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Research Report

In response to external shocks: How advanced Russian regions react to changes in federal policies - Experience of Tatarstan

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In response to external shocks: How advanced Russian regions react to changes in federal policies – Experience of Tatarstan[1]

Abstract

Tight budget constraints confronting the Russian authorities since the 2008 crisis urge the federal government to adjust the traditional system of its relations with the regions. The paper presents the case of the Republic of Tatarstan (RT) to analyze potential regions' response to the emerging, considerably harsher "rules of the game." Our main conclusion is that Tatarstan and other stronger Russian regions can take advantage of the current crisis for transitioning to a new economic development model resembling developmental states in Southeast Asia. This conclusion draws on analysis of the strategies recently implemented by the RT elites in response to external shocks the republic had to cope with in the post-Soviet period. Special focus is on identifying key factors that helped the republic successfully tackle the previous shocks, such as effective mechanisms of aligning the interests of the main regional elite groups and forming a consensus regarding the republican developmental priorities and the instruments for their attainment. The actual prospects for the formation of a developmental state model in Tatarstan will depend upon the success of the current regional elite in finding a consolidated response to new challenges facing the republic in recent years, as well as the constructiveness of the federal policy towards the regions. One of specific obstacles for Tatarstan to follow on Asian experience of catching up relates to a need to accelerate opening up of the regional economy for new, domestic and foreign, players.

Keywords: elite consolidation, regional development, developmental state, catching-up developmental model, Tatarstan, Russia

JEL codes: O25, O43, P25, P35, R58

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1. Introduction

Tight budget constraints confronting the Russian authorities since the 2008 crisis urge the Kremlin and the federal government (FG) to reconsider their traditional strategies and, in particular, adjust the system of their relations with constituent regions of the federation. The Kremlin has run out of resources to give away to regions as a reward for political loyalty. It sets increasingly higher requirements to their management efficiency (Stanovaya 2017). The FG encourages the regions to improve the quality of their investment climate (Freinkman & Yakovlev 2015; Nikitin 2016) while cutting the amount of direct budget support (e.g. by revising the tax allocation rules and curtailing the soft budget-funded lending programs) and fostering direct regional competition for the diminished volumes of federal resources. The last round of replacement of regional governors in the autumn of 2017 also suggests that the Kremlin makes much stronger demands on managerial capabilities of the new regional leaders.

Within this context, the analysis of potential reaction of regional elites to the emerging, considerably harsher "rules of the game" is a matter of considerable interest. Especially it is the case of economically stronger regions of the Russian Federation (RF) and/or those de facto enjoying a special status within the RF, and from which the federal government is trying to take away part of their resources while stripping them of their formerly granted privileges.

Russia's mid-term economic growth and modernization prospects will largely depend on the degree of pragmatism in the regions' reaction to current external shocks, including the federal government's attempts to change the nature of inter-government relations. In our opinion, the key question to be answered in this respect is whether the current crisis and related tightening of regional budget constraints will manage to alter the prevailing incentives of regional elites and trigger transition to a new regional developmental model.

The discussion of this question in our paper is illustrated by the experience of the Republic of Tatarstan (RT). Tatarstan has the reputation of an active region with its own political traditions, historically regarded in Russia as an example of best regional practices. First Vice-Premier of the Russian Government Igor Shuvalov said at the St. Petersburg Economic Forum in June 2017 that "everyone is used to Tatarstan being the leader."[2] In 2015-2016 foreign investors practically always named Tatarstan among Russia's 5-6 regions that attract the highest investor interest (Rochlitz 2016). What makes the case of RT especially interesting is the significant adjustment to its economic strategy made after 2010, which was reflected in its comprehensive long-term regional development program called Strategy "Tatarstan-2030" (Strategy, 2015).

At the same time, RT recently has experienced explicit shifts in the federal regional policy that are challenging the special status the republic has been enjoying since early 1990s. For example, the public protests by RT leaders at the end of 2016 against redistribution of 1% of the profit tax in favor of the federal government were ignored; in the spring of 2017 the Central Bank of Russia refused to allocate funds for bailing out one of the largest banks in RT; and in the summer of 2017 the Kremlin refused to renew the treaty on the separation of powers between the RT and the RF. All this suggests a completely new political situation for the republic and new challenges to which its elite still will have to respond.

Our paper contains an analysis of the possible new regional developmental strategy of the Republic of Tatarstan under a moderately optimistic scenario. The main conclusion is that RT and other, similar to the RT, stronger regions of the Russian Federation could take advantage of the current crisis for transitioning to a new economic developmental model resembling developmental states of

[2] https://realnoevremya.ru/articles/67146-prezentacii-nacreytinga-sostoyaniya-investklimata-v-regionah

Southeast Asia (SEA). Moreover, some actual adjustments to the regional strategy made in RT after 2010 are fully consistent with the choice of this developmental model.

Our conclusion is based on analysis of the regional strategies implemented by the RT elites in response to external shocks confronting the republic over the post-Soviet period. Special focus of our research is on exploring the mechanisms of aligning the interests of main regional elite groups and building a consensus regarding the republican developmental priorities and policy instruments for their attainment. In our opinion, the elite consensus was the key to securing the RT's comparative advantages and successful overcoming of the previous shocks. Constructive elite consensus and elite coherence demonstrated by RT several times in the past create favorable opportunities for working out an efficient response to the current challenges.

The paper has the following structure. The next section presents an overview of institutional peculiarities of RT economic development based on the findings from the previous studies. Section 3 highlights the main spheres where Tatarstan managed to achieve the results that considerably exceed the Russia's averages. In section 4 we discuss the main characteristics of Tatarstan's regional developmental model and their evolution in response to the main external shocks of the post-Soviet period: (a) the crisis of early 1990s triggered by post-Soviet economic transformation; (b) strengthening the FG's powers in early 2000s; and (c) tightening of budget constraints in the wake of the 2008-2009 financial crisis. Section 5 dwells on formation of a broad and sustainable consensus within the elite as a key feature of the RT current economic model. Section 6 discusses the strengths and weaknesses of Tatarstan's economic model, and compares its main features with the key characteristics of the developmental state, as they are usually discussed in the literature. The main findings are presented in the conclusion.

