

***The Oligarchs are Coming?! Political Implication of Capital Expansion
in the Case of Tatarstan***

Gulnaz Sharafutdinova
Miami University

Introduction

Since the late 1990s the evolution of center-periphery relationships in Russia became complicated by an additional factor that came into play as a result of the growth of capitalism and, more specifically, the territorial expansion of big businesses into the regions. Some of Russia's major financial-industrial groups (FIGs) and the notorious oligarchs started to re-orient their activities towards regions making Russia's hinterland a primary expansion ground for their businesses. The "oligarchs' raid" on the regions involved not only the economic expansion of big businesses but also an active political involvement of the representatives of these FIGs in regional affairs probably best exemplified by Roman Abramovich's bid for Chukotka's governorship.¹ This new trend represented a reversal of earlier tendencies in Russian capitalism and domestic capital movements. It involved big businesses headquartered in Moscow engaging in long-term investment in the regions, acquiring regional enterprises, and getting involved in regional politics.²

The consequences of these new developments are variegated. From the economic standpoint, the re-orientation of big businesses toward the regions is very reassuring. It reflects the growing strength of Russia's national businesses that are now searching for opportunities to grow by investing in the country's economy. It also means that the

¹ Turovskii 2002, Zubarevich 2002.

² Turovskii 2002, Zubarevich 2002, Orttung 2003.

regions can now benefit from new, domestic sources of capital and rely on domestic investors in addition to foreign direct investments.

The political implications of this new trend are potentially even more significant. The broader issue that emerges from these developments is the potential impact of these trends on the evolution of center-periphery relationships in Russia. The entry of new powerful economic actors into the regional scene is capable of disrupting the political-economic networks that have been under construction in some of the regions during the 1990s and undermining the governors' authority to a much greater extent than the administrative reforms initiated by Putin in the sphere of federal relations.³ In this paper I investigate the impact of these new trends on the Republic of Tatarstan – the region that has been characterized by a high degree of autonomy from the center and that has chosen a path of a relative isolation from the Russian economic space, resisting the outsiders and protecting and nurturing the regional enterprises.

This study specifically explores the impact of the outside (domestic) capital on two sectors in the republican economy – the oil and oil-related sectors and the wireless communication sector. It reveals that the government of Tatarstan has so far been able to shelter its key oil and oil-related industries from possible takeovers by outside financial-industrial groups. The government has maintained state control over the strategic sectors of the economy (most notably, the resource-generating oil extraction and petrochemical industry) and pursued various strategies to keep these industries competitive within the

³ Putin's federal reforms that started in 2000 included a number of initiatives. The country was divided into seven federal super-regions (*okrugs*), with presidential envoys appointed to head each of these new structures. The envoys proceeded with several campaigns including a harmonization of regional legislation, an oversight over the operation of the federal state institutions in the regions, and a promotion of the candidates supported by the Kremlin in gubernatorial elections. Additionally, the federal reforms included a reorganization of the Federation Council, and changes in the budgetary relations between the center and the regions.

Russian economic space. On the other hand, the process of capital expansion from the center has affected the rapidly expanding wireless communication sector, in which the dominant Tatarstani operator was not able to maintain its control over the market and forfeited its business to the more powerful company based outside the republic.

The political impact of the entry of new national wireless operators in Tatarstan has so far been negligible. The new economic entrants have not made any attempt to get involved in regional politics. Far more important politically has been the continuation of the governmental control over the oil and oil-related sectors, which represent the cornerstone of the system of political domination constructed in the republic in the 1990s.

This study allows for a preliminary assessment of the various measures available to regional actors confronted with capital expansion trends in Russia. The winning strategy (if relatively long-term) is to promote the competitiveness of regional industries, so that regional companies could compete with similar firms on the Russian scale. This strategy can involve an initial governmental protection of regional firms from outside competition but these firms would ultimately have to strengthen and rely on expansion strategies themselves, if they are to avoid being overtaken by other, more powerful actors. If the regional government has the resources and the will to promote the competitiveness of its firms, then these firms expand themselves avoiding a threat of being overrun by outsiders.

