiev to the former prime minister Rustem Minnikhanov, closely associated with Shaimiev's family.

Changes in the republic's ownership structure also occurred outside the petrochemical industry. Thus, Tatarstan's aircraft-building plant (KAPO) was integrated into recently created state corporation OAK.¹⁵ During the 1990s, the republican government invested enormous efforts and resources to keep this company afloat and maintain its productive capacities. A great deal of attention was given to promoting the newly designed TU-214 produced in KAPO. This plane however did not find its buyers as most aviation companies and, most importantly Aeroflot, relied on Boeings and Airbuses. The republican authorities lobbied the federal government to support aviation industry. Such support was extended only recently in the context of building state-controlled giants but only at the cost of ownership rights. Given the efforts spent by the republican government on KAPO and the absence of much attention from the center, this recent change of hands could be considered a defeat on the side of the Republic.

¹⁵ Nezavisimaya Gazeta, April 22, 2008

Tatarstan recently also had to give up its control over its independent postal branch ‘Tatarstan pochty.’ In spring 2008 newspapers discussed the imminent decision on the integration of ‘Tatarstan pochty’ with the national postal service ‘Pochta Rossii.’¹⁶

Conclusion

As illustrated in this paper, Putin’s presidency had unleashed a series of changes in the structure of ownership of major economic assets in the three republics under consideration that are likely to have important political ramifications. Does this mean that these ownership changes are politically motivated or are they just an outcome of a normal market-driven process of mergers and acquisitions in which the strongest and most competitive companies take over the weaker ones? Given the nature of Russian politics and Russian capitalism, the answer to this question is likely to go beyond a market-based explanation. It seems more plausible to suggest that such ownership changes were only possible because of the ‘political demand’ from the federal center that initiated a re-centralisation project and, thereby, also opened new economic opportunities for national economic players that seemed to have felt a political backing for their economic ambitions.

All steps of property redistribution discussed in this study have involved close involvement of the republican and federal governments and are therefore better seen as issues driven by inter-state relationships and a balance of powers. Given the stakes involved in this process, the inter-state dimension of evolving property rights regime in Russia warrants much more attention than it has received so far.

¹⁶ Nezavisimaya Gazeta, 18 April 2008

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