

Yakovlev, Andrei

**Working Paper**

## State-business relations in Russia in the 2000s: From the capture model to a variety of exchange models?

BOFIT Discussion Papers, No. 10/2011

**Provided in Cooperation with:**

Bank of Finland, Helsinki

*Suggested Citation:* Yakovlev, Andrei (2011) : State-business relations in Russia in the 2000s: From the capture model to a variety of exchange models?, BOFIT Discussion Papers, No. 10/2011, ISBN 978-952-462-705-4, Bank of Finland, Institute for Economics in Transition (BOFIT), Helsinki, <https://nbn-resolving.de/urn:nbn:fi:bof-201408072194>

This Version is available at:

<https://hdl.handle.net/10419/212698>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*

Andrei Yakovlev

State-business relations in Russia  
in the 2000s: From the capture model  
to a variety of exchange models?



EUROJÄRJESTELMÄ  
EUROSYSTEMET

Bank of Finland, BOFIT  
Institute for Economies in Transition

BOFIT Discussion Papers  
Editor-in-Chief Laura Solanko

BOFIT Discussion Papers 10/2011  
30.5.2011

Andrei Yakovlev: State-business relations in Russia in the 2000s:  
From the capture model to a variety of exchange models?

ISBN 978-952- 462-705-4  
ISSN 1456-5889  
(online)

This paper can be downloaded without charge from  
<http://www.bof.fi/bofit>

Suomen Pankki  
Helsinki 2011

# Contents

Abstract .....	3
Tiivistelmä .....	4
1 Introduction.....	5
2 Data .....	6
3 Interaction between firms and authorities: Descriptive statistics .....	7
4 Empirical strategy .....	9
5 Empirical results and discussion.....	11
6 Conclusion and policy implications.....	15
7 References.....	15

All opinions expressed are those of the author and do not necessarily reflect the views of the Bank of Finland.

Andrei Yakovlev<sup>1</sup>

## State-business relations in Russia in the 2000s: From the capture model to a variety of exchange models?

### Abstract

Using data from a 2009 survey of 957 manufacturing enterprises, this paper examines relations between the state and business as well as priority differences in the distribution of governmental support by federal, regional and local authorities. Regression analysis reveals that a “model of exchange” is the predominant pattern as opposed to “state capture” (in the case of big firms) or “grabbing hand” (in the case of SMEs), both of which were typical of the 1990s. However, there are some differences in priorities at different levels of government. The federal government in 2007-2008 provided more support to state-owned and mixed enterprises providing stable employment, while regional authorities more often supported firms that were pursuing modernization. These trends could pave the way for a shift in governmental policy at the regional level from “state capture”/“grabbing hand” to the Chinese-style “helping hand” model.

JEL: D22, H25, H71

Keywords: state capture, state-business relations, Russia

---

<sup>1</sup> Director of Institute for Industrial and Market Studies, the University – Higher School of Economics, Moscow, Russia; email: [ayakovlev@hse.ru](mailto:ayakovlev@hse.ru).

This paper is based on the results of a research project carried out at the HSE Institute for Industrial and Market Studies and commissioned by the Ministry of Economic Development of Russia. The author is thankful to Victoria Golikova, Ksenia Gonchar, Tatiana Dolgopyatova, Boris Kuznetsov and Olga Uvarova for helping with the project, and to Lyudmila Khakhulina and Emilia Azarkh of the Levada Center for their efficiently organized field work. The author is grateful to Alexandr Muraviev, William Pyle, Daniel Treisman, Konstantin Sonin, Thomas Remington, Aaron Mehrotra and Laura Solanko as well as to participants in the ISNIE conference (June 2010), ICCEES World Congress (July 2010), EACES conference (August 2010), and BOFIT research seminar (October 2010) for their remarks and comments. Special thanks are also due to all the respondents who took part in the survey and provided company information.

Andrei Yakovlev

## State-business relations in Russia in the 2000s: From the capture model to a variety of exchange models?

### Tiivistelmä

Tutkimuksessa tarkastellaan yritysten ja julkisen vallan välisiä suhteita sekä julkisen tuen myöntämistä kolmitasoisien federaation eri hallinnontasoilla. Tutkimusaineisto perustuu vuonna 2009 toteutettuun liki 1 000 venäläistä teollisuusyritystä kattaneeseen yrityshaastatteluun. Regressiotulokset viittaavat siihen, että yritysten ja julkishallinnon välisiä suhteita kuvaa parhaiten molempia hyödyttävä yhteistyö (model of exchange), toisin kuin 1990-luvulla, jolloin suhteita kuvasi joko yritysten ylivalta (state capture) tai poliitikkojen etujen maksimointi (grabbing hand). Tutkimuksessa osoitetaan myös, että federaation eri hallinnontasot antavat yritystukia hieman erityyppisille yrityksille. Keskushallinto tuki vuosina 2007–2008 suhteellisesti enemmän vakaata työllisyyttä tarjoavia valti- onyrityksiä, kun taas aluetasolla tuettiin useammin yrityksiä, jotka uudistivat tai modernisoivat tuotantoaan. Etenkin aluetasolla julkisen vallan toiminta voi olla muuttumassa kohti markkinoiden virheitä korjaavaa ns. auttava käsi (helping hand) -mallia.

JEL: D22, H25, H71

Asiasanat: state capture, valtion ja yrityselämän suhteet, Venäjä

# 1 Introduction

The support given to firms by the Russian government at the federal, regional and local levels during the financial crisis in 2008-2009 has once again called attention not only to the nature and mechanisms of interaction between the state and business, but also to the authorities' priorities in allocating such support.

