

Abstract

‘Two of the favourite and overused quotations of Russians are: what is to be done and who is to blame? But when nobody is to blame, what is to be done?’

Sergei Kiriyenko, Ekho Moskvyy radio, 25 August 1998.

How should we interpret Russia’s ‘Autumn Meltdown’?¹ As a condition derived from particular economic and political dynamics which fused together in August 1998? Or can we rather argue that the events of the late 1990s represent a logical further step on the underlying road to a soft, controlled disintegration of the Russian Federation?

In the late 1990s the Russian Federation appears to be beset by a series of political and economic crises. That Russia is in flux is undisputed, but the direction and shape of that transition is highly contested. With Chechnya’s self-proclaimed independence, Dagestan sliding into ethnic warfare, Krasnoyarsk *kray* attributed with separatist tendencies under Lebed’s new governorship and a series of highly publicised authoritarian acts by other recently elected regional governors, Federal cohesion appears weak. But although regionalist autonomy is a key characteristic of Federation politics in the late 1990s, will this ultimately transform the Russian Federation into a Confederation? Will it lead to the creation of a CIS within the Russian Federation?

The decentralisation of power in the Russian Federation as a precursor to *de facto* federal disintegration is not a concept that most analysts would contemplate. It appears highly unlikely - as unlikely, indeed, as the break-up of the Soviet Union did in 1990. For this reason, if no other, it deserves analysis. However, how does such a contention sit beside arguments that enduring and viable elements of Russian political culture unite the state, and evidence that the Federation is in fact undergoing a quiet re-centralisation? Are disintegrationist tendencies exhausted and is the centre in the process of a long claw back of power into federal structures?

Most analysts at least agree that the centre itself is in a transition, dominated by the office and particular personality of the president. Extreme presidentialism, the haphazard effectiveness of Federal structures and the rise of Financial Industrial Groups (FIGs) with economic and political interests in the regions are all posited as characteristics of the contemporary political and economic landscape.

These two opposing views raise the underlying question: how stable is Russia? This paper will attempt to answer these inter-related questions by firstly characterizing the nature of the immediate political and economic crisis in Russia, and then analysing the systemic nature of the crisis, by focussing on the rise of ‘oligarchic capitalism’ and the decay of federalism. The likely consequences of the crisis - ranging across the spectrum from disintegration to re-centralisation - are then evaluated.

Introduction: August Meltdown

The clash of sectoral interests within a secretive elite, a president raging against the dying of the light, omnipresent oligarchs as omnipotent puppet masters have all conspired to place the *Donner und Blitzen* of a Wagnerian opera in the shade. Even the normally dour chairman of the Communist Party of the Russian Federation, as an inspired under-study, predicts 'complete chaos and collapse'. The political and economic collapse of August 1998 appears to have fundamentally rearranged the political landscape within the Federation. Where once analysts interpreted political evolution in terms of market-democratic transition, now disintegration, stagnation and recession appear more apt. How can we characterise the main features of the contemporary political environment on the eve of the Autumn meltdown?

Throughout the post Soviet period Yeltsin has assiduously developed a 'vertical hierarchy of power' in which the President and Presidential Administration had virtually a complete monopoly of formal political power and patronage. Yeltsin captured the political high ground following the defeat of the Duma in October 1993. By December 1993 a post-Soviet constitution, crafted by the presidential administration, allowed Yeltsin to defend his political monopoly of power with the rhetoric of democratic legitimacy.

In lieu of an emergent political culture in which rationality, democratic tradition, rules and regulations were central to the workings of the political system, Yeltsin derived informal power and influence through his ability to act as an arbiter between sectoral interests and elite coalitions or clans. However, although absolute within Moscow, Yeltsin's effective mandate extends only as far as the Moscow Ring Road, if not the Garden Ring. Beyond Moscow, Yeltsin is more reliant on informal dependency networks to exercise influence in Russia's regions.

In 1998 it appeared likely that current trends would continue: the presidential 'family' (or 'politburo') administration would increase in power, with real strategic decision-making controlled by several informal shadow groupings within the presidential structures. The membership of these organisations is in constant flux – making for a 'circulation of power' and accounting for the ease with which sensitive political information is so readily disseminated. Oligarchic co-option or outright corruption of the presidential decision-making elite, which had been promoted by political expediency in 1996, looked set to be institutionalized by personal accommodation.

It was even possible that Yeltsin would stand for a 'second' term in the 2000 presidential elections. According to the constitution of the Russian Federation, a president can only stand for two terms of office. The Constitutional Court – whose membership is decided by the president – is due to review Yeltsin's eligibility in mid-October 1998. Yeltsin argues that his 'first' term of office began in 1991 under a Soviet era constitution, rather than that of the Russian Federation (December 1993), and thus he is eligible to contest the 2000 elections. Recent hints that he will not stand are written off by his political opponents as the first shots in his re-election campaign.

The *Duma* emerged into 1998 as emasculated, weak and unable to pose a serious opposition to presidential structures. It is fragmented and disorganised - Yeltsin's deft handling of the Kiriyenko confirmation in May 1998 further underscored the

inability of political parties to act from either principles or ideology. CPRF threats of impeachment in March and June 1998 merely highlighted the near impossibility of such an action being successful. Moreover, as one astute analyst has noted: *‘the constitution is extremely difficult to amend. Amendments to its main articles require the convocation of a special constitutional assembly, but since there is no appropriate law on how to do this, such an assembly stands little chance of ever being called. Amendments to other articles require a two-thirds majority in the lower chamber of the parliament (the State Duma), a three-quarters majority in the upper chamber (the Federation Council), and a two-thirds majority in the regional assemblies of the Federation. This complicated amendment process assures a rigid political structure that both supports the personal rule of the president and creates a real potential for political action.’*²

To a large extent the *Duma* is cynically perceived as an institution which is keen to self-reproduce. The *Duma* deputies form an elite that wants to guard its benefits and privileges and so is inclined to support the status quo. This encourages the growth of a political elite - the so-called ‘people of power’ - that circulates power within this privileged political caste. This power elite is closed to society, and it is shifting clan or factional interests within the power elite which generates the central political dynamic, rather than pressures from society. The power elite is therefore structured to maintain stability; inbuilt accommodationist tendencies largely prevail amongst the main parties. Thus, for example, the official opposition – the CPRF with 20% of the electorate – voted to approve the 1997 budget in December 1996, and put the 1998 budget to a free vote in December 1997. It has not acted as an ‘official opposition’ in any way comparable with western parliamentary practice. Such behaviour encourages either political apathy in the populace or the growth of ‘anti-system’ parties and movements that can achieve power only through anti-democratic means.³

The government before March 23 1998 did have some power to influence the president. Strong ministers heading power ministries, such as Anatoly Kulikov in the Ministry of Interior (appointed February 1997), the Foreign Intelligence Service headed by Viatcheslav Trubnikov, and Yevgeny Primakov in the Foreign Ministry – not to mention Chubais or Chernomyrdin - could ameliorate presidential action and did influence presidential policy-making as they reported directly to Yeltsin. Moreover, they could also exert greater influence and control over regional governors and bureaucrats.

There is a link between the type of (concentration of power) regime that is emerging under Yeltsin and the development of disintegrationist tendencies. In August 1998, the *Duma* made this link explicit when it demanded President Yeltsin’s resignation because his rule threatened Russia’s ‘national security, territorial integrity, and independence.’⁴ Yeltsin has developed a very strong presidential structure in Moscow, at the expense of the government. By weakening the government he dominates the Russian political scene. But, as a consequence the Kiriyenko government lacked strong personalities. It was founded on a weakly structured social base and enjoyed limited political support. Power ministries were not led by politicians who had the force of personality to enforce federal law in recalcitrant provinces. The regional *nomenklatura* found it psychologically difficult to be ruled by this new government, so dominated by a president who has the Prime Minister in his pocket.

The financial crisis of August 1998, with the suspension of market trading and then rouble devaluation, has political and social implications for the Yeltsin presidency and governance within Russia. This crisis has precipitated a dramatic change in the perceived balance of power between the executive and legislative authorities. The authority of the new government has itself been 'devalued'; it will suffer a loss of self-confidence and the crisis will generate political opposition to its programme. In order to broaden the appeal and support for unpopular stabilization policies (and share the burden of responsibility for the social fallout between different factions within the political elite), the creation of a coalition government appeared likely - the appointment of the CPRF deputy Yuriy Maslyukov in late July 1998 to the post of Trade and Industry Minister represented the start of this trend.

Indeed, on 23 August 1998 Yeltsin re-appointed Viktor Chernomyrdin Prime Minister, five months after he had lost the post because of failures of his government over the previous five years. In lieu of an adequate explanation from Yeltsin for his actions (the ostensible reason given was that a seasoned 'heavyweight' could better 'guarantee stability' in a crisis), intense speculation greeted this tactical change. It was supposed that Yeltsin was looking to the future and putting a politician in place to become acting president should Yeltsin falter or be forced from office before 2000. Such a successor, so closely associated with the defence of the White House in 1991 and the 3-4 October 1993 'Events' could guarantee Yeltsin immunity, that he and his family would not be held personally accountable for failures of his regime. Thus, Yeltsin was motivated by survival instincts, rather than the desire to respond to the crisis *per se*.

Alternatively, the dismissal of the Kiriyenko government could be viewed more as a palace or 'constitutional' coup, rather than as a reasoned action and thought-through response by the president to a crisis. Regional leaders and FIGs, who after five months of intense pressure from government reformers, were set to receive less federal funding and more taxation, pressurized Yeltsin into re-appointing the conservative non-ideological *apparatchik* Chernomyrdin, or face an unprecedented withdrawal of support from within the political and oligarchical elite. This political consensus-builder, a former 'Red Director', would be more inclined to protect their sectoral interests. These elite interests are best protected in the short term by a Prime Minister prepared to shield the power and economic elite from the harshest implementation of necessary stabilization or anti-crisis policies. As Berezovsky stated: 'Russia's top financiers will undoubtedly support this appointment.'⁵

Moreover, Chernomyrdin would be tempted by the prospect of a smooth succession of power should Yeltsin's health fail, or the possibility of accumulating power (control of key army and Interior Ministry units round Moscow) in order to 'persuade' Yeltsin, a lame-duck president, that it was in his own interests to quietly resign. If this alternative explanation is true, then Yeltsin's power to control the new government and its composition would have been eroded and significantly weakened and the prospects of him remaining president considerably shortened.

Thus, to describe Yeltsin's apparent indication that he will not stand for president in 2000 as the 'best news' for Russia appears premature.⁶ It is worth keeping in mind two factors. Firstly, Yeltsin still retains the constitutional right (Clause 'c' of Article 83 and part 2 of Article 117 of the Russian Constitution) to dissolve the government for a third time, even if he now appears to lack the political will and presidential authority to do so. Even without sacking him, Yeltsin could still control the Prime

Minister through recourse to his divide and rule tactics. Thus although he appointed one person, he could publicly back another's ambitions to become president, so checking the Prime Minister's authority.

The *Duma* reacted to the crisis by attempting to seize political advantage. Differing factions indulged in backstage bargaining and negotiations with Chernomyrdin, attempting to place conditions on their entry into government. The main factions within the Left Patriotic Alliance Left (CPRF, Agrarians, Power to the People! group) stated that they would not support Chernomyrdin's nomination (under Article 111 of the Constitution) if Yeltsin remained president. They further demanded constitutional reform, a power sharing formula which would weaken the power of the president and increasing the power and prerogatives of the *Duma*. This included the right (enshrined in law) of the Prime Minister to appoint ministers, and the *Duma* to confirm their appointment. Zhirinovskiy promised LDPR support if they were included in government 'so that people can see that we can govern.' In the intense atmosphere, it was briefly rumoured that Boris Berezovsky, whose mouthpiece *Nezavisimaya Gazeta* had supported Chernomyrdin's return to government, might be appointed Deputy Prime Minister.

In a tense political atmosphere, Chernomyrdin was replaced as a presidential nomination for prime minister after receiving two overwhelming no votes from the *Duma*. Yevgeniy Primakov was then proposed and accepted. His election is likely to see the creation of a coalition, which will be plagued by the same problems.

Moreover, given that real decision-making takes place in shadow structures within the presidential administration rather than government ministries, it remains to be seen how important control over all but the Defence, Foreign, Security and Interior ministries will be - particularly given Yeltsin's habit of by-passing the prime minister and working directly through deputy prime ministers and ministers.⁷ The power of the presidential administration was underlined with rumours that Yuriy Yarov (first deputy head of the presidential administration) and Yevgeniy Savostyanov (deputy head of the administration) were conducting paratroop exercises in Moscow region, whilst similar exercises were being held by Internal Troops and special forces.⁸ The heads of the Federal Security Service, Foreign Intelligence Service and the Federal Bodyguard Service are all appointed by presidential decrees; they do not belong to the cabinet and under current legislation their appointments do not require consultations with the *Duma*.

Secondly, Yeltsin is always most effective when he appears weakest. He remains the most tactically astute politician within the Federation and his options are not as narrow as they appear. Yeltsin needs a candidate prepared to accept responsibility for the financial collapse, and Primakov has accepted that responsibility and the risk of being discredited and fired. Indeed, with a 5% of GDP budget deficit, few Russian goods able (outside the energy sector) to exploit the 'export corridor' resulting from the recent devaluation, a wage arrears crisis putting pressure on the government to print money and so risk inflation in two or three months time - thus decreasing output and increasing the likelihood of bankruptcies - Primakov has been handed a poisoned chalice. As Chernomyrdin commented: 'I'd like to see the fool who would call this a good launching pad for the presidential elections.'⁹ It may be that after another five months of intense political infighting Yeltsin emerges stronger, able to fire Primakov and appoint a Chubais or Luzhkov as Prime Minister.