The use of administrative barriers to entry, such as licensing, to shield the regional market from the outside competition, on the other hand, proved to be unsuccessful. Although an entry of new actors could be prevented for some time by withholding licenses that give the right for business operations in the region, such

strategy cannot be continued indefinitely. As time passes, the social and political costs associated with such strategies outweigh the economic benefits conferred to the regional companies advantaged by these policies.

The paper is structured as follows. In the next section I review briefly the logic of capital expansion in Russia and list several explanations behind the process of territorial expansion of big businesses in Russia. I then examine several arguments about the possible impact of these new tendencies in Russian capital movements both on regional politics and center-periphery relationships in Russia. In the section that follows I assess the impact of the process of big business expansion in two of the economic sectors of the Republic of Tatarstan and analyze the strategies pursued by the republican government to shelter its major economic actors from the outside competition. Finally, in the conclusion I focus on the lessons and broader implications of the findings from this case study.

The Logic of Capital Expansion

The 1990s could be viewed as a period of capital accumulation process in Russia that centered undoubtedly in Moscow. Any lay person traveling inside Russia could notice where the money was present and where it was going; as the saying goes: “all the routes lead to Moscow.” As a matter of common knowledge and a point of frequent concerns and criticisms, people noted that over 80% of country’s capital was concentrated in Moscow. Indeed, over the 1990s Moscow experienced a dramatic transformation from a Soviet city to a cosmopolitan mega-polis, a global city that competed with New York, London, Paris and Tokyo not only in terms of the price levels

but also in terms of representing one of the world centers for global business and corporate activities.

Seen as “a state within a state,” Moscow was often said to be experiencing “a feast in times of a plague,” when compared to the rest of the impoverished country. The scale of prosperity and transformation experienced by Moscow represented a sharp contrast to the economic situation in most regions outside Moscow – busy surviving rather than prospering. Many regional leaders complained in the 1990s that Moscow attracted all the financial resources leaving regions to starve for capital. The regional branches of Moscow-based banks were accused of funneling money back to Moscow⁴ and the early regional privatization cases that involved capital from Moscow often represented short-term enrichment schemes rather than cases of long-term productive investment in the regions.⁵

These tendencies started to reverse in the late 1990s giving a way to what became called as the “oligarchs’ raid” on the regions. The analysts of regional politics in Russia have focused on the multiplying cases of the representatives of major financial-industrial groups getting directly involved in the regional elections by either running for governorship or supporting their candidates in gubernatorial campaign. The observers of the Russian economy have discussed the growing number of cases of regional property redistribution with the participation of Moscow-based financial-industrial groups and the strengthening tendency of big businesses to invest in the regions.

⁴ Evgenii Bogachev’s (the president of Tatarstan’s National Bank) comments about Moscow banks in Tatarstan.

⁵ In addition to many other observations, my own research on Nizhnii Novgorod – the leader of privatization in the early 1990s - revealed this pattern.

The explanations advanced for these new developments in Russia's politics and the economy center on three key factors. Some analysts linked these tendencies to Putin's policies of "equi-distancing" (*ravnoudalenie*) that purportedly pushed the now insecure oligarchs to search for new political bases to compensate for the loss of support in the center. The more balanced approach, such as voiced by Turovskii (2002) and Zubarevich (2002), combined the "Putin factor" with the observation that these tendencies follow the logic of capitalist development, according to which the initial stage of the consolidation of financial-industrial groups is followed by their expansion to new markets. Putin's policies additionally encouraged and promoted these tendencies; however, the expansionary nature of capital should also be taken into account.

Finally, the involvement of business groups in regional politics could be also explained by their need to secure favorable licensing, tax, and tariff policies, whose regulation depends, in part, on the regional authorities. Hence, these new strategies on the part of big businesses reflect the important administrative functions played by regional governments that impact the operation of businesses in the region to an extent that the more powerful economic actors might want to control the regional government.

Oligarchs' Expansion: Consequences and Political Implications

Despite the wealth of anecdotal evidence, a systematic analysis of the varying effects of these new developments and their political implications is yet to be done. One obvious observation is that the process of capital expansion brings regional political and economic elites face to face with the new powerful business groups. The confrontation of regional elites with new economic actors from outside could presumably result in

various scenarios. In some regions and some sectors of the economy the regional elites might find the entry of new economic actors and capital into the region desirable and beneficial both for the regional economy as well as for their own political goals. After all, as was noted earlier, these economic entrants are stimulating regional economy by providing for new investments, new jobs and contributing to regional development. What could such developments mean for Russian federalism beside regional economic gains?