2. Key determinants of Tatarstan's economic development: Main findings from the previous studies

Academic research shows robust interest in studying developmental strategies of Russian regions (Dowley 1998; Zimin and Bradshaw 2003; Orttung 2004; Zverev 2007; Zimin 2010; Zubarevich 2010). In an environment of increasing divergence in the quality of regional institutions (Baranov et al., 2015) certain regions can succeed in attracting investments and accelerating their economic development in spite of the unfavorable situation at the national level. At the same time, successful regional developmental models are exposed to a sustainability risk in the mid-term (Zimin 2010).
The papers focused on economic developments in RT point to the following main factors underpinning the key distinctions of its regional economic model:

- Prompt formation of an authoritarian political regime headed by a strong leader with significant influence at the federal level (Gelman 1998; Kahn 2000; Matsuzato 2004; Mikhailov 2010)
- 'Special' relations with the federal center making it possible to effectively lobby regional interests and obtain additional federal resources (Åslund, 2004; Sharafutdinova, 2003, 2016; Zubarevich, 2014)
- Enhanced level of regional autonomy (Stoner-Weiss, 1999; De Melo, 1999)
- Considerable share of oil production and oil refining in the structure of the regional economy, strong dependence on oil price dynamics (Sagers, 2006; Sharafutdinova, 2016)
- Stability of the regional elite during the first years of market transformation (Kahn, 2000; McCann, 2004)

- Success of regional elites in establishing and maintaining control over the core republican economic assets (Hagendoorn et al., 2008), including in the oil industry (Rutland, 2015)
- Relatively slow pace of undertaking the basic market reforms in the 1990s (Darrell, 1997; Kopsidis, 2000)
- Local patriotism and readiness to defend republican – including ethnic – interests (Drobizheva, 1999; Bradshaw and Prendergrast, 2005); while support for multi-ethnic and multi-confessional stability has always been a political priority (Sharafutdinova, 2000).

At the same time, the literature offers quite different views concerning the longer-term prospects of the RT's governance model. On the one hand, in McCann's opinion, the prospects of this economic model were quite limited as excessive governmental control over the economy was incompatible with the path towards the region's economic dynamism and global integration (McCann 2004). On the other hand, other authors emphasize high quality of the regional elite, its long-term motivation and high level of education (Drobizheva, 1999). Tatarstan's elite has strong local roots and most of its representatives connect their personal future with the republic's development. According to Drobizheva, Tatarstan has accumulated relatively more social capital and achieved stronger elite cohesion based on regional solidarity, which generates greater potential for modernization.

We consider the later assessment to be quite important within the context of the recent works by D. North et al. (North et al., 2009; North et al., 2013). Their concept of "limited access orders" proceeds from the assumption that institutions are created by the elites. Consequently, developmental prospects of any society vitally depend upon the ability of local elite groups to reach an agreement concerning uniform "rules of the game" and ensure abidance by those rules.

In light of these recent research findings, we assume that the elite consolidation in Tatarstan has been a significant long-term factor of the republic's comparative advantage. However, within the context of analysis of modernization agenda at the regional level the elite consensus[3] remains a largely underestimated and insufficiently examined factor. In this regard, in the following sections of the paper we use the case of Tatarstan to demonstrate the mechanism for forming such a consensus and its potential role in transition to a new regional developmental model.

3. Tatarstan: Achievements relative to other RF regions

To better understand Tatarstan's economic model and its evolution over time it is expedient to make a brief overview of the main achievements in the republic's development compared against the data on the Russia's average performance over the past 25 years (see Table 1). These comparisons should be supplemented with the data on composition of Tatarstan's population, which consist of 53% of Tatars and 40% of Russians, and include two main religious communities -- Sunni Muslims and Orthodox Christians. The proportion of the urban and rural population is 76% to 24%, but a significant part of the urban population was born and grew up in the countryside. The RT per capita Gross Regional Product (GRP) in 2015 was approximately 7% higher than the Russian average.

[3] The authors understand "elite consensus" as sustainable unity of views and actions of representatives from the top (the most senior) level of political and business elites, jointly controlling the region's main assets and its regional policy.

Table 1. Main socioeconomic indicators of the Republic of Tatarstan compared against the average trends for the Russian Federation, 1990-2015

	Republic of Tatarstan				Russian Federation			
	1990	**2000**	**2010**	**2015**	**1990**	**2000**	**2010**	**2015**
Resident population, annual average, million	3.7[1]	3.8	3.8	3.9	148.4[1]	146.6	142.9	146.4
GDP growth rates in constant prices, average over the previous period	X	101.6[2]	106.0	103.1	X	102.5[2]	105.2	102.2
Fixed capital investments per capita, in actual prices, thousand rubles	1.8	11.8	86.9	159.8	1.7	7.9	64.1	99.4
Volumes of foreign direct investment, per capita, current US dollars	n/a	20[3]	39	106[4]	n/a	47[3]	97	182[4]
Share of manufacturing in GRP, %	n/a	16.9[5]	17.0	19.1	n/a	18.5[5]	17.7	17.1
Index of agricultural production, average over the previous period	X	97.8	100.9	108.2	X	95.1	101.7	105.6
Per capita exports, current US dollars	n/a	781	4117	2932	n/a	637	2678	2226
Per capita exports net of fuel&energy, current US dollars	n/a	191	826	765	n/a	264	768	750
Average nominal monthly wages, thousand rubles	0.27	2.0	17.4	29.2	0.30	2.2	21.0	34.0
Unemployment level (based on ILO methodology), %	3.6[6]	8.4	6.2	4.0	5.9[6]	10.6	7.3	5.6
Population with money income below the subsistence minimum, %	22.1[7]	23.8[9]	7.7	7.2	24.8[7]	28.4[9]	12.5	13.3
Gini index of income concentration	0.36[7]	0.38	0.42	0.42	0.39[7]	0.40	0.42	0.41
Floorspace of newly built housing, per 1000 of population (sq. m)	n/a	397	535	623	n/a	207	409	583
Floorspace of housing stock, per capita (sq. m)	16.0	18.6	22.8	25.2	16.4	19.2	22.6	24.4
Rural gasification level, %	5	96[3]	n/a	98	15[6]	29[8]	47	56

Source: Rosstat, author's calculations
Notes: 1 – 1991; 2 – 1997–2000; 3 – 2003; 4 – 2013; 5 – 2005; 6 – 1993; 7 – 1995; 8 – 2001; 9 – 1999 (an unexplainable outlier was registered in 2000: it is the only year in the entire period of monitoring when the poverty level in RT exceeded the Russian average).