Furthermore, a coalition cabinet weakens potential presidential challengers from within parties - it will exacerbate tensions between parties forced to co-exist in government and split moderates and orthodox factions within parties. This was particularly true of the CPRF, where the 'Leninist Left' led by Viktor Ilyukhin (chairman of the *Duma* security committee) has placed Zyuganov under intense pressure not to support the Chernomyrdin nomination. The net result would be the erosion of the power of party leaders, and spreading the burden of blame from presidential to governmental shoulders for the expected banking collapse and biting inflation in two or three months time. It would discredit the *Duma* further in the eyes of the people and highlight the presence of an enclosed power elite in Russia, cut off from society and only interested in maintaining their privileges rather than ideological programmes or principles.

The financial and political crisis concentrated attention on events in Moscow, particularly in the immediate months prior to the August Meltdown. There are two scenarios that could now unfold and will be critical to the stability of the Federation and the type of regime and modernization paradigm that Russia adopts into the 21st century. It is possible that the events of August only represent the first steps of economic collapse. Price rises may lead to hyperinflation and the banking system may not be saved from bankruptcy. Total economic collapse would have a profound impact on social order and the will of the political elite to govern. This gives rise to the second scenario. Constitutional change would be presented as a panacea to the contemporary malaise by the elite, but would prove a stumbling block to reconstruction, not a building block. Were constitutional change adopted, with a shift from presidential to parliamentary power, the regions will demand greater devolution of power to the periphery. This realignment of power could result in the realization of a confederation; the constitutional recognition of current realities. Thus, an examination of the economic and political crisis is needed in order to assess the likelihood of further systemic disintegration.

The Business of Politics is Business?

In a move which caught the political elite in Moscow unaware, on 23 March 1998 Boris Yeltsin dismissed his government for its failure to push forward economic reform. Boris Berezovsky, a leading Russian financier, flew into Moscow on 22 March and gave a televised interview in which he assessed the electability of potential candidates for the 2000 presidential election. He surmised that current politicians were either personally incapable, or effective but unelectable and that: 'the authorities have immense opportunities to bring forward new people' to ensure 'a succession of power'.

In August 1998, just before the Kiriienko government collapsed, it attempted to push through tough new taxation measures aimed at collecting taxes or taking control of the large private monopolies and to bankrupt banks which had declared themselves technically bankrupt. Again Berezovsky was alleged to have brought pressure to bear on the President and on August 23, after only five months in office, Kiriienko's government fell.¹⁰ Both the timing and effectiveness of this intervention has thrown into sharp relief the link between FIGs and political power, raising the pertinent question: 'Who runs the Russian Federation?'

I. The Rise of the FIGs, 1991-1996

On November 1 1996 the question did receive an answer: oligarchic and *nomenklatura*-bureaucratic capitalism. In a *Financial Times* interview, Boris Berezovsky, deputy secretary of the influential Russian Security Council, boasted that seven Russian financiers now controlled 50% of Russian natural resources.¹¹ This 'Group of Seven' or 'Big Seven' (*semibankirshchina*) consisted of Vladimir Gusinsky's Most Group (Media Most, Most Investment, Most Development), Bank Menatep's Mikhail Khodorkovsky, Mikhail Fridman and Pytor Aven (former Russian Minister of Foreign Economic Relations) of Alfa Group, Alexander Smolensky of SBS-Agro Bank, Vladimir Vinogradov's Inkombank, Boris Berezovsky's LogoVAZ and Oneximbank's Vladimir Potanin.

From this admission, a series of related questions can be asked. How were oligarchic Financial-Industrial Groups (FIGS) created? What are their defining characteristics? To what extent do they influence government policy-making in the economic sector and what are the implications for our understanding of post-Soviet governance within the Russian Federation?

Although these dominant financial groupings share several fundamental characteristics, the most apparent is their strongly entrenched economic power base.¹² FIGs have also secured a dominant control of Russia's print and broadcast media, providing them with 'information power'. Their political influence is extended through both government service and contacts at the highest levels within the government and power structures, illustrated by their ability to conclude strategic partnerships with global multinational companies. The final key characteristic lies in the nature of their relationship to regional governors within the Russian Federation and influence over policy-making related to the strategic development of economic assets within former Soviet space.

Boris Berezovsky, for example, trained as a mathematician, but entered the business community as a financial agent through his contacts with Vladimir Kadannikov, chairman of AvtoVaz, who appointed him director-general of LogoVaz in 1989. Between 1989 and 1992 Berezovsky moved into finance and export opportunities. By 1994 LogoVaz had accrued huge debts, but through mobilising contacts in Moscow, Berezovsky avoided bankruptcy. As a financial agent for the Soviet elite, Berezovsky received government funds from the elite to invest.¹³ How, though, did Berezovsky proceed from car-salesman to super-capitalist, with half of Russia's natural resources at his feet? The answer lies in Berezovsky's ability to harness his role as financial agent to the business community with Yeltsin's precarious political position in early 1996.

In late 1995, the Communist Party of the Russian Federation had romped home in the parliamentary elections as the largest party. In January 1996 opinion polls placed Yeltsin's popularity at 6%, rendering him weakest of the candidates for the June 1996 presidential elections. His inner circle of advisors had suffered a loss of faith in their ability to engineer Yeltsin's re-election: the Chechen war was deeply unpopular with the electorate and dominated the political agenda; the social and psychological cost of reforms was mounting; and communist parties had swept to power in almost all second round elections throughout Eastern Europe.

Despite this gloomy backdrop, Berezovsky successfully galvanised the election campaign in early 1996 by opening negotiations with key bankers (the 'Group of

Seven') and persuading them to finance the election campaign in return for holding shares and management positions as collateral in key state industries still to be privatised. The implications of this support were profound. As one analyst noted: *'The loans-for-shares' scheme thus translated into a 'loyalty-for-shares' scheme (those closest to the government were duly rewarded for their partisanship) and a 'loans-for-patronage' scheme (in exchange for bank loans, the government offered not merely blocks of industrial shares, but also tax and customs breaks and other privileges).*¹⁴

The 'Group of Seven' met weekly to co-ordinate the re-election strategy, utilising their control of print and broadcast media, as well as ready supplies of cash, to this end. As Berezovsky commented at the time: 'The Communists expected to see weak willed democrats, whom they hoped to defeat hands down - only to be confronted with capitalism's bared fangs.'¹⁵ Essentially, just as Berlusconi had in the Italian elections of 1994, the 'Group of Seven' was able to run an American-style campaign in Russia without any of the checks and balances that are usually associated with the democratic political process. Presidential gratitude ensured political promotion, with Berezovsky appointed to deputy secretary of the influential Security Council by Presidential edict in October 1996. He focussed on implementing the peace settlement in Chechnya, and was considered to be the architect of the Chernomyrdin-Mashkadov agreement signed in Moscow in November 1996. (He was dismissed from his post on 5 November 1997.)

From within government Berezovsky began to exploit the newly acquired dominance of FIGs secured through the loans-for-shares scheme. He was also able quietly to recruit key personnel from within the former KGB's 6th Directorate, the economic counter-intelligence structure, to this end.¹⁶ In the Soviet period it fulfilled two functions: it possessed accurate information on the economy of the Soviet oil and gas industry (the key to maintaining the Soviet Union's hard currency reserves), and controlled the shadow economy (especially prevalent in the Caucasus, Central Asia and Ukraine). This role provided it with excellent contacts within the old Soviet oil and gas energy *nomenklatura* and it could be utilised to influence privatisation projects within the emergent post-Soviet energy sector. As a result, Berezovsky's business empire has allied itself with the oil and gas monopolies Gazprom and Lukoil, and a number of high profile energy sector companies.

II. FIG Consolidation and Second Phase Privatisation, 1996-1998

Through late 1996 and into 1997 companies whose shares had been offered as collateral against loans to the government were privatised, and on every occasion the banks holding their shares as collateral were winners in the supposedly open auctions.¹⁷ Berezovsky made the early running. Starting in December 1996, 33% of Yukos (Russia's second largest oil holding company, operating in Tomsk), was sold to Bank Menatep for \$160 million (with \$200 million in required investments). Bank Menatep was not directly controlled by Berezovsky, but acted in tactical alliance with his empire. A Berezovsky-controlled company, Neftyanaya Finansovaya Kompaniya, bought a 51% share in Sibneft (Siberian Oil Company) - active in the sub-Arctic Tyumen fields, western Siberia and Omsk - for \$110 million in a 1996 auction. Its true value has been calculated at between \$500 million and \$600 million. By December 1997 Bank Menatep, heading the Rosprom financial-industrial group, snapped up a 45% share in Eastern Oil for \$800 million. This gave it controlling interest in the company, which is active in Tomsk region.¹⁸ The creditor banks were

Goldman Sachs and West Merchant bank, as well as a number of Russian companies, including Most Bank, SBS-Agro and oil companies friendly to Yukos.

Potinin's empire also picked up valuable Russian assets. Potinin was appointed chairman of Oneximbank, currently Russia's largest private bank, but just one of a raft of businesses created on the eve of the Soviet Union's disintegration. He also became president of the International Finance Company (MFK) in 1992. These two banks formed the cornerstone of his business empire. He was subsequently employed in the Russian Ministry of Foreign Trade for a period of seven months; he directed the Ministry of Economics, the State Committee for Antimonopoly Policy and the State Property Committee until his dismissal on 7 March 1997. Whilst in government he maintained and expanded his business empire. He exploited his access to foreign high-level business contacts, for example, British Petroleum, Deutsche Morgan Grenfell, SOROS Foundation and Morgan Stanley Investment Company. Moreover, out of office he maintained his close contacts with government officials (for example, Oleg Davydov, Anatoly Chubais and Boris Fedorov) and access to sensitive state economic information.

On leaving government he resumed Presidency of Oneximbank - an authorised bank of the Russian Ministry of Finance, holding the accounts, *inter alia*, of the State Customs Committee (GTK), and the Rosvooruzheniye [Russian Armaments] Company. It is alleged that Oneximbank financed the buying of arms on the international market for the Soviet Union during the *perestroika* period. It was thus used as a front company by the State Military Intelligence (GRU) to circumvent the technology embargo placed on the Soviet Union. In this reading Potinin was a former GRU officer.¹⁹

His economic empire was founded on Oneximbank, Russia's Almaz Rossii-Sakha diamond producer (Alrosa) and includes heavy investments in the St. Petersburg ports and shipbuilding structures. Through 1996 and 1997 Potinin substantially added to his power base. Oneximbank, in a series of purchases, provided a counter weight to Berezovsky's economic dominance of Russian natural resources. In September 1996 Oneximbank purchased a 34% share in Sidanko NK oil holding (Siberian far Eastern Oil Company), and held a further 51% of its shares in trust. The 'auction' for these shares was controlled by MFK bank - an Oneximbank sister organisation - and the purchase price was only \$1 million above the minimum bid of \$129.8 million (with an additional required investment of \$161 million). Sidanko is the fourth largest Russian company in terms of oil output, first in terms of oil reserves and exports 13% of Russian oil.

In July 1997, 25% of the strategic telecommunications holding company, OAO Svyazinvest, was sold to a consortium, three-fourths of whose capital was provided by foreign banks, headed by Oneximbank for \$1.875 billion. Svyazinvest holds 52% of the shares of 85 of Russia's regional telephone companies. In effect it represents Russia's communication system and can thus be considered a strategic acquisition. This was Russia's largest ever sale of a state asset and Berezovsky accused Chubais of helping Potinin to win the tender.

In August 1997 Oneximbank then purchased a 38% share in Norilsk Nickel (NN) Joint Stock Company for \$250 million (with \$370 in required investments). NN is responsible for *'one fifth of the world's production of nickel and cobalt, 42% of platinum and other platinum group metals, as well as a significant proportion of the world's copper production.'*²⁰ NN was considered especially undervalued - its assets

estimated by world exchanges at more than \$4 billion - and the deal resulted in the resignation of Alfred Kokh, the Privatisation Minister, accused of providing insider information to Potanin.²¹

Whilst economic power remains the defining characteristic of these two groupings, they are also conspicuous through their control of telecommunications and the media. Two powerful groupings have emerged, one dominated by a Berezovsky-Gusinsky alliance, the other by Potanin. The presence of these antagonistic print and broadcast media groups gives rise to descriptions of an 'information war' between the groups, in which the business dealings of rival FIGs are characterised as corrupt, their political contacts are attacked as anti-democratic and media outlets as tools for political influence and platforms for presidential bids.²²

Berezovsky, for example, has controlling interests in Russian Public Television (*ORT* - Channel 1) and *TV 6 Moscow*, as well as *Nezavisimaya Gazeta*, *Ogonek* and *Novyy Izvestiya*. Berezovsky owns 8% of *ORT* directly and he is the largest private shareholder and leads the *ORT-Banks Consortium* (includes Alpha-bank, Menatep, Obyedinenny Bank and SBS) which holds 38% of the shares, giving this Consortium a veto over decision-making within *ORT*. He maintains control over some top *ORT* executives (for example, General Director Kseniya Ponomareva) who were formerly LogoVAZ executives, or are currently political allies (including Yumashev of Yeltsin's Presidential Staff).²³ He has allied himself with the media empire created by Vladimir Gusinsky's *Most Group*, which was based on assets which had been controlled by the former KGB's 5th (Ideological) Directorate, and includes 70% of shares in *NTV* (Channel 4), a controlling stake in the radio station *Ekho Moskvy* and control of the publishing house Seven Days, which publishes the newspapers *Itogi* (a weekly) and *Segodnya* (a daily).²⁴ In 1997 Berezovsky utilised these media assets to attack Potanin and his political ally Chubais: the Chubais royalties scandal, the NN and Svyazinvest auctions were all prominent manifestations of this phenomenon.²⁵

This is countered by Potanin's control of *RTE* (Channel 2), *Komsomolskaya Pravda* (shares), *Izvestiya* (controlling stake), and *Russkiy Telegraf* (full control). The 'information power' each group has acquired is complemented by their political contacts and within the government and power structures – the acquisition of media property allows these financial empires to fight election battles and propaganda wars.