Contemplating upon such scenario and placing it in the context of recent Putin's federal reforms, Turovskii (2002, 76-107) noted that Putin's campaign on building an administrative power pyramid (*vertikal' vlasti*) could become more complicated by the newly established links between the governors and the big businesses. He further suggested that the big businesses are constructing their own "business-pyramids" by taking control over some of the regions and these pyramids could prove to be far more solid than Putin's administrative power pyramid.

A different scenario that involves the resistance to the entry of big businesses could be expected, on the other hand, when regional elites are relying on political support of local businesses and cannot withstand the loss of that basis. The entry of powerful economic actors from the outside represents a threat to the local firms that might face a competition they could not win. Under those circumstances, the regional elites that have close links to regional enterprises threatened by Moscow-based competitors might create obstacles to the entry of new economic players.

Another possible development noted by Turovskii is that, with big businesses penetrating the regions, regional politics are going to evolve into a battleground for

different economic interests fighting for influence in the region.⁶ This suggestion implies that regional politics might become more competitive. Interestingly, other studies confirm this expectation. The 1999-2002 period in Russia has been characterized by an increase in the degree of political competition in the regions; it could be argued that the entry of the new actors in regional politics has something to do with it.⁷ Does this mean that the expansion of big businesses to the regions has had a democratizing effect on the Russian hinterland? I would not draw this argument that far. In the context of Russia's crony capitalism, the future of democratization probably hinges more on the achievement of the rule of law and the minimalist definitions of democracy relying on political competition for governmental positions through the electoral institution are not appropriate in such context. Having said that, it is still plausible to expect that the new autonomous economic actors (autonomous as compared to local businesses that are closely tied to the regional government) could introduce a higher degree of political competition in the regions, especially in the cases when they meet strong resistance to their entry into the region.

How did these issues play out in the case of Tatarstan?

Interaction of Politics and Economics in Tatarstan's Transformational Trajectory

The Republic of Tatarstan can be viewed as a crucial case in the exploration of how the new tendency of territorial expansion of Moscow-based corporate capital influences Russia's federal system. The champion of regional autonomy and republican sovereignty during the 1990s, Tatarstan has probably been the strongest advocate of

⁶ Turovskii 2002, p.107.

⁷ Sharafutdinova, "When Do Elites Compete? The Determinants of Political Competition in Russian Regions," *Comparative Politics*, forthcoming; Orttung 2003.

genuine federalism among the Russian regions. As an oil-extracting region, it is also one of the federal units in Russia that was able to rip the most benefit from its relatively high degree of autonomy from the center. Tatarstan is one of the more economically advanced regions in Russia featuring developed petrochemical, automobile, aircraft and other industries in addition to its oil-extracting sector. From an economic standpoint it could be expected therefore that the republic would represent one of the favored grounds for the expansion of Moscow-based big businesses. The political realities in the republic however suggest otherwise.

Over the past fourteen years the Tatarstani elite has been involved in constructing one of the most stable and enduring mono-centric political regimes in Russia. The construction of this regime involved among other things securing its economic basis and maintaining tight links with the major republican enterprises and key economic elites within the republic. In such circumstances, the maintenance of this political regime and the remaining degree of economic and political autonomy of republican elites is dependent on protecting the main economic interests within the republic against the outsiders that might be interested in entering the republican market. An exploration of Tatarstani strategies vis-à-vis the assault from big businesses headquartered in Moscow could give us a sense of available tools remaining in the hands of regional elites confronted with “oligarchs’ raid” on the regions.