During ten years of economic boom before the 2008-2009 global crisis, the average growth rate in the RT was high (7.4% p.a.), but practically no different from the Russia's average (7.3%). The pace of growth in Tatarstan slowed down substantially after 2008 (to an average of 2.4% during 2009-2015), but at the same time it became higher than the Russia's average (1.1%).

Global competitiveness is traditionally estimated on the basis of the volume of exports per capita. In Tatarstan, this indicator exceeds the Russia's average, and since 2010, the RT's non-commodity exports per capita have also exceeded the average Russia's level. The fuel and energy sectors still prevail in the region's export structure (74% in 2015), but at the same time the shares of both chemical and machinery sectors in the RT's overall exports are significant.

Tatarstan demonstrates relatively high level of investment activity measured by the value of fixed capital investment per capita: in 2015, investments per capita in RT were 1.6 times the Russia's average. However, in 2003-2013 the level of foreign direct investment (FDI) in RT was much lower than the Russia's average (which is quite low on its own). Even when taking into account that almost 40% of all FDI in Russia are registered in Moscow, FDI inflows in Tatarstan have been below the average: by the end-2013 (the latest data available), the FDI stock per capita in RT was only USD 106 versus the Russia's regional average excluding Moscow of USD 119. This means that the RT's economy remained largely closed to external investors in spite of recent efforts by the regional authorities.

The Republic of Tatarstan stands out among Russian regions in terms of quality of its investment climate. In 2015-2017 it was ranking the 1st in the National Rating of Investment Climate in Russian Regions published by the Agency for Strategic Initiatives (ASI). In 2014-2015, Tatarstan moved up to the top place in the regional rating of innovation activities, after being 10th-11th in 2008 (Gokhberg L.M., 2012, 2017). At the same time, RT is ranked relatively low in the rating of quality of regional conditions for development of small and medium enterprises (SMEs) published by the business association OPORA ROSSII.[4]

Tatarstan is an "old" oil producing region, in which oil production has declined more than 3 times since its peak in 1975 (Sagers, 2006). For this reason, RT has to boost efficiency of its oil extracting, oil processing and petrochemical sectors. The operations of PJSC Nizhnekamskneftekhim are a showcase of regional accomplishments in this sphere: the company is among the global leaders in synthetic rubber production exporting 48% of its output.

The RT's sectoral makeup includes, in addition to oil production, well developed manufacturing, agricultural and construction sectors. The key structural trend relates to gradual growth in the manufacturing share in the RT's GRP -- from 17.8% in 2004 to 19.1% in 2015. This expansion in manufacturing occurred in the situation of decline of the corresponding share in Russia's GDP by 3 percentage points, to 17.1%, over the same period. According to the data from the Russian Ministry of Agriculture and Rosstat, Tatarstan occupies the 19th position by the size of agricultural land among Russian regions, but in 2015 it held the 4th position by the volume of regional agricultural output. Its share in Russia's national agricultural output increased from 2.7% in 1991 to 4.1% in 2000 and 4.2% in 2015. One of the reasons for this strong performance relates to a disproportionately high level of budget support for agriculture (this is partially related to the rural origins of most members of the contemporary Tatarstan elites).

The regional model of agricultural development relying on major agricultural holdings has proven its efficiency in the 1990s and 2000s, but later started demonstrating serious failures, such as the bankruptcy of the largest regional holding OJSC 'Vamin Tatarstan' in 2012. This caused certain adjustments in the region's agrarian policy shifting government support toward rural smallholders. However, their share in the RT's overall agricultural output is still below the Russia's average.

[4] http://oporamo.ru/doc/ind.pdf

In the area of social development, the unemployment level in RT has remained considerably lower than the Russia's average over the past 25 years. The share of population with incomes below the subsistence minimum in Tatarstan was 3.3 percentage point lower than in Russia on average during 2010-2015. However, the Gini index of income concentration in RT has been exceeding the Russia's average since 2012. This index was significantly lower in RT in the second half of 1990s, and this change indicates high pace of growth in income inequality.

According to Ovcharova and Prokofieva (2014), the RT's consolidated budget welfare expenditures per capita (adjusted on the basis of the regional Budget Expenditure Index) remain at a relatively low level of approximately 80% of the Russia's average. Moreover, despite a higher level of per capita GRP, the average wage in Tatarstan is significantly (14%) below the Russia's average. At the same time, considerably much more housing per capita was constructed in the 2000s in Tatarstan than in Russia as a whole. The rural gasification level reached 98% in RT in 2015, compared to Russia's average of 56%.

Summing up this review, it should be emphasized that Tatarstan has been demonstrating better economic performance and greater social stability than other Russian regions. The republic managed to preserve and build up its industrial and agrarian capacity. At the same time, the dynamics of its key development indicators started exceeding the average all-Russia results only after 2010 – when RT showed a higher pace of economic growth compared to the Russia's average against the backdrop of overall slowdown in economic development. Nevertheless, the current growth rate in Tatarstan is much lower than the results demonstrated by rapidly growing world economies.

4. Peculiarities of the RT developmental model and their evolution over time

Tatarstan's regional developmental model was shaping up in response to significant external shocks of the recent decades. We believe that the most significant of those were associated with the economic crisis and political uncertainly of the early 1990s; Vladimir Putin's coming to power in 2000 that brought about resulting in a shift in the balance of powers between the regions and the federal government; and the 2008-2009 crisis that clearly demonstrated the limits of the region's existing developmental model. These external shocks marked the stages in the evolution of the RT developmental model. The main characteristics of these three stages in evolution are presented in Table 2.

