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## Semi-Peripheral Russia and the Ukraine Crisis

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### ABSTRACT

The nature of Russia's nascent capitalism defines its Russian foreign policy and particularly its involvement in the Ukraine crisis. The author rejects the "two imperialisms" thesis concerning East-West confrontation. He departs from the world-system approach and defines Russian capitalism as a semi-periphery of the world system. This means that Russia is half-dependent on the West. On the other hand, it is able to challenge Western hegemony on certain issues. The nature of the country's big business is seen as short-term, rent-seeking behaviour, inconsistent with sound investment and long-term development. Atomisation of the ruling class creates preconditions for a strong authoritative state. However, the Russian ruling elite is deeply split into two factions: one oriented to integration with the West (comprador elite) and the other favouring the strengthening of independent Russian capitalism. Russian foreign policy is shaped by the opposition and compromises between these two groups. That is the reason why it is so inconsistent and contradictory. Particularly in Ukraine, Russia tries to withstand Western challenge, but leaves open options for accommodation. The Russian attempt to make the West regard its national interests within the framework of the current world order, according to the present paper, is doomed to failure.

### KEYWORDS

Russian capitalism; the new Cold War; world-system approach; Ukraine crisis; Russian foreign policy

## Introduction

In the mainstream Western literature, the Ukraine crisis is seen as a manifestation of Russian imperialism, pursuing the revival of the Soviet Union. Much of the Western left is preoccupied with "two imperialisms" clashing over Ukraine (Bojcun 2016). However, the real Russian policy in Ukraine conflict is too contradictory and complicated to be understood in such a simplified way. First, Russia did not initiate the crisis, but only reacted to the consequences of a violent coup staged in Kiev by the West. Crimea was reunited with Russia only under the threat of the Russian fleet's being ousted from Sevastopol and replaced by the North Atlantic Treaty Organization (NATO) navy. When the Donbass rebellion happened, Russia reluctantly gave support, but stopped the advance of pro-Russian militias in the summer 2014 and initiated a truce. The Kremlin persistently seeks to solve the conflict on the basis of a wide compromise. In return for recognition of

Crimea as a part of Russia, and for a neutral state of a federalised Ukraine it is ready to withdraw support for the breakaway Donetsk and Luhansk People Republics. This purely responsive and modest reaction to what is in fact the major challenge for the security of Russia fits in with neither right nor left mainstream Western thinking.

In his comprehensive and insightful study of the Ukraine crisis, Richard Sakwa provides a much more sophisticated analysis. He calls Russian strategy “neorevisionist,” understanding under this term that it does not seek to change the current world order based on US hegemony. The Kremlin rather tries to change the practice of this world order by attempting to compel the West to recognise and respect its national interests. I am not sure that this is possible in the framework of the current neoliberal world order, but this is a clear indication that the Russian ruling classes do not dare to challenge the West, but instead try to establish what they see as an equal relationship with the West. Understanding why Russian policy in the Ukraine crisis is so contradictory—trying to defend its interests and simultaneously seeking compromise all the time—one should study the nature of modern Russian capitalism and its position in the world system. It is exactly the focus of the current paper.

### The periphery of world capitalism

After the Soviet Union collapsed, its former constituent republics embarked on the transition to capitalism. But this was not, and could not be, a transition to the highly developed capitalism of the global “centre,” providing superior living standards to its inhabitants. Precisely in this lay the deception presented by television broadcasts. Within the framework of the world capitalist system, these newly converted states could only occupy a place in the backward and dependent periphery.<sup>1</sup> What followed was the “development of underdevelopment” described by Andre Gunder Frank (Frank 1966, 1978). As in many other parts of the world, this process involved (1) a transition to a simplified structure of production that suited the needs of the centre, and (2) a transformation of the social structure of the countries in question, including (a) the pauperisation of the mass of the population, creating a reserve army of cheap labour, and (b) the rise of a comprador bourgeoisie on the basis of the local ruling elites, which became mere intermediaries in the exploitation of the cheap natural and human resources of their countries (Patnaik 2009).

One could add to Frank’s approach that the phenomenon of peripheral capitalism should be interpreted through the lens of the labour theory of value. The essence of unequal relations in the capitalist world system lies in the transfer of a significant part of surplus value, produced by the population of a periphery, to the core. There are a number of tools, through which this transfer of wealth happens. Global value chains operate in such a way that the bulk of value, produced by workers of the periphery, is appropriated by transnational corporations (Milberg and Winkler 2013). The value of the US dollar as a reserve currency depends on its role as a mechanism transferring incomes, created by the countries with low wages, to the United States.

The countries of the Commonwealth of Independent States (CIS) underwent just such a transformation of their economies. During the grim years of the 1990s, the share

<sup>1</sup> See the books on the world-system approach, explaining the core-periphery model in Wallerstein (2004), Frank (1978), Amin (2010), and Bagchi (2008).

represented by industry in the overall added value in these countries declined, on average, from 38% to 29% (Chasovskiy 2013). Vladimir Chasovskiy (2013) notes the following main changes in the industrial development of the CIS states:

- Growth in the share of industrial value added represented by the extractive sectors. To a significant degree this is due not just to the high quality of the raw materials, but also to the “reorientation of the extractive enterprises from supplying the traditional markets of the CIS ... to the successfully functioning markets for raw materials and semi-processed goods ‘far abroad’”;

- Manufacturing industry in the countries of the Commonwealth has been characterised by a systematic trend to lower production and a reduction in the range of products;

- Specialisation and cooperation have diminished rapidly, and the manufacturing industry has undergone a marked deterioration, shifting to more primitive forms of production;

- A major breakdown has occurred in the technological and productive links between enterprises that earlier belonged to the same clusters. This has been especially obvious in the food-processing industry, where processing enterprises have become oriented increasingly toward foreign suppliers, at the same time as foreign companies have forced local competitors out of the market for the food industry’s raw material, and then begun imposing their price-formation rules in CIS countries;

- The unbalanced distribution of investments between sectors, to the advantage of the energy, metallurgy and chemical industries and light manufacturing (with the exception of the last these are all export-oriented sectors, with a low degree of raw materials processing).