For example, in June 1998 Alfa Group acquired StoryFirst's CTC minor national network, Premier SV's MuzTV pop entertainment channel, and three local stations. The programming of news may lead to the politicisation of the entertainment channels targeted at young audiences.²⁶

Both Berezovsky and Potanin have themselves been employed in government service, allowing direct personal access to both bureaucrats and influence within the political elite. Potanin, unsurprisingly given his alleged background in the GRU, established a strong relationship with the MoD, particularly the Chief of the General Staff (General Anatoly Kvashnin), the Head of the GRU (General Valentin Korabelnikov), and through indirect funding, local special forces military commanders, particularly the airborne troops based at Chichkovo (Ryazan region) and Tula, as well as the Kantemirov and Taman Guards Tank Divisions. Such finance raises the possibility of effectively co-opting military support in a future struggle for economic hegemony.

The former Deputy Prime Minister Anatoly Chubais was also considered to be a Potanin ally and the relationship between the two was brought into focus with the

sale of Svyazinvest in July 1997. Gusinsky, for example, stated: *'For me, Anatoly Borisovich [Chubais] is not deputy prime minister; he is rather one of my competitors ... He represents one of my competitors - Oneximbank.'*²⁷ The Privatisation Minister Alfred Kokh was directly accused of favouring Potanin with 'insider' information and this resulted in his forced resignation in August 1997.

During the second phase privatizations of 1996-1997, Berezovsky's political allies included Victor Chernomyrdin, the former Russian Prime Minister (December 1992 - March 1998) and former Soviet Gas Industry Minister and head of Gazprom (the post-Soviet gas monopoly). Berezovsky has enjoyed direct influence within the Presidential family, through Yeltsin's daughters Tatiana Dyachenko and the Presidential Head of Administration (Valentin Yumashev), who effectively control Yeltsin's access to information. These contacts at the highest level of government are complemented by support within power ministries, particularly Anatoly Kulikov, the former Minister of Interior (MVD), who controlled 250,000 MVD Troops whose nucleus was the former Dzerzhinsky 'Iron' Division, located in Moscow.

These trends evident in late 1997 were intensified in early 1998 with a rash of mergers within the energy sector. The looser alliances created in 1997 were now set to be consolidated and institutionalised. The largest and sixth largest oil companies, Lukoil and Sidanko, entered discussions on the possibility of a defensive merger to form Russia's largest oil company in terms of output. The second and sixth largest producers, Yukos and Sibneft, have merged to form the Yuksi holding company - a company with the greatest production capacity and refining capability. Business analysts speculated that Yuksi could then expand again to incorporate Eastern Oil Company and the Eastern Siberian Oil and Gas Company, so forming a fuel monster on the scale of Shell or BP.

By early 1998 these newly merged companies were poised to bid for the last of the great sell-offs - Rosneft oil company - scheduled for privatisation in April 1998. Three main contenders were poised to clash for the controlling interest - Gazprom (Vyakhirev)-Lukoil (Alkperov) and Shell, Sidanko-BP and Onexim-MFK financial group (Potanin), and Yuksi (Berezovsky)-Rosprom (Khodorkovsky). The sell-off was to have learned from the mistakes of the recent past. The newly appointed Privatisation Minister and Deputy Prime Minister, Farit Gazizullin, promised greater openness and transparency in the privatisation process to 'help avoid many mistakes'.²⁸

As well as promoting a 'policy of transparency', he indicated that the sell-off strategy itself might change. The government could control the 'golden share' - the blocking or veto interest of 25% and one share. Such a strategy would render control of Rosneft unattractive to bidders, as they would not have secured controlling interest. Indeed, it might be argued that in reality privatisation under these conditions would leave Berezovsky with a stranglehold on the company. The management structures of Rosneft could be colonised by personnel from Berezovsky controlled companies. Suborning management represents *de facto* private control of a state company without the appearance of further impropriety and it is noted as a favourite Berezovsky tactic.

However, the eventual decision was to opt for 75% plus one share privatisation in the state-owned oil company for \$2.2b. The result was to be announced on 29 May, with applications to take part in the bidding accepted between 24 March and 26 May.²⁹ There were to be no restrictions on foreign companies and their Russian affiliates in

bidding in the auction. This privatisation strategy did not favour Berezovsky, who had to raise cash by selling shares in companies he owns, as he lacked a major western strategic partner. These statements of government intent were left flapping in the wind as the combined impact of the Asia meltdown and the depressed price of oil (at \$12 a barrel and falling) stalled the sale. Rem Vyakhirev, Chairman of Gazprom, stated that \$2.1b (with \$400 million tax arrears and investment obligation) for a 75% stake in Rosneft was too high, whilst Khodorkovsky also argued that Rosneft was overpriced by \$800m. In April Boris Nemtsov responded by arguing: *'Potential purchasers are reluctant to part with their money and are trying to start discussions with us. Bargaining will not work. We cannot just give the company away.'*³⁰

As western strategic partners withdrew their support - by July 1998 Shell had pulled out of the consortium tender for Rosneft, and the BP-Oneximbank-Sidanko consortium followed suit - the bidding process appears stalled until 1999. Alternately, some analysts suggest that Rosneft may be divided, leading to the piecemeal sale of the most profitable parts of Rosneft, particularly the rich Purneftgaz fields in Western Siberia.³¹

How might the inter-relationship between the exercise of political power and the accumulation of economic dominance during 1996 to 1998 be understood? It appears that a Faustian bargain was struck in early 1996. In order to engineer Yeltsin's democratic re-election in June 1996 and so preserve capitalism, the governing elite prepared to sacrifice the western-style free-market path of economic modernisation. In late 1996 and early 1997 this allowed a tactical alliance of *nomenklatura*-bureaucrats and oligarchs to dominate and control the heartbeat of Russia's economy, the privatisation programme. By mid 1997 the loosely affiliated semi-homogenous 'Group of Seven' which oversaw Yeltsin's re-election in 1996, had fragmented into two antagonistic financial groupings, one headed by Boris Berezovsky and the other by Vladimir Potanin. The split was fuelled by the fierce competition for the rich former strategic state industries. Each of these oligarchic groups has emerged with two main objectives - to consolidate their control over their post-Soviet business empires, and to fulfil the strategic imperative of achieving outright economic hegemony within former Soviet space.³²

The most obvious manifestation of this phenomenon appears to be the role of Russian capital in Ukraine. Presidents Yeltsin and Kuchma signed the 'Russian Ukrainian Treaty on Economic Cooperation for 1998-2007' on 27 February 1998. Article 2 stresses the creation of *'joint production structures, and mutual involvement in privatisation and investment projects in accordance with national legislation.'*³³ Some analysts argue that another Faustian pact was struck in 1994. In return for Russian capital's support for Kuchma in the 1994 Ukrainian presidential elections, Russian capital will now dominate the privatisation of Ukraine's strategic industries - oil refineries, steel plants and machine building companies. As one analyst suggested: *'This document should not be Ukraine's price for Russia's support of Kuchma, otherwise the 1999 presidential election will simply mean choosing a Ukrainian governor of a Russian province.'*³⁴

Kuchma denies that the economic treaty will effect Ukrainian statehood - *'no matter how important relations with Russia are, they are just one of many vectors in our foreign policy.'*³⁵ He argues that the agreement gives Ukraine the chance to secure Russian investments in the country's economy. He disagrees that 'Russian capital will eat up

Ukraine' as Russian capital accounts for a mere 7% of the total amount of investments in Ukraine's economy, or 159m dollars of the total 2bn dollars. He has further denied that Ukraine will *'sell [state property] to the shadow economy dealers for peanuts.*'³⁶

If we accept that these groupings have influenced Russia's privatisation programme to their own advantage, two key questions must then be asked: what is their influence in shaping Russia's economic state interest in the oil and gas rich Kazakh, Turkmen and Caspian Sea regions? To raise these questions is not to downplay the politico-economic role of FIGs within the Russian Federation through to the Presidential election of 2000. The Russian 1998 privatisation programme is set to include 29 joint-stock companies in which the state had a stake, with 37 state-owned enterprises to be transformed into open joint-stock companies in 1999. Companies designated for partial public sale in 1998 include Lukoil, Slavneft, the Orenburg Oil Company, Okatransneft, Aeroflot and the Western Siberian Iron and Steel Works.³⁷ A TACIS study into Russian FIGs, however, sounds a note of caution.

It argues that the economic growth of the FIGs is not necessarily set to continue unabated: *'These huge conglomerates without any clear structures have emerged by grabbing shares without any particular strategy. Now they have problems managing themselves.'*³⁸

III. FIGs and the Executive: a template for Russian Modernisation?

In analysing the relationship between FIGs and executive power in Russia, some analysts of Russian politics argue that their role in shaping policy-making and influencing key appointments is increasing. This interpretation of politics generally supports the contention that Russia is bereft of opposition, the Duma as an institution is ineffective and irrelevant and that parties are empty shells, lacking ideological coherence and embracing only the politics of personal gain. With centralising and pan-Federal structures enfeebled, this reading supports the contention that the Russia Federation is undergoing a slow and controlled process of disintegration, where the only coherent and consistently articulated strategies involve economic growth by companies who have achieved a dominant financial position within the Federation. Are FIGs agents of integration or disintegration?

The role of oligarchic groups in politics has become more apparent during 1998, partly due to the poor performance of the Russian economy. 1997 represented a bittersweet year for the economy. It began with high expectations that the 'young reformers', the two Deputy Prime Ministers Anatoly Chubais (responsibility for the Finance Ministry) and Boris Nemtsov (Fuel and Energy Ministry) would kick-start the Russian economy. It ended with a series of much publicised crises amid underlying indicators of economic growth. The key economic failure was perceived to be the continued poor tax revenue collection and the government's inability to formulate a new tax code or ensure that employees would receive back pay by January 1, 1998. Although the value of the rouble slipped in response to the Asian meltdown, this was more positively indicative of the growing integration of the Russian economy into global markets. Macroeconomic indicators were a cause of celebration. For the first time since 1991 the World Bank reported that Russian GDP grew by 0.4%, and inflation at 11% represented the lowest level since 1990 and the Russian stock market basked in the glow of an over 100% increase in the value of stocks.³⁹

However, these end of year assessments proved too optimistic. In the first six months of 1998 Russian stocks shed 58% of their market value, precipitating the collapse of the Chernomyrdin government in March and a month-long paralysis whilst Yeltsin sought to appoint a new prime minister and government and the Duma attempted to resist his choice. By June 1998 interest rates had increased from 24% to a 150% peak, and Russia, as the weakest emerging market outside Asia, was considered especially susceptible to a new Asia crash – the second Asian wave: *‘It could, however, hit Russian tax revenues as falling demand in Asia cut world prices for key Russian exports such as oil and metals.’*⁴⁰

In late 1997 and until the collapse of the Kiriyenko government in August 1998, young reformers attempted to curtail the power of oligarchs and assert government independence in policy-making. This attempt was to fail – as evidenced most notably by the collapse of the government. It did, however, raise an interesting and public debate about the essential nature of Russia’s post Soviet modernisation paradigm.

In February 1998, First Deputy Prime Minister Boris Nemtsov, one of the young reformers who oversaw Russia’s second phase privatisation during Yeltsin’s second term Presidency, reported to the anti-monopolies committee that the failure to get rid of Russia’s monopolies had resulted in *‘a dictatorship of oligarchial groupings with interests across industry, finance and information’*.⁴¹ Amidst the 1997 end of year financial assessments, Boris Nemtsov in a little reported interview provided a concise overview of Russian economic progress. Nemtsov argued that between 1991 and 1995, Russia faced a choice between communism and capitalism. With the election of Yeltsin as President in 1996, capitalism had finally consolidated its hold over the Russian economy. As Chubais argued, Communists would never be able to nationalise private property because *‘in a country where private enterprise put out 75 per cent of GDP, nationalisation is impossible.’*⁴²

Which of the competing paths to the market economy would Russia now choose? Nemtsov outlined three options. Firstly, *nomenklatura*-bureaucratic capitalism, where power, property and money are held by the old Soviet bureaucracy. Secondly, the ‘Indonesian or Asian model’ of oligarchic capitalism, where power, property and money belong to a small circle of businessmen who own most of the national wealth, the media and hire and fire ministers. Lastly, West European model of popular capitalism, in which administrative power is held by elected officials and property and money is widely distributed throughout society. In Russia a ‘near-crystallised’ bureaucratic-oligarchic system is developing in which oligarchic businessmen control ‘privatised’ governmental bureaucrats and owes their success through capitalising upon their ‘informal relations with the authorities’.⁴³ He has described the current political system in the country as an ‘oligarchy’ and a ‘monster’ and warned of the rise of an ‘authoritarian, semimilitary’ regime. Just as the choice in 1996 was between ‘vulgar communism and vulgar capitalism - Zyuganov and Yeltsin - then in the year 2000 the choice will be between a bastard oligarchy and a people’s democracy.’⁴⁴ Nemtsov somewhat precipitously argued that the power of the metropolitan oligarchs was not yet hegemonic: *‘Their position is quite shaky. Their financial empires might fall to dust overnight.’*⁴⁵

The role and significance of FIGs and oligarchs as political and economic actors within the Russian Federation are hotly debated. Two parallel but contradictory views have emerged, each of which focuses on the social impact of oligarchic capitalism. One view holds that it produces unemployed workers who are socially

dependent upon the newly privatised former state companies. This raises the danger of the collapse of companies adding to mass unemployment. Such unemployment would require a strengthening of authoritarianism in Russia and an imposition of censorship. In this reading, oligarchic economic systems are perceived to presuppose the imposition of authoritarian political regimes.