Table 2. Key characteristics of the RT regional developmental model and three stages of their evolution

Key Characteristics	1990-1999	2000-2009	Starting from 2010
Public administration, relations with the federal government and internal policies			
RT President	Shaymiev	Shaymiev	Minnikhanov
Level of regional autonomy	Sovereignty of RT within the Russian Federation based on the 1994 Treaty on the Separation of Powers	Considerable decrease in the RT's political sovereignty after Vladimir Putin's coming to power	RT still enjoys greater independence in conducting internal policies and foreign economic activities and is subject to lesser interference by the federal regulatory and uniformed ('siloviki') services

System of inter-budget relations	RT holds a privileged position in the system of federal inter-budget relations with the largest share of overall tax proceeds channeled to the RT republican budget	Leveling-off the terms of federal government funding with other RF regions, but with partial compensation for the lost tax proceeds through additional federal budget support Significant federal support for overcoming the consequences of the 2008-2009 crisis	Tatarstan's successful mobilization of substantial federal co-funding of major regional projects At the same time, Tatarstan remains a donor region within the RF
State governance system	Establishing strong presidential power High level of delegation of powers to district administration heads and their direct subordination to the RT President	The RT President is the supreme arbiter in resolving any internal disputes Strengthening the RT government's role in making decisions related to economic development, redistribution of powers from district administration heads to the government and large holdings	The RT President is the ideological leader of shaping up a new regional developmental model Strengthening the RT President's role in addressing economic, financial and industrial policy matters
Relationships within the regional elites	Formation of several competing elite groups all of which indisputably recognize the supreme authority of the President Crackdown on organized crime as a step toward consolidation of the regional elites	Consolidation of the elites around common development goals in the environment of strengthening of the federal government Formation of an effective internal system of checks and balances controlled by the President	Coordinated and seemingly conflict-free redistribution of control functions among the elite groups during the transition of presidential power First RT President in the role of the right-hand man and guarantor of political stability
Economic, industrial and social policies			
Main principles of economic management	Prevalence of administrative principles of control and nonmarket approaches to justification of economic policy decisions	Strengthening of market principles in decision-making, in particular related to the selection of investment projects	Implementing elements of a project-based approach to management of regional development with a long-term planning horizon
Key economic policy priority	Preservation of capital assets inherited from the Soviet Union and priority focus on maintaining regional control over them	Industrial development mainly through restructuring of legacy enterprises ("preserved assets") Expanding activities of Tatarstan's enterprises into the markets of the neighboring regions	Policy focus to shift the economic structure from traditional sectoral model to a cluster model; orientation on global competitiveness, launching new ambitious projects in traditional and new sectors; stepping up innovation
Peculiarities of the industrial and structural policies	Protection against the penetration of "external investors" and Tatarstan's own privatization model Establishment of effective control over key regional enterprises	Creation of regional large multi-industry holdings as a mechanism for consolidating resources, protecting assets, and coordinating investment decisions	Elaborating and launching Strategy-2030 Forming a "special investment regime" in clusters and SEZ

	RT ownership of its subsoils Support for agriculture Program of the population resettlement from dilapidated housing	Transition to market principles of approving investment projects while keeping administrative control over unemployment levels Mobilization of additional financial resources for major regional projects	Selective attraction of external investors to clusters while maintaining regional control over most large and medium projects
Social policy	Rural gasification, control over unemployment, ban on the closure of enterprises and job cuts, provision of social housing Support for rural population	Support of social mortgages and housing construction by local enterprises Strengthening of the system of school education	Human capital development becomes a key government policy priority Provision of quality social infrastructure, including housing, to recent graduates relocating to work in Tatarstan

An important peculiarity of the first stage relates to the strong "negotiating position" of Tatarstan, and personally of the then republican President Mentimer Shaimiev, in its relations with the Kremlin. In the situation of deep economic and sociopolitical crisis, the federal authorities were experiencing an acute need for support from the regional elites. Tatarstan turned out to be capable of providing such support due to rapid formation of efficient political machinery in the region that guaranteed delivery of the popular vote necessary for the incumbent party of power in Moscow. The voting results at the 2nd round of Russia's presidential elections in 1996, when President Yeltsin received almost twice as many votes in the RT as his opponent Zyuganov (61.5% vs. 32.3%), can be considered typical in this respect. Yeltsin's average advantage across Russia in general was much less impressive – 53.8% vs. 40.3%.

The leadership of Tatarstan succeeded in building robust relations with the key groups of the republican electorate based on stable allocation of targeted budget support to the latter and systematic efforts to mitigate unpopular processes of market transformations. This included complete rural gasification, the dilapidated housing demolition program in Kazan in 1990s, and other region's social programs.

Tatarstan managed to gain substantial resource privileges in exchange for political loyalty. Specifically, in 1990's practically all taxes collected in the region were channeled to the RT budget and the republic received full control over its subsoils. Tatarstan also managed to implement its own privatization model, which enabled the regional elite to retain control over the key economic assets (Bornstein, 1994). Another channel for obtaining additional federal resources for the RT development was provided by Boris Yeltsin's September 1999 Decree on the celebration of the 1000th anniversary of Kazan.

Tatarstan started implementing a targeted industrial policy as early as in 1990s. Substantial resources were invested in agriculture, which made it possible to avoid radical decline in this sector and preserve its potential inherited from the Soviet period. The dilapidated housing demolition program in Kazan provided about 50,000 families with free new apartments serving as an additional factor of social stability. The same program helped preserve and strengthen the construction sector in RT. At the same time, because of the focus on retaining republican control over key enterprises, the region's economy remained closed to external investors as long as mid-2000s.

That 1st stage was also characterized by continuity in the system of public administration, maintaining a political balance across different interest groups, and settlement of internal conflicts through actions of the regional elite and without Moscow's mediation. A significant role in this

respect was played by the RT State Council (regional legislature) as a platform for dialogue between the regional political and business elites. Other peculiarities included drastic restrictions on the scope of asset channeling out of the republic and crackdown on organized crime owing to strong performance of the republican Interior Ministry.[5]

Another specific feature of the regional policy pursued by RT since 1990s has been the effort in support of multi-ethnic and multi-confessional stability. Extreme ethnic and religious polarization of the RT population could have ignited conflicts between Russians and Tatars, Orthodox Christians and Muslims in 1990's. This risk was neutralized by carefully managing a balance of interests of different confessional and ethnic groups (Khakimov, 2014).

Rapidly strengthening the federal government's powers after Vladimir Putin was elected Russian President in 2000 created a serious challenge for the RT elite over the 2nd stage of evolution of the region's economic model. According to Lapina and Chirikova (2004, p. 8), "the new federal policy was incompatible with the continuation of former bilateral arrangements between Moscow and the RF constituent regions and called for a drastic revision of the role and status of regional elites within the political system." During the reforms in the sphere of "separation of powers" between the FG and regions and subsequent alignment of the regional legislation with the federal requirements, Tatarstan lost most of its former privileges. This resulted in financial losses that were only partially compensated by implementation of the new federal targeted program to support Tatarstan's development until 2006. The republic was also compelled to gradually open its economy to external investors.

