The Journal of Comparative Economic Studies, *Vol.10, 2015, pp. 93–110.*

Impact of the World Economic Crisis and the Rise of National Capitalism in Russia

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Abstract: The paper analyses the impact of the world financial crisis of 2007- on Russia in comparison with other post communist countries (new member states of the European Union) and China. Russia is viewed as a hybrid 'variety of capitalism'. Significant differences in the globalisation of corporations are illustrated by reference to ownership and the composition of boards of directors of dominant corporations. Russia has lower levels of globalisation and its companies contain strong national constituents; its globalising national companies lack a supportive neo-liberal ideology and have weak domestic political backing. It is contended that under the Putin elite Russia is moving in the direction of an alternative form of capitalism – national capitalism. However other weaker Russian neo-liberal economic interests challenge the political leadership.

Keywords: Economic crisis, national capitalism, Russia, EU, Russian corporations, neo-liberalism, boards of directors (Russia)

JEL Classification Numbers: P2, P31, A14

1. Integration into the world economy

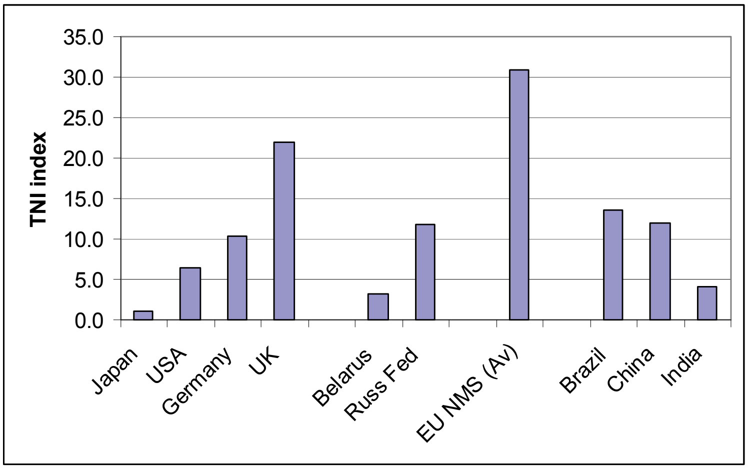
The extent and type of incorporation of countries into the world order varies greatly. In the initial aftermath of the dismantling of the state socialist system in Europe and the USSR, it was expected that they would become parts of the neo-liberal world system.[1] However, significantly different trajectories followed for the Commonwealth of Independent States (CIS) and those countries which joined the European Union (the New Member States - NMS).

In all the European New Member States, strong integration into the world economy occurred. They have been integrated into the world economic system as an organic part of the regional bloc of the European Union as well as the political and military apparatuses of NATO. While they ostensibly appear to be included in the 'core' member states, foreign investment has entailed large scale foreign ownership of their financial, commercial and industrial assets giving a high level of dependency on foreign companies.

The CIS is far less integrated into the world economic system. Since its inception, the CIS has lacked coherence in terms of membership, policy and identity. Its current membership includes Russia, Belarus, Kazakhstan and Kyrgyzstan. Since the advent of President Putin these countries have begun to act as a stronger regional bloc and have possibilities for further development.

The Transnationality Index (TNI) for the NMS, Russia and Belarus, China with comparisons for the BRIC countries, Japan, the USA, Germany and the UK are shown on Figure 1. The TNI is an average of four shares: FDI inflows as a percentage of gross fixed capital formation for the past three years 2003-2005; FDI inward stocks as a percentage of GDP in 2005; value added of foreign affiliates as a percentage of GDP in 2005; and employment of foreign affiliates as a percentage of total employment in 2005.

Figure 1. Transnationality Indexes: Russia, Belarus, EU New Member States, BRIC, Japan, USA, Germany and UK.



Source: http://unctad.org/Sections/dite_dir/docs/wir2008_transnationality_chart_en.xls

The New Member States, consequent on the conditionality imposed by the European Union, have all been highly integrated into the world economy: the Czech Republic's TNI was 33 and Hungary 33.5, Estonia was a massive 49.5. By comparison the BRIC countries and Belarus were much lower (between 3 and 13) - well below the levels of highly globalised economies like the UK.

Of key importance as drivers of globalisation is the penetration of transnational companies. The differences between the NMS and CIS, as well as comparisons with South America, are shown on Table 1. The NMS, with a much lower population, have ten times more TNC affiliates than the CIS.[2] These differences have significant implications for the class and elite structure. The countries of the 'core' of the world system prevail in the ownership of TNCs.[3] The significance here is that foreign affiliates' asset transfers to parent foreign companies 'involve a shift in production control and management from domestic to foreign firms. . .'[4] It also significantly affects the ways in which national governments are able to manage their economies when management and control of strategic decisions of their major industries are located abroad. Governments of dependent nation states lose their powers of economic and financial control.

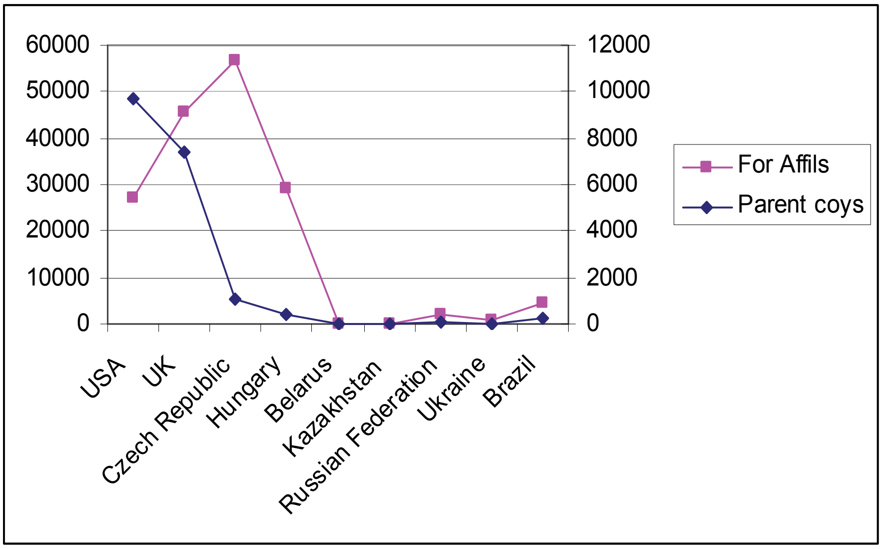
Table 1. Affiliates of Transnational Companies: South America, CIS and New Member States (2010)