All these features of industrial development may be interpreted as reflecting the structural adaptation of the economies of the CIS countries to their new situation in the world economy. The main trends of development of the foreign trade of these countries confirm this conclusion.

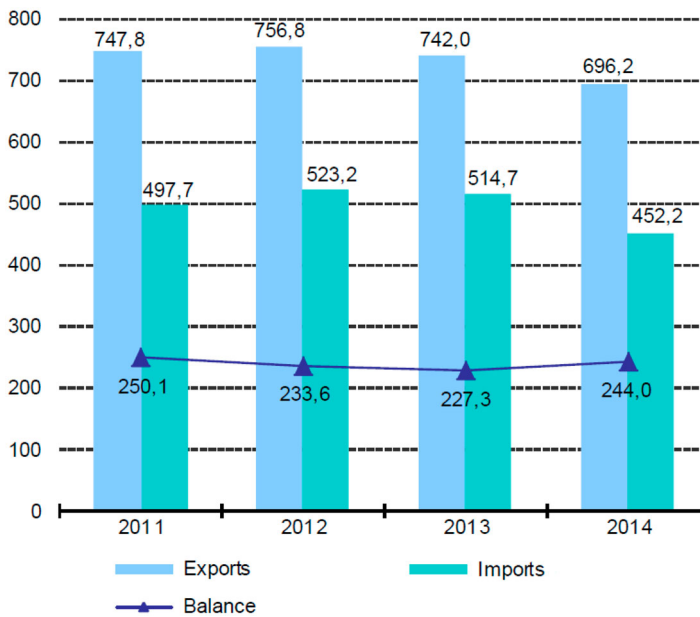
For the most part, the exports of CIS countries to the rest of the world consist of raw commodities—mineral resources and some types of products with a low level of processing, such as sawn timber, paper and cellulose products, quarried stone, metals and metal goods. The share in exports represented by products of manufacturing industry is very low (MSKSNG<sup>2</sup> 2015, 24). Meanwhile, if we turn to the structure of imports by the CIS countries from the rest of the world, we see a directly opposite picture. The major portion of these imports consists of products of manufacturing industry (MSKSNG 2015, 26). The post-Soviet states thus export mainly products characterised by a low degree of processing of the original raw materials, and import products with a high level of added value.

Despite these unfavourable circumstances, the CIS countries in their trade with the outside world have a positive balance of payments that is significant and growing. Let us consider Figure 1.

The data presented in the figure demonstrate that in the 2010s the excess of the value of export over the value of import of the CIS countries was great. In 2014, net export of this group of countries amounted to \$244 billion. Systematic positive net export means that a country transfers a certain share of its resources to the foreign world on a regular basis. It is a feature of the peripheral societies. One may object that some core economies with a notable example of Japan, also enjoy systematic net export and this does not prevent these societies from being developed. It is correct, but with one important reservation—

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<sup>2</sup> MSKSNG stands for Mezghosudarstvennyy Statisticheskiy Komitet Sodruzhestva Nezavisimykh Gosudarstv (International Statistical committee of the Commonwealth of Independent States).

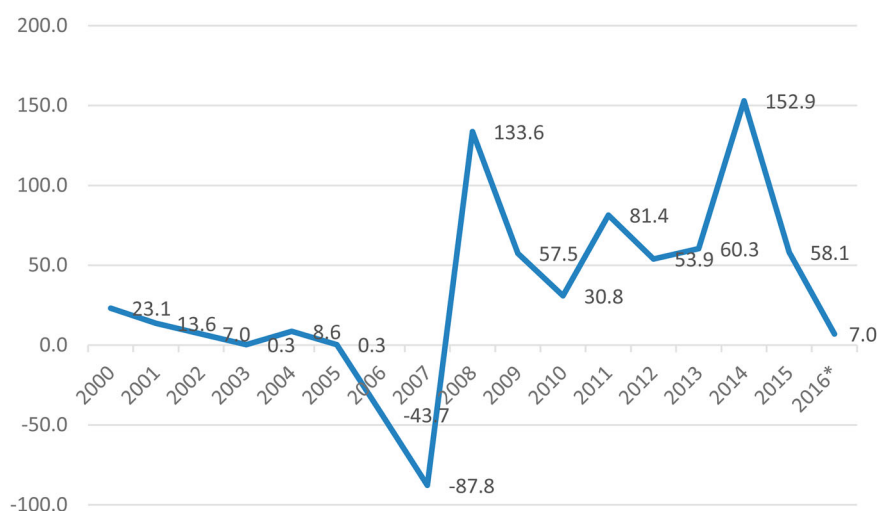


**Figure 1.** Foreign trade of the CIS countries in 2011–14 (billion, US dollars). Source: MSKSNG (2015, 11).

the core nations use their proceeds from net export for their own development. In the case of the peripheral nations, it is very different. These funds could have served as an appreciable source for essential investments in modernising obsolete plants and equipment. Unfortunately, things have turned out quite differently: the net income from foreign trade is being used to boost massive exports of capital from the post-Soviet states. The champion in this field is Russia. Let us examine [Figure 2](#).

