International Business and Putin's Russia.


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It was a bitter cold January 2009. The people of Romania and the Balkans were especially badly affected by the chilly winds coming from the northeast. But the chill was not only to be blamed on the cold weather — this time the supply of gas in people’s homes and workplaces was caused by the indefinite severing of gas by the domestic energy companies. Unlike past incidents of this nature, where interruption may have been caused by breakdowns in the ageing, Soviet-era infrastructure, there was something more ‘global’ to this latest problem. Not a sign of the post-credit crunch crisis of domestic energy suppliers failing to pay wholesalers, but a crisis that exposed the vulnerability of countries relying on Russian gas supplies. While Romania and the Balkans were especially vulnerable because of their low reserves, Russia’s standoff with Ukraine over the transfer of its gas, and the eventual cutting off of supplies, was a clear message to the rest of Europe.

This is the kind of story that captured the imagination of journalists and commentators — Here was Russia flexing its muscles on the international arena using its natural resources, gas and oil, as strategic weapons. The stoking of stereotypes was decisive in painting an unmistakable picture of villains and victims in this drama, helping the public see the moral superiority of the West and the reasons for why sometimes the Western governments go to wars. But the real story was at once more complex and more simple: Ukraine was accused, and was most likely guilty, of syphoning gas for domestic consumption, while continuing to buy Russian gas at subsidised prices. Far from being an international bully, Russia’s state-controlled Gazprom was trying to keep to long-term delivery contracts with European customers. And, it was the leading European energy companies, Germany’s E.On and Italy’s Enel, with stakes in Gazprom and some of Russia’s key gas production and transit assets, that were the more vocal proponents (with Gazprom) that Ukraine’s price for gas should fall in line with world prices. The message wasn’t lost on major Atlantic political strategists — if Russia was not left to its political sphere of influence, Western companies may not reap the economic benefits they were reaping in the last decade.

This is the kind of analysis Pirani’s superb book offers scholars of international business: a behind the headlines look at Russian political economy that focuses on the social and political forces shaping Russian institutions and capitalism, and shaping its integration into the world market. Pirani looks at the decade under Vladimir Putin, and the focus is on the intersection of three elements: Power, Money and People. Written in an accessible style, Pirani manages to purvey a narrative that combines an attentive drawing together of historical detail and analytical reasoning with an astute, time-honed journalistic knack for linking events, places and people.

International business scholars will find the first six chapters of the book especially valuable. The first of these starts from a story that precedes the period apparently associated with the title of the book — the end of the Soviet system, the passing of control from Gorbachev to Yeltsin, and the political-economic and institutional reforms associated with a transition to capitalism. We learn how problems associated with the contradictions of the Soviet system of production mobilised ideas and sentiments among the elite about the way forward, and how these were shaped to a considerable degree by the ascendant neoliberalism of Western Europe and the US. While the reasons for the dissolution of the Soviet system and embrace of
capitalism lay with the Soviet elite itself, the international financial institutions, Western policy advisers and quasi-public bodies, and private companies lined up behind Yeltsin's new government to offer expertise in financial policy, institutional design and market know-how that would make Russia's vast industry and its people (i.e., consumers) readily available to Western investors. With the Rouble artificially inflated, imports of Western goods flooded into Russia, while the Monetarist policies meant the Russian industry was starved of investment funds necessary to realise the early dreams of the market solving the Soviet problem of low productivity and technological lag.

There were plenty of opportunities in the 1990s for Western companies to benefit from Russian reforms, though these were limited to speculation and imports, a topic covered in great detail in chapter two. The more lucrative parts of the Russian economy lied well beyond the reach of Western investors. The new Russian elite, realising that the value of their personal wealth, though already beyond anything imaginable only five years earlier, was minuscule comparing to the sums commanded by multinationals which were poised to win in any independent privatisation auction for the country's most prized assets (i.e., oil, gas, metallurgy, precious metals, and petrochemistry). As luck would have it, Yeltsin's popularity was catastrophically low, the government was bankrupt, and the people were becoming disillusioned with transition. The new elite gave him an offer he could not refuse: financial support in return for prized assets at knock down prices in rigged auctions. The oligarchs were created overnight, and Western investors and the media cried foul. All this was no guarantee against crises: sticking with Washington's advice of Monetarism and continuing borrowing and issuing bonds that greatly benefited Wall Street and the major banks, the Kremlin was in no position to repay, eventually facing the crisis in 1998, and seeing the ascendance of the group within the elite hellbent on preventing a similar fiasco in the future.

Putin, though Yeltsin's chosen successor, brought a gear change in Russia's exposure to international business and the country's integration into world capitalism. Chapters 3 to 6 detail how Putin and his close allies presided over an oil bonanza. There was the initial strengthening of the state apparatus by subordinating all branches of government to the executive (usually by employing Putin loyalists from the former KGB or the military). There was also a clear demarcation of control between the state and capital: the oligarchs were reigned in and told to become as rich as they wished, but to abandon any political ambitions. Anyone who disobeyed found themselves in hot waters a la Khodorkovsky's imprisonment. And while Western media presented such moves as a battle between the defenders of democracy and the authoritarian state, stoking fears of a return to Soviet times, in truth the Kremlin's appropriation of majority share-ownership in oil and gas was in line with international experience during the boom years. Whatever the tactics of the Kremlin, the reality is that under Putin there was a massive influx of foreign investors into Russia, and primarily into the very oil and gas sectors in which the state strengthened its ownership. This was followed by another wave of privatisations, the likes of which Yeltsin era neoliberal reformers could only dream of. It, together with the favourable currency regime, enticed many European and American companies to set up manufacturing, service, consumer finance and construction businesses in Russia. Simultaneously, there was a steady increase in share ownership by Russian companies in Western economies, and the floating of Russian companies on the London, New York and Frankfurt stock exchanges. While some Russian money flew abroad, this was more than offset by the colossal capital inflow into Russia.

Western capital benefited greatly during this decade from the political stability provided by Putin's government. While some of this was created by the steady increase in the people's standard of living fuelled by rising oil prices, it was also maintained by the suppression of political dissent, state control of the media, and the exertion of various forms of harassment, marginalization and impoverishment of vast parts of the population. This is the story told in the remaining chapters of the book. While not central to international business considerations, scholars are advised to pay heed to Pirani's well considered analysis of these
problems as directly or indirectly attributable to the benefits accrued to the multinationals in Russia during the last decade. The paradox is, these developments threaten the longer-term political stability of the country that multinationals so badly crave. The great wealth and the opportunities for business are overshadowed by the haemorrhaging demographic and social crises. The combination of these with people’s sense of frustration and anger recently brought millions in protest to the streets of Russia’s major cities. The sad fact facing Russian politics and multinationals that want to continue doing business in the country is that there is today a diminishing number of political options for the political elite to exercise, making Putin’s close circle ever more fearful and unpredictable. The complacency of Western multinationals in Putin’s Russia has been as blameworthy as the regime itself in making present-day popular anger and the politics of protest a reality. The ethical choice facing multinationals today is whether to support the Russian people in their own efforts to build more just institutions and more democratic forms of governance, or to chase the chimera of stability under Putin. Pirani’s excellent primer on business, politics and society in Russia invites us to consider these options with a sober view of the problems of the uneven and combined globalisation of capitalism today.

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