Country	Number of Affiliates in Host Countries
USA	27251
UK	45466
NMS EU	130430
South America	10349
CIS	3487

Source: UNCTAD, WIR Web table 34 (Accessed January, 2014).

By 2010, only 116 parent corporations and 2139 affiliates were based in the Russian economy. Russia was (and is) one of the least economically globalised countries in Europe. As we see from the comparisons shown in Figure 2, there is a major break between the number of affiliates in the New Member States of the EU and those in the Commonwealth of Independent States. Moreover, in Russia, significant foreign direct investment is spatially concentrated and overwhelmingly directed to the raw materials sector.[5] Very few parent transnational companies are found in the post-socialist states and

Figure 2. Number of parent corporations and foreign affiliates; Selected Countries (2010)



Note: Number of parent companies in the economy shown. Right hand axis. Number of foreign affiliates in the economy shown. Left hand axis.

Source: For 2010, UNCTAD, Webtable 34. unctad.org.wir. (Annex tables). For earlier years see: World Investment Report 2007. UNCTAD, United Nations, New York, Geneva 2007. pp. 217-218.

(except for China) in the BRICS countries.

Companies listed on the stock exchange allow for take-overs and mergers to take place. Compared to neo-liberal economies like the UK and USA, Russia comes well down the list: expressed as a percentage of GDP, the ratio of Russia's market capitalisation to GNP was 43.4 (the same as Germany), China was 44.9, compared to the USA's 114.9 and the UK's 122.7 (data average 2009-2013). [6]

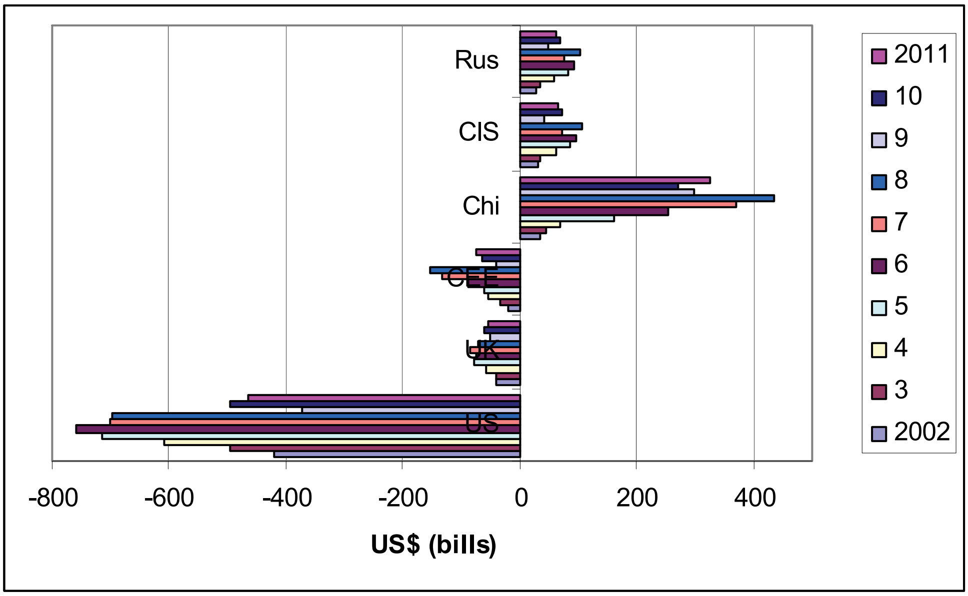
The conclusion to be drawn here is that some countries are much more open to foreign investors than others; those that are not are more likely to have conditions enabling autonomous forms of capitalism to develop. In globalized dependent countries, national political elites become detached from national constituencies and consequently lack effective control over their own economies. The New Member States of the EU are fully integrated into the world neo-liberal economic order. It must be extremely doubtful if any sovereign political power resides in the New Member States. Hence claims for a move to a form of national economic capitalism in countries such as Hungary and Poland are unrealistic. Not only are their economies interdependent with foreign countries but they are also small in size. On the other hand, Russia and the countries Commonwealth of Independent States have remained peripheral. These systemic features determined the ways in which the economic crisis of 2007- influenced different countries.

2. The impact of the world economic crisis

A world financial crisis was precipitated in August 2007, consequent on the collapse of the sub prime housing market in the USA. In the following year it impacted on the global financial system: many major banks had liquidity problems requiring government assistance, and confidence in the financial system collapsed. The regional variation is illustrated by the net balances on current accounts between 2002 and 2011 (See Figure 3). The neo-liberal economies (USA, UK and CEE) before the economic crisis had very high negative current account balances, compared to the CIS, Russia, and China. Russia, it should be noted, accounted for nearly all the credit balances of the CIS.