Tatarstan’s political centralization has been based upon establishing tight control over the major resource-generating sectors of the republican economy and the major financial flows in the region. By maintaining control over key economic entities, the government was able to devise a distribution system within the republic that allowed for

keeping the major enterprises going, thus avoiding bankruptcy, securing employment and social stability. In the absence of such re-distribution schemes re-channeling resources from more profitable oil-extraction to “value-destroying”⁸ agriculture as well as subsidizing other manufacturing sectors, many of the industries that persevere now would have long collapsed. A slight “slip of the tongue” on the part of the president Shaimiev is very illuminating in this regard. In an interview to *Izvestiia*, commenting on Putin’s federal reforms and, specifically, on his efforts to strengthen the vertical of power, Shaimiev practically confessed that,

Everything that we have achieved in the republic – from implementing our own privatization program and maintaining state control over oil industry to saving the agriculture – was possible only because we had a strong power. I cannot imagine, for example, how it is possible to work if the financial flows are non-transparent. And until recently the federal financial flows were controlled not by the Russian President but by oligarchs.⁹

Shaimiev essentially hinted that control over financial flows underlies all the achievements in Tatarstan.

Political centralization, in turn, became reflected in the economic sphere. While the most important economic assets have been maintained under state control, with state officials serving on the boards of directors and the directors of major enterprises being in practice appointed by the President, the opportunities for private enterprise development were open to the selected few individuals that have close (in this case familial) links to the highest state authorities. In essence, the regional authorities tried to seal the republican economic space from the outsiders. However how long could such strategy continue in the face of the new national-level developments associated with the expansion of big businesses based in Moscow?

⁸ Gaddy and Ikes (1998).

⁹ Akopov (2001, 8).

A review of the major sectors of the Tatarstani economy reveals a varying degree of impact from the Moscow-based competitors and potential buyers of the pieces of the republican pie on the republican economic actors. In the most strategically important sectors of the republican economy – oil-extraction and petrochemical industry – the strategies pursued by the regional elites have worked so far to keep the competitors at bay. The major loss to the outsiders, on the other hand, is in the rapidly growing sector of wireless communication, in which the republican operators were not able to withstand the pressure from the outside.

Oil and Petrochemical Sectors: State-Supported Growth and Expansion

Oil-extraction and petrochemical industry - the major resource-generating sectors in the economy - remained under the control of the government, thus preventing the emergence of independent economic elites that could engage in the competition for political power. The factors that have enabled the republican elites to follow this path were mainly linked to the political opening in the early 1990s. In the context of uncertainty and intense political struggles waged in the federal center, the ethnically-defined republics within the Russian Federation obtained a privileged status in that they were allowed to take control over the economic assets on their territories.¹⁰ First, in their declarations of sovereignty, the republics unilaterally asserted control over their main economic resources (and most importantly, over their natural resources). The Federal Treaty confirmed these assertions and secured those rights.¹¹ Later, the bilateral

¹⁰ Lapidus, G. and Walker, E., 1994.

¹¹ Abdulatipov and Boltenkova 1992.

negotiations between particular republics and Moscow delineated the ownership of the largest economic enterprises located within the republics.¹²

Oil-extraction and petrochemical industry - considered to be priority sectors by the republican government - have been maintained firmly under the republican control during the 1990s. To remain competitive, the government pursued capital consolidation strategies similar to those followed by major financial-industrial groups in Russia. Starting in 2000, Tatneft' - Tatarstan's oil company¹³ – started expanding into other sectors of the republican economy pursuing a strategy of creating a vertically-integrated industrial group combining a chain of linked industries under the central control. This process started with the acquisition of the controlling share of *Nizhnekamskshina* (a large tire-making company) as well as another plant (*Zavod technicheskogo ugleroda*) – a major supplier of the tire-making company. Following these acquisitions Tatneft' transformed into a holding company. Later, in June 2001 the company obtained a blocking stake in Ak Bars bank strengthening its financial sector and, in July 2001, under the government's directive, Tatneft' became a major investor in *Transuglevodorod* (gas transporter). After obtaining control over *Minnibaevskii gazopererabatyvaiushchii zavod* (gas-modifying plant) in 2001, Tatneft' consolidated its gas sector into a separate division within the holding combining its gas company *Tatneftegaz* and the newly obtained *Transuglevodorod* and *Minnibaevskii gazopererabatyvaiushchii zavod* under a centralized management.

Besides Tatneft's acquisitions within the region that brought several of the republican enterprises under Tatneft's wing - thus protecting them from the outsiders -

¹² For example in Sakha republic. See Young (2000, 184).