The government-business nexus is not a new issue in Russia. It has been actively investigated since the mid-1990s. On the one hand, a number of papers following the model by J. Stigler [1971] have lent credence to the thesis of "state capture" by large firms – particularly at the regional level [Hellman et al., 2000; Frye, Zhuravskaya, 2000; Slinko et al., 2004]. From their analysis of empirical data from the 1990s, the authors of these papers maintained that government support had been given mainly to old, large-scale privatized enterprises that performed poorly but had "special relationships with authorities" enabling them to blackmail the latter with possible social repercussions if they did not provide support. The "grabbing hand" model was much more typical in the case of small and middle-sized *de novo* firms in the 1990s [Frye and Shleifer, 1997; Shleifer and Vishny, 1998]. However, in a more recent paper, Timothy Frye presented the rather different hypothesis of a "system of exchange" between enterprises and regional authorities [Frye, 2002]. Using the 2000 survey data of 500 firms from 8 regions of the Russian Federation, he demonstrated that those firms that received subsidies, tax relief or other government support also had to bear additional costs and obligations, such as price regulations, more frequent inspections and time lost in communication with the bureaucrats.

Later on, in the 2000s, the policy of government support in Russia showed signs of change. In particular, according to the data from new enterprise surveys, regional authorities began to give assistance to growing firms that were restructuring and planning their investments (see Frye et al. [2009], who arrived at a conclusion consistent with Ahrend [2008] based on an analysis of macroeconomic data by region of the RF). These changes can be examined in terms of the "new industrial policy" and "second-best institutions" concepts, which were elaborated by Dani Rodrik in regard to developing and emerging economies [Rodrik, 2004; Rodrik, 2008], or in the framework of the "helping hand" model of Andrei Shleifer. They can also be interpreted as a Russian manifestation of the model of "fiscal federalism and political centralization", which has been used by many researchers to explain the successful economic reforms in China [Montinola et al., 1995; Qian, 1999; Blanchard and Shleifer, 2001]. On the basis of these studies, we can also conclude that the



mechanisms for interaction between business and the state work better at the regional level, contrary to the views predominant in the 1990s that regional administrations were “rent-seekers” and that the federal government was more efficient.

In this paper, we will try to determine which of the above-mentioned models – state capture, exchange between elites or new industrial policy – best describes the mechanisms of interaction between business and the state at the federal, regional and local levels. In the following sections we will describe our data, research methodology and main hypotheses as well as the results of our empirical analysis. Our main findings will be given in the conclusion.

## 2 Data

We based our analysis on the results of a survey of 957 enterprise directors conducted in February-June 2009 by the HSE Institute for Industrial and Market Studies together with the Levada Center, at the request of the Ministry of Economic Development for the second round of its monitoring of the competitive power of manufacturing industries. (The main results of the first round of the monitoring were described in Golikova et al.[2007] and Desai and Goldberg [2007]).

According to the monitoring program, the 2009 survey questionnaire asked firms about the intensity of competition; capital investments; export and innovative activities; ownership and control structures; their interaction with authorities; market conditions for labor and other production factors; and major barriers to running a business. The questionnaire also included a special block of questions concerning the influence of the current crisis on the behavior of business enterprises.

The surveyed enterprises were located in 48 regions and represented eight manufacturing sectors: food products, textiles; wearing apparel; wood and wood products; chemicals and chemical products; basic metals and fabricated metal products; machinery and equipment; electrical equipment, electronic and optical products; and vehicles and other transport equipment. Company CEOs made up 67.5% of the respondents; deputy directors general in charge of finance and CFOs constituted 31%; and in 14 enterprises, the respondents held other positions.

The parameters of our sample can be described in the following terms: the average surveyed enterprise had 587 employees; 73% of them had been established before 1992 and 10% after 1998. The government held stakes of 11%, and foreigners had shareholdings in 10% of the firms in the sample. 41% of the enterprises were located in regions with “below average” investment poten-

tial, and 30% were in regions with “above average” potential (as graded by the rating agency of The Expert weekly magazine). Of the total number of surveyed firms, 28% were members of business groups; 54% exported their products in 2008; and about two-thirds were controlled by a single dominant shareholder or a consolidated group of owners. The enterprises employed about 8% of the average payroll for the whole sample, and in 2007 they produced about 6% of the total output of manufacturing industries.

### 3 Interaction between firms and authorities: Descriptive statistics

The questionnaire used in our survey enabled us to analyze relations between enterprises and authorities in several directions. Firstly, we asked the enterprises whether or not they had received support from federal, regional or local authorities in 2007-2008. Secondly, we asked if they had obtained any organizational support (meaning any sort of non-financial aid, including help in making contact with Russian and foreign partners, assistance in getting in touch with other government authorities, aid in attracting investors, etc.). Lastly, our questionnaire inquired whether the enterprise had provided any assistance to regional and/or local authorities in 2007-2008 for the social development of its region (including maintenance of social facilities and dwellings, sponsoring regional/local programs, etc.). In the event that such help had been given, we also asked the enterprise to give the approximate size of its contribution as a percentage of its average annual net profits.

Figure 1 presents the share of firms that received support from different levels of government in 2007-2008. One can see from these data that regional authorities were the most active in giving support. In total, about 26% of the firms in our sample received help at this level; of these, 19% obtained organizational support and 14% were given financial support. Furthermore, at the regional and local levels, organizational forms of support were more common (this is most evident at the local level, where firms that received financial and organizational support differ in shares by a factor of 3 and greater). In contrast, the most frequently used tool at the federal level was financial support.