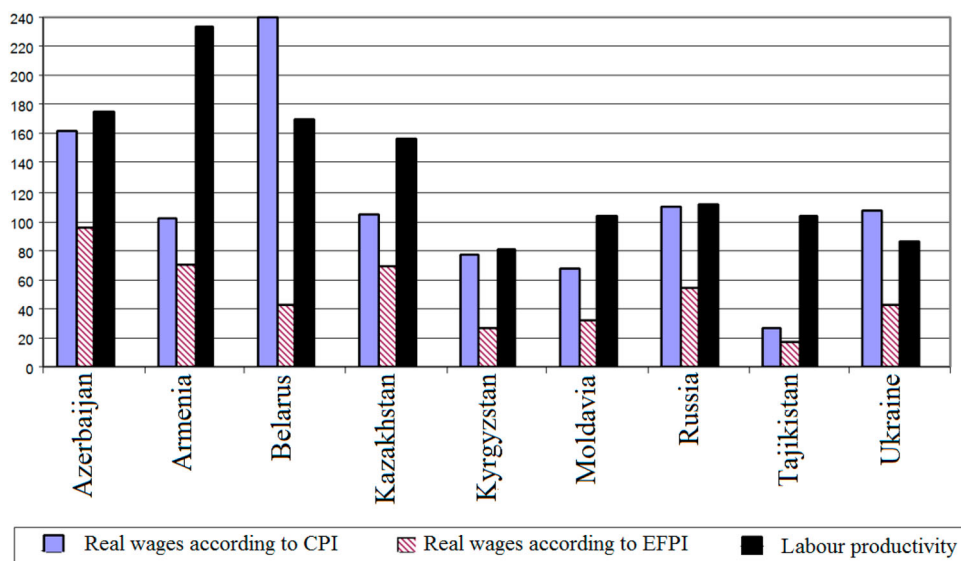
The data show that net outflow of private capital is a persistent feature of Russian economy. In the crisis of 2014–15 only, it exceeded \$210 billion. This huge amount of money could be enough to boost both wages and investment and overcome the slump. It should be noted that when business borrows more from the rest of the world than it lends to it (that is, when it imports more capital than it exports, as in 2005–7), the government sharply increases exports of capital via its own mechanisms (Manevich and Bukina 2013). The funds are sent abroad both by the state and by the private sector. Overall, Russia remains invariably a net exporter of financial resources. It is only natural that as the economies of the former Soviet republics are bled dry, real wages have fallen. Let us examine [Figure 3](#).

[Figure 3](#) reflects the situation on the eve of the world economic crisis, so the unfavourable trends cannot be blamed on this external shock. From the data, it is clear that the official figures for the remuneration of labour in the countries of the CIS (the first column of each three) are misleading; they appear to show that in most countries of the CIS real wages long ago exceeded the pre-reform level. But the problem is that these figures were compiled by state statistical services on the basis of the Consumer Price Index (CPI). The result is that wage levels are artificially inflated, since this index includes luxury goods that are beyond the reach of workers, and whose prices have increased less rapidly than those for goods of primary necessity. If we re-calculate real wages using a price index



**Figure 2.** The net import (–) and export (+) of capital by Russian private sector (billion, US dollars, according to the data of the current Russian account balance). Source: Tsentralni Bank Rossiyskoi Federatsii (The Central Bank of Russian Federation 2016).

for a set of food products (the second column of each three), the results are completely different. The reality is that almost nowhere in the CIS have real wages regained the levels of Soviet times. In Russia and Ukraine they are 50–60 per cent below the officially claimed levels. Meanwhile, labour productivity (the third column of each three) has grown substantially more than real wages in all the countries under discussion.



**Figure 3.** Dynamic of real wages and labour productivity in various countries of the CIS (2007 cf. 1991, in %). Source: VKP<sup>6</sup> (2008, 8).

Notes: CPI—Consumer Price Index; EFPI—Essential Food Product Index.

As workers' incomes have fallen, social inequality has increased sharply. Russia provides a striking example here. According to *Global Wealth Report*, Russia has

the highest level of income inequality in the world, except for a number of small Caribbean states with billionaire residents. In the world as a whole there is one billionaire for every \$170 billion of household wealth; in Russia there is one per \$11 billion. In the world as a whole the assets of all the billionaires together amount to 1–2 per cent of household wealth, while in Russia today 110 billionaires own 35 per cent of all wealth. (Shorrocks, Davies, and Luberasis 2013, 53)

From what has been said, it is clear that the economies of the CIS countries have shifted to a simplified structure of production, with a decline of manufacturing industry and growth of the extractive sectors. This reflects the transformation of these states into suppliers of low value-added raw materials to the developed capitalist world. Meanwhile, the societies of the CIS countries have undergone a social transformation, with a reserve army of cheap labour formed at one pole and a comprador class of property-owners created at the other. This is nothing other than the “implanting of backwardness.”

### The reforms and the West

The modern-day capitalism of the CIS countries has two sources: the decay of the Soviet bureaucracy and the influence of global capitalism.

The first of these factors is associated with the decay of the Soviet bureaucracy. Cambridge University Professor David Lane notes that most works on the transition to a market economy in Russia have the defect of ignoring the key question of the social forces behind the reforms. Lane distinguishes two main social groups that made possible the fall of the Soviet system and its transition to capitalism (Lane 2011). These were the “administrative class,” consisting of people who exercised administrative control over production, education and science, and the “acquiring class,” consisting of members of the intelligentsia with an interest in employing market mechanisms to derive material benefits from their qualifications. To these two social categories, Stanislav Men'shikov adds the black-market entrepreneurs whose activity had been gradually expanding within the pores of Soviet society (Men'shikov 2007). For many years the organs of centralised administration had succeeded more or less in controlling the economy. But their role came gradually to be undermined, and the bureaucracy, including enterprise directors, increased its influence. Behind the façade of an outwardly monolithic planned economic system, the basis for the development of private appropriation thus arose within a context of social property. A no less important factor helping to shape the character of the new social system was the unprecedented influence exerted by the West on the process of transformation of the post-communist societies.