¹³ Tatneft' is considered to be the sixth largest oil company in Russia.

the republican government has been long concerned about oil-refining. The republic lacks its own oil-refinery and has to resort to exporting oil rather than selling higher value-added derivatives of oil. There is a major petrochemical enterprise – *Nizhnekamskneftekhim* (NN) – which relies on oil supplies from Tatneft¹⁴; however, the company has not been able to acquire control over this large company, which stands on its own feet and has its powerful supporters both in the regional and federal government. Additionally, NN is involved in producing a variety of petrochemical products (rubber, propylene, ethylene, etc.) but not highly profitable oil derivative - gasoline.

The concerns about the lack of an oil-refinery ultimately led to a governmental decision to combine the major economic forces in the republic and start constructing an oil-refinery. The construction of the Nizhnekamsk oil-processing plant (NPZ) that started in 1996 (?) required a large-scale investment that was initially pooled by *Tatneft*, *Nizhnekamskneftekhim* and TAIF. However, the republican resources were apparently insufficient; in 2003 South Korean LG International Company joined the venture,¹⁴ which resulted in the creation of Tatar-Korean Petrochemical Company (TKNK).

Finally, Tatneft¹⁵ recently attempted to invest abroad - in the largest Turkish oil-refinery Tupras. Early in 2004, Tatneft¹⁶ won the approval of the Turkish government to buy the majority stake in this state-owned company. The finalizing of this deal was complicated by a protest against this decision filed with a civil court by the Turkish oil-

¹⁴ RFE/RL, January 16, 2004.

industry trade union.¹⁵ However, after the Turkish Supreme Court upheld the earlier decision in its latest October 22 decision, the problem seems to have been solved.¹⁶

Several observations could be made in regards to the governmental strategies in the oil and petrochemical sectors. The government has strongly supported the growth and consolidation of its major companies in these sectors that pursued the strategies of vertical integration, attraction of foreign capital and investment into new promising economic ventures. No outside financial-industrial groups were allowed to enter into these sectors of the republican economy. In fact, given the strength and competitiveness of these enterprises, no such attempts have been made (at least not publicly known).

However, the most powerful factor that presently keeps the competitors “at bay” is probably the fact these companies are controlled by the government. Private firms could consider the possibility of acquiring these enterprises only if authorized by the Kremlin. As long as Russia’s federal bargain of the early 1990s holds, the key sectors of the economy would remain in the hands of the republican government. Putin’s policies have however introduced a much greater uncertainty in terms of upholding the elements of the federal bargain reached under Yeltsin. In a series of reforms starting in 2000 the position of regional governors has been considerably weakened.¹⁷ Hence, the Tatarstani government has also faced uncertainty in terms of the degree of control it could have within the republic. Based on this observation, some regional observers have noted that the most recent attempts by Tatneft’ to acquire Turkish refineries represents an attempt to

¹⁵ www.privatizationbarometer.net (2004-10-22 Dow Jones Newswires, “DJ Turkey Supreme Court Upholds Tupras Sale.”)

¹⁶ Ibid.

¹⁷ See, for example, Hahn, G. (2003).

channel out the republican resources from the control of the Russian state, away from the vagaries of the Russian government.

The Empire of TAIF and Wireless Communication Sector: “Weapons of the Weak”

While most of the key enterprises in Tatarstan have remained under the governmental control, there was one new “private” business structure that sprang up in the republic during the 1990s - the Tatar-American Investments and Finances (TAIF). If the market reforms in Russia led to the emergence of oligarchs, in Tatarstan, the most visible outcome of capitalist transformation is the TAIF.

A public joint stock company TAIF was created in 1995 on the basis of “Kazan” - a company involved in foreign trade.¹⁸ TAIF’s charter capital included private, state and foreign capital. Over the period of several years TAIF expanded at an unprecedented rate and became a diversified holding structure composed of over 20 subsidiary firms, all tied through the management structure as well as financially, technically and technologically. Investment constitutes one of the most important aspects of TAIF’s activities. The subsidiary TAIF-INVEST was created in 1997 and is oriented to working with big corporate clients as well as with individual portfolios. TAIF owns large shares of major Tatarstan enterprises including Tatneft, Nizhnekamskneftekhim, Kazanorgsintez, and such national entities as Sberbank and Lukoil.¹⁹ TAIF also got involved in the petrochemical industry directly, when it rented oil-processing equipment from Nizhnekamskneftekhim. Furthermore, another branch of TAIF, TAIF-NK, is

¹⁸ “Vnedrenie vysokikh tekhnologii – osnova dinamichnogo razvitiia ekonomiki Tatarstana,” *Vremia i Dengi* (June 28, 2001).

