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## Putin and Business: Good or Bad?

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## **Putin and Business: Good or Bad?**

Abby Greutman

### **ABSTRACT**

Russia has long been considered a superpower, but why, then, is its economy faltering? With all of its natural resources, why is there not more international investment? This paper explores the effects of Russian political policies on the international and domestic business within Russia in order to better understand the reasons behind Russia's unstable economic environment.

### **Introduction**

Russia is an interesting nation. It was once considered a superpower, it has a permanent seat on the United Nations Security Council (UNSC), and it is the largest nation in the world. Russia has the ninth largest population. Brazil, India and China (The other countries in BRIC) each have larger populations, taking fifth, second, and first places, respectively.<sup>1</sup> In addition to all of this, Russia also has access to large amounts of natural resources; however, it is considered to be a developing country, by the World Bank's standard, rather than an advanced economy. When compared to the other BRIC countries, Russia is found lacking. Russia is only growing by 4.9% per year, while India is by 6%, and China's rate is 10%.<sup>2</sup> I will not address Brazil in my analysis as it has its own political issues which I do not have space to discuss in this paper; I will, however, state that it is doing worse than Russia.

In order to understand this discrepancy, I intend to research how Russian politics have affected business. If they have affected Russia adversely, then this would be support that Russian politics have harmed the Russian economy. If not, then another factor must be found in order to

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<sup>1</sup> "The World Factbook: Russia." *CIA*. CIA, 26 Mar. 2013. Web. 1 Apr. 2013.

<sup>2</sup> "Doing Business in Russia." *Doing Business Subnational*. World Bank Group, 2012. 7. Web. 27 Feb. 2013.

understand what is detrimental to the growth of the Russian economy. I am not, however, limiting Russia's possible problems to its government.

### **Purpose**

There are different theories about how, and to what degree, the government has influenced, and continues to influence, business in Russia. I intend to present two different views and then case studies in an effort to better understand the interactions between the Russian political and business spheres.

### **Theories**

In accordance with the thought that Russian politics are detrimental to the country, comes Leon Aron's theory that he dubs as "The Putin Doctrine." Aron has a lengthy background in the study of Russian, and he is currently the Director of Russian Studies at the American Enterprise Institute. He explains Putin's overarching goal, which is: "the recovery of economic, political, and geostrategic assets lost by the Soviet state in 1991. Although he has never spelled it out formally, Putin has pursued this objective with such determination, coherence, and consistency that it merits being called the Putin Doctrine."<sup>3</sup> Aron claims that this Doctrine has led to authoritarianism, and he goes on to state that: "If Putin survives, 10 years from now you'll see a Russia totally dependent on oil revenue, declining across the board in social indicators and losing its best and brightest," and he even goes on to declare: "It will be a basket case."<sup>4</sup> In Aron's article he continues by giving examples of the Putin Doctrine in practice, which I will expand upon in my case studies.

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<sup>3</sup> Aron, Leon. "The Putin Doctrine." *American Enterprise Institute*. American Enterprise Institute, 11 Mar. 2013.

<sup>4</sup> McLure, Jason. "Russia in Turmoil." *Global Issues: Selections from CQ Researcher*. Ed. Elise Fraser. Los Angeles: CQ Press, 2013. 206. Print.

Another theory, however, is that of Anders Aslund. Now on the Senior Research Staff at the Peterson Institute for International Economics, Aslund also has a very impressive background, part of which includes serving as an economic advisor to the Russian government. His theory can be described as “Once a democracy, always a democracy.” This is expanded upon by Aslund’s statement in 2011 that: “No country that has ever been even half as wealthy as Russia has returned to authoritarianism after a democratic breakthrough . . . We will see a new democratic breakthrough this year. It will be peaceful, and new elections will be held for parliament and president, and Russia will start cleaning out the corruption.”<sup>5</sup>

I will consider two case studies and a general overview of political corruption in order to better understand which theory is the more likely.