One should take into account the deep and comprehensive transformation of economies belonging to the core of the capitalist world-system in the last decades. One of the notorious events in recent economic history is the shift of US corporations from managerial firms to financialised structures. The Shareholder Revolution overcame the separation of ownership and control and ended the relative independence of managers (Ho 2009). US corporations were ruthlessly downsized, restructured, stripped of assets, their investment funds being severely curtailed. All this was done to increase dividends and boost share



prices. Increasing current shareholder value supplanted long-term growth as the prime object of corporate strategy. This created demand for financial assets at the expense of investment funds on the part of big business. In the 2000s, the share of financial assets exceeded the share of productive assets in the structure of capital of the US non-financial corporate sector (Orhangazi 2008). One can say that the *modern financialised capitalist world-system values short-term pecuniary gain much greater than long-term growth of productive capacities*. As I will show below, this affected the nascent Russian big business greatly.

The defeat of the Soviet Union in the Cold War discredited the socialist system, and made it possible for our society to accept uncritically the bourgeois system of values, presupposing a broad-scale introduction of private property. In this context, the ruling elites of the West, and above all of the United States, succeeded in exerting a decisive behind-the-scenes influence on the process of devising radical economic reforms. Here, Lane points to a “global political class,” which through the hegemony of Western governments and international organisations held *decisive* sway over the formation of capitalism and of a class of property-owners in Russia (Lane 2011, 43). Underlying this policy was the notorious “Washington consensus,” which set out the priorities of international financial organisations in relation to developing countries. By the 1990s, the world had accumulated enough experience to conclude that adhering to the formula of “liberalisation plus stabilisation” (that is, a restrictive monetary policy) simply exacerbated poverty and misery (Chossudovsky 1997). Reducing poverty, furthering equality and conserving the environment were not elements in the consensus (Serra and Stiglitz 2008, 6), the purpose of which was to lighten the burden on the West of the ripening crisis. Criticism of the policies involved was extremely widespread, and the result was the formulating of a “post-Washington consensus,” which stressed social welfare and the struggle against poverty (Serra and Stiglitz 2008). Unfortunately, this passed unnoticed by Russian politicians and public opinion.

Ostensibly, the reforms in Russia were overseen by a group of senior state officials headed by Yegor Gaidar and advised, supported and encouraged by senior figures from the US administration, as well as by various American experts (Pirani 2010). But according to the American scholar Janine Wedel, the Russian reforms were worked out in minute detail by a handful of specialists from Harvard University, with close ties to the US government, and were implemented in Russia through the politically dominant “Chubais clan” (Wedel 2001). Chubais is recorded as having officially engaged foreign consultants, including officers of the Central Intelligence Agency (CIA), to fill leading posts in the State Property Committee. Hence, under order no. 141 of the State Property Committee, Jonathan Hay, citizen of the United States and officer of the CIA, was appointed Director of the Foreign Technical Aid and Expertise Section and Deputy to the chairperson of the committee (Anatoliy Chubays) within the Expert Commission. The Expert Commission was empowered to review draft decrees of the President of Russia, to review drafts for decisions by the government and instructions by the chairman and deputy chairman of the State Property Committee of the Russian Federation on the details of privatisation in various sectors of the economy (Mir Tesen 2002). The memoirs of Strobe Talbott, assistant to US President Bill Clinton on Russian affairs, leave no doubt that the US administration viewed Russian President Boris Yeltsin as a reliable conduit for its interests in Russia (Talbott 2006). The neoliberal economists Jeffrey Sachs and Andrei Shleifer,



and the lawyer Jonathan Hay, had a degree of influence over Russia's economic policy that was unprecedented for an independent state. Together with Gaidar and Chubais, they formulated decisions that were then inserted directly into presidential decrees (Talbot 2006, 27).

Further confirmation of these moves is provided by the reminiscences of the American banker of Russian descent Boris Jordan, who related that in September 1992 Chubais, as head of the State Property Committee, had approached him with an urgent request to develop a programme of privatisation (Desai 2006, 291–93). The urgency was explained by the fact that the next Congress of People's Deputies was to open on December 9, and the government wanted to launch privatisation prior to this in order to present the people's elected representatives with a *fait accompli*. Skipping over numerous stages of the work to the detriment of its quality, the drafters met the deadline, and the programme was released on the eve of the congress. Jordan, the grandson of a White emigrant, stated with satisfaction that in a brief period he and his colleagues had managed to achieve what his grandfather had failed to do during the Civil War, ousting the state from the field of property relations (Desai 2006, 192). This telling episode bears witness not only to the behind-the-scenes role of the Western puppeteers and to their real attitude to democracy, but also testifies to the fact that in directing the reforms within Russia these people were driven by hatred for the country and by a desire for revenge against their vanquished foe. Their feelings were quite understandable. Less understandable was our willingness to reconcile ourselves to reforms issuing from so dubious a source.

Analysis shows that the implementation of the Russian reforms organically combined an aspiration by Soviet bureaucrats to transform themselves from state functionaries into private property owners, and a desire on the part of the ruling elites in the West to impose their own system of values on their historical rival. It is thus inappropriate to speak of Russia and its neighbours in the CIS as having been independent in their conduct of radical economic reforms, and this very lack of independence was crucial for determining the strategy applied in these transformations.

### The nature of big business

In the early 1990s, there were almost no luminaries of liberal economics, either in Russia or the West, who would not have recommended that Russia legalise the “shadow capital” at work in the black market. It was argued that under the Soviet system, people with a talent for business could exercise their gifts only in the area of criminal entrepreneurship. In the thinking of supporters of radical market reforms, the criminal world played essentially the same role—that of the main builder of the new social order—as Marxists saw the working class as playing when it acted as the main builder of socialism. The crucial task, it was considered, was to establish—as fast as possible, and at any price—a class of private property owners that would block any possibility of a so-called “communist revanche.” In the longer term the “invisible hand” of the market, that is, the conditions of market competition, would lead to a redistribution of property from inefficient to efficient entrepreneurs. That economic efficiency would automatically be assured was viewed as self-evident.