¹⁹ Ibid.

participating in one of the most ambitious republican projects - the construction of a new oil-processing plant in Nizhnekamsk.

Telecommunications is another sector that TAIF has expanded into. In 1998 a joint stock company, TAIF-Telecom, was created and started introducing in Tatarstan the cellular system of GSM-900 standard. Santel (TAIF-Telecom's trademark) reached over 300,000 clients and had been considered to be one of the largest regional cell-phone companies in Russia.²⁰ Furthermore, in 2000 TAIF created a new telecom company IntelSet (Intellectual Nets) that is expected to provide its clients with the most advanced multimedia services, including IP-connection, cable TV, video-conferencing, and fast-speed Internet connection. In 1998, the government almost sold to TAIF its telecommunication company Tatincom-T.²¹ However, the deal was stopped as illegal; it was initiated with no regard for the republican laws on privatizing the state-owned enterprises.²²

TAIF is also heavily involved in construction.²³ Its construction-related subsidiaries include Meta-TAIF (created in 1996 to participate in the republican program on shabby housing liquidation), TAIF-ST (created in 1999 for constructing a cultural-entertainment center "The Pyramid" and other buildings), MT-Servis and TAIF-Art – involved in numerous other projects including the reconstruction of the buildings in the capital's historic center (Ibid). As soon as the buildings are constructed, another subsidiary of TAIF, Intelset, continues the work with establishing telecommunications in

²⁰ In 2003 though under an increasing pressure from national mobile phone operators, TAIF sold Santel to MTS (*Mobil'nye telefonnye sistemy*).

²¹ Taran 1998.

²² Ibid.

²³ Filippova 2002.

these buildings (ibid), thus revealing once again the monopolized nature of the economic activities in the republic.

In the words of Albert Shigabutdinov, the director general of the company, TAIF is involved in just about everything. They provide security services, insurance, trade, air transportation, and consulting services on customs issues. It appears that TAIF represent a web-like business structure that is expanding in every profitable sector of the economy. As stated by Albert Shigabutdinov, “we find open niches in the service industry and create firms that fill those niches.”²⁴ In its expansive potential TAIF has no rivals in Tatarstan. With an annual capital turnover of over 1 billion dollars, it is comparable to some of the largest Russian enterprises; yet it is not a very well-known company.²⁵ Its expansion was so rapid and overwhelming and hidden from many eyes that even the people living in the republic are not aware of the extensiveness of its reach. What allowed this company to expand so much?

The answer is rather simple: connections. One of the sons of the President of Tatarstan is among the owners of this company; in 1998 for example Radik Shaimiev served as the chief of the board of directors. The company had a privileged access to oil exports as well as considerable tax breaks including profit taxes and the republican portion of VAT.²⁶

Despite its secure position and a very consistent growth path, TAIF had recently experienced a major loss in its business ventures. Specifically, faced with the entry of outside economic actors and a subsequent increasing competition, it had to concede one

²⁴ Vnedrenie vysokikh tekhnologii – osnova dinamichnogo razvitiia ekonomiki Tatarstana,” *Vremia i Dengi* June 28, 2001.

²⁵ Postnova 1999.

²⁶ Mukhamadiev 2001, 2.

of its most profitable divisions to a nationally-based company that was seeking an entry into the republican market.