### **Case Studies**

#### **AO Yukos Oil Company**

The first case study I have chosen to look at is that of the former Russian oil company Yukos. First, I will give a little background. The AO Yukos Oil Company was a state-owned oil industry, which was doing very poorly. In the mid-90’s, after the collapse of the Soviet Union, the government went through a period of privatization of state owned assets through the loans-for-shares program. During this time, the AO Yukos Oil Company (Yukos for short), was acquired by Mikhail Khodorkovsky for \$320 million, with approximately \$3 billion in debts to be paid. At the time of the acquisition of Yukos, the company was only producing half a million barrels per day, and the production cost of each barrel was an expensive \$12.<sup>6</sup> In order to increase production and to cut costs, Khodorkovsky made the decision to bring in specialists of

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<sup>5</sup> Ibid. 207.

<sup>6</sup> "The Yukos Affair." *The Yukos Library*. The Yukos Library, n.d. Web. 1 Apr. 2013.

Western influence to consult on the project. Anders Aslund states that Yukos “introduced corporate transparency, adopted Western accounting standards, hired Western top management, and brought in independent directors on its board.”<sup>7</sup>

Because of these actions, Yukos became the first oil company in Russia to contract the help of non-Russian specialists, beginning with Bruce Misamore, as the Chief Financial Officer, in 2001.

The Yukos Library holds that the: “international appointments helped reinforce the ethos of professionalism and fiduciary duty that underscored senior management decisions regarding Yukos’ strategy, shareholders and staff.”<sup>8</sup> Yukos’ production rose, with help from the foreign appointees, from 6 million barrels per day in 2000 to 9 million per day in 2004.

Production costs also fell from \$12 per barrel to \$1.5.<sup>9</sup> Because of change in management, and an the increase in company transparency, Yukos was selected for the Financial Time’s “Top Ten Companies for Shareholder Confidence” list in 2003. Investors and banks were quick to show interest in the company, which continued to do even better. This growth can be shown though the net worth of Yukos. In 1999 it was worth US\$320 million. Only four years later, in 2003, under Western style management, Yukos grew to an outstanding US\$21 billion. The next year Yukos expanded by US\$15 billion to a total net worth of US\$36 billion.<sup>10</sup>

Once it become apparent that the company was becoming extremely successful and had great potential to grow even more, the government began to take an interest in it. The Yukos library claims that: “As a result, the Russian authorities decided to reassert control over what was now

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<sup>7</sup> Aslund, Anders. *Russia's Capitalist Revolution: Why Market Reform Succeeded and Democracy Failed*. Washington D.C.: Peterson Institute for International Economics, 2007. 235. Print.

<sup>8</sup> "The Yukos Affair."

<sup>9</sup> Aslund, Anders. . *Russia's Capitalist Revolution*. 236.

<sup>10</sup> "The Yukos Affair."

thought to be a strategic asset. They began a campaign not of nationalisation (which would imply compensation from the State), but of simple expropriation.”<sup>11</sup> The Russian government began said expropriation with rearranging the Yukos tax structure. In 2003, the government began a re-audit of Yukos’ taxes. Aslund explains the whole procedure quite well. He wrote, “Yukos minimized its profit taxes by legally registering its companies in low-tax regions in Russia, but so did many other companies...The authorities [toward the end of 2003] reopened audited tax returns and denied the legality of tax shelters.”<sup>12</sup>

I found that an additional source better expands upon the method that Yukos used, which is entitled differential transfer pricing, and Martin Sixsmith explains: “In theory, Yukos’s main extraction facility Yuganskneftgaz was supposed to pay tax on every barrel of oil it produced at the wellhead equal to the value of the oil itself. In other words, if the company produced \$1,000 worth of oil, it was expected to sell it for \$1,000 and pay a tax of \$1,000 to the Kremlin.”<sup>13</sup> In essence, the tax that oil companies had to pay the government was equal to the value of whatever the company was selling. Yukos got around this by using “a structure of intermediary companies...The \$1,000 worth of oil would be sold to one of these for say \$600, thus reducing the tax to \$600. The intermediary company would, conveniently, be registered in an offshore tax haven, from where it could sell the oil for its true value of \$1,000 without any further tax liability.”<sup>14</sup> Once the government understood what was going on, even though, technically it was legal, the problems for Yukos began to pile up. Aslund continues that “Initially, they slapped Yukos with \$3.4 billion on back taxes, penalties, and interest for 2000. Then biased tax

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<sup>11</sup> Ibid

<sup>12</sup> Aslund, Anders. . *Russia's Capitalist Revolution*. 238.