The consequences of failures in the financial system have been economic contraction, a rise in unemployment, and falls in interest rates and commodity prices. States have been required to intervene to restore the financial market. All economies are affected by contagion from the financial crises or 'stress'[7] stemming from the advanced economies. Clearly transmission will be greater to economies having stronger international financial and commercial links. Economies with high levels of trade, dependency on capital investments and bank credit will all be adversely affected. Direct effects for the advanced countries include shortage and withdrawal of credit, and indirect effects result from economic slowdown (fall in demand for exports and reduction in employment). Table 2 summarises the impact of the world economic crisis on different post socialist economies. The economic effects of global stress are shown on the top row: economic contraction, fall in interest rates and commodity prices and reduction in bank credit and FDI. The negative consequences for different countries are shown in the third row. Economic contraction was experienced by manufacturing exporting countries of the European Union, and the fall in commodity prices effected Russia, Kazakhstan, Turkmenia and Azerbayzhian. The Baltic countries were particularly influenced by credit reduction. As illustrated in row 5, countries with large currency reserves (Russia, China and Kazakhstan) were able to mediate the stress as were those with low transnationality indexes.

Figure 3. Balances on Current Account: Major Groups of Countries 2002-2011



Source: IMF, World Economic Outlook, Various dates. Available on IMF website.
CIS is here defined by the IMF as the countries of the former USSR not in the European Union.

The effects of the crisis, moreover, were divided unevenly between different groups of countries. The New Member States were hit particularly hard by the contagion of the economic crisis. Economic contraction was greater for those having high transnationality indexes and a large financial trading sector. Global stress is mediated by a large domestic market, significant currency reserves and low labour costs which favoured Russia and Kazakhstan. The direct effect of linkage to the global financial system is particularly dependent on the level of penetration and indebtedness of economies to Western banks. Foreign banks' claims on 'emerging Europe'[8] are particularly high (on average in these countries over 60 per cent of GDP in 2007). Latin American countries are much lower (on average around 30 per cent in 2007), and 'emerging Asia' (which includes China and India) are around 40 per cent.[9] Russia[10] is even lower on the scale than the Latin American countries, being below 20 per cent. Russia as well as Latin America and the emerging Asian countries all had financial crises in the recent past and subsequently

Table 2. Consequences of Global Stress in Socialist and Post Socialist Countries

Global Stress	Economic Contraction	Fall in Interest Rates	Fall in Commodity prices	Reduction in FDI/Credit
Strong Impact on:	Industrial exporting countries	Countries with large financial sector [USA, UK]	Primary sector (esp. energy) exporting countries	Finance (FDI) dependent countries
Negative Consequences:	Countries with high Transnationality Index and high manufac exports: Central Eur, Cz, Hu, Slov, Bul, China (exports) Countries with high unemployment (exporting labour) and high remittances from workers abroad. Kyrgyz, Pol, Rom. Baltics.	Government loans to stabilise financial companies. Consequent 'austerity' programmes and decline in state provided welfare. Ukr, Baltics.	Rus, Kaz, Turkmen, Azer	Baltics, Central European. Lat, Est, Lit, Cz, Hu.
Global Stress mediated by	Large domestic internal market	Large currency reserves	Benefit energy importing countries	Low Transnationality (Low value added by foreign companies)
	[USA], China, Rus [Jap]	Russia, Kaz, China	Ukr, CEE	Bel, China, Rus, Ukr, [Jap]
	Low wage costs: CIS, Developing Asia			

pursued a more cautious financial policy.

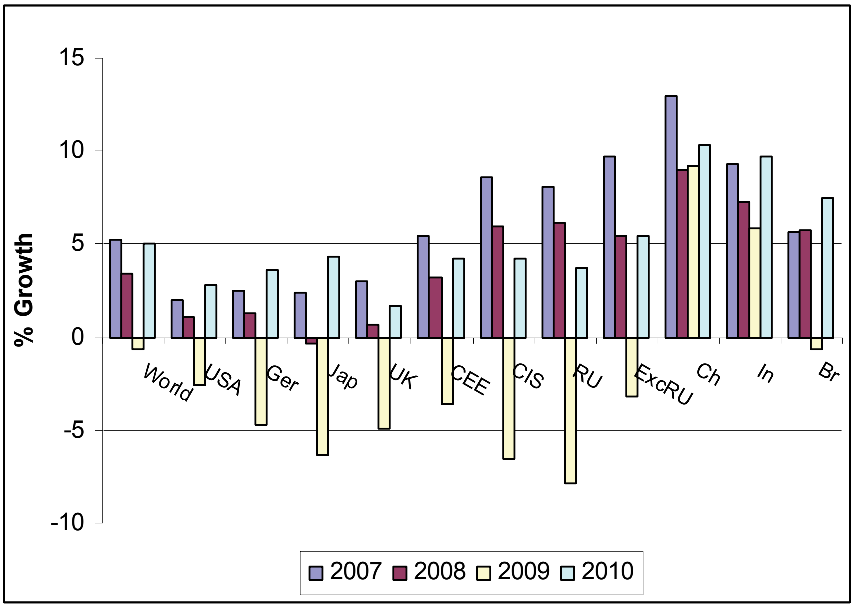
The impact of the financial crisis on GDP growth between 2007 and 2010 is shown on Figure 4. Regional groupings of the post socialist states had significant differences between them.

The industrialised countries were all affected negatively in 2008 and 2009, whereas developing countries were much less so. India and China maintained very high rates of growth, despite the world economic depression.