As mentioned earlier, starting in 1998 TAIF had expanded into the telecommunication sector and gradually came to dominate the wireless communication sector in the republic through its subsidiary TAIF-Telecom (also known under the trademark of “Santel”). TAIF-Telecom was the sixth largest Russian mobile phone operator having more than 300,000 subscribers. However, such growth was enabled by governmental actions aimed at maintaining TAIF’s monopoly over the republican market. In 1998, the republican State committee of communications (*Goskomsviazi*) was sued for illegal demands in regards to licensing of telecommunication companies (some of which were denied licenses in favor of TAIF).²⁷ The republican market was kept sealed off from the outsiders for another four years, until 2002 when TAIF-Telecom had to face the new powerful entrants: Vimpelkom, MegaFon and SMARTS.²⁸

Considering Tatarstan their own market, TAIF-Telecom attempted rather anachronistic strategies in their struggle against these “vikings” in the republican market. The company decided to simply block communication between its own clients and the clients using the services from the competitor firms. Such measures could not hold for too long as they directly hurt the interests of the clients and evoked sharp criticism from the public. The issue of “civilized” co-existence between competing mobile phone operators was brought into the agenda of the Cabinet of Ministers of Tatarstan, where the representatives of the Ministry of Communications gave a detailed review of the

²⁷ “Goskomsviazi ulichen v narushenii zakona,” *Vecherniaia Kazan* May 6, 1998.

²⁸ <http://www.ifs.ru/body/memo/2003/Apr/e070403.htm> (*Market News*, Weekly report, Institute for Financial Studies, Moscow, Russia)

bureaucratic procedures that purportedly were not under the republican control and yet necessary to be implemented in order to resolve these issues.²⁹

The measures pursued by TAIF-Telecom resorting to heavy-handed republican support and a use of administrative resources to keep their advantages in the republican market simply revealed TAIF's weakness vis-à-vis the new companies on the market that could offer more competitive prices and better services. Ultimately, faced with such competition and a declining market share, in 2003 TAIF-Telecom's shareholders agreed to sell the company to MTS, another nationally-based company that was aggressively seeking an entry into the republican cellular market. The administrative resources employed by the government on behalf of this republican company ultimately failed.

The economic consequences of this failure for TAIF were substantial. The sale of TAIF-Telecom to MTS meant that the company has lost control over a very profitable and rapidly expanding sector of the economy that has a great potential for growth. However, as described earlier, TAIF is a business *empire* that is involved in very diverse business activities within the republic; it also enjoys rather cozy relationships with the government. Therefore, this loss was not detrimental for the company. The public has benefited, on the other hand. As the economists would predict, the competition that emerged in the market of wireless communication drew the prices down and enhanced the quality of the services provided.

In terms of political consequences, the entry of these new actors in the republican market has not affected the political regime and has not introduced any degree of political

²⁹ <http://mts.ivgsm.ru/news/20030220103121.html>

competition. The new economic actors in this particular case have not attempted to get involved in politics and limited their activities to the economic sphere.

Conclusion

What lessons could be drawn from this case study in terms of the potential impact of capital expansion on Russia's federal system and in terms of the strategies that could be used by regional governments were they to resist the entry of outside economic actors in their economic and political space?

The case of Tatarstan might be viewed as an outlier in many respects as it seems to go against some of the expectations associated with the impact of capital expansion on regional politics. This study reveals, on the one hand, that territorial expansion of national capital does not necessarily lead to increased political competitiveness in the regions. The new economic actors might be interested in cooperating with regional governments or staying out of politics when faced with strong political regimes. In addition, certain conclusions could be made in terms of the assessment of the strategies available to regional elites interested in preserving the linkages between the political and economic elites in the regions and avoiding the entry of new actors on the regional scene.

The case of Tatarstan demonstrates that under certain circumstances the regional governments can engage in long-term developmental strategies that would result in protecting the regional enterprises from the outside competitors by consolidating the economic resources within the region and encouraging an expansion of regional firms. This is a winning strategy in that it has a deterring effect on the outsiders and makes it

hard to conceive of possible takeovers of such enterprises. Of course, governmental control over businesses plays a crucial role in such deterrence. However, without pro-growth, developmental strategies these companies would not have persisted even if state-owned.

This case study also demonstrates that strategies associated with the use of administrative resources and barriers to keep the competitors away from the regional market do not work in the long run. The use of administrative resources such as licensing could be viewed as the “weapons of the weak;” they cannot persist in the long term as their political and social costs ultimately outweigh their benefits to a particular firm or a sector.

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