<sup>13</sup> Sixsmith, Martin. *Putin's Oil: The Yukos Affair and the Struggle for Russia*. London: Continuum International Publishing, 2010. 191. Print.

<sup>14</sup> Ibid, 191-92.

authorities did the same for later years as well, ending up with a startling number of \$28 billion, most of which was penalties.”<sup>15</sup> This was an amazingly large amount of fines that were suddenly due to the government, and it makes one wonder why this happened so suddenly. I will address this subject further on in the case study.

To continue, the government claimed that Yukos had been involved in tax fraud. The oil company was given the fine of \$28 billion; however, it was not possible for them to pay the full amount because the court also ordered that all of its assets were to be frozen. In addition to all of this, Mikhail Khodorkovsky was jailed for the Yukos tax fraud, and the oil company was not able to recover the required amount of money for the fine in the time allotted, and the company was eventually expropriated by the government through a rigged sale. Yuganskneftegaz, the main asset, was sold to Baikal Financial group for the stunning low amount of \$9.35 billion. Aslund claims that the company should have been sold for at least twice that amount. In addition, Baikal Financial group was found to be a shell company for Rosneft—which just so happens to be owned by the Russian government.<sup>16</sup>

The remaining parts of Yukos went bankrupt in 2006, despite on June 16, 2004, Putin stated that: "Правительство должно постараться, чтобы не обрушить ЮКОС. Официальные власти России, в том числе правительство, не заинтересованы в банкротстве такой компании, как ЮКОС".<sup>17</sup><sup>18</sup> The newspaper, KM, however, continues the article to inform the readers that

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<sup>15</sup> Aslund, Anders. . *Russia's Capitalist Revolution*. 238.

<sup>16</sup> Aslund, Anders. *Russia's Capitalist Revolution*. 238.

<sup>17</sup> "The government should not try to bring down Yukos. Official authorities of Russia, including the government, are not interested in the bankruptcy of a company like Yukos."

<sup>18</sup> "Putin Yukos ne Obidit." *KM*. KM, 27 Dec. 2010. Web. 18 June 2004.

“Само заявление Путина, старательно избегавшего конкретных обещаний, не говорит об изменении позиции правительства.”<sup>19 20</sup>

Many people throughout Russia, and even the world, however, believe that this government takeover was doubly politically motivated. Not only did the government gain back a company worth billions of dollars which had been lost to the government in 1990’s, that also happened to control a vast amount of Russia’s most valuable asset—oil—but the second gain for Putin was the jailing of Khodorkovsky, a man who was beginning to oppose him politically. The Russian newspaper, *Nezavisimaya Gazeta*, informs the public about this political opposition, “Действительно, Ходорковский первым из российских бизнесменов открыто заявил о поддержке из собственных средств политических партий - Союза правых сил и "Яблока.”<sup>21 22</sup>

Putin was not extremely delighted about this opposition. A super powered individual campaigning against an Authoritarian-minded leader is not generally received very well; especially when such a leader commands great power. Masha Gesson explains how Putin used this power after he became president in 1999: “he cracked down on the opposition and on the media. People who stood up to him often found themselves on the run—or dead. Putin made it abundantly clear what he wanted from the oligarchs: he wanted them to share their wealth with him and his allies, and he wanted them to stay out of politics. Those who refused would not be

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<sup>19</sup> “Putin’s statement itself, which studiously avoided specific promises, does not speak about the position of the government changing.

<sup>20</sup> “Putin Yukos ne Obidit.”

<sup>21</sup> Indeed, Khodorkovsky was the first Russian businessmen to openly declare his support of political parties from his own funds—which were the Union of Right Forces and the Apple parties.

<sup>22</sup> “Khodorkovsky otmechaet god so dnya svoego aresta.” *Nezavisimaya* 25 Oct. 2004. Web. 27 Apr. 2013.

around to complain.”<sup>23</sup> Khodorkovsky, however, could not stand to keep silent and allow Russia to continue down the path that it was on.