This reasoning also determined the nature of the privatisation, as can be seen from the materials of an official report by the Accounting Chamber of the Russian Federation

(Stepashin 2004). The scale of the subsidies to the private sector can be gauged from the fact that the sums realised by the state from the sale of its property amounted to less than 5% of the market value of the assets concerned (Men'shikov 2004, 61–62). State enterprises were sold off for a twentieth or even a thirtieth of their real worth (Volkonskiy 1998, 12–13). Although the above-noted conclusions of the Accounting Chamber had an official character, the assessments made of specific privatisation deals never resulted in legal action.

The social essence of the privatisation is obvious: it amounted to expropriating the entitlements of the overwhelming majority of Russian citizens in the interests of the new class of property owners that was taking shape on the basis of bureaucrats, members of the intelligentsia, and figures from the criminal underworld (see above).

The conclusion that the rights of Russians were expropriated is often disputed on the basis that Soviet citizens had possessed no rights, and that consequently nothing existed that could be expropriated. However, through the social consumption funds—the systems of social assistance, free health care and education—every Soviet citizen received a certain share of the income from state property. From the point of view of modern property theory, which views property as a bundle of entitlements, this means that everyone in the Soviet Union was an owner of everything the state possessed. As explained earlier, the champions of privatisation in Russia promised that the process would “turn everyone into an owner.” But in reality, the rights of ordinary citizens were usurped by a new elite.

Other aspects of the reforms also served this end. Price liberalisation—that is, freeing price formation from control by the state—allowed the new owners to boost prices as they chose. The inflation that ensued devalued the incomes and savings of ordinary citizens. In essence, what occurred was a confiscation of workers' wages and bank accounts to the benefit of inchoate big capital. The policy of so-called financial stabilisation served the same goal. Needless to say, it was proclaimed officially that restricting the amount of money in circulation was indispensable for guaranteeing the stability of ordinary citizens' incomes. But along with cuts to pensions and social benefits, the delays of six months or more in the payment of wages showed clearly who was expected to pay for the struggle against inflation, a struggle meant to stabilise capitalist profits. Privatisation, liberalisation and financial stabilisation, the latter presupposing cuts to social spending by the state, were the alpha and omega of the “Washington consensus.”

A book with the expressive title *Violent Entrepreneurs: The Use of Force in the Making of Russian Capitalism*, by the Russian sociologist Volkov (2002), explores the penetration of our economy by criminal gangs. In modern-day Russia, however, violence as the basis for extracting profits is by no means confined to organised criminal associations.

Due to the weak enforcement of the laws in present-day Russia, formal property rights cannot exist in practice unless they are reinforced by informal control over assets (Kape-lyushnikov 1999; Radygin 2001; Pappe 2002a, 2002b; Dolgopyatova 2005). Under Russian conditions, this control might be exercised by a large shareholder, general director, and head of a state corporation or leader of a criminal gang, acting through place-holders, the relevant state official, or someone else. The genuine owners establish an infrastructure of control, a network of formal and informal mechanisms that allow them to influence both the firm's internal and external environments. The main components of this infrastructure are corrupt ties with the state, and criminal violence.

Within the infrastructure of control over enterprises, external and internal elements may be distinguished. Among the former are complex schemes of share ownership that involve chains of offshore companies (the “cloud of offshore firms,” to use Yakov Pappe’s [2002b, 90] expression), lobbying of business interests through ties with corrupt state officials, and the so-called “roofs”—patronage deals struck with law-enforcement organs, private security firms and criminal structures. The main role of the external elements in the infrastructure of control is to defend the dominant position of the large capitalists against encroachment by competitors. The internal elements of the infrastructure include a system of managerial decision-making that is centralised to a degree far exceeding the standards of developed countries, inflated organs of inspection and auditing, and internal security services. The main purpose of these institutions is to repress hired workers and thwart labour protest, along with ensuring dependable control by large insiders over the financial flows of the enterprise. The infrastructure of control is a set of tools for ensuring the domination of big Russian capital, through coercive means, over hired labour. Large-scale Russian business is thus characterised by a reliance on non-economic forms of compulsion.

As a result of the primarily informal control over assets, big business in Russia is fundamentally unstable. The problem is that “informal property rights” cannot be legalised and passed on by inheritance, but are always liable to be disputed. Waves of redistribution of property regularly sweep across the Russian economy. The key mechanism employed is hostile takeovers, including the wide use of criminal raids and “quasi-nationalisation” (to use the expression of E. Ustyuzhanina) (Ustyuzhanina, Evsyukov, and Petrov 2010). The unstable position of large-scale business is reflected in the short-term nature of its activity.

This short-term focus in turn determines the dominant type of income extracted by big business in Russia. This type of income can be defined as *rent accruing to large-scale property-owners derived from their control over the financial flows of enterprises*. This rent can be calculated as the free monetary flow minus various kinds of interest payments and also dividends paid to shareholders who do not possess controlling packets. As a rule, the mechanism for extracting rent involves the use of commercial shell companies registered in offshore sites. The owners sell the output of companies under their control to these intermediaries, which they themselves also founded, at prices below those in the marketplace. The goods are then resold, this time at market prices, and the profits as a rule are ultimately deposited in the personal offshore accounts of the owners.

Other sources of rent may include cutting the wages of workers and the salaries of managers, reductions in investment, evading taxes, plundering amortisation funds, appropriating credit resources, and so forth. Since all these sources represent revenues created by the labour of hired workers, the present author regards income of this type as the product of exploitation, that is, as a specific form of surplus value that reflects the peripheral character of Russian capitalism. This last point needs to be dwelt on in particular.