Before his dismissal First Deputy Prime Minister Anatoly Chubais, for example, stated that a government should run Russia, rather than a 'group of tycoons' who are not publicly accountable. He argued that a '*struggle for power which draws on all means, possible and impossible, admissible and inadmissible*' was underway in Russia. He warned that the Russian Federation faced a '*choice between normal, democratic authority, a strong state authority, one which is accountable to the people, and shadow structures which pull the strings and run the show from behind the scenes.*'⁴⁶

Yegor Gaidar, architect of Russia's first phase privatisation project, holds an opposing view. He argues that the American experience of capitalist development provides a model that indicates the likely path of Russian economic development. He looks to America at the end of the nineteenth century, a period characterised by the rise of robber-barons - the Morgans, Carnegies, Rockefellers, Du Ponts, Vanderbilts - who constructed a network of railways and factories, a banking system, modern chemical, metallurgy and petroleum production and refining industries, creating the foundations for modern mass scale industrial production. Predatory, unbridled capitalists act as 'agents of progress', create employment, nurture a thriving middle class and reduce poverty. Russia's privatisation strategy was based on the contention of 'as much as possible as quickly as possible' so as to entrench capitalism and make it irreversible. The presence of oligarchic capitalists, it follows, is merely a characteristic of the early stages of Russia's post-Soviet marketization programme.

In February and March of 1998 key state officials attempted a failed state-led fight-back to curtail the power of the FIGs. Chubais stressed the need for the state to control oligarchs through tax collection, regulating monopolies, fighting corruption and strengthening the independence of the judiciary.⁴⁷ In mid February Nemtsov tried to change the oil and gas policy, announcing that the Russian government would not support mergers between oil companies that leave them with a market share of more than 30%.⁴⁸ However, companies were able to circumvent state measures - on 24 February Lukoil and Tatneft signed an agreement on 'strategic partnership', that is a merger in all but name, despite the company's protestations that: '*the agreement does not provide for the two oil giants merging into one company.*'⁴⁹ In mid-1998 the political role of oligarchs became more public as the fragility of what has been termed 'Potemkin capitalism' became more transparent. Beneath the surface veneer of Russian capitalism - the vibrant securities markets, a handful of world-class corporations, and a few hundred thousand quasi-middle class professionals in Moscow, St. Petersburg and Nizhni-Novgorod - lies the great majority of citizens, living '*almost entirely outside the cash economy, trapped in dying factories that seldom or never pay wages. Most find subsistence by growing their own food, sharing within extended families, bartering and by evading taxes and cash obligations.*'⁵⁰ Arbitrary pricing, the reliance on a barter system, the absence of mass bankruptcies and the accumulation of inter-enterprise debts disguises the reality of a Russian 'virtual economy'. That is an economy in which Soviet-era enterprises can still '*subtract value from inputs rather than adding it (this means the value of, say, a*

*Russian fridge is still lower than that of the metal, plastic and other raw materials used to make it).*⁵¹

Amidst the formulation of anti-crisis (or 'stabilisation') plans based on slashing public spending and increasing the effectiveness of tax collection, the debate over the role of oligarchic groupings in shaping Russian modernisation has been brought into sharp focus. The financial gain of these companies is perceived to have arisen at the expense of the consolidation of a democratic transition and the entrenchment of popular marketization. Informed external bodies and respected internal Russian reports and analyses have put forward this assessment, though in much harsher and more colourful language. At a special hearing of the US Congress in October 1997, the ruling regime in Russia was described as a 'criminal syndicate'. In the same month, the Washington Centre for Strategic and International Studies characterised the Russian government as a 'crime syndicate', with gangsters controlling two thirds of the economy. Transparency International, a Berlin based-think tank, rates Russia as the world's fourth most corrupt country, after Nigeria, Bolivia and Columbia.⁵² Even Jeffrey Sachs, an advisor on economic reform to the Russian government who resigned in January 1994, has stated that the reform process was '*wilful, glib and a deliberate act of a massive redistribution of wealth to a narrow circle of people*'.⁵³ By August 1998, one commentator noted: '*Russia's credit rating is below Indonesia's. The size of its economy is smaller than Switzerland's. And its stock market is worth less than the UK water industry.*'⁵⁴

These critical external reports have been balanced by a growing awareness in Russia of the role of the economy and economic security for the continued stability of the Federation. The Russian National Security Blueprint of 26 December 1997 openly stresses that '*the fusion of executive and legislative branches with criminal structures and their penetration into the sphere of management of the banking business, major production facilities, trade organisations and commodity networks*' are a result of mistakes made in implementing systemic transformation.⁵⁵ In a weighty report published in 1997 the Russian Academy of Sciences has estimated that capital investment in 1995 was 25% of the 1989 level, and in 1998 it stands at 8%; whilst Russia's GDP fell by 83%, industrial output by 81% and real unemployment rose by 10-fold to 13 million people.⁵⁶ The former Russian Minister of Internal Affairs, Anatoliy Kulikov, reported that 60 million Russians are in one way or another linked to the 'shadow economy', 40,000 companies have come under 'criminal influence' and that 45% of the economy (representing 100bn dollars or three times Russian capital investments in the economy in 1995) is illegal.⁵⁷

These fundamental distortions of the Russian economy have exacerbated the impact of what one analyst has labelled a '*global, systemic, virulent financial crisis that's shaking markets around the world.*'⁵⁸ The financial crisis hitting Russia following the crash of Asian markets and the depression of oil prices, has highlighted the role of the oligarchs in Russian politics and policy-making. Indeed, Kiriyeenko's government had explicitly solicited the support of Russian FIGs. In reply oligarchs created a Council for Mutual Economic Assistance (CMEA). One analyst has characterised the CMEA as '*not even a parallel shadow government, but a type of politburo of the Oligarchic Party of the Russian Federation*', provocatively adding: '*Ministers and deputy prime ministers will now be delivered to CEC meetings like call girls, ready to fulfil the whims of their masters.*'⁵⁹ With the appointment of Anatoly Chubais, recently elected Chairman of United Energy Systems (and so himself a member of the oligarchy he so recently castigated), as special presidential envoy for liaison with the IMF, the

Kiriyenko government's ability to set the political agenda and control economic policy was diminished by the growing public role of oligarchs.⁶⁰

The government ostensibly relied on oligarchs as it lacked the political 'weight' or *gravitas* and a macro-economic strategy with which to prevent a budget collapse. The inherent weakness of the government should not mask the differing interests of FIGs from that of the state. Whilst FIGs proved (at a price) reliable partners for the incumbent political elite in 1996, it can be argued that in 1998 it is in the interests of some of the oligarchic groupings to undermine the very position they are ostensibly attempting to buttress – rouble devaluation would *'weaken the Central bank as a pillar of one of Russia's largest financial industrial groups: Gazprom-Central Bank-Sberbank-Vneshtorgbank.*'⁶¹

On 17 August 1998 the government finally devalued the rouble under the euphemism of a 'floating rouble' policy (6-9.5 roubles to the dollar). This heralded the collapse of the Russian national currency, and exacerbated political and social costs which further destabilized the Federation. Currency stabilization had allowed for price stability and low inflation and it represented the Yeltsin Project's main (and many have argued only) economic achievement. Kiriyenko outlined a number of factors which contributed to the devaluation: oil and gas supplies Russia with foreign income and a positive balance of payments, but the prices were depressed; a decline in Russia's gold currency reserves; foreign capital flight; and a crisis of confidence in state foreign and domestic securities. The government and Central Bank proposed a package of measures to stabilize the economic situation, including the restructuring of domestic debts, and a freezing of the state debt market. A ninety day moratorium on the payment of obligations to international financial organizations by Russian commercial banks and companies was put in place.

Although 'crony capitalism' is not the prime cause of economic instability in Russia - instability is an inherent feature of emergent markets - it is likely that FIGs, with their powerful political connections, will ensure that the government's response to the economic crisis is in line with their immediate goals, rather than the long term stability of the Russian economy. To this extent they will distort Russia's ability to respond to the crisis. For example, SBS-Agro and Inkombank were to benefit from massive Central Bank credits days before the rouble devaluation, and the consequent decision to default on state debt once the 'floating rouble' policy had been adopted benefits the banks. Such protectionism is set to continue: *'the political forces behind the new government - a malign mixture of populist politicians and plutocrats - are opposed to improve tax collection and tax reform.'*⁶²

The power of the FIGs to operate within informal 'clan'-type alliance networks, which include control over media, politicians, parties and armed security forces - in essence their ability to suborn state structures to private ends, to privatise power - makes it impossible for single government ministers to curtail their growing dominance. Indeed, their power seems set to increase with involvement in 'Near Abroad' privatisation programmes and the exploitation of FSU energy resources. Because there was no consolidated government anti-monopoly 'war' initiated against the FIGs, Russia's systemic transformation towards 'market-democracy' has been derailed, leaving political and economic developments in Russia - including the Presidential elections in 2000 and the continued viability of a Federal system of government - more dependent upon the struggle between business groupings than upon the democratic process.

Russian Federalism: disintegration or uneasy instability?

At the start of 1998 centre-periphery relations had been stabilized. However, looking ahead to the year 2000, it now appears that a renewed cycle of decentralist pressures is building. Decentralization is supported by three key pillars. Firstly the type of presidency, the character of the president and the way he now exercises power in the late 1990s differs from that of the early and mid 1990s. The turbulent political climate destabilizes centre-periphery relations. Secondly, the role of FIGs in politics, and the degree to which FIGs dominate localities through private control of regional assets is another new phenomenon that changes the balance of power. Thirdly, the stress of the 2000 presidential election also adds a spark of instability to Federation politics. These processes raise the question: when does unplanned de-centralisation slip into autonomy or *de facto* sovereignty for regions or regional blocs?

Between 1998 and 2000 the conditions are ripe for regionalist tendencies once again to spill over into separatist movements. The contemporary political environment helps define regionalist ambitions and actions. How has Federalism evolved within Russia? What are its defining features? Can we locate particular separatist or ungovernable regions which could destabilize and fracture the continued viability of federalism? What of regional autonomy - to what extent does this more generally represent the first step along the road to *de facto* confederation or sovereignty?

The Russian Federation came into existence on 1 January 1992.⁶³ It emerged into an unstable environment, surrounded by nascent former Soviet states attempting to establish sovereignty and territorial integrity. A struggle for a re-division of powers between the Federal centre and the Federation components helped characterize the early post-Soviet period. Executive-legislative tensions in Moscow were compounded by the psychological disorientation of independence and an ambivalent elite and societal attitude towards post-Soviet Russian identity. The basic principles of governance had yet to be determined and the eruption of underlying centre-periphery tensions into open violence in Moscow helped complicate an already unpredictable political landscape.

With the sudden and unexpected collapse of the Soviet Union, the constituent parts of the Federation had to redefine their relationship with the centre. The Russian Federation consists of 89 federative units, namely: twenty-one constituent Republics; six Territories (*Kray*); forty-nine Regions (*Oblast*); two Cities of Federal Importance (Moscow and St. Petersburg); one Autonomous Region; and, ten Autonomous Areas (*Okrug*). The 21 republics of the Russian Federation had been designated 'autonomous' republics or regions in the Soviet period and had been encouraged by Soviet nationality policy to regard their republics as emblematic of national statehood. These republics, which constituted 29% of the territory of the Russian Federation but only 15% of the population, were characterised on the main by the presence of national minority groups and rich natural resources on their territory and their peripheral location (Tatarstan and Bashkortostan being the exception). Their privileged status relative to the other constituent parts was institutionalised by the Federal Treaty (31 March 1992), a centre-periphery relationship symptomatic of the *ad hoc*, asymmetrical nature of Russian Federalism.

Essentially, the constituent parts of the Federation attempted through bilateral treaties and intense lobbying to acquire greater legal, economic, ethnic and political

autonomy within the new Federation. This autonomy was to be gained at the expense of both the integrity of Federal structures and institutions and the viability of other constituent units. The violence endemic in centre-periphery struggles was curtailed following the executive-legislative clashes during the so-called 'October Events' of 1993. The publication of a post-Soviet Federal Constitution on 12 December 1993 provided a framework to mediate a new set of relationships between Moscow and the regions. The guiding principles of this constitutional settlement ensured that - with a few anomalies - federal jurisdiction had a *de jure* priority over republican or regional jurisdiction.⁶⁴

Between 1993 and December 1996 Yeltsin's policy towards regional governors was ambivalent. Elections were held in regions where the preferred 'presidential' candidate would win, whilst Yeltsin directly appointed presidential placemen to recalcitrant regions. This pattern of election and appointment institutionalized conflict of interests by ensuring that governors had a dual and contradictory role. The governor represented both the regions and presidential power within the region and both the president and the regional legislatures attempted to hold these governors accountable.

By December 1996 an agreement was reached between the Presidency and the regions - popular elections would take place during 1997 and 1998 providing governors joined the Federation Council. The role of the centre in regional politics was circumscribed to the extent that the President of the Federation could not dissolve the legislative institutions of the constituent parts or remove their heads (Presidents, Governors etc). Moscow had lost direct control over the regional governors and the election of these governors represented the rise of legitimate and new actors on the Russian political stage.

Yeltsin secured the loyalty of regional governors and interest groups through a carrot and stick approach and by balancing one against the other. This he has achieved in a variety of ways, not least through the tactic of counter-balance, perfected in national government. Here bi-polar or triangular constraints between overlapping sectional interests and political institutions uphold a crude equilibrium in constant flux. This allows Yeltsin to draw political strength and authority as a final arbiter in the inevitable 'territorial' and policy disputes.⁶⁵ He is adept at utilizing soft loans, presidential patronage, the extension of tax breaks and providing Federal support during local campaigns for favoured candidates.⁶⁶ In return for a license to govern their own regions without undue Federal interference, regional governors provided the centre with votes, particularly during the first and especially the second run-off round of the 1996 Presidential election.