Anders Aslund informs his readers that “Initially, Putin intimidated the oligarchs to stay out of politics.”<sup>24</sup> However, Mikhail Khodorkovsky “the richest man in Russia...dared to confront then president Vladimir Putin, criticizing state corruption at a meeting with Putin in February 2003.”<sup>25</sup> Khodorkovsky not only criticized state corruption in front of Putin, he did it in an open meeting which the press was allowed to attend. Putin was not too pleased with this confrontation, and he, through the judicial system had Khodorkovsky arrested. After a long trial, his sentence was served—13 years in a labor camp. Anders Aslund exclaims that by jailing Khodorkovsky, and “by bankrupting Khodorkovsky’s oil company, Yukos, through lawless and confiscatory taxation, Putin made a joke of his tax and judicial reform.”<sup>26</sup> This, I believe, shows quite well how much influence that the government has over business in Russia, due to the fact that, even though the government is going through “reforms”, business can easily be affected, whether it be because of political opposition or simply due to corruption.

The imprisonment Mikhail Khodorkovsky led to much discussion about the interference and corruption of the government. BBC tells us that:

The president of the Institute of Modern Politics, Vladimir Lysenko, is convinced: the guilty verdict is a victory for Prime Minister Putin. "Putin will do everything to become a leader and the struggle inside the tandem will only increase," Lysenko told Trud... Many in the West are convinced that Khodorkovsky is a

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<sup>23</sup> Geeson, Masha. "The Wrath of Putin." *Vanity Fair* (2012). Web. 27 Apr. 2013.

<sup>24</sup> Aslund, Anders. *How Capitalism Was Built*. 2nd ed. Washington D.C.: Peterson Institute for International Economics, 2013. 277. Print.

<sup>25</sup> Geeson, Masha. "The Wrath of Putin."

<sup>26</sup> Aslund, Anders. *How Capitalism Was Built*. 277.

victim of political persecution and the guilty verdict will cause much resentment there. While Western business may simply become afraid to invest money in Russia...Lysenko believes that the verdict will be a set-back for Russia's relations with the European Union.<sup>27</sup>

From this statement it is better understood why business in Russia is faltering. According to Lysenko, politically there is a negative effect on business in Russia.

There have been various views of outrage expressed against the imprisonment of Mikhail Khodorkovsky and the expropriation of the OAO Yukos Oil Company. These expressions have not only come from the international arena, but also from some of the Russian citizens themselves. Mikhalych from Moscow declares that:

We shouldn't fool ourselves, Khodorkovsky is no saint. But then most Russian businessmen, or at least the oligarchs, who started out in business in the 1990s, could be jailed on the same grounds. So this verdict to me is yet another proof of the fact that there is no justice in Russia, the courts have become a tool to be manipulated by the powers that be. As for Russia's image, a country where there is no rule of law, it is not very attractive for investors.<sup>28</sup>

Another man from St. Petersburg holds that he “consider[s] Khodorkovsky a victim of political repression. If he is guilty, he is no more guilty than other politicians and businessmen in Russia. Law should be the same for everyone”<sup>29</sup>

Out of the three theories presented at the beginning of this paper, this case study best matches Leon Aron's theory of the “Putin Doctrine”. I say this because all of the information on the Yukos issue that I have found points toward Putin wanting to bring the Yukos oil company, which was lost to the government until Yeltsin, back under the control of the state. The reason

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<sup>27</sup> "Yukos Guilty Verdict Fails to Surprise Russian Media." *BBC*. BBC, 28 Dec. 2010. Web. 22 Apr. 2013.

<sup>28</sup> "Khodorkovsky Verdict: Views from Russia." *BBC*. BBC, 27 Dec. 2010. Web. 22 Apr. 2013.