3. The national capitalist alternative to the world economic crisis

The world economic recession had many implications. It showed that some countries were less dependent on the global system than others and that countries were dependent in different ways. It demonstrated that neo-liberal globalisation had serious systemic weaknesses, that uncoordinated global markets could lead to collective irrationality, and that existing global institutions (IMF, UN) were unable to provide (or were prevented from providing) a global coordinating mechanism. The detrimental

Figure 4. Changes in GDP: Leading Countries, Post Socialist Countries and China, India and Brazil (year on year % growth), 2007-2010



Key: ExcRU refers to CIS excluding Russia

Source: IMF website, www.imf.org/external/pubs/ft/weo. January 2009 update to World Economic Outlook Updated IMF World Economic Outlook October 2010 and January 2011.

Key: All developed economies; all emerging and developing economies.

CIS includes Mongolia and Georgia.

consequences have created conditions for a change in the dispositions and the mental set of state-based political and economic elites on an international, regional and national basis.

Nationally organised capitalism is one alternative. Though recognised by neo-liberals, such as Francis Fukuyama, that 'only systematic nationalism can qualify as a formal ideology on the level of liberalism or communism'[11], it is rarely mentioned in Western academic discussions as a serious alternative to neo-liberalism. It operates within the current structures of capitalism, but rejects financially driven markets and advocates instead state-led national economies. It prioritises state driven human and economic development. The actors to achieve these ends are political parties and social movements. The process enables cumulative marginal changes to effect the socialisation of capitalism. It involves significant changes of a qualitative kind which are absent in the usual discussions of 'varieties of capitalism'.

National capitalism is based on a developmental economics approach and is derived from the suppositions of Friedrich List, and Werner Sombart and in the UK some of its tenets are shared by writers such as Arthur Lewis and Ha-Joon Chang.[12] These economists adopt a state-led position as well as making different assumptions about how to measure economic well-being. Individual interest operating through the market is superseded by collective interest aggregated by the state. Economically, national capitalism is bounded by states and its economic base is founded on home based transnational corporations and national companies. In addition to measures of economic growth and per capita income, they emphasise levels of happiness, the availability of collective goods such as health, education, stable families and a full employment economy. From such collective goods is derived economic and social security.

National capitalism also envisages quite a different relationship between the individual and society to that offered by neo-liberalism. Werner Sombart theorised this relationship. He contended that the interests of state and society are superior to those of the individual – a view quite at variance with Anglo-Saxon ideology and liberal thought.[13] In a similar fashion, Friedrich List argued that as 'individuals draw the greater part of their productive force from social institutions and situations… then [the state's role is] to regulate individual interests [...] in order to achieve the greatest measure of general prosperity at home and the greatest possible degree of security with regard to other nations'.[14]

To promote a strong economy, List advocated protection of infant industries and state investment to promote industrialisation. He emphasised the role of production as opposed to money as the source of wealth. National capitalism is strongly hostile to international financial capitalist interests, though not to capitalism as such. National capitalism through the state ensures accumulation. However, unlike under state capitalism where transnationals are state owned, national capitalism ensures and even extends private property rights. Economic rents earned from export-oriented industries are attributed to state identified ends – investment, research and consumption.

The mechanism to achieve these goals is indicative planning. Whereas directive planning involves setting up product targets for enterprises and fixing prices centrally, indicative planning sees governments setting targets and economic priorities which can be met by companies (either private or state) working through a market mechanism. This can be facilitated by governments influencing bank lending policy as well as differential taxes and subsidies. Countries like South Korea, Singapore and China have pursued such policies with considerable success.

National capitalism is a form of corporatism in which the stakeholders include entrepreneurs and share holders. There are opportunities for public participation and the recognition of the interests of stakeholders. Under present conditions, within a capitalist economy, companies could be required to exercise social responsibility – to employees, consumers, suppliers, the locality and more generally to the environment. The domestic class structure does not change as there is no threat to private property. Moreover, the national bourgeoisie is protected from the transnational bourgeois class as domestic enterprises are safeguarded. Such economies remain part of the world system. They become counterparts to the world system and exchange with existing core countries. The state curbs speculation and excess profits. It is likely that social stability would be secured. But there would still be the privatisation of profits and the socialization of losses. Production would be principally for market exchange.

National capitalism as an economic formation is not without problems. A statist polyarchy like a democratic one needs to be made accountable through public control to ensure that stakeholders' interests are recognised. Its hostility to global capital and particularly the financial sector might be a cause of international tension. Exclusion from foreign markets and ownership of assets would be opposed by multi-national (Western) corporations. Such consequences could lead to war. My claim here is that national capitalism is a feasible alternative to neo-liberal capitalism. It preserves capitalism in a nationalist shell.

While it might be conceded that such an economy was possible in inter-war Europe, it is more contestable whether it could be achievable under the conditions of contemporary global capitalism. Political elites based on the nation state are severely constrained as political power becomes internationalised in scope and the costs of any move away from the globalised world would be high. Economic nationalism in the European New Member states is not a feasible proposition. But the world system is made up of many states and regions and, as noted above, not all are equally subject to global corporations and the hegemony of Anglo-American capitalism. There are spaces in the unevenness of the world system.

4. The Russian Federation as a national capitalist state?

The Russian economy remains relatively national though with significant global interests. It is a hybrid system with some Russian transnationals and Western affiliates supporting the neo-liberal Washington consensus on the one hand and national state and private companies favourable to national capitalism.

Ruling elites in Russia have to be more responsive to domestic constituencies and less to globalising ones which lack a veto power over the domestic political elite. Whereas the major media channels in Russia have to contend with global TV transmissions from outside, Russian mass media are predominantly domestically owned and the state is able to exert significant controls. Neo-liberal academic, cultural, political and economic values remain part of a counter elite culture. These are weakly articulated around Dmitri Medvedev.[15]

The move to a national type of capitalism has been described in the area studies and political science literature in terms of the rise of an 'autocratic elite' under President Putin. Richard Sakwa for example details the resurgence of Putin as leader of the siloviki[16] faction which strengthened the state against economic oligarchs who effectively ran the economy and, in the figure of Khodorkovsky, even challenged the legitimacy of the state. Others, such as Marshall Goldman, have called it a 'militocracy'.[17] The political science approach concentrates on the 'bureaucratic consolidation of the state'.[18] Sakwa describes this as a 'dual economy'.[19] In my view, such dualism is being eroded in favour of the state undermining market forces. President Putin has strengthened the states' coordinating role over the economy.