I. Regions as Sources of Federal Insecurity

As the media and international spotlights are firmly fixed on Moscow's political theatre, can we locate particular separatist or ungovernable regions which could destabilize and fracture the continued viability of federalism? The decentralizing process within the Russian Federation is most noticeable amongst two distinct geostrategic regional blocs - the North Caucasus and Siberia. Russia's deep south crackles like tinder-wood, sparks in Chechnya and Dagestan threaten to set the North Caucasus aflame once again. Sweeping east across the Urals into the heartland of Siberia, General Lebed, newly appointed Governor of Krasnoyarsk Territory, marshals his forces for a renewed bid for the presidency. The

decentralizing dynamics differ in their essential natures between these regions, but the results are similar. The current destabilization of Chechnya and Dagestan represent the greatest threat to stability within the Federation as a whole. Does, then, Russia face a *de facto* disintegration of the Federation, the creation of a CIS within Russian territory?

a. Crisis in Chechnya

Stability in the North Caucasus is pivoted upon an ungovernable Chechnya and increasingly unstable Dagestan. Chechnya is a *de facto* independent country, with loose internal sovereignty and as yet no external recognition of its sovereign status. It is increasingly subject to internal disorder, as the sub-national armed groupings and factions which proved so effective in the war are now proving a hindrance to peace, with a selective observance of the rule of law. This exacerbates tensions within an already fragmented or polarized Chechen political elite. The spectre of an Algeria, Tajikistan or Afghanistan scenario haunts both Mashkadov and Basayev, who are considered 'pro-Moscow' in that they want to develop economic relations with the Federation, and other more extreme Islamic factions which appear bent on internal and regional destabilization as a means of legitimizing their presence and securing their goals.

In early April 1998 Chechnya hosted a meeting or congress of Russia's Caucasus regions. Although no Russian governmental officials took part in the talks, the presidents of Chechnya, Ingushetia, North Osetia, Kabarda-Balkaria, Karachay-Cherkassia, Kalmykia and Adygeya attended, and the Stavropol Territory and Rostov Governors participated. The possibility of a second war in the North Caucasus was high on the agenda, as was the idea of a North Caucasus Confederation – incorporating some ethnic Russian regions – based around greater regional co-operation. The relationship between Federal and the regional power structures of this new southern Russian territory has yet to be determined. North Caucasian peoples were to solve their regional problems without, in the words of Chechnya's president, 'looking to Moscow.' Berezovsky highlighted Russia's dilemma in the region – after allowing Chechnya to secede from the Federation: '*But next, do we let Dagestan go, then Tatarstan? What next?*'⁶⁷

However, it is clear that the power elite in Chechnya is split over their policy towards the North Caucasian region. Whilst the former Prime Minister Shamil Basayev supported the process of creating a North Caucasian regional association, Foreign Minister Movladi Udugov is accused of encouraging the spread of Wahhabism with the aim of creating not a loose association but a single Chechen-Dagestani state. Udugov also supported the formation of an 'Islamic peacekeeping brigade'. He has also claimed that the Russian leadership is attempting to instigate a new war in the Caucasus and supports this contention by noting a build-up of Russian military presence in the North Caucasus and active steps to ensure the political and economic isolation of Chechnya in international relations.

Wahhabism is an orthodox branch of Sunni Islam, often compared with the radical 'Taleban' version of Islamic fundamentalism. Pro-Wahhabi groups in Chechnya are believed to receive support and financial aid from Wahhabi groupings in Saudi Arabia, Turkey, Pakistan, Afghanistan, Jordan and Syria. The label is used instrumentally by leaderships in the CIS. The incumbent former Soviet *nomenklatura* political leadership of Tajikistan uses it to denigrate internal political opponents, who are in fact Salafis. Similarly, in Dagestan the official clergy,

composed of the late Soviet religious *nomenklatura*, call their religious opponents Wahhabi fundamentalists, even though they are Sufi.⁶⁸

Wahhabism cuts across clan divides and so further destabilizes clan based criminal groupings in Dagestan and Wahhabis are characterized by their readiness for violence in order to impose their vision of a way of life. According to a leading Dagestani politician, Magomedali Magomedov, this 'vision' consists of the Balkanization of the North Caucasus regions of the Russian Federation as a necessary precursor to the creation of a string of independent puppet states (in the Abkhaz or Dniestr model). These statelets would then profit from the sale of arms and narcotics.⁶⁹ On 16 August 1998, echoing these warnings, Wahhabis in Dagestan announced that villages (Kara-Makhi, Chabani-Makhi and Kadar) in the republic's Buynakskiy District would create a breakaway 'separate Islamic territory'.⁷⁰ Shamil Basayev, as if to highlight these inherent regional tensions, warned the Dagestani authorities that if force was used against these villages, then the Islamic battalion would intervene to protect them.

Whilst the Russian invasion of Chechnya and the war (11 December 1994–September 1996) effectively froze internal disputes, these disagreements have resurfaced.⁷¹ The war both shattered the myth of Russian conventional military effectiveness (particularly the debacle of Pervomayskoye), and damaged the legitimacy of traditional mechanisms of resolving disputes within Chechen society. Moreover, Moscow's classic policy of grooming and favouring factions amongst indigenous regional elites proved disastrous in Chechnya before the war, and has yet to be resuscitated. Thus the ability of both Moscow and local leaders to shape the environment within Chechnya and events in the North Caucasus are far more limited now than they were four years ago.

Control over oil tariffs and state consolidation appear to be uppermost in the minds of Russian policy-makers and advisers. In the post war period Russia has suspected that the Chechen leadership is attempting to extend their influence into Dagestan to gain control of the Baku-Novorossiysk oil pipeline. Lebed has identified geo-strategic reasons for unifying Dagestan and Chechnya. He has stated that Chechnya: *'cannot exist within its present borders, needs access to the sea, so it has to drag Dagestan into a war. There are lots of ethnic problems in Dagestan, so it is very easy to kindle the fire of war there.'*⁷²

The 'Chechen factor' adds an unpredictable element to the North Caucasian cauldron. One clear effect has been the outflow of ethnic Russians from the region. But Russian policy towards Chechnya, in as far as it can be discerned, appears to consist of non-intervention in Chechnya and the rapid reorganization of the North Caucasus Military District in case of renewed warfare.⁷³ Federal security structures and military units in the North Caucasus are currently being reorganized and will be subordinated to the chief of the operations staff of the Russian Interior Ministry in the North Caucasus, Colonel General Leontiy Shevtsov. A military joint command and staff exercise between 'power-wielding bodies of the Russian Federation' was held in Stavropol Territory on 25 July 1998, switching to Dagestan on 28 July. Emil Pain, an influential presidential adviser on Chechnya (who provided misguided policy analysis advice at the start of the war), argues that Russia cannot be a 'mere observer' to the intra-Chechen struggle as it could spill over into Dagestan; intervention through social and economic stabilization programmes could stop the spillover.⁷⁴ This lack of a coherent or consistently applied Russian policy towards the

North Caucasus is particularly dangerous due to the simmering tensions within Chechnya.

These damaging internal disputes appeared to come to a head through June and July 1998 and have precipitated an undeclared civil war within the republic. An apparent attempted coup against Mashkadov on 21 June 1998 and the consequent declaration of a state of emergency within the republic (24 June-17 July, then extended) highlighted internal divisions within Chechnya.⁷⁵ On 15 July Mashkadov moved against Wahhabism, describing it as a 'hostile ideology'. The following day he outlawed the radical Islamic branch after heavy clashes in Gudermes between the Islamic special-purpose regiment (Wahhabi and *Shari'ah* units armed support is calculated to be 2000 strong) and the Gudermes National Guard.⁷⁶ The failed assassination attempt against Mashkadov on 23 July only underscored the disintegrationist trends within the republic, with the former President Zelimkhan Yandarbiyev, former commander of the Islamic regiment Arbi Barayev and field commander Ramzan Akhmadov all suspected of involvement.

b. Incipient Civil War in Dagestan?

Should the unsteady equilibrium in Chechnya spiral out of control, violence and disorder will inevitably spill over into Dagestan. This would result in a second war in the North Caucasus region, with the potential to drag neighbouring regions into the conflict. Thus, stability within Dagestan could act as a bulwark against such a scenario. Unfortunately, Dagestan is currently beset with ethnic and economic tensions between differing clans and factions within the political elite.

Dagestan, a republic of two million inhabitants and a complex mosaic of 34 national groups which neighbours Chechnya, has been destabilised by both the war in Chechnya and local power struggles within the republic. The State Assembly, consisting of 121 members elected in 1995, is the collective decision-making body of the republic (the executive body). Each of the 12 members of the State Council represents a particular ethnic group. The largest ethnic groups are the Dargins (280,000), Avars (496,000), Kumyks (232,000) and Laks (92,000). In the Soviet period the two largest groups, Avars and Dargins, had traditionally taken turns to be the Supreme Soviet Chairman and CPSU First Secretary.

This balance of power and checks and balances system was adhered to in the early post Soviet period. The Dargins had Magomedov as Chairman of the State Council and Dargins controlled the republic's customs operations. The Avars under vice-premier Gadzhi Makhachev controlled the Dagestani oil company (Dagneft) and police and security services, whilst the fisheries committee and hence the Caspian caviar trade was controlled by the Laks. The Prime Minister, Abdurazan Mirzabekov, was an ethnic Kumyk. However, in the late 1990s this system collapsed, raising the distinct possibility that Dagestan could split into separate warring districts controlled by armed ethnic units.

On 20-21 May 1998 three hundred armed paramilitaries took to the streets of the capital Makhachkala against MVD troops in defence of Nadir Khachilayev (an ethnic Lak). Khachilayev is one of two Dagestani members of the State Duma and the leader of the Russian Union of Moslems. His brother Magomed is leader of the Kazy-Kumukh (the Lak national movement) and controls the caviar trade (and allegedly the drugs and prostitution trade). His supporters briefly seized the State Council whilst Nadir and Magomed retreated to their clan base in the mountains. These

events could be interpreted as Avar-Lak rivalry, as the internal Dagestani security services precipitated the violence. However, given that 90% of Dagestan's expenditures are met by the Federal budget, it appears that current disorder is less related to protecting profits within particular sectors of the republic's economy, than with control of the distribution of the Federal budget subsidies.⁷⁷

The possibility of civil war or inter-ethnic violence in Dagestan has further increased following the re-election of the pro-Moscow veteran of North Caucasus politics, Magomedali Magomedov, for a third term as chairman of the Dagestani State Assembly. Magomedov indicated that he would transform the Dagestani State Council Chair into the republic's presidential seat. On 25 June 1998 the Dagestani Constitutional Assembly voted, 162 of the 242 members accepting him as head of the republic, so breaking the tacit agreement between different ethnic groups to rotate the post.

The creation of a Dargin president is likely to ignite tensions and encourage a rebellion within the republic. It upsets the traditional rotation system of political and economic checks and balances between ethnic groups, which is considered essential to stability in the multi-ethnic republic: *'Dagestan might have been expected to turn into a dozen miniature Yugoslavias. Paradoxically, however, the complexity of the ethnic map actually helped prevent the crisis. No single group was big enough to dominate and territorial or political demands by one group invariably impacted on too many others to get out of hand.'*⁷⁸ The collective presidency principle ensured stability where political parties were poorly articulated and a civic society weakly formed, but these strong internal mechanisms of stability now appear under threat. Indeed, one analyst has commented: *'The principle of ethnic rotation is more important [for stability] than the personalities rotated.'*⁷⁹

This volatile situation is dangerously destabilized by a number of other contributing factors. Unemployment rates of 60% or 70% amongst the rural youth are exacerbated by their inability to participate in seasonal migrant work. Changing market conditions have removed the need to employ seasonal brigades on collective farms and other labour intensive Soviet projects. This employment shortfall is not addressed by land reform or the resolution of land ownership disputes between Chechens and Dagestanis, particularly notable in the Novolakskiy District.⁸⁰ This is exacerbated by the mushrooming of xenophobic attitudes within the Russian Federation against Caucasians following the Chechen war (1994-1996). Moreover, external organizations and NGOs appear to contribute to the destabilization of the republic through providing internal factions with greater legitimacy and so enhancing their promotion of factional interests.⁸¹

Unemployment and external intervention are a pervasive backdrop to clan divisions and clan-based Mafia activity. The ability of criminal groups to buy small arms illegally from state military structures provides the military capability and has acted as a spur to both hostage taking and terrorist acts. As a consequence, armed crime has risen dramatically over 1997-1998 in the North Caucasus; eg armed crimes rose from 202 in 1996 to 1,459 in Krasnodar Territory in 1997, from 63 to 626 in Rostov Region, from 8 to 78 in Kalmykia and 34 to 1,071 in Stavropol Territory. The lack of trust and coordination between local police forces and Federal security structures (the inability of the latter to react quickly to outbreaks of conflict in the constituent parts of the Federation), coupled to the persuasive attraction of radical Wahhabism exacerbate the situation. A key and visible diminution of Federal power in the region

is the striking inability of Federation power structures to police the Chechen-Dagestani or Chechen-Ingush border.

c. Krasnoyarsk Territory

Some regions in Siberia, for example Krasnoyarsk Territory (which constitutes 14% of Russia's entire territory and is three times the size of France) are important in geostrategic and economic terms to the cohesiveness of the Russian Federation. Alexander Lebed stood for regional governor in Krasnoyarsk in May 1998. This gubernatorial election was of interest not just because it marked Lebed's return to the national stage, but because it provided an insight into the role of FIGs in regional politics and how FIGs perceived the political relationship between regional and central power structures. Boris Berezovsky (Executive Secretary of the CIS), who hoped that given a seat in the Federation Council, Lebed would stand in the 2000 election on a 'national patriot' platform and so split the Luzhkov vote, funded his Gubernatorial campaign.⁸²

Lebed stood against the incumbent Valeriy Zubov, whom Luzhkov supported. The first round was held on the 26 April 1998. Lebed unexpectedly captured 45% of the vote in the first round (it is alleged that the actual vote cast was 52% in the first round to Lebed, but falsifications resulted in 45%), and the People's Patriotic Front candidate, State Duma Deputy Petr Romanov, took 13% of the vote. It was highly likely that Lebed would pick up the balance needed from the third placed candidate in the second round and so become Governor.