Another important form of interaction between enterprises and authorities is the rendering of corporate support to regional and local authorities for regional social development. In 2007-2008, as seen in Figure 2, only 23% of the total firms gave no help to authorities at all. However, the majority of enterprises allocated no more than 0.1% of their revenue from sales to assistance to au-

thorities (33% of the respondents stated this directly, and the 24% who found it difficult to estimate their expenses can probably also be included in this group). Taking into account that in 2007-2008 the surveyed enterprises had an average profitability of sales of about 12%, one can assume that the majority of manufacturing firms allocated no more than 1% of their net earnings to the social development of their regions – which is not a very large amount by global standards.

Figure 1 Shares of enterprises that received financial and organizational support from the state in 2007-2009

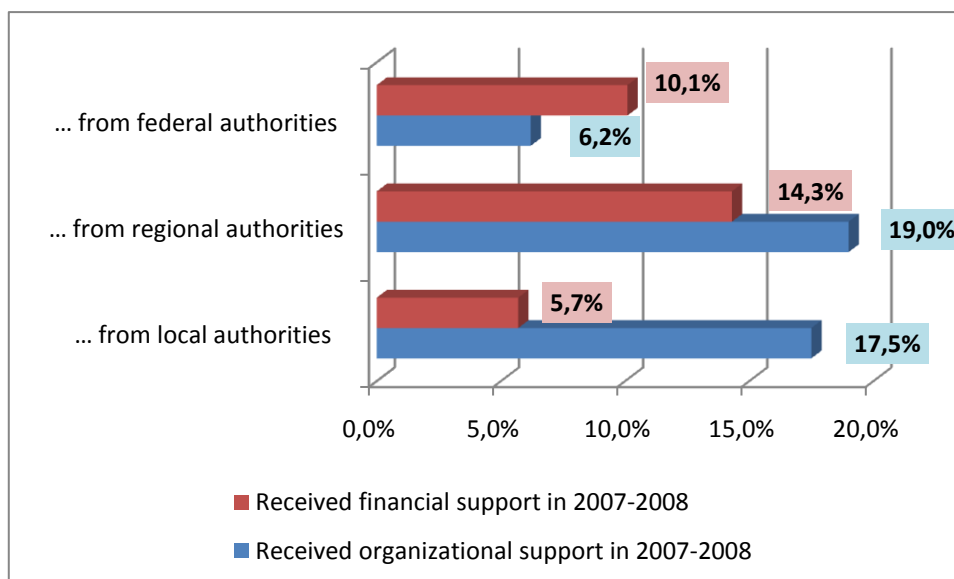
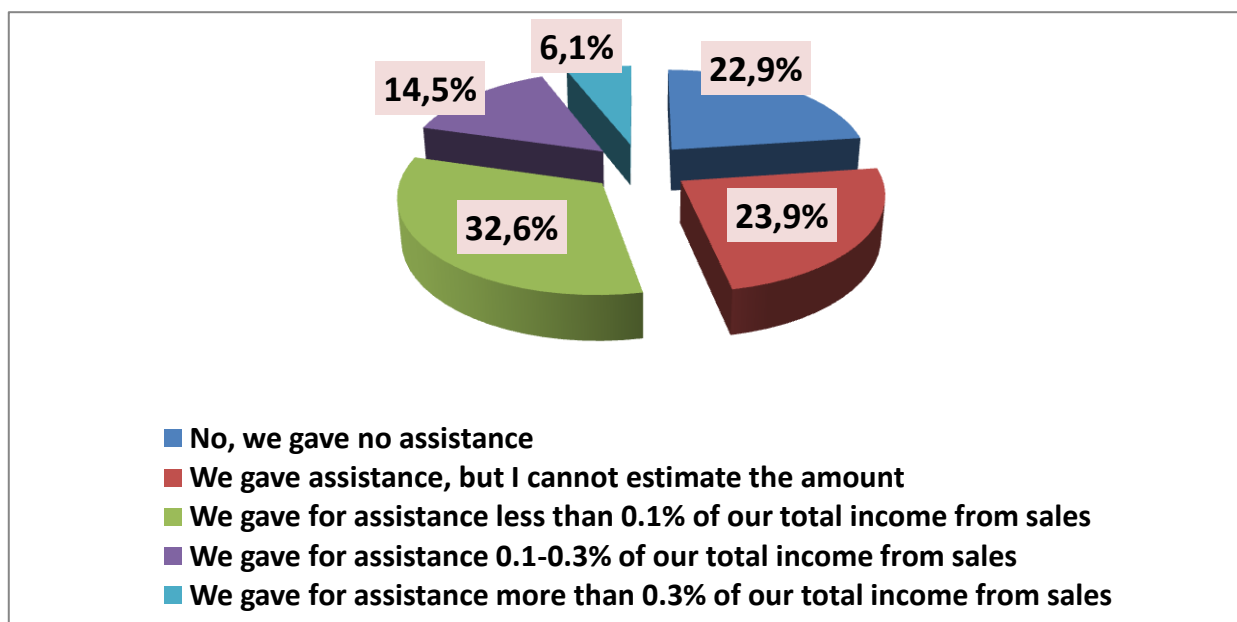


Figure 2 Support by enterprises to regional and local authorities for the social development of their regions



When analyzing the relations between enterprises and authorities, it is important to point out that this “socially responsible” behavior was frequently rewarded. For instance, from 27% to 34% of the firms that helped the authorities reported having received some type of government support at the regional level, as opposed to those that gave nothing for social development in their region ( $p < 0.01$ ). This correlation between rendering help to authorities and receiving support from them in return was also observed at the federal and local levels, but at a lesser level of significance ( $p < 0.10$  and  $p < 0.05$ , respectively).