The comprador nature of Russian big business, typical of the countries of peripheral capitalism, emerges clearly in the shifting of many of its operations offshore. As indicated earlier, Russia is unique among the world’s countries in that “90 per cent of large-scale ‘Russian’ business and the same proportion of the Russian-owned merchant fleet are registered in offshore sites, while 80 per cent of deals involving the sale of Russian securities are transacted through these jurisdictions” (Demin 2010). Research by American consulting agency the Boston Group shows that wealthy North Americans keep their fortunes in

their own countries, while the elites of the periphery send them abroad (Aerni et al. 2007, 14), primarily to the United States. The fact that capital is systematically exported in the form of low-risk savings is significant. Data from the Central Bank of Russia on net exports from the country by the private sector were demonstrated in Figure 2 above. According to research undertaken by Columbia University professor James S. Henry for the Tax Justice Network, “by the end of 2014, \$1.3tn of assets from Russia were sitting offshore” (quoted in Stewart 2016).

Russia’s internal market is shrinking because of the growing social inequality that results from the extraction of rents. The decline in company investment is occurring because of the exporting of funds by the dominant groups. This process is undermining the incomes of small shareholders, of ordinary managers and of workers. In consequence, we are seeing innumerable intra-firm conflicts, embezzlement by hired workers, and labour protests. In response, big business is increasing its investments in the infrastructure of control, to suppress the ferment among the workforce. All this is limiting the accumulation of funds for development, and undermining investment in expanding productive potential and modernising output. The upshot is that Russian big business is coming to resemble a “lumpen-bourgeoisie,” as Andre Gunder Frank described the Latin American bourgeoisie due to its inability to ensure the modernisation of its countries (Frank 1972). Because of the growing inequality and consequent shrinkage of the domestic market, corporations can expect only low profits from investing in production. As a result, they reject large projects with lengthy payback times. Since it is precisely these projects that usually have special importance for introducing advanced technologies, the long-term prospects for Russian business are deteriorating. The short-term focus of enterprise managements, and their preference for rent-seeking, has become even stronger as the likelihood grows of hostile takeovers. The more modernisation enhances potential profitability of a business, the greater the possibility of that business to become the target of hostile takeover.

The diversion of funds from enterprises thus leads to a wide-ranging decline in the accumulation of capital by large Russian business. This has a significant impact on the process of economic growth, bringing it closely in line with the model of “development of underdevelopment” referred to earlier.

The development of the economy depends decisively on the existing price structure. Sectors in which the mark-up on specific costs is higher receive greater profits, and consequently, enjoy better possibilities for investment. The Russian economy presents a classic example of price disparity, combining within itself sectors belonging to two unequal groups: those in which prices are growing relatively quickly, and those in which price growth is slower than average. The first group includes the fuel and energy complex, ferrous and non-ferrous metallurgy, the food processing industry, transport, and various individual enterprises from other sectors. The second group includes all the rest. Companies in the privileged sector are able to restrict the supply of their products to the domestic market, since they are able to export their output. The power they exert over the internal market is reflected in the growth of domestic prices; this leads in turn to uncontrolled inflation of the costs that must be met by manufacturing industry, and results in capital flowing from this sector into extractive industries. The price structure of the Russian economy reveals the reasons why the large-scale capital of the privileged sector and capital in the sectors that are victims of the disparity make profits that are different in size and character. The mark-up over costs in the first sector grows more rapidly because it includes a

larger component extracted in the form of rents than is the case with companies in the second sector. This difference in the rate of price growth reflects the difference in the power and influence of different groups within large capital. Through raising the prices of their products, the capitalists in the privileged sector redistribute, to their own benefit, capital from the sector that is the victim of the disparity.

The fact that capital operating in the export sector, engaged in the production of raw materials with only a limited degree of processing, holds a privileged place in the structure of prices reflects the peripheral status of the Russian economy. Transnational capital does not allow the products of Russia's manufacturing industries to enter the world market. Meanwhile, the enterprises of Russia's energy and metallurgical industries feed their output to the corporations of the world capitalist centre, and are incorporated into the global production chains of these corporations.

A wealth of empirical material testifies to the unfavourable state of investment by Russia's large-scale businesses. Various polls of enterprise managers show that of the firms surveyed, the proportion undertaking any investment whatsoever varied in the range of 45 to 80%. It is noteworthy that in April–May 2013, three years after the Russian economy emerged from recession, almost 40% of the enterprises studied were not undertaking any capital investments whatsoever (Kuvlin, Galetskaya, and Moiseev 2013). According to some estimates, the collapse of demand for machinery and equipment during the period of radical market reforms saw production and purchases of these goods fall to one-sixth of earlier levels (Kornev 2005).

Of no less importance are the qualitative characteristics of investments. Late in 2012, approximately one in every five Russian enterprises required total modernisation of its productive plant, while more than half required partial modernisation (Kuvlin and Moiseev 2013). During the same period, only 18.4% of the organisations studied carried out investments that ensured the thorough modernisation of their equipment. In more than 80% of enterprises, investments during this time allowed only a limited improvement in productive capacity, did no more than maintain the current level, or were insufficient to prevent a decline in output (Kuvlin and Moiseev 2013).

The result has been that the fixed capital of the Russian economy has become increasingly obsolescent. As reported by Kornev, the average age of the equipment employed in Soviet industry increased gradually from 8.4 years in 1970 to 11.3 years in 1991. Between 1992 and 2004 this figure increased from 12 to 21.2 years, and by 2011 had reached 23–24 years. The proportion of machinery and equipment that had been in service for more than 20 years was 68% of the total (Kornev 2013).

Large-scale Russian business—and the same applies to its counterparts in all the countries of the CIS—is thus characterised by a semi-feudal reliance on coercion, a managerial focus on short-term decision-making, a concentration on rent-seeking, and inadequate investment.

### Contradictions of a semi-periphery

The starting point for analysis of the contradictory Russian strategy in the Ukraine crisis (see introduction) is the nature of its new social system. It is not exactly classical peripheral capitalism, but rather a *semi-periphery*. Its phenomenon is characterised, on the one hand, by its dependency on the core, but on the other by its ability to challenge domination of the

latter in some particular areas. The semi-dependent position of Russia is conditioned by its shift to capitalism, while its semi-independent position is due to the Soviet legacy. In particular, this legacy found its manifestation in significant nuclear arsenal still comparable with that of the United States. If it had not existed, Russia would have been subjugated to the Western interests a long time ago, just as Ukraine was.