The quest of a new political balance with the Kremlin by the RT elites was based on demonstration of political loyalty and the region's active participation in all sorts of federal initiatives. In the political sphere, sustainability of Tatarstan's developmental model was ensured by the provisions of the republican constitution according to which a treaty on "separation of powers" has to be signed between the RT and the RF,[6] and the President of Tatarstan has to speak two languages (Tatar and Russian). Unlike other regions where all law enforcement institutions were fully transferred under the jurisdiction of the federal government in the beginning of 2000s, the Interior Ministry of Tatarstan remained part of the republican government until 2012.

Successful implementation of several large projects by Tatarstan (such as the celebration of the 1000th anniversary of Kazan in 2005) was a prerequisite for additional federal allocations to RT for launching new major initiatives, including the creation of the Special Economic Zone Alabuga in 2005 and the decision (passed in May 2008) to hold the 2013 Universiade in Kazan. Effective implementation of major projects and socio-political stability became the factors to ensure regular "delegation" of representatives of the regional elite to occupy the leading positions at the federal level. On the one hand, this expanded opportunities for social lifts and, on the other, made daily interactions with the federal government easier for the RT leadership.

Another important feature of the 2nd stage was the transition from direct administrative control over enterprises to their corporatization, creation of holdings with interlocked ownership structure and use of the instrument of the board of directors for managing the companies controlled by regional elites. Although the holdings in the oil and petrochemical sectors already emerged in the second half of the 1990s, the key event for other economic sectors was the establishment of Svyazinvestneftekhim Joint-Stock Company in 2003 followed by the transfer of many enterprises to Ak-Bars Holding Company in 2004-2005. At the same time, the 'golden share' mechanism enabled the RT government to veto any decision of a particular board of directors. The 'golden share' was envisaged by corporate charters of most of the largest companies in the RT, including Tatneft and TAIF.

[5] Specifically, de-criminalizing the control over JSC Kazanorgsintez and Nizhnekamskneftekhim created conditions for their successful development as part of TAIF holding established in 1995.

[6] This treaty was signed in 2007 after extensive negotiations for a term of ten years, and even though in many respects it was merely symbolic, it reconfirmed the special status still enjoyed by Tatarstan.

On the whole, holdings in the RT were designed to perform three main functions: protect enterprise assets against unfriendly external takeovers[7]; coordinate investment and other strategic decisions among enterprises; and accelerate enterprise restructuring. Additionally, it is worth mentioning the role of Tatneftekhiminvest-holding as a top-level expert and communication platform under the RT President.

Overall, a developed multi-channel system of within-the-elite communications was formed by mid-2000s that included the RT State Council, boards of directors of republican holdings and major enterprises and other simultaneously functioning platforms. This system was supplemented by an effective mechanism of regular monitoring of enterprises' performance. Its key element was the RT presidential administration vested with broad controlling and inter-sector coordinating functions and utilizing e-government mechanisms widely implemented in RT.

Despite these accomplishments, development of the regional economy during that period was predominantly relying on the old production facilities with the prevalence of brownfield projects. The creation of the Special Economic Zone Alabuga in 2005 marked the start of implementation of the regional strategy aimed at facilitation of technological and managerial innovations, attracting foreign direct investments, and testing new market-based "rules of the game." However, at that time the regional elites were not yet ready for active interaction with external investors.

On the whole, despite successful adaptation to the new political environment, until the end of 2000s, the RT elite continued the developmental policy that aimed predominantly on attraction and effective utilization of additional federal resources while keeping the regional economy practically closed to external investors. The crisis of 2008-2009 has vividly demonstrated the limits and risks of such a model and triggered transition to the current, 3rd stage in the model's evolution.

To overcome the consequences of the crisis, Tatarstan received an emergency package of financial assistance from Moscow, which was granted first and foremost in the form of public budget loans at a very low interest rate (Vartapetov, 2011). Nevertheless, the crisis explicitly made the regional elite think about about the future developmental path in the new environment of low oil prices. The corresponding questions were posed to the experts who were invited at the end of 2012 to participate in the elaboration of the Tatarstan-2030 Development Strategy. This ambitious project was initiated by President Minnikhanov, but the strategic discussions over the RT's developmental agenda (which reflected the region's historical and cultural peculiarities) have been ongoing since the 1990s with the participation of the first President of Tatarstan Mentimer Shaymiev (2001). The preparation of Strategy-2030 lasted approximately three years and involved serious external expert support.[8] This process facilitated the formation of a harmonized vision of the RT's future as a "global region" with a high level of integration into international markets. Strategy-2030 positions Tatarstan as the leading RF region in terms of quality of human capital, institutions, infrastructure, external integration and internal space.

According to the Strategy's baseline scenario, by 2030 the following changes should take place in the RT's economy: nearly doubling of per capita gross regional product, diversification of its economic structure which should become less dependent on production of raw commodities, acceleration of business innovation, environmental improvements, and significant growth in direct foreign and overall fixed capital investment. The Strategy also envisages growth in aggregate R&D expenses from less than 1% of GRP in 2014 to 3% of GRP in 2030, which corresponds to the expenditure level in the countries that lead the global innovation process. The implementation of the Innokam cluster project, which envisages a triple increase in output by 2020, is considered a key growth driver in the mid-term.

[7] A typical example of efficiency of the RT's mechanisms for maintaining control over local assets was the case of Zelenodolsk Shipbuilding Plant manufacturing *inter alia* naval vessels, which was not handed over to the United Shipbuilding Corporation (USC) controlled by the federal government.
[8] https://www.business-gazeta.ru/article/106243

Simultaneously with the preparation of Strategy-2030, the RT's authorities were conducting an analysis of the experiences of structural transformation accumulated in Singapore, Malaysia, and other East Asian countries. They also launched large cluster development initiatives as a basis for accelerating business innovation (the Innokam and Innopolis projects).