## 4 Empirical strategy

The two variables examined in the previous section – government support to enterprises and help given by enterprises to authorities for social development – were used as key variables in our regression analysis of state-business interaction. Receipt of government support was used as a dependent variable. We used a binary integral indicator showing both financial and organizational support. We examined the factors responsible for provision of assistance from the state at each level of government (federal, regional and local), and rendering help to the state served as one of the explanatory variables. We also used a fairly large set of other explanatory variables, which can tentatively be divided into three blocks: basic characteristics of enterprises and their performance indicators, including parameters of their “social” and “modernization” activities. (A formal description of these variables is given in Tables 1a and 1b in Appendix.)

In the first block, an enterprise was asked about its industrial affiliation, its size and year of establishment, the investment potential of its region of location, and the ownership structure (the government’s stake in its capital as well as the presence of foreign shareholders). Our arguments for choosing these variables in particular for our “basic” model were as follows:

- The level of regional development (the facilities of the region in question, and preferential treatment of highly or poorly developed regions by the federal center) can affect the scale and types of government support;
- Large companies and state-owned enterprises usually have better access to government administration, so we presume that they receive government support more quickly than the smaller or private companies;

- Attracting foreign investment has supposedly been one of the cornerstones of Russia's economic policy for a long time. We therefore presume that enterprises with foreign stakes will receive preferential treatment in obtaining government support;
- The enterprises whose history goes back to the Soviet era usually have closer ties with authorities, and for this reason they are more likely to become recipients of government support.

At the same time we assumed that, besides these basic factors, decisions to allocate government support could also depend on at least on two areas of enterprise activity: "social responsibility"/contacts with authorities and modernization activities (including capital investments, innovations, etc.).

To describe the "social activity" of the enterprises, along with the above-mentioned assistance to local and regional authorities for regional social development, we looked at two more factors from our questionnaire: conservation and/or creation of new jobs and membership of the respondent firms in business associations. Support of employment (preservation and/or creation of new jobs) can be a component in the "system of exchange" between business and the state. In turn, business associations are one of important channels of interaction between enterprises and authorities [Pyle, 2006]. For example, according to data from the 2005 Russian-Japanese survey, enterprises singled out contacts with authorities as the second most significant function of business associations [Dolgopyatova et al., 2009].

The enterprises' participation in modernization activities can be described in terms of many indicators. In this case, we based our analysis on three variables:

- Presence of exports (all other factors being equal, entry into export markets implies that an enterprise has a greater competitive edge);
- Capital investment activity in 2005-2008 (the respondent firms were divided into three groups – those investing nothing at all, those investing little and those carrying out large investment projects);
- Innovation activity (we assigned to this category the firms that had introduced a new product or a new technology and had nonzero R&D expenditures).

We analyzed the determining factors at all three levels of government for giving support to enterprises using a set of probit regressions with marginal effects. We identified four models for each level of government. Model 1 was built solely of "basic" variables. Models 2 and 3 included

the basic variables and, respectively, variables of “social” and “modernization” activities. Model 4 embraced the whole set of variables, which enabled us to test the robustness of the results obtained for models 1-3. Finally, in model 4a, for an additional robustness check, we assessed the influence of the same variables in an incomplete sample comprising only the private enterprises.

## 5 Empirical results and discussion

The main results of the regression analysis of factors responsible for the allotment of government support are given in Tables 2-4. Having summed up the results, we can state the following.

The first point, which is common to all levels of government, is that government support is more frequently given to firms in regions with low or average investment potential. This holds true for support at the federal level as well, which suggests to us that the federal government intends its support mainly for “equalization” of levels across regions rather than for the creation of incentives for development. The second common point is that in all cases, old firms dating back to the Soviet era clearly have preferential access to government support. This difference (in the negative) is most evident in the category of firms established in 1991-1998. For the firms that became active in 1999 or later, the probability of obtaining support is also lower than for old “Soviet” enterprises, but the corresponding coefficients are statistically significant only in the models of support from regional authorities.

It is also interesting to note that in all models the factor of enterprise size ultimately turned out to be insignificant. To be exact, enterprise size is positively correlated with the probability of receiving support at the federal and regional levels in models 1 and 3 (the “basic” one and the one with “social activity” variables). However, the influence of this factor became insignificant if the model included the variables for modernization and firm restructuring.