Another manifestation of the semi-peripheral nature of Russian capitalism is the relative independence of its state from powerful oligarchs. This problem is also related to the nature of Russian big business, discussed above. It was demonstrated that rent-seeking Russian big capital is short-term oriented. This time orientation in itself should serve as an obstacle to developing anything like a coherent class interest and, hence, sound class consciousness. The control of Russian owners over assets is based on infrastructure of control (see above). External elements of this infrastructure mean corrupted ties with the state. In turn, this means that the state functionaries have a double system of their allegiance: to the formal hierarchy and to “their” business groups. Hence, atomised big business is complemented by the tendency to atomisation of the state apparatus. This ruling class as such is simply unable to suggest a long-term strategy of national development be it economic, defence or diplomatic. The vacuum of power in Russia in the 1990s created preconditions for the domination of oligarchs over the state. The latter “had stopped even trying to collect taxes sufficient to cover the budget, ceded its normal monopoly on armed force to criminal gangs and suffered humiliating defeat in Chechnya in 1996, where it effectively surrendered Russia’s territorial integrity” (Pirani 2011).

However, in the 2000s the Russian state regained some of its important functions, when “against a backdrop of rising oil prices ... the relationship between state and private business was reordered” (Pirani 2011). Two powerful Russian oligarchs—Boris Beresovsky and Vladimir Gusinsky—were pushed into exile, while Mikhail Khodorkovsky was jailed and his oil producing assets were taken over by the state. After claims for power on the part of the most powerful Russian oligarchs were thwarted, others became much more obedient. The state started gaining growing taxes, which allowed increasing finances directed to defence and social expenditures. It may seem that the turmoil of the past had ended and a new age of stability had arrived. However, such an optimistic assessment would be premature. The insider rent model of Russian capitalism allows one to grasp the historical dynamics of Russian society. Under the favourable conditions of the 2000s (prior to the world crisis), the strategies of Russian corporations largely moved from a short- to medium-term time horizon. Nevertheless, the system was still based on rent extraction. State functionaries themselves often take over lucrative assets through proxies, intra-firm conflicts continue, capital flight perseveres, investment is still deficient. The difference between Russia of the 1990s and the 2000s is the difference between the system in the process of coming into being and the system already established. The insider rent model of Russian capitalism helps to establish continuity, rather than disruption in development of modern Russian capitalism.<sup>3</sup>

An authoritarian state is inevitable under peripheral capitalism. Otherwise, it is impossible to carry out the main function of such a society in the capitalist world system. Indeed, people should be forced to comply with the transfer of a significant part of surplus value

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<sup>3</sup> See more in Dzarasov (2012).



created by their labour to the core. Hence, authoritarian state matches such a mode of production. This is true for semi-peripheral societies as well. However, the relationship between powerful oligarchs and the state is of crucial importance. A semi-peripheral society may be characterised by the stronger state, subjugating oligarchs in the political domain (or, maybe, it is more appropriate to speak about the most powerful oligarchic clan, say, the Kremlin group, which rules over others). This effects economic development as well. The Russian state of the 2000s demonstrated a regime of so-called “manual governance” (*ruchnoy upravleniye*). This means that oligarchs are forced by the state to finance some particular projects, which the leadership considers crucial for the country’s development. This contrasted with the practice of the 1990s, which should not be overlooked. Having said all that, it is still a new stage of the old system. “Manual governance” is unable to overcome the deficiencies of a semi-periphery: capital flight and deficit of investment, low living standards and limited domestic market, deindustrialisation and domination of extracting industries.

In sum, the authoritarian state becomes an obstacle for civil society, including workers and the socialist movement, but in conditions of degenerated, largely comprador business elite, it prevents the anarchic disintegration of the country. Ukraine is stuck at the stage of development Russia was in during the 1990s, and this has led to disintegration of the country in the chaos of civil war.

The semi-peripheral position of Russian capitalism manifested itself in a more assertive foreign policy adopted in the 2000s. In the 1990s and early 2000s, Russia passively but with growing concern observed its gradual isolation and marginalisation by the West through NATO expansion to the East,<sup>4</sup> a number of “coloured revolutions” installing in power anti-Russian and pro-Western puppet regimes, the US withdrawing from Anti-Missile Defence Treaty regime, and so on. In his first term in power (2000–4), Putin followed Yeltsin’s suit: giving up Russian military bases in Vietnam and electronic intelligence stations in Cuba, in Cuba, supporting US “War on terror,” and so on. The “Orange Revolution” in Ukraine staged by the United States and resulting in an anti-Russian regime in Kiev was a cold shower for the Russian leader. In his famous “Munich speech” (2007), Putin warned the West that Russia would stop giving up her strategic positions in the world for nothing. In August 2008, this approach was tested in course of the Five-Day War in the Southern Caucasus, where the Georgian Saakashvili regime, backed by the United States, attacked the breakaway republic of South Ossetia. Russia interfered acting decisively and securing independence of South Ossetia and Abkhazia. But, probably, the most important Russian initiative was its support for the Eurasian integration project. Potentially, it could lead to the formation of a new dynamic economic union in the former USSR (Union of Soviet Socialist Republics), which would strengthen the independence of its members.