This has been demonstrated by many writers such as Stephen White and Olga Kryzhtanovskaya. Satoshi Mizobata in his discussion of this paper, for example, has shown that members of the Medvedev Cabinet of Ministers had the following links with business: Zubov –Gazprom, Rosserikhozbank, Rosspirtprom, Rosagroleasing; Sechin – Rosneft, Interrao EES, OSK Rosneftgaz; Ivanov – United aircraft; Kudrin – deposit insurance corporation, VTBN, Arrosa; Zhukov – Russian railways; Schegolev – Svyazinvest, piervy Kanal; Shmatko – Gaspromm, RusGidro, Intre RAOEE, Transneft, PSK EES, Zarvezhneft; Babiulina – Gazprom, Rosnano; Sedyukov -Ovaran service; Skrynnik – United Grain; Levitin – Aeroflot, Sheremetevo; Fursenko –Rosano. In this paper I focus on the ways in which developments have influenced the composition of boards of major Russian companies and I show how in many significant respects they differ from those of globalised Western companies.

5. National background of corporations and their directors

With some notable exceptions, in the core Western industrialized countries the social composition of boards of directors of transnational companies has become multinational. In 2004, of 42 important TNCs surveyed by UNCTAD, it was found that the percentage of non-home national directors was 33 per cent for EU companies and 18 per cent for US based corporations. Germany retained a significant national composition, with only 8 per cent of board members being non-nationals, whereas for UK based multinationals, out of a total of 102 directors 53 of members of the boards were foreign with some 20 per cent coming from the EU and the same proportion from the USA; total USA participation in EU companies was 11 per cent (including those in UK companies). For Japan, as one might expect, out of a total of 123 directors, only 3 were foreign.[20] Clearly the nature of economic elites varies between countries – depending on the extent to which their companies had become deterritorialised.

The move to multi-national or transnational capitalism involved a shift away from national solidarity and a national political focus. As Jerry Harris has put it: Globalisation 'eliminates economic nationalism as the basis for social inclusion'.[21] Global elites have no single nation. They operate in the most profitable market. Rather less charitably, they are capitalists seeking economic rents and are able to capture states.

Western multi-national corporations have become de-coupled from the countries in which their affiliates and even their headquarters are located. Their boards are multi-national; direct links with domestic politics, which was a feature of national companies, have been broken; influence has shifted from domestic politics to international politics. These structures reinforce neo-liberal ideologies and effectively preclude the rise of national capitalism in countries which are highly integrated into the global economic system. Russia is different.

6. Russian transnational companies

In 2013, Russia had 30 companies in Forbes list of 2000 global companies (measured by sales profits, assets and market value).[22] Seven of these are in oil and gas, ten are other primary sector producers, four are energy/electricity, three are retail (including Aeroflot), two are media and one (Sistema) is a conglomerate. The top company was Gazprom (ranked 17thin Forbes) followed by Rosneft (59), Sberbank (61) and Lukoil (64). I have studied the composition of the boards of fourteen Russian companies in the Forbes' list. Though information is not systematic, it is possible to outline the nationality and educational background of the directors and their directorships in other companies. The objective here is not to study ownership and control but to estimate the source of recruitment, the social composition and national identity of the corporate elite, noting overlap between political and economic elites. The results show that some companies are more open to domestic political control than others. Unlike Western based transnationals, Russian companies provide a basis for a national capitalism.

Despite the attempts by Dmitri Medvedev in 2011 to reduce the representation of chinovniki (government officials) on the boards of Russian companies, Russian transnationals are heavily penetrated by directors who have (or had) significant positions in public administration. Russian transnationals are strongly linked to domestic politics. Here are two examples:

> LUKOIL is the fourth largest Russian global company ranked 64th by Forbes. It is a vertically integrated company ranging from oil production and refining to petrochemicals and electricity generation. The company retails many of its products. Unlike Gazprom, LUKOIL has significant private ownership. Vagit Alekperov[23] owns 20.87 per cent of the shares (Annual Report 2012 p.99), though other directors individually own less than 1 per cent.[24] Pipelines and railroads used to transport the oil products are state owned companies; gas is transported by Gazprom which also sells any gas production. In its Annual Report for 2012 very close links are shown between its Board members, the Russian government and other institutions.[25]
>
> Of the twelve directors listed in the 2012 annual report are eight are Russians and educated in Russia. The company is a Russian one with global pretensions. It is noteworthy that the Annual Report lists the state honours bestowed on the directors thus emphasising their national identification. Its Chairman, Valery Grayfer is a Lenin Prize and other government Prize winner; Alekperov has two government prizes in science and technology; Igor Ivanov has received Russian (state) prizes; Ravil Maganov has received three orders and three medals; Sergei Mikhailov has four state medals; Alexander Shokhin has been awarded an honour for 'Services to Russia' and a medal of the Russian Security Council for 'Services to National Security'.
>
> Alexander Shokhin is one of the directors to have had significant participation in Russian politics. He was Deputy Chairman of the government of the Russian Federation Minister of the Economy, Minister for Labour and Employment (1991-94). He was elected to three State

Dumas of the Russian Federation and was Chairman of the Duma Fraction 'Our Home is Russia'. He has also been President of the Russian Union of Industrialists and Entrepreneurs. Sergei Mikhailov is a director of five other companies mainly in the banking sector.