Following the first round result the Krasnoyarsk Governor Valeriy Zubov demanded that all federal debts to the Krasnoyarsk Territory be paid, threatening irrevocable consequences otherwise. He had lost the support of the regional economic elite and he argued that 'Moscow bankers' had supported Lebed by not transferring allocated funds to Krasnoyarsk for carrying out the spring crop sowing campaign. Such a policy left Krasnoyarsk with two options - either not to pay taxes to the Federal budget or to implement Lebed's policy of 'agreeing to the criminal redistribution of property'.⁸³ In response Yeltsin's press secretary Sergey Yastrzhembskiy stated that it was *'unacceptable and irresponsible in principle to tolerate any attempts to shake the constitutional foundations of the Russian Federation. Any games involving the fire of separatism are likewise not to be tolerated.'*⁸⁴

Zubov then changed tack and suggested that, as the Territory had been 'split as a result of the gubernatorial elections', a coalition government for Krasnoyarsk Territory should be created, consisting in effect of his supporters within the regional elite.⁸⁵ He further argued that western technology and western campaign tactics had duped the voters. Lebed entered the debate, declaring that the idea of a special status for the territory was *'totally stupid'* because *'Krasnoyarsk Territory is an inalienable part of the Russian State, covers 14 per cent of the territory of the Russian Federation and is in the very centre of the country.'*⁸⁶

Lebed won the election on 17 May 1998 with 57.29 % of the votes, Valeriy Zubov receiving 38.18%. With the result going Lebed's way, both he and Moscow issued statements indicating that they would establish good working relationships. However, Zubov and the Speaker of the State Duma Seleznev still maintained that despite his statements to the opposite, Lebed would use the position and power of regional governor to initiate a series of unconstitutional actions and thereby pose a challenge to the Federal power. Lebed was inaugurated governor of Krasnoyarsk

Territory on 5 June 1998, with Berezovsky and approximately 150 businessmen in attendance (half were foreign). One analyst has argued that Lebed would take control of the power structures within the Territory and stop paying taxes to the Federal budget.⁸⁷ Then a range of options remain open to him. In short, he can:

- * sack and replace leaders of the regional power structures – not just the previous governor’s advisors, but the local political and military elite - including Federal structures, for example, the local Federal Security Service, militia and MVD chiefs. In effect, this is to privatise and regionalise federal structures in Krasnoyarsk *kray*. Lebed instituted criminal proceedings against several officials of the outgoing administration in September 1998.⁸⁸
- * stop regional enterprises paying taxes in the place where their head offices are located (ie Moscow), rather than the place where their enterprises are based (ie Krasnoyarsk). Such a redistribution of economic power has the backing of Anatoly Bykov, the principal business/criminal magnate in Krasnoyarsk and would prove popular were the money used to pay wage arrears.
- * link with his brother Alexei Lebed, governor of the neighbouring republic of Khakassia, and so effectively cut the territorial road and rail links between European Russia and the Russian Far East - the miners strike and the ‘rail war’ reveals the ease with which the Trans-Siberian railway can be picketed.

Such actions constitute a direct challenge to Moscow and the exercise of Federal power within the Russian Federation. Russia’s transportation system will be compromised and the break of Siberia and the Far East from central Federal control would be economically catastrophic. Lebed could issue a rallying cry around which other regional leaders, such as governors Rossel of Sverdlovsk Region, the ‘Ural Republic’ and Nazdratenko of the Maritime Territory might unite. Luzhkov has commented that should Lebed institute such policies then ‘Russia will perish.’

According to this reading of Russian centre-periphery relations, the regions are in the process of shifting their alliance structures away from cost-benefits networks between the province and the centre. These old networks are being replaced by regional integration around shared geography, economic assets and powerful governors, such as Luzhkov and Lebed. The growth of regional blocs will in turn force the economically weak regions to support the net donors. This will fracture their fragile ties with a centre that provides few benefits. For example, Tuva is 90% dependent on Krasnoyarsk for energy - and will support its regional patron. These new grouping of regional blocs and ‘self-contained principalities’ will sideline Moscow.

Lebed’s Krasnoyarsk power base will be strengthened by his effective response to the financial crisis sweeping across Russia. If he deals with the crisis within his region effectively, it would prove a solid platform on which to run for the presidency in 2000. The presidential elections will be vigorously contested by a number of candidates, including Lebed. Analysing both Lebed’s political career and personality, it is clear that he is a specific type of politician, even by contemporary Russian standards. He does not recognize political rules but breaks and changes them. He is a populist and a self-styled ‘expert in crisis management’, but his policy positions represent a *terra incognita*. The implications of Lebed’s gubernatorial victory have been widely discussed by political analysts. Two lines of argument have emerged. Lebed may use

the governorship as a stepping stone to the presidency, or he may attempt a *de facto* break from the Federation, creating in all but name a separate republic in the heart of Siberia. It appears unlikely that Lebed would attempt both – to threaten or realize regional separatism as a stepping stone to the presidency is contradictory. Most commentators argue for the former scenario, viewing the latter as out-of-character and politically unrealizable. Indeed, Lebed appears to have accepted the subordinate position of Krasnoyarsk: *'The Territorial Administration realizes that the area indeed depends on the federal centre at present, but it is opposed to the idea of this dependence being used for arm-twisting.'*⁸⁹

However, one scenario - call it 'the patriotic paradox' - could unite the two seemingly contradictory options. Lebed, determined not to be the grave-digger of the Russian Federation, bases his powerful appeal during the forthcoming Presidential election on the rhetoric of patriotism and unity and denigrates separatists. This proves a successful formula and whilst it renders Lebed the political support to be a serious contender in the second round presidential run-off, his support proves to be not strong enough to win. The second round will be a highly volatile and closely contested election, and it is highly likely that in such a scenario allegations of vote-rigging and falsification will be the least of illegal denunciations. This could lead Lebed to conclude that if he is to be denied presidency of the Federation by undemocratic means, he will at least ensure that he remains 'president' of Krasnoyarsk.

II. The Nature of Regional Autonomy

To what extent have regions acquired federal power, either through default or design? That federal structures and control mechanisms have been damaged during the post-Soviet period is undisputed, but to what extent does growing regional autonomy represent the first steps along the road to *de facto* confederation or sovereignty? In order to answer these questions, we must first examine the anatomy of regional autonomy during the late 1990s.

Regional autonomy is based upon six central pillars, the first of which is constitutional legitimacy. Regional governors have created power bases that are buttressed by local constitutions that in some cases contradict the constitution of the Russian Federation. Chechnya aside, the republics of Buryatia, Kabardino-Balkar, Komi, Tatarstan and Tuva claim 'sovereignty' to themselves. The Statutes (*Ustav*) of the Regions can also contravene the Federal constitution. Moreover, the ambiguously worded Article 72 of the Russian Constitution provides opportunities for the Federation's constituent parts to enter into international relations. In June 1998 Yeltsin addressed himself to this problem, and stated that *'enforceable enactments which are at odds with Russia's international accords, not to mention the Russian constitution, continue to be passed in the regions.'* Moreover, *'interferences in the prerogatives of the federal authorities is continuing in a number of republics.'*⁹⁰

These constitutional arrangements allow heads of the constituent units to dominate local government⁹¹ (municipal councils) and act arbitrarily within their Region, Republic or Territory with recourse to almost unlimited power. They habitually ignore Federal legislation and so act unconstitutionally.⁹² Three examples suffice to illustrate this trend. In 1998 Tatarstan's State Council passed a law on citizenship that contradicts Russian Federal law – a resident of Tatarstan can hold the republic's citizenship without keeping Russian citizenship. In some instances, the centre's reluctance or inability to fulfil its Federal responsibilities have exacerbated this

tension. The Kemerovo Region governor in Eastern Siberia, Aman Tuleyev, was forced to usurp presidential prerogatives and declare a state of emergency due to the strike situation in the Kuzbass on 21 May 1998. He could not wait until the federal government 'deigns to take action'. He stated that the threat of regions developing into self-contained principalities must not be allowed to happen: *'There must be a strong centre and strong regions.'*⁹³ In January 1998 the Governor of the Autonomous Republic of Kalmykia, Kirsan Ilyumzhinov, dissolved the government and halved the number of *Federal* officials.

Governors have also entered into a set of local alliances and political relationships within their regions to ensure that they maintain local electoral support and power. Local councils are routinely packed with the Governors' placemen. Aman Tuleyev arbitrarily fired the mayor of Prokopyevsk for 'bad work', although he was elected rather than appointed by the regional administration. This was mirrored in the Maritime Territory, where the regional governor Yevgeniy Nazdratenko has battled continually with the Mayor of Vladivostok, Viktor Cherepkov (a Moscow backed politician), attempting to have him replaced by his own appointee.⁹⁴ In some regions elections for key posts are uncontested or rigged. For example, in the June 1998 presidential election the President of Bashkortostan, Rakhimov, barred three other candidates from standing against him, following the example of Tatarstan's President Mintimir Shaymiyev.

Moreover, some regional governors (for example the governor of Saratov) are adept at utilizing national political assets to further their own regional ends. The regionalization of political parties is particularly striking in Our Home is Russia, the former Prime Minister Viktor Chernomyrdin's political power base. OHR has suffered a break down in relations between regional elites and the central OHR leadership in Moscow. According to the OHR executive committee, over half the governors in OHR have created their own regional parties from the ashes of the movement's local branches.⁹⁵

Regions are gaining *de facto* independence at the expense of civil rights and democracy in return for ensuring the republics' support for Yeltsin in presidential elections. The actions of Governor Nikolai Kondratenko of the Krasnodar Territory are a painful reminder of the importance and the price the centre is prepared to place on loyalty. He has cultivated the All-Kuban Cossack Troop and indulged in separatist tendencies based on anti-Muscovite and anti-Semitic rhetoric. The Commission on Human Rights under the President has warned: *'Another dangerous phenomenon is the trend towards legalizing the activity of extremists with support from some local authorities and law-enforcement agencies disguised as assistance for law and order or the nurturing of patriotic ideas among young people.'*⁹⁶ The Krasnodar governor was publicly named by Justice Minister Pavel Krashenninikov as an extremist, with the caveat: *'Well, as for criminal proceedings, one should not forget that each governor in one country is a member of the Federation Council and has the relevant immunity.'*⁹⁷

As the Federal budget has proved unable to pay for basic provisions such as food, accommodation and energy, Federal troops located in the regions have become dependent for survival upon the regions in which they are located. The quality of their existence is linked to the strength of the regional governor's support for military units based on their territories or republics. Thus, the reality of defence cuts and budget mismanagement or outright corruption means that regional governors keen to maintain stability in their regions, provide the necessary provisions *gratis*. This

fragments military cohesion and the integrity of military units within the Federation and creates *de facto* alliances between local military commanders and local politicians. For example, in July Lebed met the commander of the Siberian Military District (Col Gen Grigoriy Kasperovich) and the Commander of Russian Internal Troops (Lt Gen Nikolay Novak) to discuss the supply of military units with basic provisions from the regional budget.⁹⁸ These new ties of dependence cut across bounds of loyalty within the Federal military and Interior Ministry structures and enhance the regionalization of Federal military structures. The starkest example is occurring in the Russian Far East. Here governor Nazdratenko has effectively regionalized the military, paying wage arrears to the Russian Pacific Fleet from regional budgets in return for ensuring only those officers born in the region serve in the Pacific Fleet.

The relationships between energy rich regions' recently privatized economic assets and oligarchs are more difficult to characterize. It appears likely that both dependency and interdependency networks are operating. That is, in some regions governors are dependent on oligarchic Moscow-based capital and media control to ensure their re-election. In other regions governors have tapped into home-grown sources of economic power. Another graphic example is President Murtaza Rakhimov's control of Bashkortostan's political and economic process. This is routinely compared to that of feudal family fiefdom: his son controls oil refinery and production facilities; his wife until 1996 controlled oil exports; and his nephew the largest (and tax exempt) bank.

Governors are also exerting greater independence from central federal control through the acquisition or creation of 'independent' regional communication and informational networks. The more powerful amongst the regional governors and presidents support the building of international airports – Ingushetia and Kursk regions are examples – allowing them direct access to foreign states and so the ability to by-pass Moscow power centres and ministries. This is likely to lessen the power of the centre and increasingly fragment the role of Russia in international relations, widening the gulf between governmental policy statements and actual practice.

Governors have also sought to control the 'information space' within their regions, clamping down upon 'dissenting' independent presses and radio stations. The fate of the newspaper *Vecherny Neftekamsk* in Bashkortostan proves a good example, and the murder of a journalist in Kalmykia made national headlines. In early June 1998 Larisa Yudina, the editor of *Sovetskaya Kalmykia Segodnya*, was murdered after a Russian TV broadcast in which she claimed that democratic liberties and human rights in Kalmykia were flouted, the local press was censored, and money intended for the republic had been diverted to personal presidential accounts. Larisa Yudina argued: *'Kalmykia today is Chechnya in 1993. On the basis of what parameters? On the basis of the following parameters: human rights are being violated; budget funds are disappearing; the republic is saturated with weapons.'*⁹⁹

As well as shutting down local media outlets through intimidation or worse, many governors are also financing pro-local government papers. The Moscow press is rarely critical of Luzhkov, a governor who has created Metropolis holdings, which has launched a pro-Luzhkov national newspaper - *Rossiya*. This trend is compounded by the startling down-turn in the sale of national papers. The Russian press is becoming regionalized: in Siberia, the Far East and a number of other regions there is one copy of a national newspaper per 1,000 residents - in 1990 the annual circulation of all

national publications made up 71% of the total circulation of all publications in Russia, in 1997 it was down to 30%.