Another specific feature of the third stage was a dramatic expansion in the scope of credit instrument utilization for implementing priority development projects in the RT. The republican authorities have been actively leveraging their control over the local banking system to support key investment projects. The overall credit support has grown substantially during the third stage due to the emergence of two additional important lending channels: loans of major "Moscow-based" banks that were frequently extended within the context of informal arrangements between the RT's leadership and the top managers of particular state-owned banks[9] and credit lines of foreign banks for the purchase of equipment that were granted as part of intergovernmental agreements.[10]

An important event during the third stage was a serious bank crisis in the RT at end of 2016 – beginning of 2017. Bankruptcy of the region's second largest bank (in terms of assets), Tatfondbank, involved perceived loss of 97 billion rubles, or more than 1.5 billion dollars, and the arrest of its controlling owner and key managers.[11] We believe that this crisis was caused primarily by mistakes in the current lending policy of this particular bank intensified by long-term consequences of substantial credit support of social priority projects and politically-connected enterprises by the government. Losses accrued during 25 years of extending "bad" loans based on political decisions have ultimately reached the scope where it was no longer possible to conceal or refinance them. The experience of other countries shows that any model of state capitalism is fraught with such risks for the financial sector. Quite similar examples of bank crises can be found in recent history of South Korea (acute liquidity crisis in 1972 – see Lim (2000)) and Japan (bank problems caused by implosion of the real estate bubble in early 1990s – see Hutchison and McDill (1999)). In a situation of excessive involvement of the authorities in the process of investment decision-making mistakes in the financial sphere often come out with a significant time lag and in a particularly acute form. In the long term, the 2016 crisis may produce additional incentives for the banking sector reform in the RT and stimulate its greater openness to entry of major external players.

In sum, the common distinctive features for all three stages in evolution of the RT developmental model include the following:

<u>Public administration, relations with the federal government, and internal policies:</u>

- The region's powerful political and administrative resource (including a capable managerial team and strong implementation discipline), effectively leveraged for both producing the desirable election outcomes and mobilizing additional federal resources
- The federal government's greater trust toward the regional elite owing to regular fulfillment by Tatarstan of its commitments

[9] A vivid example is the loan granted by Sberbank to Kazanorgsintez in 2009 as a result of Mentimer Shaymiev's direct request for support submitted to RF President Medvedev.

[10] E.g. the construction of the "Ammonium" plant is financed in addition to Vnesheconombank by a number of foreign banks, including the Bank of Tokyo-Mitsubishi, Sumitomo Mitsui Banking Corporation, J.P.Morgan limited, and Mizuho Corporate Bank, which have collectively granted a loan worth $500 million in the autumn of 2011. http://www.moneyjournal.ru/bizness/nedvizhimost/stroitelstvo-zavoda-ammoniy-viroslo-v-tsene-v-2-5-raza-9752.html

[11] See https://rg.ru/2017/03/04/reg-pfo/ushcherb-ot-dejstvij-rukovodstva-tatfondbanka-ocenili-v-3-mlrd.html

- Predictability of the government's policy, stable "rules of the game" for entrepreneurs, including relatively low administrative costs of conducting business and a moderate level of corruption[12]
- Well-established institutional arrangements to coordinate activities of the government and business entities, including the RT State Council, various development institutions and republican holdings
- Consolidation of all social groups around the idea of "regional patriotism" and a high level of tolerance in society[13]

Economic, social and industrial policies

- Special privatization and corporate governance models enabling to maintain regional control over core assets; accelerated privatization of industrial land plots that broadened opportunities for financing of enterprises' development programs[14]
- Strong credit support for business development based on the resources of the regional financial system and the RT government assistance in securing borrowing from non-republican banks
- Agriculture as a priority sector and an important recipient of budget funding
- Policies to ensure social stability, administrative interventions to control poverty and unemployment rates with simultaneous restrictions on wage growth
- Strict control over siphoning off assets and capital flight from the republic

Some specifics of the "oriental" style of governance in Tatarstan and a number of key characteristics of the developmental model shaping out in the republic are quite similar to the catching-up developmental model typical of Southeast Asian countries (Amsden 1989, Lee Kuan Yew 2000, Amsden and Chu 2003, Sabel & Jordan 2015). These characteristics include the following:

- A respected political leader with a long-term vision, interested in sustainable national development and capable of formulating long-term developmental goals acceptable for key groups in the elite and society at large
- Healthy patriotism of the national/regional elite and its consolidation in the face of external threats and challenges
- Presence of serious external challenges to customary existence of traditional elites
- Policy orientation on integration into the global markets and global competitiveness

[12] Not many reliable measures of Russia's regional corruption are available. The report by FOM (2011), which was based on the comprehensive Russia-wide survey, rated Tatarstan as the region with the below-the-average petty corruption level. At the same time Tatarstan is one of the regions in the group with low variation in a "bribe tax" on business (Levina et al., 2016), which is a manifestation of well-functioning informal regulatory mechanisms, to which most companies, familiar with the terms of doing business in the region, have easy access.

[13] Compared to other regions of the Russian Federation, Tatarstan demonstrates the highest level of cultural assimilation of its Muslim and non-Muslim population and an increased degree of inter-confessional tolerance (Braginskaia 2012).

[14] On 1 January 2013, 59% of land designated for industrial use in Tatarstan were owned by legal entities compared to only 8% in Russia as a whole.

Another common feature of Tatarstan and successful SEA countries is the formation of an autocratic political regime capable of ensuring continuity of policy over a long time. At the same time, it has to be reckoned that Tatarstan is a constituent region within the Russian Federation rather than an independent state. Largely due to this, Tatarstan's regional developmental model during the first 20 years after the Soviet Union's collapse can rather be described as a model based on successful competition over federal resources. Evolution towards a "catching-up developmental model" began only after the 2009 crisis that aggravated the risks of both loss of resources provided by the federal government as well as loss of control over its own key assets.

Another distinction of Tatarstan's evolving developmental model from the most prominent examples of the developmental states in SEA concerns the degree of openness of the system to new market entries – both Russian and foreign ones. It should be emphasized in this respect that at the early stages of economic development some SEA countries also preferred to keep their markets closed. Specifically, South Korea in 1960s – 1980s was prioritizing the borrowing of technologies using foreign credit resources instead of encouraging foreign direct investments. However, today technological breakthrough in a small economy such as Tatarstan is no longer possible without opening its market to foreign investors that are technological leaders in their sectors.

In this context, the system of the regional elites' control over the core economic assets in Tatarstan hampers the inflow of external investments, especially into incumbent enterprises and areas outside the special economic zones. As a result, the inflow of foreign investments remains significantly below its potential. This, in turn, deters the pace of export growth, slows down diversification, and limits the region's globalization prospects.