There are also foreigners on the board. One director had served as director and CEO of international auditing KPMG; Richard Matzke is one of two Americans having previously been President of Chevron Corporation. Another American is Mark Mobius. The one Italian is also a director of TREVI SpA, and the Canadian Oil co. A Swiss national, Ivan Pictet, is managing director of Pictet and Cie and President of the Geneva Chamber of Trade and Industry as well as being President of Geneve Place Financiere.

VTB BANK

VTB bank is the former Vneshtorgbank (Foreign Trade bank)[26] and is 7th in the Forbes Russian list. It is currently 75.5 per cent owned by the Russian Federation and none of its shareholders holds more than 1 per cent of its shares. It has fifteen subsidiaries in the CIS and world wide. Expansion to the CIS and previous Soviet space is a 'key priority' of strategy (Annual report 2012). Its fifteen Supervisory Board members have only two foreign members: David Bonderman, the President of Texas Pacific Group Investment Fund who also holds directorships in Armstron Worldwide Industries and Ryanair; and Mathias Warnig, managing director of Nord-Stream AG of Switzerland, and a director on the boards of Rusal, and Bank Rossiya, Rostneft and Gasprom Schweitz. He is a previous chairman of Dresdner Bank. Other Board members have strong links with other Russian banks and government institutions.[27]

Some of the board members are concurrently chinovniki holding positions in the government of the RF. Alexey Uvarov, for example is director of the Department of Industry and Infrastructure under the government of the RRF, and was previously deputy head of Division of the Ministry of Property Relations of the RF. Alexey Ulyukaev is deputy chairman of the Central Bank of the RF and holds the same position in Sberbank. He is also chairman of the Russian Direct Investment Trust. He has previously been first deputy Minister of Finance of the FR. He has been a member of Moscow City Duma. Muhadin Eskindarov is principal of the Federal Institute of Higher Professional Education in the Financial University of the RF; he is on the board of TMK, the Moscow Industrial Bank, Bank Vozrozhdenie, and the Russian Agricultural Bank.

As in other Russian companies, a significant proportion of the directors have higher degrees in economics and many have held positions in Russian higher educational institutions. With a leadership having overlapping membership of crucial government committees, experience in the state apparatus as well as participation in other state owned companies, the bank can be relied on to support a statist policy.

Under the post-2012 Presidency of Putin, the tide of state appointments to company boards has strengthened.[28] With some important exceptions, the presence of foreign directors is rare. Russian transnationals share many directors with other Russian companies. One feature which marks them out from Western companies is the greater participation of directors in other sectors, especially in higher education. Vladimir Mau, for example, is on two multi-national boards as well as being (or having been) a Rector of two Russian higher educational institutions. Others participate on the Executive Board of the Russian Union of Industrialists and Entrepreneurs facilitating participation between state companies, state apparatuses and private companies. Overall, the Russian transnationals are not just ‘state’ companies, but ‘national’ ones even under private ownership. They are subject to state leadership and predisposed to conform to the interests of the state rather than to operate primarily as profit making entities. In return, their directors receive honours from, and social recognition by, the President.

However, there are a small number of companies, such as Severstal, X5, and Sistema, which are more like Western globalising companies in composition and recruitment. Such companies have multi-national Boards and many of their Russian members have been educated at Western business schools. They can be relied on to support a neo-liberal economic and political agenda. They provide a counterpoint to the statist leadership. Consider Severstal:

> The Severstal group is an integrated steel manufacturer and is listed on several stock exchanges. In recent years it has grown enormously and has two modern facilities in the USA. Its goal is to expand internationally; currently 35 per cent of its production from Russia is exported. Its board reflects its international character. Of its ten board members in 2011, only five are Russian nationals: there are two Englishmen, an American, a German and a Yugoslav. Alexey Mordashov is CEO of Severstal, chairman World Steel Association (Belgium), he is head of Russian Union of Industrialists and Entrepreneurs, serves on the Entrepreneurs council of the Government of Russian Federation and is a member of the EU-Russian Business cooperation council as well as the Atlantic Council President's International Advisory Board. The American member, Ronald Freeman, has (at least) six directorships of foreign companies and two Russian ones; he is a member of the executive committee of the Atlantic Council.
>
> In total the Board members mention 21 directorships of foreign companies and eleven Russian ones, though this undoubtedly is an underestimate as many ‘other companies’ are not listed. Two of the Russian directors in addition to their Russian education, attended business schools in Britain and the United States; many also had managerial positions in Western firms, such as Coca Cola and Sun Interbrew. This is clearly a company which sees the way ahead through global exposure.

7. National and global elites

Such differences in social class and economic interests prescribe national and global legitimating ideologies. In Western globalised states political elites are national in form as the state is the locus of legitimate power. Political power, however, rests on international networks. Political leaders in globalised economies have to respond positively to the rise of globalizing companies and institutions which favour neo-liberal solutions. In dependent globalised states, national political elites have been disempowered. But interest aggregation varies significantly between states, some still have national leaders having a firm domestic foundation, whereas others are confronted by powerful internal and external globalising elites.

8. Conclusions

Globalisation has led to the weakening of the powers of national political elites consequent on the rise of global companies and institutions. This transfer of power is consequential on the changing nature of capitalism. National capitalist classes have been marginalized by the rise of global capitalist interests, particularly in the financial sector. Nation states, however, are significantly different in their exposure to, and dependence on, the global economic system. While capitalist globalisation favours the development of neo-liberalism, the financial crisis and consequent recession has led to a greater assertion of national sovereignty. In Western countries movements have had an 'anti-capitalist' or 'anti-globalist' character with no ideological underpinning. They are not viable alternative political movements. An alternative economic system, national capitalism, is a possible development in countries which are marginal to the global system. Essentially, national capitalism brings together the state, nation and capital. Russia is considered to be one such case.