Table 2 Factors responsible for obtaining support from federal authorities

<i>Explanatory variables</i>		model 1.1	model 2.1	model 3.1	model 4.1	model 4.1a
		Marginal effects				
Investment potential of a region <sup>a)</sup>	Average	-0.04	-0.03	-0.03	-0.03	-0.04*
	High	-0.08***	-0.06**	-0.08***	-0.06**	-0.06**
Size (natural logarithm of number of employees )		0.03***	0.02*	0.02	0.01	0.01
Time of establishment of a firm <sup>b)</sup>	1991-1998	-0.09***	-0.09***	-0.09***	-0.09***	-0.09***
	1999 and later	-0.02	-0.02	-0.02	-0.02	-0.04
Government stake in capital (yes = 1, no = 0)		0.12**	0.11**	0.14***	0.13**	X
Foreign shareholder (yes = 1, no = 0)		0.05	0.04	0.04	0.03	0.04
Membership of a firm in business associations (yes = 1, no = 0)			0.03		0.02	0.02
Help to regional and local authorities (yes = 1, no = 0)			0.04		0.03	0.02
Changes in jobs <sup>c)</sup>	Preservation (+/-5% by 2007)		0.07**		0.06**	0.06**
	Creation of new jobs		0.07**		0.05	0.04
Investments in 2005-2008 <sup>d)</sup>	Minor			0.03	0.03	0.03
	Large			0.05*	0.04	0.04
Presence of exports (yes = 1, no = 0)				-0.00	0.00	0.00
Actively innovating enterprise (yes = 1, no = 0)				0.06**	0.05	0.03
Control for sector included		yes	yes	yes	yes	yes
LL		-246	-224	-240	-221	-200
Pseudo R2 (Nagelkerke)		0.14	0.16	0.16	0.17	0.16
Number of observations		742	696	735	691	653

Notes to this and following tables:

a) In comparison with firms from regions with low investment potential;

b) In comparison with firms established in 1990 or earlier;

c) In comparison with firms having cut jobs in 2008 by 5% or more;

d) In comparison with firms that made no investments in 2005-2008.

Statistical significance of regression coefficients: \*\*\* -  $p < 0.01$ ; \*\* -  $p < 0.05$ ; \* -  $p < 0.10$ .

All variables in following tables are coded in the same way.

The federal level was found to possess some special features: we observed, for example, that this is the only level where definite privileges are given to firms with government stakes. At the same time, federal support is focused on firms that preserve jobs (the coefficient of the “job creation” variable is also positive but less significant). On the other hand, “modernization” variables for federal support proved to be mostly statistically insignificant (the only exception is model 3, in which innovation activity was significant at the 5% level, and large-scale investments at the 10% level). This combination allows us to speak of a certain “conservative system of exchanges”, i.e. when the federal government gives support to old enterprises and companies with government stakes in exchange for expected preservation of employment at the recipient firms.

Table 3 Factors responsible for obtaining support from regional authorities

<i>Explanatory variables</i>		model 1.2	model 2.2	model 3.2	model 4.2	model 4.2a
		Marginal effects				
Investment potential of a region <sup>a)</sup>	Average	-0.08**	-0.06*	-0.08**	-0.07*	-0.06
	High	-0.20***	-0.18***	-0.20***	-0.19***	-0.20***
Size (natural logarithm of number of employees)		0.06***	0.05***	0.03*	0.02	0.01
Time of establishment of a firm <sup>b)</sup>	1991-1998	-0.08**	-0.07*	-0.09**	-0.08*	-0.10**
	1999 and later	-0.09*	-0.09	-0.10*	-0.10*	-0.12**
Government stake in capital		0.09	0.14*	0.12*	0.19**	X
Foreign shareholder		0.09	0.06	0.05	0.03	0.04
Membership of a firm in business associations			0.07**		0.06	0.06*
Help to regional and local authorities			0.12***		0.10**	0.09**
Changes in jobs <sup>c)</sup>	Preservation (+/-5% by 2007)		0.01		-0.01	0.01
	Creation of new jobs		0.06		0.03	0.01
Investments in 2005-2008 <sup>d)</sup>	Minor			0.05	0.07	0.09*
	Large			.013***	0.15***	0.17***
Presence of exports				-0.07*	-0.06	-0.06
Actively innovating enterprise				0.05	0.04	0.06
Control for sector included		yes	yes	yes	yes	yes
LL		-373	-342	-362	-221	-307
Pseudo R2 (Nagelkerke)		0.10	0.12	0.12	0.17	0.15
Number of observations		742	696	735	691	653

Table 4 Factors responsible for obtaining support from local authorities

<i>Explanatory variables</i>		model 1.3	Model 2.3	model 3.3	model 4.3	model 4.3a
		Marginal effects				
Investment potential of a region <sup>a)</sup>	Average	0.04	0.05	0.04	0.04	0.03
	High	-0.09***	-0.08**	-0.10***	-0.08**	-0.08**
Size (natural logarithm of number of employees)		0.01	0.00	0.01	-0.01	-0.01
Time of establishment of a firm <sup>b)</sup>	1991-1998	-0.07*	-0.06	-0.07*	-0.06	-0.06
	1999 and later	-0.06	-0.05	-0.06	-0.05	-0.08
Government stake in capital		-0.02	-0.01	-0.00	0.03	X
Foreign shareholder		0.15***	0.15***	0.14***	0.15***	0.18***
Membership of a firm in business associations			0.05*		0.05	0.05
Help to regional and local authorities			0.07**		0.08**	0.07*
Changes in jobs <sup>c)</sup>	Preservation (+/-5% by 2007)		0.05		0.05	0.06
	Creation of new jobs		0.04		0.03	0.03
Investments in 2005-2008 <sup>d)</sup>	Minor			0.06	0.05	0.04
	Large			0.07*	0.06	0.06
Presence of exports				-0.00	0.01	0.02
Actively innovating enterprise				0.02	0.01	0.02
Control for sector included		yes	Yes	yes	yes	yes
LL		-329	-305	-325	-302	-282
Pseudo R2 (Nagelkerke)		0.05	0.07	0.06	0.07	0.08
Number of observations		742	696	735	691	653



At the regional and local levels, the range of determining factors for government support to firms is very different. Firstly, the practice of rendering assistance to authorities for social development in a region is statistically significant in all models. This can be taken as a clear sign that the “system of exchanges” actually exists. Secondly, membership in business associations is also an important precondition for receiving support from regional authorities, which corroborates the assumption that business associations are a channel for interaction between business and the state. However, contrary to reasonable expectations, preserving jobs appears to be inessential for obtaining support at the regional and local levels. The same holds true for government stakes in enterprise ownership – this factor affects provision of government support only in two of our models at the regional level. In other cases, the relevant coefficients are positive, but the influence of this factor on a dependent variable stays within the limit of statistical error.