<sup>29</sup> *Ibid*

why he wants to, however, is not completely transparent. There are a couple possibilities; first, it may be that Putin wants the power that comes with oil. The incorporation of Yukos, which according to Bruce Misamore, was one of the top ten largest oil companies in the world, under the authority of the government, Putin would have power over all of the countries which Russia supplies oil to, especially former USSR states, such as Ukraine. Another possibility is that he simply did not want possible political rivals, such as Khodorkovsky to have the power and money that came with such a company. Or, perhaps it was both. It is really hard to tell, as we have no documentation of Putin's feelings on this matter. However, Vladimir Kozlovsky states that, by seizing Yukos, "Путин дал понять, что он - государство, а государство превышает закона".<sup>30 31</sup>

This case study, however, does not point to Anders' theory that Russia will continue down the road of democratization, due to the fact that a recently privatized company was brought back under the wing of the state in less than twenty years. This is more along the lines of Authoritarianism rather than a democracy.

### **VSMPO-Avisma**

I would like to begin the next case study with a quote from The Wall Street Journal, which will establish a nice setup for pursuing this case:

The Kremlin has staked a claim to a large share of the world's titanium supply after Russia's state arms trader Rosoboronexport bought a 41% stake in Russian company OAO VSMPO-Avisma, the world's largest producer of the metal, in a deal with huge implications for Western aerospace giants...Analysts see major risk in VSMPO-Avisma's renationalization, which they say will be followed by consolidation of the firm into a state metallurgy holding.<sup>32</sup>

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<sup>30</sup> "Putin made it clear that he is the state, and that the state is above the law.

<sup>31</sup> Kozlovsky, Vladimir. "Kuda Vedet Rossiu Vladimir Putin?" *BBC*. BBC, 17 Jan. 2005. Web. 26 Apr. 2013.

<sup>32</sup> "Business Brief: OAO VSMPO-Avisma." *Wall Street Journal: Asia* (2006). *Summon*. Web. 23 Apr. 2013.

Now that we know the ending, we can go back to the beginning to discover how this all came to take place.

VSMPO was built during WWII to produce titanium as well as nickel alloys, alloys for the automotive and aerospace industries. Avisma, which was acquired by VSMPO in 1998 (they were not, however, fully integrated until 2004), produces titanium sponge—averaging about 30% of the entire world's production.<sup>33</sup> Together both companies (which are now one—VSMPO-Avisma), supply their products to a number of companies, the ones stated in a BBC article are: GE Aircraft Engines, Rolls-Royce Aerospace, Boeing, British Aerospace, Aerospatiale, DaimlerChrysler, and Pechiney Aluminium.<sup>34</sup> VSMPO-Avisma was conjointly owned by Vladislav Tetyukhin and Vyacheslav Bresht until 2006. Arkady Ostrovsky stated at the beginning of 2006 that, “After securing control of Yukos, the state is turning its attention to titanium producer VSMPO-Avisma.”<sup>35</sup>

Like Yukos, this company was built from the ground up after the collapse of the Soviet Union. Bresht remembers the first time that he entered the factory, “When I first walked in VSMPO—nobody was working—people were boiling tea on the stoves they brought with them.”<sup>36</sup>

However, VSMPO, in 1998, under the control of Bresht and Tetyukhin acquired their first foreign contract—from Boeing, no less—and business took off from there.

Not long after, VSMPO merged with Avisma, and the titanium producing company was doing quite well before the government take over. Ostrovsky continues in his article to inform his

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<sup>33</sup> "V Rossii sozdan krupnieishii titanovii kontsern." *BBC*. BBC, 21 Sept. 2004. Web. 26 Apr. 2013.

<sup>34</sup> *Ibid*

<sup>35</sup> Ostrovsky, Arkady. "A Russian Phoenix Struggles to Stay Free." *Financial Times* 20 Feb. 2006. *LexisNexis*. Web. 20 Apr. 2013.