Russia under Vladimir Putin has a national political elite; he is able not only to aggregate domestic interests but also to formulate them. Domestic globalising elites have insufficient leverage to legitimate their self interest in the face of very high political costs. Hence Putin's turn to national conservatism and economic nationalism is politically and economically rational and rests on the national class and elite structure. Yet it is anchored in a market society and private property. The Putin regime seeks to 'ameliorate the consequences of the 1990s but not their substance'[29] –it is not an anti-capitalist regime. Moreover, national capitalism is not a unique Russian phenomenon but is shared by a wide range of anti-globalisation movements. National sovereignty has resonance in the BRICKS countries.

The different elite structures (global and national) rely on competing legitimating ideologies. The first is based on neo-liberalism, with its concern for world markets, financialisation, support for free trade and global institutions (WTO, IMF, EU). Multi-national or transnational capitalism involves a shift away from national solidarity and a national political focus; it is legitimated by economic neo-liberalism, political electoral democracy and socially an autonomous civil society. Consequently, it 'eliminates economic nationalism as the basis for social inclusion'[30].

The second is in terms of traditional 'one nation' conservatism: this involves support of home industries and national military industrial complexes and is legitimated through patriotism and a corporate state. President Putin has adopted a more populist home-centred policy. He has sought to reverse neo-liberal tendencies and to legitimate an alternative 'sovereign democracy'. He has been able to do this because Russia is not 'locked in' to the global system. His Russian conservatism has much in common with that of traditional Western national conservative parties. In addition, it has the backing of Orthodox Christianity.

However, Russia (as well as China) has significant global and international companies whose interests would be enhanced through a neo-liberal policy which facilitate entry to world markets and higher profits. The political leadership is also confronted by Western companies, states and global institutions. Consequently, Putin's national ideology pits the ruling political elite against counter elites domestically as well as foreign neo-liberal powers seeking both markets and assets in Russia. Putin has been fortunate in that his leadership has coincided with a decline of US hegemony and the credibility of its 'freedom agenda' as well as significant financial and legitimacy crises in the European Union. Financial and trade sanctions against Russia following the political crisis in Ukraine have not isolated Russia and have been unable to reverse Putin's course.

Elites influence rulers and their interests reflect different sources of power: moral, economic, political and administrative. President Putin is backed by administrative control of major companies as well as state security organisations. He protects the interests of a Russian bourgeoisie. He appeals to the moral authority of Russian civilization giving him a popular electoral base. He presides over a developing form of national capitalism. The Russian ruling elite structure is one with a growing consensus around a ruling class composed of the upper state bureaucracy (chinovniki) and nationally based state and private business groups.

The current ruling elite accommodates challenges from three counter-forces - interests based both domestically and abroad. First, foreign globalising companies which, to further their profitability, seek to take over companies in host countries (BP is an example in Russia). Second there are domestic national globalising companies with a neo-liberal outlook (Severstal is one of these). Third comes a small liberal democratic intelligentsia. Globalising elites have less salience in Russia than in any other European post-socialist society. President Putin not only responds to, but regulates, national capitalist interests who retain strategic powers in the economy. Russia is moving towards an administratively coordinated state-led economy. In a global context the country is establishing a regional economic and political bloc expressed in the BRICS which is breaking away from the hegemonic world system. Here is an economic challenge - not to capitalism but to its neo-liberal form. Unlike other states locked into a globalised economic system, Russia has the means to establish a form of national capitalism.

Notes

[1] Immanuel Wallerstein claims that the world-economy economy included the 'entire world, including those states ideologically committed to socialism [then the Soviet bloc and China]'. I. Wallerstein, *The Capitalist World Economy*, Cambridge, Cambridge University Press, 1979. On the unity of the world-system see p. 271.

[2] In these tables 'CIS' refers to Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. New Member States here include Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia, Romania.

[3] Transnational corporations (TNCs) are constituted of parent enterprises and foreign affiliates. A formal definition of a transnational corporation (TNC) is that it is 'an incorporated or unincorporated enterprise comprising parent enterprises and their foreign affiliates. A parent enterprise is defined as an enterprise that controls assets of other entities in countries other than its home country, usually by owning a certain equity capital stake'. A foreign affiliate is an incorporated or unincorporated enterprise in which an investor, who is a resident in another economy, owns a stake that permits a lasting interest in the management of that enterprise (an equity stake of 10 per cent for an incorporated enterprise, or its equivalent for an unincorporated enterprise). In World Investment Report (WIR), subsidiary enterprises, associate enterprises and branches are all referred to as foreign affiliates or affiliates. *World Investment Report 2005* (WIR 2005), UNCTAD, Geneva, 2005, p. 297.

[4] *World Investment Report*, 2007, p.9.

[5] Data on destinations of foreign investment see: Fed Sluzhba gos statistiki, Rossiyski Statisticheski Ezhegodnik 2011, Moscow, 2011, Table 23.21

[6] http://data.worldbank.org. Table Market Capitalisation of listed Companies as % of GDP.

[7] IMF, *World Financial Outlook*, 2009, p. 140.

[8] Here defined as Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia and Turkey. Russia is listed in the source, but this is an error – personal communication from IMF.

[9] IMF, *World Financial Outlook*, 2009, Figure 4.2, p. 141.

[10] IMF data. I am indebted to Staphan Danninger of the IMF for detailed information.