At the same time, as opposed to measures of federal support at the regional and local levels, a number of variables describing “modernization” and “restructuring” activities appear to be significant at the enterprise level. For instance, the implementation of large-scale investment projects by enterprises in 2005-2008 was a highly significant for providing support in the framework of models for regional authorities. At the local level, enterprises with foreign stakes in their ownership structure were much more common recipients of support in 2007-2008.

On the other hand, this is a cause-effect question: do regional and local authorities support firms that invest and enter new markets, or do these firms expand and invest due to government support? The data obtained for our study have a limitation: according to the nature of the study, we could question only “insiders” – i.e. the firms that were already present in regional marketplaces and had well-established ties with authorities, which allowed them to feel more comfortable than non-admitted “outsiders”. A hypothesis about this kind of “alliance of insiders” (represented by regional authorities and local firms) was already put forth in [Yakovlev and Frye, 2010]. In favor of this hypothesis are the preferences for old enterprises established before 1991, which we found in for all levels of government. However, preferences for firms with foreign stakes contradict this hypothesis and at least provide evidence for the existence of different criteria for the provision of government support at the regional and local levels.

## 6 Conclusion and policy implications

In this paper, we examined different forms of interaction between firms and authorities at different levels of government using the results of a survey of 957 industrial enterprises. Our results enabled us to conclude that the dominant pattern of relations between enterprises and the government is the “model of exchange”. In exchange for receiving support, recipient enterprises provide help for the social development of their respective regions or ensure the preservation of jobs.

Nevertheless, for 2007-2008 we clearly detected a divergence of priorities with respect to the provision of government support as between the federal level versus the regional-local level. In the first case, the well-established “system of exchange” between the state and business was more conservative and focused on old enterprises, companies with government stakes, and firms that preserved jobs. In the second case, government support was more oriented towards modernization: the investment activity of firms and presence of foreign investors were among the criteria for its allocation. These results give us grounds to believe that a shift is taking place in governmental policy at the regional and local levels in Russia towards the Chinese-style “helping hand” model with possible positive impact of state interventions on economic development.

## 7 References

- Ahrend, Rudiger. Understanding Russian Regions' Economic Performance during Periods of Decline and Growth – An Extreme-Bound Analysis Approach. OECD Economics Department Working Paper No.644, October 2008
- Blanchard, Olivier and Andrei Shleifer. Federalism with and without Political Centralization: China Versus Russia // IMF Staff Papers, Vol. 48, Transition Economies: How Much Progress? (2001), pp. 171-179
- Desai Raj M. and Itzhak Goldberg (eds.) Enhancing Russia's Competitiveness and Innovative Capacity / World Bank, 2007
- Dolgopyatova T., Iwasaki I. and A. Yakovlev (eds.) Organization and Development of Russian Business. A Firm-Level Analysis. Palgrave Macmillan, 2009.
- Frye T., Shleifer A. The Invisible Hand and the Grabbing Hand // The American Economic Review, Vol. 87, No. 2, Papers and Proceedings of AEA Meeting (May, 1997), pp. 354-358.
- Frye, Timothy and Ekaterina Zhuravskaya 2000, Rackets, Regulations and Public Goods, *Journal of Law, Economics, and Organization*, 16: 478-502.
- Frye, Timothy. Capture or Exchange? Business Lobbying in Russia // Europe-Asia Studies, Vol.54, No.8, (November 2002). P.1017–36.

- Frye, Timothy. Credible Commitment and Property Rights: Evidence from Russia // *American Political Science Review*. 2004. Vol. 98, Issue 3. P. 453–466.
- Frye Timothy, Andrei Yakovlev, Yevgeny Yasin. The "Other" Russian Economy: How Everyday Firms View the Rules of the Game in Russia // *Social Research: An International Quarterly*. Volume 76, Number 1 (Spring 2009), p. 29-54
- Golikova Victoria, Ksenia Gonchar, Boris Kuznetsov and Andrei Yakovlev. Russian Manufacturing at the Crossroads. What Prevents Firms from Becoming Competitive. HSE policy paper, 2007.
- Hellman J.S., Jones G., and Kaufman D. Seize the state, seize the day: state capture and influence in transition economies // *Journal of Comparative Economics*, Volume 31, Issue 4, December 2003, Pages 751-773
- Meggison W. L., Netter J. M. From State to Market: A Survey of Empirical Studies on Privatization // *Journal of Economic Literature*. 2001. Vol. 39, No 2, June.
- Montinola Gabriella, Yingyi Qian and Barry R. Weingast. Federalism, Chinese Style: The Political Basis for Economic Success in China // *World Politics*, Vol. 48, No. 1 (Oct., 1995), pp. 50-81
- Pyle W. Collective Action and Post-Communist Enterprise: The Economic Logic of Russia's Business Associations // *Europe-Asia Studies*, June 2006, p.491-521
- Rodrik, Dani, Industrial Policy for the Twenty-First Century (November 2004). CEPR Discussion Paper No. 4767.
- Rodrik, Dani (2008). Second-Best Institutions // *American Economic Review*, vol. 98(2), pages 100-104, May.
- Shleifer, A. and Vishny, R. *The Grabbing Hand: Government Pathologies and their Cures* (Cambridge MA: Harvard University Press, 1998).
- Shleifer A. Understanding Regulation // *European Financial Management*, Vol. 11, No. 4, 2005, 439–451
- Slinko Irina & Ekaterina Zhuravskaya & Evgeny Yakovlev, 2005. Laws for Sale: Evidence from Russia // *American Law and Economics Review*, Oxford University Press, vol. 7(1), pages 284-318
- Stigler, George J. The Theory of Economic Regulation // *The Bell Journal of Economics and Management Science*, Vol. 2, No. 1 (Spring, 1971), pp. 3-21
- Qian, Yingyi. "The Process of China's Market Transition (1978-1998): Evolutionary, Historical and Institutional Perspectives." Paper prepared for the Journal of Institutional and Theoretical Economics symposium on "Big-Bang Transformation of Economic Systems as a Challenge to New Institutional Economics," June 9-11, 1999, Wallerfangen/Saar, Germany.
- Yakovlev A., Simachev Yu. and Danilov Yu. The Russian Corporation: Patterns of Behavior during the Crisis // *Post-Communist Economies*, 2010, Vol. 22, No. 2, June 2010. pp.129–140.
- Yakovlev A., Frye T. "Business-state interactions in Russia in the eyes of business community: What has changed in 2000s?" in Riitta Kosonen & Päivi Karhunen & Andrei Yakovlev (eds) "Embedding Firms in the Russian Society": Helsinki, Kikimora publications, 2011 (forthcoming)