In addition, serious barriers to development of small and medium enterprises (SMEs) continue to exist in Tatarstan. In this respect, the current situation in RT is not much different from the average in Russia. Global experience shows that the role of new enterprises, especially medium businesses, increases significantly during the transition to the catching-up developmental model. The experience of China in this area can be considered quite characteristic: there economic growth at the first stage of reforms was achieved largely due to creation and rapid development of new township and village enterprises (TVEs) established under the control of and with personal participation of representatives of the local party elite (Weitzman & Xu 1994, Putterman 1997). Our expert interviews in Tatarstan suggest that the weakness of the SME sector is broadly acknowledged in RT as a serious problem, but for a time being state support granted to small business development is largely aimed at achieving social objectives, such as reductions in unemployment.

5. What made possible the elite consensus in Tatarstan and what are its manifestations?

The literature discussing the institutional foundations of the developmental state (Doner & Schneider 2016, World Bank 2017) makes a point that the local elites must reach consensus regarding development objectives of their territory as the basis for formulation and implementation of a successful long-term development strategy. Three main factors leading to the formation of such consensus are commonly identified:

- A serious economic and/or political crisis
- A serious strategic threat aggravating the risks for incumbent elite groups (pressure on the elites from below or from outside)

- Patriotically-minded national elite ready to assume responsibility for a quest and implementation of anti-crisis solutions and oriented on pursuing long-term development objectives

In our opinion, all these factors were in place in Tatarstan in 2010. Specifically, the 2008-2009 crisis demonstrated the vulnerability of the existing economic model with its excess dependence on hydrocarbon production. The realization of the risks associated with the falling oil prices helped better understand the need for economic diversification. The loss of control over Bashneft by the neighboring Bashkortostan in 2009 has demonstrated the risks of possible seizure of key assets and got the RT elite thinking about adequate responses in the event of a similar scenario. In addition, a traditional characteristic of the elite groups in the RT has been and remains the cohesion of the key players, their readiness to jointly defend Tatarstan's strategic interests. This cohesion emerged due to the similarity in their mentality and frequently common rural origins (Salagaev, Sergeev, 2013).

Unlike many other regions of the Russian Federation, Tatarstan was characterized with considerable continuity during the reform of its governance system and a higher share of representatives of the Soviet elite who managed to retain senior positions after 1991. A vivid example of this cohesion is the successful collective actions of Tatarstan's leadership to maintain republican control over key regional enterprises in the 1990s.

An essential element of the local political culture is the tradition of searching for compromises, orientation on the settlement of internal conflicts with their own resources and without involving external players. An important role in maintaining political stability in the RT was played, in part, by a political compromise achieved in the 1990s on two issues of paramount importance – the status of the Tatar language and Tatarstan's relations with the federal government (Khakimov, 2014). The RT elites are also distinguished by their orientation on success at the individual, corporate and regional levels and practical recognition of the priority of strategic interests over short-term benefits.
Additionally, it is worth mentioning the following essential characteristics of the RT's political system that have facilitated the formation and preservation of elite consensus:

- Having in place an elaborate system of checks and balances in the republic which was formed by President Shaymiev and is still actively supported by him.[15] The examples of such balances in politics include the distribution of key positions in the State Council and across the municipal authorities between representatives of different "interest groups" and in business – the relations between Tatneft and TAIF companies.
- Effective performance of the developed within-the-elite communication system, including several parallel permanently functioning channels.
- Social lifts for the leaders capable of delivering the anticipated result (even though the HR policy in Tatarstan cannot be described as fully based on meritocracy principles). Administrative promotion within the system, e.g. for district heads, depends in most cases on successful development of their territories.
- Regular rotation (reciprocal transfers) of representatives of the power and business elites (e.g. appointing directors of large enterprises to the positions of deputy minister and vice versa).

The evolution of within-the-elite relations in the RT closely corresponds to the theoretical concepts of Douglas North et al. about the evolution of "limited access orders" (North et al., 2009; North et

[15] The following perfect illustration of the system of checks and balances can be made: after his election to the post of RT President in 2010 Minnekhanov "inherited" from Shaymiev his head of presidential staff, Yuri Kamaltynov, who was succeeded in 2012 by a local political heavyweight Asgat Safarov – another person from Shaymiev's team.

al., 2013). An important prerequisite for the transition to a more mature developmental stage of "limited access orders" is the formation of rules of conduct for the elite,[16] which are based on an effective within-the-elite communication system and existence of mechanisms for monitoring of compliance with the agreed rules and sanctions for their violation – along with an overall decrease in the scope of violence.

There are several examples attesting to the maturity of the Tatarstan elite, its ability to deal with difficult, potentially conflict-prone situations predominantly by peaceful means, on the basis of negotiations between representatives of competing elite groups. Since 1990s President Shaymiev has been conducting the policy of "coercion of the elite to unity" based on the broad use of power instruments and reliance on the RT's Ministry of Interior, including suppression of organized crime groups and prevention of withdrawal of assets from Tatarstan. At the same time, the "expulsion by promotion to the federal level" with respect to representatives of the local elite who for some reason or another failed to fit into the emerging political consensus.[17] By applying this approach Shaymiev managed to peacefully resolve a serious internal conflict – the so-called "coup of district heads" – in 1998.[18]

All this became a prerequisite for peaceful transition of presidential power in the RT in 2010 without considerable property redistribution in the republic. Moreover, according to the information provided by local experts, the preparation for the handover of power in the RT started in 2005, when President Shaymiev had expressed his personal readiness to resign, but the Kremlin persuaded him to stay for another five years. At the same time, this important political transformation resulted in gradual and coordinated redistribution of the roles of different elite groups in the political and economic life of Tatarstan.

At the same time, it has to be emphasized that the 2008-2009 crisis created considerable but on the whole insufficient incentives for transition to a new regional developmental model in the RT. The regional elite was not yet ready to share its status with new players outside the "development zones" and create institutional conditions for their integration in the mechanisms of within-the-elite interaction. Further tightening of budget restrictions and dilution of the RT's special status after 2014 have fanned up initial incentives for change, as it became absolutely clear that acceleration of growth was possible only through active involvement of private investors. In our opinion, this situation may step up transition to a new and more sustainable regional developmental model.

[16] Such rules can sometimes be "unwritten" – which is the case of China, for example.