<sup>36</sup> *Ibid*

readers “With profits of Dollars 230m on sales last year [2005] of Dollars 750m, the titanium company is a rare example of a Soviet-era enterprise that managed to turn itself into a globally competitive business.”<sup>37</sup> However, as it seems with most companies that do well in Russia, the government began to pressure the co-owners of VSMPO-Avisma to sell their controlling shares to the state owned company—Rosoboroexport. The co-owners, however, did not want to sell. They had practically built their company from the ground up. Janice McMahon states that “Tetyukhin invented the process VSMPO-Avisma uses to smelt titanium in 1957.”<sup>38</sup> Even though they owners greatly wanted to keep their company, the state launched what appears to be their favorite tactic—an unscheduled tax audit. Ostrovsky tells us “The prosecutor-general’s office, meanwhile, began an investigation into the share structure of the company, apparently in connection with share in the company once owned by Menatep.”<sup>39</sup> This created great feelings of insecurity in Tetyukhin and his partner, due to the fact that Menatep was previously owned by none other than Mikhail Khodorkovsky, who, by this time in 2006, was already in jail. To be in connection with such a man would make it easier for the government to serve the owners of VSMPO-Avisma with a sentence. Eventually they gave in, and the state acquired 66 percent of the company’s shares, leaving the previous owners only 4% a piece. Immediately after the acquisition, interestingly enough, the investigation by the prosecutor-general was dropped.<sup>40</sup> Before Tetyukhin sold his shares, however, he made certain that his foreign customers, such as Boeing would continue to be supplied with the products that they needed. Interestingly enough, there is very little information on the VSMPO-Avisma case, as compared to the Yukos affair. It is my opinion that this is the case due to the fact that, one, the owners

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<sup>37</sup> Ibid

<sup>38</sup> McMahon, Janice. "Kremlin Grabs Control of Physicists Company." *Physics Today* 20 Nov. 2006. Web. 23 Apr. 2013.

<sup>39</sup> Ostrovsky, Arkady. "A Russian Phoenix Struggles to Stay Free."

<sup>40</sup> McMahon, Janice. "Kremlin Grabs Control of Physicists Company."

ultimately sold their shares—they were not taken from them, per se—and Khodorkovsky was jailed; and secondly, because Khodorkovsky was politically involved against Putin, whereas Tetyukhin and his partner were simple businessmen. It is hard to say for sure though.

I believe that this case study further supports Leon Aron's theory of the Putin Doctrine, which states that Putin's goal is the "the recovery of economic, political, and geostrategic assets lost by the Soviet state in 1991."<sup>41</sup> VSMPO-Avisma is one such asset, and Putin pursued it quite hard in order to bring it under the ownership of the state. There are other examples, similar to Yukos and VSMPO-Avisma, that I have found while doing my research. However, I believe that it would be redundant to present them, as they all come out with the same ending—the government acquiring the company that it was pursuing. In addition, they are also a perfect fit of the Putin Doctrine.

### **Corruption**

To continue, I will look at a broad overview of political corruption (as opposed to looking at individual case studies). In addition to this move of the government to renationalize companies such as Yukos, and VSMPO-Avisma, and also Putin using his political power in order to eliminate possible political rivals from the playing field, Russia also has to deal with general corruption within the government. This corruption trickles down into businesses as well, and then it finally permeates everyday life, something of which I have experienced firsthand during my adventures around Russia and Ukraine (which was also sometimes called "little Russia").

Just to get a general idea of the vastness of overall corruption in Russia, we can look at a statistic from the People of Russia and the People's Party, ""По результатам исследований фонда

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<sup>41</sup> Aron, Leon. "The Putin Doctrine."

"Индем", общая сумма взяток, выплачиваемых российскими предпринимателями чиновникам, составляет, по минимальным оценкам, 33,5 млрд. долл. в год...И это только официальные данные."<sup>42</sup> <sup>43</sup> The amount of \$33.5 billion a year is overwhelmingly large. Just to remind you, this amount was only the *political* bribes to entrepreneurs!

One source explains how the political bribes become so large, saying that the “roof” (protection) the gangs used to provide businesses—for a costly amount—is now provided by politicians. The same source claims that “Independent experts maintain that corruption consumes as much of 25 percent of Russia’s GDP. A World Bank report puts this figure at 48 percent.”<sup>44</sup> For a business, operating in a country that has this type of political corruption it has to be extremely difficult. The World Bank gave Russia an “Ease of Doing Business” rank of 118 out 185,<sup>45</sup> which means that it is easier to do business with 117 other countries that the World Bank studied. Mexico, Kazakhstan, and China all ranked above the Russian Federation (48, 49 and 91, respectively). To further understand the political difficulties of doing business in Russia, we can look at the World Bank’s statement, “On average, firms make 7 tax payments a year, spend 177 hours a year filing, preparing and paying taxes and pay total taxes amounting to 54.1% of profit.”<sup>46</sup> This only further shows how the political scene in Russia has negatively affected Russian business. Decreasing profitability only decreases motivation and innovation. The Institute of Modern Russia cites

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<sup>42</sup> “According to the Research fund “Indem,” the total amount of bribes paid to officials by Russian entrepreneurs is at the minimum estimated \$33.5 billion per year...And that is only the official data.