# Appendix

**Table 1a Basic parameters of firms that received governmental support in 2007-2008**

		Number of firms	Financial support from			Organizational support from		
			federal	regional	local	Federal	Regional	Local
			authorities			Authorities		
All sample		957	10%	14%	6%	6%	19%	18%
Investment potential of a region	low	396	13%	17%	5%	7%	25%	20%
	average	274	11%	17%	8%	8%	22%	22%
	high	287	5%	7%	3%	4%	8%	10%
Statistical significance of differences			***	***	**		***	***
Number of employees 2007	Less 100	123	8%	10%	5%	3%	15%	16%
	101 - 250	303	10%	10%	4%	4%	14%	15%
	251-500	228	11%	19%	4%	4%	18%	18%
	501 - 1000	163	7%	20%	7%	6%	25%	25%
	1001 and more	138	14%	13%	11%	17%	29%	15%
Statistical significance of differences				***	**	***	***	
Sector	Food industry	235	17%	22%	7%	4%	19%	22%
	Textiles and sewing	89	16%	25%	7%	4%	19%	18%
	Timber and woodworking	81	2%	7%	1%	1%	23%	16%
	Chemical production	88	5%	10%	1%	3%	18%	14%
	Metallurgy and metal working	98	1%	4%	4%	5%	14%	14%
	Electrical, electronic and optical equipment	117	22%	10%	7%	17%	21%	18%
	Transport vehicles and equipment	86	7%	12%	8%	8%	24%	19%
	Machinery and equipment	163	3%	13%	6%	6%	17%	15%
Statistical significance of differences			***	***		***		
Time of establishment of a firm	1990 and before	701	12%	16%	6%	7%	21%	19%
	1991-1998	164	4%	9%	4%	2%	17%	16%
	1999 and later	92	7%	10%	8%	4%	11%	11%
Statistical significance of differences			***	**		**		
Government stake in capital	No stake	708	9%	13%	4%	5%	17%	16%
	Government has stake in the firm	88	23%	19%	13%	22%	27%	22%
	n/a	158	9%	15%	9%	5%	23%	23%
Statistical significance of differences			***		***	***	**	*
Foreign shareholder	No stake	675	9%	14%	4%	5%	16%	15%
	Foreigners have stake in the firm	78	12%	13%	9%	9%	26%	23%
Statistical significance of differences					**		**	

**Table 1b Performance indicators of firms that received governmental support in 2007-2008**

		Number of firms	Financial support from			Organizational support from		
			federal	regional	local	federal	regional	local
			authorities			authorities		
Membership of a firm in business associations	Non-members	573	10.0%	11.5%	5.1%	4.4%	15.0%	14.7%
	Members	342	10.2%	19.3%	7.0%	8.8%	26.0%	21.9%
Statistical significance of differences				***		***	***	***
Assistance to the regional and local authorities	No, we gave no assistance	219	7.8%	6.8%	3.7%	2.3%	10.5%	11.0%
	We gave assistance, but I cannot estimate the amount	312	10.9%	15.4%	5.5%	6.4%	18.3%	18.6%
	We gave for assistance less than 0.1% of revenue from sales	139	11.6%	18.1%	5.8%	5.1%	23.9%	19.6%
	We gave for assistance 0.1-0.3% of revenue from sales	58	8.6%	19.0%	5.2%	5.2%	22.4%	19.0%
	We gave for assistance more than 0.3% of revenue from sales	229	10.9%	16.6%	7.9%	10.5%	24.5%	20.5%
Statistical significance of differences				***		***	***	*
Changes in jobs	Destruction of jobs (95% and less by 2007)	361	7.5%	12.7%	3.9%	3.6%	17.2%	15.2%
	Preservation (+/-5% by 2007)	365	12.1%	13.4%	5.2%	7.4%	18.9%	20.0%
	Creation of new jobs (105% and more by 2007)	191	11.5%	20.4%	9.4%	9.4%	25.1%	18.8%
Statistical significance of differences			*	**	**	**	*	
Investments in 2005-2008	No investment	284	6,4%	8,8%	5,3%	5,7%	13,4%	14,1%
	minor	277	11,6%	10,8%	5,1%	6,5%	19,9%	19,1%
	large	372	12,1%	21,8%	6,2%	6,2%	23,1%	18,8%
Statistical significance of differences			**	***			***	
Presence of exports in 2008	No export	493	11,4%	14,8%	5,3%	4,7%	16,1%	18,1%
	10% of sales or less	240	7,5%	16,3%	4,2%	6,3%	20,0%	17,5%
	11% of sales or more	182	8,8%	12,1%	7,7%	8,2%	25,3%	16,5%
Statistical significance of differences							**	
ISO certification	No	487	10,5%	15,0%	4,5%	3,5%	16,3%	16,5%
	Yes	470	9,8%	13,6%	6,8%	8,9%	21,9%	18,5%
Statistical significance of differences						***	**	
Innovation activity	No	676	9,5%	12,9%	4,9%	3,9%	15,7%	16,6%
	Yes	281	11,7%	17,8%	7,5%	11,7%	27,0%	19,6%
Statistical significance of differences				**		***	***	