New foreign policy reflected a very important fact—a deep split of the Russian ruling elite. According to some experts (The Saker 2013), the two groups of Yeltsin’s elite, which supported Putin’s coming to power gradually transformed into two parts of his current coterie. One of them, originating from business circles, comprises “Atlantic integrationists.” They are in favour of integration of Russia in the capitalist world system on Western conditions. I

<sup>4</sup> This was an important precondition for the current Ukraine crisis: “. . . NATO expansion has contributed to—indeed, one can reasonably argue that it has been the principal cause of—a dangerous geopolitical struggle for influence in the countries to Russia’s West and South, above all Ukraine” (Walker 2015, 144).



would call them the comprador elite. Another group, originating from the Soviet secret services, are called “Eurasian integrationists,” since they are in favour of strengthening the independent position of the country in the world economy and international policy. This part of the elite attempts to free Russia from dependency on the West, promote Eurasian integration and strengthen relations with other BRICS (Brazil, Russia, India, China and South Africa) countries. President Putin, as far as one can see, tries to accommodate both groupings, securing his position above the scramble. The actual Russian foreign policy is formed as a result of the permanent collision and struggle of the two groups, and reflects their compromises reached time and again behind the scenes.<sup>5</sup>

This is the main reason why Russian foreign strategy is so inconsistent on many issues. Nowhere is it so salient as in the case of the Ukraine crisis. It is the greatest challenge to its security since the fall of USSR. Ukraine is most important for Russia as a former Soviet republic for a number of reasons: it is the biggest in population, which is overwhelmingly Slavonic; its economy is second to Russian in the whole former Soviet Union; it occupies a strategic position in the plains through which historically the most perilous invasions from the West came; and it controls important transportation routes of energy resources to Europe. With Ukraine joining Eurasian Union, the economic foundations of the Soviet Union would be largely restored. The West knows all this pretty well. That is why it made enormous efforts to install an anti-Russian regime there (Kraus 2014). For more than two decades it was rigorously developing instruments of control over Ukrainian society, which include local oligarchs, keeping absolutely dependent on the West; about 1000 NGOs, controlling the major aspects of Ukrainian civil society; main political pro-Western parties; and militants of the radical nationalist groups, trained at NATO military bases. This list of infrastructure of the impending “colour revolution” is not exhaustive. All these tools were used to carry out a violent coup in February 2014, bringing to power an anti-Russian regime (Sawka 2016).

Now the West was eager to reap the results of its long-term strategy ousting the Russian navy from Sevastopol and replacing it with NATO forces, extending NATO membership to Ukraine, deploying the third district of the US Anti-Missile Defence system in Ukraine, disrupting economic relations of the two countries, imposing great damage on the Russian economy including its military production, suppressing the rights of the Russian-speaking population of Ukraine, and generally humiliating Russia. Any single act of this list causes unacceptable damage to vital Russian interests. Taken together they threaten the very foundations of Russian national security in all possible meanings. Not a single Russian government, which would like to preserve even a shadow of support of its population and keep its position as an actor of international relations, could tolerate such a mortal threat.

That is why Crimea was reunited with Russia as a result of decisive and skilful action. By no means was it an act of imperial takeover. Rather, it was a purely defensive move, responding to overt Western aggression. However important and skilful it was, nothing of the kind followed. When the Donbass rebellion happened in response to Neo-Nazi

<sup>5</sup> Ukraine oligarchs were also split into two factions according to their economic interests, which were seeking accommodation with the West or with Russia (Buzgalin 2015).

<sup>6</sup> VKP stands for Vseobshchaya Konfederatsiya Profsoyuzov (General Confederation of Trade Unions).

offensive, the Kremlin returned to its usual moderate position, seeking compromise with the West on conditions discussed above (see introduction).

The situation in the Donetsk and Luhansk People's Republics is another salient example of the Russian position seeking compromise. Powerful Ukrainian oligarchs still preserve control over their assets in the region. A few metallurgical enterprises and coal mine operations there are incorporated into the Ukraine economy, which is supplied from there with raw materials and their products. Ukrainian legislation operates at the territory of these enterprises, and their workers are paid in Ukrainian hryvnas despite the fact that the People's Republics belong to the ruble zone. Topping the schizophrenia of the situation, these firms pay taxes both to Kiev and to the Republics. No less complicated is the political situation in the Republics. From summer 2014, Russian authorities have done their best to isolate the most belligerent elements among the rebels and compel them to leave the Donbass. Some of the more independent (and leftist) militia leaders were killed allegedly by Ukrainian task forces (to which nobody believes among local militias). They were against what they had seen as unilateral concessions on the part of the Republics in the course of the Minsk negotiations. Today (written in summer 2016) the political situation in the Republics is solidly under the control of the Russian authorities. Local elites are compelled to declare their readiness to return to a federalised Ukraine on conditions of autonomy. Local communist organisations, challenging this agenda and trying to develop class struggle as a means to social change, are seen as a threat and are systematically isolated and marginalised. Thus, Russia does not permit the Kiev regime to crash the People's Republics militarily. At the same time, through controlled local authorities Russia preserves the property of Ukrainian oligarchs, suppresses the most radical elements of rebellion, and blocks social change. All this is done for the sake of wider accommodation with the West.

## Conclusion

From what has been said above, it follows that the Russian strategy in the Ukraine crisis is a far cry from what can be dubbed “annexation” or “imperialist aggression.” Russian policy is too reactive and inconsistent to be considered a determined annexationist approach. Essentially contradictory Russian foreign policy on the whole and in its strategy in the Ukraine crisis in particular, reflects the nature of Russian capitalism as a semi-periphery of the capitalist world-system. It is nothing else than the superstructure reflecting the properties of its base—specific for a semi-peripheral mode of production. This fact is especially inconsistent with the “two imperialisms” vision of the crisis. Short-term, rent-seeking big business transfers part of its surplus value to the core to buy its ticket to the transnational capitalist class. This means that “Eurasian integrationists” comprise only a relatively isolated group of the elite, unable to produce a coherent strategy of systematic opposition to the West. “Neo-revisionist” policy (in the sense of Sakwa) is doomed to failure both on domestic and international grounds.

## Disclosure statement

No potential conflict of interest was reported by the author.

## Notes on contributor

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