<sup>43</sup> Maslov, Oleg, and Aleksander Prudnik. "Istoriya korruptsii: Putin." *Polit Nnov* 2 Aug. 2012. Web. 27 Apr. 2013.

<sup>44</sup> "Corruption in Russia as a Business." *Institute of Modern Russia*. Institute of Modern Russia, 29 Jan. 2013. Web. 27 Apr. 2013.

<sup>45</sup> "Doing Business 2012: The Russian Federation." *The World Bank*. The World Bank, 2012. Web. 25 Apr. 2013.

<sup>46</sup> *Ibid*, 74.

three reasons why contemporary Russia has such great corruption: “the absence of independent mass media, the absence of independent judiciary; and the absence of political competition.”<sup>47</sup>

### **Analysis**

Now that I have presented my two case studies and overview on general political corruption, we can look back on the findings in each one. As I stated in the OAO Yukos Oil Company and VSMPO-Avisma cases, it appears that Leon Aron’s theory of the “Putin Doctrine” is strongly supported by the example of the expropriation these companies by the Russian government. I found no examples to support Anders Aslund’s theory of “Once a democracy, always a democracy,” and, indeed, I discovered that in 2012, approximately a year after he declared that Russians would not, and most certainly could not, go back to Authoritarianism, Aslund changed his views. After the 2012 elections he became less optimistic toward the democratization of Russia. In his article “You’re a Mean One, Mr. Putin,” Aslund refers to Putin as an authoritarian leader and also as “a source of destabilization” to Russia.<sup>48</sup> He ends his article with “Ultimately, Putin's new attitude is destabilizing and not sustainable. But it is difficult to see any clear alternative.”<sup>49</sup> It appears that, in his opinion, either Putin will have to change his ways, or Russia will not tolerate him much longer. If the latter is the case, then his first theory may partially come true, however, it seems that authoritarianism has already taken hold in Russia, even though there had been a democratic breakthrough.

### **Conclusion**

In conclusion, it appears that business has been, and is continuing to be, negatively affected by Russian politics. This is due to the fact that no business—especially when the majority is domestically owned—is safe from the reach of the government. If the state wants

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<sup>47</sup> “Corruption in Russia as a Business.”

<sup>48</sup> Aslund, Anders. "You're a Mean One Mr. Putin." *Foreign Policy*. Foreign Policy, 28 Dec. 2012. Web. 1 Apr. 2013.

<sup>49</sup> Ibid

control (and as Kozlovsky said earlier, Putin believes that he is the state<sup>50</sup>), then the state gets control, one way or another. As long as such government corruption persists, and high officials, such as Putin, have the power to intervene and jail political opponents, it is my opinion that business in Russia will continue to suffer, especially such of those which are in the sectors of political, economic and geostrategic which were lost to the government in 1991, and which Putin plans on completely recovering for the good of the state, according to Leon Aron.<sup>51</sup>

From the research that I have done, it is my opinion that, until such Authoritarianism ends, whether by Putin resigning or the uprising of the Russian people, corruption will be allowed to persist, motivation will remain stagnant, and investors will continue to be wary, for the fear of losing money due to all of Russia's political problems.

### **Limitations**

While I have put much research into this paper, I wish to make it known that there are limitations to my analysis. The largest one being the lack of information available from Putin's true perspective, and also that the amount of government documentation on this subject is relatively small. Furthermore, my paper is that the topic of my choice highly relates to political and economical data, therefore, the chances of there being holes in my argument from the cultural prospective are high.

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<sup>50</sup> Kozlovsky, Vladimir. "Kuda Vedet Rossiu Vladimir Putin?"

<sup>51</sup> Aron, Leon. "The Putin Doctrine."

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