## Earlier BOFIT Discussion Papers

For a complete list of Discussion Papers published by BOFIT, see  
[www.bof.fi/bofit](http://www.bof.fi/bofit)

- 2010
- No 1 Anatoly Peresetsky: Bank cost efficiency in Kazakhstan and Russia
  - No 2 Laurent Weill: Do Islamic banks have greater market power?
  - No 3 Zuzana Fungáčová, Laura Solanko and Laurent Weill: Market power in the Russian banking industry
  - No 4 Allen N. Berger, Iftekhar Hasan and Mingming Zhou: The effects of focus versus diversification on bank performance: Evidence from Chinese banks
  - No 5 William Pyle and Laura Solanko: The composition and interests of Russia's business lobbies: A test of Olson's "encompassing organization" hypothesis
  - No 6 Yu-Fu Chen, Michael Funke and Nicole Glanemann: Off-the-record target zones: Theory with an application to Hong Kong's currency board
  - No 7 Vladimir Sokolov: Bi-currency versus single-currency targeting: Lessons from the Russian experience
  - No 8 Alexei Karas, William Pyle and Koen Schoors: The effect of deposit insurance on market discipline: Evidence from a natural experiment on deposit flows
  - No 9 Allen N. Berger, Iftekhar Hasan, Iikka Korhonen, Mingming Zhou: Does diversification increase or decrease bank risk and performance? Evidence on diversification and the risk-return tradeoff in banking
  - No 10 Aaron Mehrotra and José R. Sánchez-Fung: China's monetary policy and the exchange rate
  - No 11 Michael Funke and Hao Yu: The emergence and spatial distribution of Chinese seaport cities
  - No 12 Alexey A. Ponomarenko and Sergey A. Vlasov: Russian fiscal policy during the financial crisis
  - No 13 Aaron Mehrotra and Alexey A. Ponomarenko: Wealth effects and Russian money demand
  - No 14 Asel Isakova: Currency substitution in the economies of Central Asia: How much does it cost?
  - No 15 Eric Girardin and Konstantin A. Kholodilin: How helpful are spatial effects in forecasting the growth of Chinese provinces?
  - No 16 Christophe J. Godlewski, Zuzana Fungáčová and Laurent Weill: Stock market reaction to debt financing arrangements in Russia
  - No 17 Zuzana Fungáčová, Laurent Weill, Mingming Zhou: Bank capital, liquidity creation and deposit insurance
  - No 18 Tuuli Koivu: Monetary policy, asset prices and consumption in China
  - No 19 Michael Funke and Michael Paetz: What can an open-economy DSGE model tell us about Hong Kong's housing market?
  - No 20 Pierre Pessarossi, Christophe J. Godlewski and Laurent Weill: Foreign bank lending and information asymmetries in China
- 2011
- No 1 Aaron Mehrotra and Jenni Pääkkönen: Comparing China's GDP statistics with coincident indicators
  - No 2 Marco Lo Duca and Tuomas Peltonen: Macro-financial vulnerabilities and future financial stress - Assessing systemic risks and predicting systemic events
  - No 3 Sabine Herrmann and Dubravko Mihaljek: The determinants of cross-border bank flows to emerging markets: New empirical evidence on the spread of financial crises
  - No 4 Rajeev K. Goel and Aaron Mehrotra: Financial settlement modes and corruption: Evidence from developed nations
  - No 5 Aaron Mehrotra, Riikka Nuutilainen and Jenni Pääkkönen: Changing economic structures and impacts of shocks - evidence from a DSGE model for China
  - No 6 Christophe J. Godlewski, Rima Turk-Ariss and Laurent Weill: Do markets perceive sukuk and conventional bonds as different financing instruments?
  - No 7 Petr Jakubik: Households' response to economic crisis
  - No 8 Wing Thye Woo: China's economic growth engine: The likely types of hardware failure, software failure and power supply failure
  - No 9 Juan Carlos and Carmen Broto: Flexible inflation targets, forex interventions and exchange rate volatility in emerging countries
  - No 10 Andrei Yakovlev: State-business relations in Russia in the 2000s: From the capture model to a variety of exchange models?

Bank of Finland  
BOFIT – Institute for Economies in Transition  
PO Box 160  
FIN-00101 Helsinki

 + 358 10 831 2268

[bofit@bof.fi](mailto:bofit@bof.fi)

<http://www.bof.fi/bofit>