Already, the rise of regions and regional elites onto the national stage has an important impact on Russia's foreign policy. Increasingly the line between territorial unit and Russian federation or state foreign policy is being blurred. With the rise of regional governors this will be further exacerbated. The regions are already foreign policy actors, signing agreements with foreign countries - Tatarstan with Ukraine, for example. The governor of Sverdlovsk region, Eduard Rossel, has continually pushed for the creation of a 'Urals Republic'. In June he issued a decree which transformed regional government departments into 'national' ministries, appointing Anatoliy Tarasov as minister of international and foreign economic relations of Sverdlovsk Region. Russia's first regional minister's task was to restore the 'horizontal economic ties of Sverdlovsk Region with countries of the Commonwealth of Independent States.' The Regional дума also passed a law on international and interregional agreements of Sverdlovsk Region, in which the Region *de facto* secured the status of a subject of international law.¹⁰⁰

Such tendencies within the Federation complement the growing regionalization of the foreign policies of individual foreign states towards the Russian Federation. Japan, for example, has shown itself to be increasingly enthusiastic to establish direct links with geographically proximal regions in the Russian Federation - regions in the Far East receive the largest share of Japanese aid.

The ability of regions to articulate and implement a foreign policy is increasingly acknowledged by both foreign states and the Federation centre. For example, the US Secretary of State Madeline Albright on a stop-over in Ekaterinburg in early May 1998 stated: '*Many American states prefer to establish direct contacts with the Russian regions.*'¹⁰¹ Federal power is aware of the drift towards regional foreign policy formation, signalled, not least, by the presence of many regional governors at Davos 97. Yeltsin, in an address to the Foreign Ministry on 12 May 1998, stated that the international activity of the regions of the Russian Federation '*is an important and very delicate area, not only for foreign policy, but for the country's domestic policy too.*' He warned that the '*attempts by the regions to go their own way must, as ever, be stopped.*'¹⁰²

III. Systemic Weakness as a Source of Federal Cohesion?

That regions have quietly acquired a greater degree of autonomy is clear, but does this constitute a threat to the territorial integrity and sovereignty of the Russian Federation? It is a general feature of Russian history that when the centre is weak and the President/Tsar's remit outside of Moscow is curtailed, the regional centre-periphery relationships dominate the province-Moscow relationship. Whilst it may be true, certainly with regard to the North Caucasus, more questionably in the case of Krasnoyarsk, that regional autonomy may spill over into *de facto* sovereignty, it can also be argued that regional autonomy *per se* is merely one characteristic of contemporary Russian political environment. In other regions, local governors and presidents of autonomous republics in the post-Soviet period have embraced provincial particularism, a tendency that provides a thread of continuity throughout Russian political history, a feature of the pre-Soviet political culture. The local power networks can be seen as an end in themselves, not a means to break from the centre.

The framework of weak federal control has allowed these networks to prosper. In light of these features of local politics, it could be argued that the existing system of Federation politics – if not the written word of its Constitution – effectively accommodates the diverse patchwork of local political activity; the system of Federal control paradoxically draws ultimate strength from its very weakness.

Thus, Moscow's control over its regions may be relatively weak in the immediate post Soviet period, but a central feature of Russian political history has been the see-sawing of power between the regions and the capital; centre-periphery tensions remain a reassuringly constant though evolving dynamic, a thread of continuity between past and present. Indeed, it is misleading to concentrate overly upon the sources of local particularism and provincial regionalism without stressing the bonds that unite the Federation and uphold its territorial integrity. These sources of cohesion are numerous:

- * The regions have no tradition of independent statehood and would be unwilling to break from Moscow's control. The Time of Troubles (1598-1613) or the post 1917 period have helped to ingrain a fear of chaos and anarchy which underpin a sense of community amongst the Russian people, of togetherness and survival through co-operation rather than individualism.
- * This sense of *sobornost* is underpinned by psychological, linguistic and cultural affinities that bind the Russian people (ethnic Russians and Russian speakers) together. Such bonds further undermine separatist tendencies.
- * Furthermore, when the economy improves Moscow's power and the ability of Federal mechanisms of control - such as the military - will be able to impose their presence within recalcitrant regions. Whilst central power may be presently weakened, it receives strong support from the international system and international institutions which relate to Russia as a sovereign and integral state. This provides the state with a powerful external mode of legitimation.

These arguments are not as persuasive as they at first appear and they are open to refutation. The counter-arguments are based around the notion that the Federation lacks internal modes of legitimacy:

- * For many Russians there is already a feeling - Chechnya apart - that Russian territorial integrity has been breached. Such an understanding compares the Soviet Union to the Russian Empire in terms of territorial equivalence, and argues that the Russian Federation is an artificial, ahistorical creation, which fragmented the Russian people, leaving large Russian communities stranded in eastern Ukraine, the Baltic States and Kazakhstan. Before 1991, what was the difference in the eyes of the majority of Russians, and not least the CPSU and KGB elites, between the status of Kiev, Minsk and Vladivostok?
- * Thus, the Russian Federation is neither a nation nor a state but territories upon which some Russian peoples live. To further fragment that territory through instituting a confederative arrangement or realising *de facto*

sovereignty by default does not represent a qualitative difference in *actualité* or a step-change in perception. Moreover, communities living on Russian territory are already fragmented. Russian Cossacks in the North Caucasus are different entities from Russian Cossacks living in Siberia. The security environments and survival dynamics differ radically between these regions.

- * Patterns of control appear to differ between those regions that are ethnically Russian and those that are not. The non-ethnic or 'non-indigenous' constituent parts (15 republics out of 21), appear more amenable to central control. These republics have not tended to adopt a federal sub-system on their territories, but have instead introduced unitary systems and presidential regimes: they are more agricultural and rural than urban and industrial; traditional political cultures allow for more rigorous forms of persuasion and control; and they are poorer. However, these patterns of allegiances are being usurped by the rise of both FIG networks and regional blocs.
- * This fragmentation is compounded by the radical downturn in migration and travel patterns in the post Soviet period. Inter-regional migration has decreased ten fold since the Soviet period; even before rouble devaluation it cost the average Russian five months salary to travel from Moscow to Vladivostok by air.
- * To talk of economic resurgence in the near or medium future is to simply ignore painful current economic realities. The export branches of the economy (oil and gas and natural resources sectors) are productive and known reserves are massive. Other industrial sectors are in disarray - particularly the manufacturing and industrial sectors. No investments are forthcoming or likely in the context of hyperinflation and a global recession. Moreover, over 60% of Russian natural resources which were formerly state property have been privatised, passing state control of strategic and profitable industries into private oligarchic control. In July 1998 a government privatization policy document reduced by more than three quarters the number of strategic companies in state hands that cannot be sold off - from 3,000 to 697. Second phase privatisation has been a notable feature of Yeltsin's second term presidency and is set to continue with the sale of government stakes in Rosneft, Slavneft, UES, LUKoil, Svayzinvest, Gazprom and the Central Bank in 1998 and through 1999.¹⁰³ It may also include enterprises within the military-industrial sector.
- * Furthermore, economic space is not integral but regionalized. For example, both the Leningrad region and the Russian Far East are more integrated with Nordic economic space and NE Asia (Korea, Japan, and China), than they are with Moscow. The military after Chechnya cannot be relied upon to respond to political control - it is starved of cash, demoralised and has lost its integration through regionalization.

Despite these systemic trends, however, the case for outright 'disintegration' appeared overstated during the Kiriyenko government. A clearer analysis of the centre's policy initiatives in the first six months of 1998 reveals that a series of recentralizing actions have been undertaken. The key initiatives have been economic driven, but economic

recentralisation is complemented by a series of judicial, political and cultural policy decisions.

The key tie that bound the federation together was the exercise of 'budgetary federalism'. The centre's ability through the Ministry of Finance to tighten central control over regional economies has been a notable feature of 1998. On 30 April 1998 a new deputy prime minister, Viktor Khristenko, was appointed to post, taking responsibility for interbudgetary ties, regional policy, federal budget revenues and wage payments. He promised that Moscow would halt the barter-like reciprocal settlements with the regions, forcing regional budgets to make up the shortfall in Federal subsidies.¹⁰⁴ Another lever of Federal economic influence was introduced when the Ministry of Finance determined that regional governors could no longer take out foreign loans, a tactic some governors employed in order to appear fiscally self-sufficient by the centre – they did not claim Federal resources.

The Governor of Kalmykia in 1993, for example, attempted to take out a foreign loan to be paid back in ten years – six years after the Governor's term ended. This 'jam today' tendency has been controlled and, generally, the economic relations between the regions and the centre encountered both *perestroika* and *glasnost*. The Chairman of the Federation Council, Yegor Stroyev, for example, warned that the anti-crisis programme, premised on the cutting of social spending and the increase of taxation (including the payment of income tax and VAT to the federal budget), would unduly effect the regions and cause a backlash. He highlighted the need for a new law that would clearly define the distribution of financial resources between the regions and the centre.¹⁰⁵ A regional backlash during the Kiriyenko government failed to materialize. What is clear is that during the last year the government had supported a broad raft of measures to pull the regions back into the centre's sphere of influence:

- * Before March 1998 Chubais had set about enforcing the authority of presidential representatives in the regions and this strengthening of the institution of presidential representatives was complemented by replacing those that had 'gone native' with stronger personalities.
- * The centre regulated the ability of regional administrations to buy media outlets and censor news broadcasts.
- * More negatively, the centre applied coercion and blackmail to keep governors in line - certain governors who are known to be engaged in criminal activities are controlled through the threat of exposure by the president's Main Monitoring Directorate (headed by Vladimir Putin who was also first deputy head of the presidential administration, before his promotion to director of the Russian Federal Security Service in late July 1998) which has files on all governors.
- * In May 1998 the Constitutional Court ruled that all the decisions of the Supreme Court and regional courts which contravene the constitution and federal laws (with regard to regional laws and the roles of governors) are now illegal. The Justice Minister Pavel Krashenninnikov stated that a register of regional acts was now being prepared to keep track of them and 'react adequately to violations.'¹⁰⁶

Moreover, Governors who seriously contemplated breaking from the centre in order to exploit economic assets on their territory faced both internal dissent from regional assemblies and the threat of a centre backlash.¹⁰⁷ Internal regional opposition to a break from the centre could entail a re-run of the Yakutia-AlRosa scenario. When Yakutia threatened secession from the Federation, the Russian populated diamond fields in turn threatened secession from Yakutia. Were Krasnoyarsk (for example), to threaten to break from the centre, Norilsk Nickel, an economic asset which provides one third of Krasnoyarsk's income, could transfer its subordination from Krasnoyarsk *kray* to the Taimyr autonomous district in the north of the territory, which has threatened separatism.¹⁰⁸

Governors who have directly challenged the centre over the withholding of federal taxes have won few resounding victories over Federation structures in Moscow. For example, Governor Nozhikov of Irkutsk, a net donor region, had his bluff called when he threatened to withhold payments to the Federal budget and resigned. It is clear that governors threatening to withhold tax payments are doing so from a position of economic weakness, not political strength. The Vice President of Khakassia (Sergei Vasilyev) somewhat sarcastically characterised the psychology of such governors: '*A lot of regions say things like, 'We don't have any money' or, 'we're waiting for money from the finance ministry,' and in general one is given the impression that these aren't governors, but some kind of poor relatives who are always coming to you and asking for something*'.¹⁰⁹

Two powerful centralizing Federation-wide tendencies are the influences of political parties and the nature of budgetary politics. It would be technically impossible to halt the payment of income tax from, for example, Krasnoyarsk *kray* to Moscow. The social insurance foundation and pension fund have current accounts in the federal treasury and a regional governor cannot access these accounts. This is not to say that governors have not made this threat - Alexander Surikov, governor of Altay has threatened such action.¹¹⁰ Moreover, some regional leaders are also constrained by their political affiliation to metropolitan-based parties – particularly CPRF governors who have supported the CPRF's call for the impeachment of Yeltsin. Of the remaining governors, paradoxically the opposite hold true as '*many of them lack a party base for battles with the centre*'.¹¹¹

The activities of FIGs within the regions can be viewed more positively than the method of their rise to power might lead one to conclude. National banks have taken over the role of regional banks; they thus interpenetrate regional space, linking regions together and help to cement their relationship to the centre. FIGs, then, have the capacity to contribute towards Federal cohesion. They provide rational actors within the regions and so largely stabilize economic relations and, where 'All-Union' Soviet economic mechanisms have collapsed, they represent a pan-Federation presence that unites regions both with each other and with the centre.

But within this centre-region dynamic the balance of power, between centre and periphery, is complicated by the ability of net donor regional governors to form alliances with Moscow-based non-state financial industrial groups. These coalitions can both buttress and undermine presidential power. They can both manage local electorates to ensure voter participation in presidential elections and co-opt presidential and federal agents into their local power networks.

Moreover, the new dependency networks (based on cash support/bribery and lucrative contracts) being created by FIGs, takes place against a backdrop of struggles for control of privatisation projects in the regions and oligarchic infighting within Moscow and the competition for natural resources and industrial infrastructure within the periphery. The essential chaotic nature of these coalitions – further complicated by the presence of criminal groupings in the regions - impedes centrist attempts to mediate or structure the relationships.