[11] Francis Fukuyama, "The End of History?", *The National Interest*, Summer 1989, p.14.

[12] Ha-Joon Chang, *Kicking Away the Ladder*, London: Anthem Press, 2002.

[13] See Avraham Barkai, *Nazi Economics: Ideology, Theory and Policy*, Berg: Oxford/New York, 1990 and Keith A. Darden, *Economic Liberalism and Its Rivals*, Cambridge University Press, 2009, p. 87.

[14] F. List, "Shriften", *Reden*, Berlin (no publisher cited) 1932-35, vol. 2, p. 105, cited by Avraham Barkai, *Nazi Economics*, Berg: Oxford/New York, 1990, p. 78.

[15] Such interests are defined in David Lane, *The Capitalist Transformation of State Socialism*, London and New York: Routledge, 2013, pp. 307-316.

[16] Siloviki are executives who manage the institutions of enforcement, particularly the police, intelligence and army.

[17] See Marshall Goldman, *Petrostate, Putin, Power and the New Russia*, Oxford and New York: Oxford University Press, 2007, p. 193 and discussion in David Lane, *The Capitalist Transformation*, p. 307.

[18] Marshall Goldman, *The Piratization of Russia: Russian Reform Goes Awry*, London and New York:

Routledge, 2003, p.147 and Richard Sakwa, Putin and the Oligarch: The Khodorkovsky-Yukos Affair. London and New York, Tauris, 2014, p. 31.

[19] Sakwa, *Putin and the Oligarch*, see esp. pp. xviii-xix.

[20] Annex Table A. I. 28. UNCTAD 2004, p. 38.

[21] Jerry Harris, *The Dialectics of Globalisation*, Newcastle; Cambridge Scholars Press, 2006, p.93.

[22] Forbes Top 2000 global companies May 2013 available at: http://www.forbes.com/global2000. Accessed 2 January 2014

[23] Vagit Alekperov, the President of LUKOIL, is one of the world's richest men. He graduated in 1974 from Azizbekov institute of oil and chemistry in Azerbaijan then worked in the oil industry in Azerbaijan and Western Siberia from 1968. He became a CEO of the production Association Kogalymneftegaz of Glavtyumenneftegaz of the USSR Ministry of oil and Gaskogalymneftegaz. He served as deputy then first deputy of the USSR oil and gas ministry (1990-91). He became President of Langepasuraykogalymneft 1992-3. Chairman of Board of Directors Lukoil 1993-2000. President of Lukoil since 1993. No other directorships are shown in his biography (or for any other director) in the LUKOIL annual report.

[24] Major owners are ING Bank (Eurasia) (75.94% on 1 January 2012), Depositary-clearing company 8.47 per cent, National depositary centre, 5.52 per cent, SDK Garant 3.93 % and OJSC URALSIB 1.42 per cent; Lukoil claims that it has more than 50,000 individual and legal entities owning its shares. The discrepancy in the total number of shares (which sum to greater than 100) is due to the fact that directors' holdings include shares directly owned and also help through beneficiaries.

[25] Valery Grayfer the Chairman of LUKOIL had been Deputy to the USSR Oil Industry Minister and Head of the Tyumen Main office He graduated from the Moscow Gubkin Oil Institute. The Vice President for sales, Vadim Vorobyov, was also educated in Russia in economics and was a Komsomol and Party worker between 1981 and 1992. Notable is German Gref who is also the Chairman of the Executive Board of Sberbank. Igor Ivanov has served in government as First Deputy Minister of Foreign Affairs of the Russian Federation (1993-98). He is also a Plenipotentiary Ambassador of the Russian Federation.

[26] Data here is derived from annual report for 2012. http://www.vtb.com/upload/iblock/87a/VTB_Annual_Report_2012_20130930_1635.pdf. Accessed January 2014

[27] Sergey Dubinin, for example, is a member of the board of directors of Otkritie Financial Group, a member of the advisory council on monetary policy under the Bank of Russia. He was formerly on the board of UES and deputy chairman of Gazprom. He has also been a first deputy minister of finance in the Russian Federation. Leonid Kazinets is chairman of the board of directors of CJSC Barkli, chairman of the Expert Council for pricing of construction under the government of the Russian Federation. He has been chairman of the Board of the Ministry of Regional Development. Andrey Kostin is its president and chairman and is also chairman of the Bank of Moscow, he is on the Council of Russian Banks and on the Board of the Institute of Directors of the Russian Union of

Industrialists and Entrepreneurs. He is a previous chairman of Vneshecombank. In the USSR he was in the diplomatic service. He has a small number of shares. Other directors are on the boards of Sistema, Rosneft, ROSNO Insurance; the Bank of Russia, Avtotor, Sberbank.

Gennadiy Melikyan has held political positions as members of the Duma of the RF (Gennadiy Melikyan) and has served on the Committees of Economic reform as well as having positions in the USSR Council of Ministers. Ivan Oskolkov has been director of the Innovation department and Corporate Government department of the Ministry for Economic Development of the RF. Alex Savatyugin has been Deputy Finance Minister of the Russian Federation and a director of the department of Financial Policy of the RF. Pavel Teplukhin is a chief officer of Deutsche Bank and a member of the Board of the Russian Managers Association. He has been managing director of Troika Dialogue, head of the Moscow office of the London School of Economics and an adviser to Jeffrey Sachs Task Force.

[28] On 27 January 2014, proposals were made for the return of state officials to the boards of RusHydro, Transneft, Rosneftegaz, Russian Grids, VTB Bank, Rosselkhozbank and Russian Railways (RIA Novosti 27 January 2014).

[29] Richard Sakwa, *Putin and the Oligarch*, p.168.

[30] Jerry Harris, p.93