This may be to overstate the positive influence of FIGs. It is likely that in some regions where there is a tension between taxation of FIG economic assets (such as oil production facilities), FIGs attempt to influence and control local politics. For example, were a city within a region to attempt to impose higher taxation rates than the regional government, the economic asset would attempt to affiliate itself to the region as opposed to a particular city. FIG strategies would then involve grooming a political opposition contender to the post of city mayor and the promotion of company placemen to the local town's *Duma*, in order to facilitate the reduction in local city taxation rates. The tactics would include acquiring local media outlets (TV and newspapers) in order to campaign for a selected political contender, for example a local union leader. It may also involve assassination – although it is clear that criminal gangs are more likely to revert to such crude control-tactics.¹¹² In the oil-extracting town of Nefteyugansk in Siberia, the local mayor Vladimir Petukhov was assassinated on 26 June 1998. The Oil Company Yukos was accused by local people of instigating the murder, although the company denied the allegation.¹¹³

Furthermore, in most regions there tends to be only one main industrial or raw material economic base. Thus regional politics involve an inter-play between the particular FIG controlling the profitable economic asset and the regional governor.¹¹⁴ This provides a stabilizing element within the regional political landscape (Irkutsk with its multiple and competing FIGs is an exception). Horizontal economic integration – a bulwark against disintegration - is promoted through the creation of inter-regional economic associations (MEAs), such as the Siberian Agreement, the North-West, the Greater Volga association, the Urals regional association, the Chernozem Zone, the Far East Association, and the Association of the North Caucasus.

Thus, the Kiriyenko government continued the process undertaken by Chernomyrdin to consolidate the centre's clawing back of 'critical' power from regional governors. By and large, these heads of administrations lacked the will and the ability to orchestrate anything other than symbolic splits from centralized control. The Presidency has continued to co-opt recalcitrant governors into Federal power structures through appointments to positions in presidential structures, or to government as deputy prime ministers. Whilst governors are able to exercise large amounts of autonomy, this regionalism falls short of internal or *de facto* sovereignty, as the critical mass of devolved power is not breached. The centre's ability to maintain control over regions is attributed to the cohesion supplied by 'budgetary federalism' and the rational-actor role of FIGs. They operate within a known framework of behaviour, unlike potential regional dictators who could act irrationally according to their private whim. They represent a more stable Federal alternative to authoritarian introspective overlords.

Having argued that the Kiriyenko government had actively backed a policy of curtailing regional anarchy, will a Primakov government continue this process? Kiriyenko, for example, had been preparing a law which would have restored a

hierarchy within the regions. It would have given the president the right to sack governors, and governors the right to sack mayors.¹¹⁵ This law would have been implemented in September 1998. Will its progress be derailed by the political crisis? Can Primakov continue to make a virtue of a vice - will he be able to harness systemic weakness as a source of federative cohesion, or will this peculiarly Russian paradox at the heart of governance implode?

IV. Systemic Transformation?

What of the 'Autumn meltdown', the impact of the financial crisis upon the Federation and the expected political-fallout which Chernomyrdin's government so assiduously sowed and Primakov is set to reap? Essentially, it is predicted that the failure of the anti-crisis programme to overcome the debt crisis, the impact of the consequent rouble devaluation coupled with the return of the *Duma* from the August break to approve the 1999 state budget will lead, in the words of Zyuganov, to 'complete chaos and collapse.' Presently, we witness the presence of mass protest over wage and pension arrears and unemployment, with all sectors of the economy involved in industrial unrest (including the power structures and military) throughout the Federation. The transport delays brought on by the 'rail wars', according to the Ministry of Railways, have created a critical situation at atomic power stations, nuclear centres and even missile installations. As one analyst has noted, chaos appears close: *'Strikes in key sectors may spread. Cargo on the Trans-Siberian railway is again being blocked. Coal miners in several areas have downed tools. Workers in oil and gas fields are threatening to follow suit. Many teachers have stopped teaching. Defence workers in the Far East, unpaid for a whole year, have given up. Are the army and the police certain to obey the civilian powers, if it means physically repressing, perhaps even shooting such strikers? It is unlikely.'*¹¹⁶

Is it possible that the present 'meltdown' could trigger the formation of a new type of confederative arrangement within Russian territory? Should these inherent fragmentary tensions become more apparent over the next few months, it is possible that Yeltsin would declare a state of emergency, suspend the constitution, side-step the *Duma* and look to regional leaders to broker a power-sharing agreement between the presidency and the regions. In effect, this would entail the creation of a confederation, a Commonwealth of Independent States within the Russian Federation. It would mark the final collapse of Soviet and then Russian power since 1991.

But is Russia the Soviet Union *circa* August 1991? On what basis might such a disintegrationist scenario unfold? It is possible that the cumulative impact of the collapse of key pillars which underpin the Federation could drag it towards disintegration. This systemic breakdown has its roots in the nature of the post-Soviet Yeltsin Project - a vertical hierarchy of power, growing regionalism, parliamentary disenfranchisement, and popular political apathy. Where can we locate systemic collapse?

- * The most obvious sign of meltdown is in the financial and economic sphere, where we are witnessing the start of stagflation - economic stagnation and hyperinflation. The Central Bank has begun to print roubles to inject cash into the economy and this will exacerbate the devaluation of the rouble. Inflation in August was 15%, payments of back wages worth only a third of their value (it could be a thirtieth, fiftieth or a hundredth by December) and barely two weeks after devaluation, food prices are up 20% (imported goods

are 80% dearer). The banking system has begun to collapse, on the verge of liquidation or consolidation through mergers - the former likely to triumph in the context of an incipient global recession. The Ministry of Internal Affairs stated that the annual flight of capital from Russia is 'comparable to the International Monetary Fund stabilization loans'.¹¹⁷ Under these conditions the virtues of 'budgetary federalism' are unrequited by the regions.

- * The centre's power to control the periphery will be eroded as net donor regions will be less willing to pay money into the Federal budget. Indeed, some regions are in such dire straits that such a refusal to pay such money would have legitimacy. On 7 September 1998 both Krasnoyarsk and Kaliningrad stated that they would refuse to pay taxes to the federal budget as they were in a state of emergency.
- * As a result net receiver or consumer regions are even more likely to up the political *ante* by encouraging local nationalisms in order to maintain the level of federal funding and subsidies. Russian centre-periphery relations are then governed by a vicious spiral of vice: as Federal subsidies dry up, tensions between opposing factions in dependent regions are exacerbated; competition for control of the limited hand-outs becomes more intense. Dagestan appears to be a clear case of this political brinkmanship with the centre.
- * Incipient emergencies have been declared or are on the verge of declaration. One key category of crisis is in federal government's inability to deliver fuel, food and energy to the regions. Twelve 'energy crisis regions' have been identified as particularly vulnerable. These include Altay Territory, Novosibirsk and Chita Regions, Maritime Territory, Archangel Region, Chukotka Autonomous Area and Kamchatka Region. The Koryak Autonomous Area, Magadan Region and the north of Krasnoyarsk Territory are in an 'extremely difficult situation'.¹¹⁸ The Presidential envoy to the Maritime Territory (Viktor Kondratov) warns that the Territory may have to be evacuated this winter as there is no coal left in the Maritime thermal power station, and no money in the regional budget to pay off arrears to the Federal budget or Dalenergo (Far East Energy).¹¹⁹
- * Military disintegration has been a constant feature of the post-Soviet period, underlined by the Chechen war debacle. The army has ceased to exist as a coherent or effectively co-ordinated entity, only key elite units have fuel or back-pay, and their loyalty is under question. In the regions, many military units have, in effect, been regionalized. It is unlikely that the military could, even at the best of times, respond to civil war in Dagestan, never mind in the context of political and economic paralysis. Yeltsin becomes reliant upon largely untested Ministry of Interior Troops, who have received regular pay, and could prove decisive in Moscow.
- * Economic chaos, financial collapse and growing strains in centre-periphery relations leads Yeltsin to declare a state of emergency and suspend the constitution. Under these conditions the *Duma* could refuse to be dissolved; Russia could find itself back in 1993, with a dual power confrontation between executive and legislature. Yeltsin, in conjunction with picked regional governors, would be at war with parliament and beset

by sea of difficulties - 'rail wars' blockading the trans-Siberian rail link; the spillover of violence and instability from Chechnya across the North Caucasus; the impact of hyperinflation on social unrest; the failure of power stations to deliver power to peripheral regions with the onset of winter; the collapse of the taxation and banking system; the mushrooming of extremist anti-semitic and xenophobic movements - the list is long.

- * As the Federation collapses, Yeltsin side-steps the dissolved and recalcitrant *Duma* and institutes a tactical alliance with regional heads of administration in the Federation Council to force through a new confederative constitution which recognizes current trends within the Federation - the growing interdependence between regional leaders and the executive and the ineffectiveness of the *Duma* as a political institution.

If the Russian Federation represents the Soviet union on the eve of the breakup in 1991, then the economic, social, military and political impact will be far worse. In 1991 pan-Soviet power structures still functioned, although the psychological impact was disorienting for the power elites. If this nightmare scenario unfolds there will be total implosion and meltdown - with no functioning Federal structures to maintain a semblance of order. Zyuganov has stated that the disintegration of the Russian Federation 'would be ten times more terrible and more dangerous than the disintegration of the Soviet Union.'¹²⁰

If we take this interpretation on board (who said in April 1991 that the USSR would collapse by December?) then how are we able to characterize the new political landscape which could emerge? What are the pillars or central features upon which this emergent post-collapse order might be based? Can we locate and define an emergent template for systemic transformation?

a. Pre-existing Pillars of Regional Autonomy, 1997-July 1998

Regions are currently exhibiting some or all of these tendencies. These tendencies provide a structure and rationale for regional coherence:

- * regional constitutional independence; gubernatorial legitimacy through elections
- * media and communicational independence
- * military regionalized in the regions
- * governors dominate local politics
- * FIGs and localized interdependencies
- * foreign policy pretensions.

b. Incipient Systemic Collapse of Federation, August-December 1998?

Cumulative impact of disintegration of federal pillars of support could lead to implosion of the Federation. So far all these disintegrationist tendencies are being displayed to various degrees. The question is, how deep must the meltdown tendencies bite in 'B' before we move to 'C'?

- * **Financial:** banking sector disintegration - capital flight - indicated by Central Bank printing spree, Gerashchenko appointed head of Central Bank.
- * **Economic:** stagflation, collapse of budgetary federalism and taxation system.

- * **Political:** power vacuum and paralysis, but within constitutional framework.
- * **Military:** Andrei Kokoshin, Secretary, Security Council replaced as 10 September 1998. This indicates that military reform is suspended - hence regionalization tendencies set to continue and MoD downgraded as a power ministry.
- * **Regional:** state of emergencies in some regions (Gorbenko in Kaliningrad and Lebed in Krasnoyarsk *krai*) declared. Price control regimes in Perm, Novgorod, Smolensk, Omsk, Chuvashia, Komsomolsk-na-Amure, Moscow, Vladivostok, Ust Kamchatka etc.
- * **Federal:** federal power structures regionalized or paralysed, especially military.

c. Possible de facto formation of regional blocs, December-April 1999?

Krasnoyarsk *krai* provides a case study for how this might occur, at least in the Siberian heartland. *Ad hoc*, temporary arrangements lead *post factum* to a fragmentation and a regrouping of power around a different rationale, logic, set of principles, driven not by a blueprint for strategic renewal but contingency, more by default than design. This drift makes it extremely difficult for the centre to counter the diffuse nature of 'genetic mutation' transformation. Different dynamics could govern different regions.

Conclusions

That 'slavery' is reported in Chechnya and the gold mines of Tuva and Krasnoyarsk regions, where migrant miners are working under feudal conditions (they receive food but no pay) is emblematic of the contemporary disorder of Federalism within Russia. The contemporary unplanned decentralisation of political and economic power to the provinces appears to be triggering a renewed cycle of regionalist autonomy. Between 1990 and 1994 centre-periphery relations were volatile, with neither the regions nor federal structures agreeing the limits of their prerogatives and power. The late 1990s, however, can be characterised as a period in which the danger of federative fragmentation is greater, with federal structures and presidential power undermined by the impact of a regional assault and internal systemic decay. The diminution of federal power and institutional effectiveness within the Federation can be attributed to a number of factors: the exercise of contemporary presidential power; the role of FIGs; and, the rise of regional power blocs.

The total meltdown scenario leading to the disintegration of the Federation, remains to be seen. What is clear is that the conditions for federal disintegration are present, if not yet dominant, whilst the conditions for continued democratic-market transition are almost entirely absent from Russia's political and economic landscape. Indeed, on the evidence presented it is not at all clear that 'Russia' is in democratic transition. Some of the constituent parts of the Federation have begun this process - certain regions and parties - but others are either ungovernable or have resorted to highly authoritarian modes of behaviour. Democratic norms are still weakly assimilated by the elite, and large sections of the electorate have yet to be acculturated into civic society. The exercise of political and economic power within Russia on the eve of the twenty-first century continues to raise the fundamental question: can the Russian Federation remain united and democratic?

On this interpretation of Russian political and economic development, it is clear that the maintenance of Federal unity is incompatible with the implementation of a

consistently applied and coherently articulated state-led democratization project. It is more likely that, barring total systemic collapse, the Federation will retain its patchwork 'unity' through the haphazard observance of provincialism, regional diversity and an acceptance of the centre's limited ability to govern effectively throughout the Federation. Stagnation, disintegration and democratization processes will hopefully continue to co-exist, but it is likely that no one ingredient will provide a definitive flavour to Russia's political system in the short or medium term. Russia will have developed a Russian doll political and economic system, peculiarly Russian in form and content.

Endnotes

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- ¹ I am grateful for remarks and advice made by a number of analysts on previous drafts of this paper, in particular: Dr. Jonathan Aves, Research Analyst, Eastern Department, FCO and Martin Nicholson, Research Associate, IISS, London. Any inadequate understanding and interpretation remain (alas!) my own.
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