[17] For instance, Farit Gazizullin, first deputy chairman of the RT government since 1991 in charge of matters of privatization and industrial management, in 1996 became first deputy chairman of the RF State Property Committee and in 1997 – Vice-Premier and Minister of Property Relations. Kamil Iskhakov, Kazan Mayor since 1991, in 2005 was appointed RF Presidential Envoy to the Far Eastern Federal District.

[18] This event was later described by the regional media as an attempted "palace reshuffle" initiated by chief of the RT presidential administration Khaliaf Nizamov, Naberezhnye Chelny administration head Rafgat Altynbaev and interior minister Iskander Galimov with support of several district administration heads (http://kazan.bezformata.ru/listnews/vsesilnij-avtor-putcha-glav/12834907/). Mentimer Shaymiev succeeded in retaining control over the State Council owing to active support of Kazan administration head Kamil Iskhakov and chief of the presidential security service Asgat Safarov. As a result of this conflict the interior minister was replaced by Asgat Safarov and one of the coup's main initiators was promoted to the RF Federation Council.

6. The Tatartstan model: its comparative advantages, weaknesses and risks

In this section we will sum up the weaknesses and strengths of the developmental model shaping out in the RT, based on our SWOT analysis. In our opinion, the strengths and potential opportunities of the evolving developmental model in the RT are connected with its following peculiarities:

- high consolidation level of the local elite,
- existence of developed communication channels between the elites and conflict resolution mechanisms,
- availability of a long-term regional development strategy elaborated with the participation of all key players,
- established mechanisms of interaction with the federal government.

Owing to the unifying concept of regional identity, the inhomogeneous ethnic and religious make-up of the population was transformed from a potential risk into one of the region's competitive advantages (Khakimov, 2014). The authorities are trying to leverage the opportunities and connections of different population groups for external promotion of the RT projects and attraction of additional resources to the region.

The advantages of Tatarstan's developmental model also include policy predictability and stability, lower costs and risks of conducting business, and additional guarantees for entrepreneurs who are ready to invest in the RT's priority projects. Additional factors of relative advantage of the regional investment climate include the following:

- High quality and intensity of the dialogue between the government and the business community;
- High executive discipline; harmonized actions of the administration at the republican and local levels; efficient process of inter-departmental approvals (which is partially due to the RT's influence in the process of appointment of heads of the federal executive authorities' territorial agencies);
- High rate of investment in the economy partially funded from the federal sources.

At the same time, the strict "power vertical" ensuring strict adherence to any directives of the chief executive is fraught with serious risks. The innovative model of economic development cannot depend on over-centralization of the decision-making process and the activity of one, albeit a very energetic person.[19]

The RT model could be assessed quite positively against a number of characteristics of the developmental state model as they are commonly presented in the academic literature (Chibber 2014; Evans 2014; Doner et al. 2005). In particular, over the past 25 years Tatarstan has accumulated

[19] In all autocratic regimes, very much depends on decisions of the chief executive. Tatarstan is no exception in this respect. But the question is: to what extent can a charismatic leader transfer his modernization policy into an "institutional regime"? Will he succeed in creating a system of institutions capable of continuing to operate without him? If this is impossible, the "country of development" functioning well in the "manual mode" will most probably start degrading and may even reach the stage of self-destruction (something we have witnessed in many Middle Eastern countries during the "Arab Spring").

considerable institutional strength in the following areas that are considered critical for transition towards a capable developmental state:

- Robust elite consensus; broad elite's commitment to development
- Capable apex institution with the strong coordinating and monitoring mandate (in the RT this role is played by the President's office for strategic priorities and the RT Prime Minister office for all other goals)
- Government coherence and capacity to coordinate diverse interests
- Dense links between the government and leading firms, while sufficient government autonomy is preserved to allow for effective monitoring
- Controlled corruption

At the same time, we have identified three particular areas where Tatarstan would require further institutional strengthening to meet 'the performance standards' of the developmental state model. First, while the arrangements for state monitoring over the corporate performance have been well-established and functioning well, the mechanism of sanctions for business non-compliance with the agreed performance targets remains largely informal and non-transparent. Overall, there have been only a limited number of well-known examples of sanctioning a poorly performing team of managers/owners, which undermines credibility of the existing sanctioning mechanism and erodes the concept of "state support as a contract" (Chibber, 2014).

Second, there is a growing concern regarding the RT's state capacity to adequately tax the elite in order to provide sufficient funding for investing in developing priorities[20]. This concern reflects both rapidly growing income inequality in the RT and the facts of massive wealth accumulation by specific individuals. Third, little progress has taken place with respect to expansion of the existing coalition/partnership between political and business elites to ensure broader representation of diversified civil society interests. In particular, in the era of knowledge economy, the creative class has to get more opportunities to influence the decision-making process (Evans, 2014).

Tatarstan's specific distinction from countries of Southeast Asia (which the RT elites could use as an example in the process of creation of their own developmental state model) consists in the fact that it is not an independent state but a region constituting part of a large multi-ethnic country. The common policies and regulatory and legal space formulated in Moscow for the country as a whole may both promote or hamper positive dynamics in the RT. In the present-day situation the implementation of any long-term development strategy in the RT involves a considerable risk of worsening of relations with the Kremlin, in part, due to the possible attempts by the federal elites to seize substantial amounts of assets from under regional control (against the backdrop of general depletion of resources). The signs of worsening of relations between Kazan and Moscow already mentioned above include the federal government's refusal to extend the treaty on the separation of powers between the RF and the RT, refusal to bail out Tatfondbank, and postponement to an indefinite period of construction of the high-speed road Moscow-Kazan.

In this connection it is important for the RT elites to have a clear vision of what Tatarstan has to offer to the FG in the present situation of international confrontation and tight budget restrictions for mitigating the corresponding risks. In our opinion, rapid economic growth in the RT can and should become an important element of this "offer." The RT elite needs it no less than the Kremlin does, as only in the event of increasing the amount of rent will the leaders of Tatarstan have a chance

[20] It is worth noting than in the 90es and early 2000 RT used to tax the elites at a higher rate: it utilized the mechanism of regional extra-budgetary funds to accumulate significant additional resources to finance its social policy and sectoral priorities.

to mitigate contradictions between the interests of the incumbent elite and new players. However, many representatives of the federal government (especially in its law-enforcement sectors) presume that advanced development of stronger regions may create a risk of building-up regional separatism. At the same time the federal government has to shoulder the pressure of depressive regions, which makes its socioeconomic ministries skeptical about the interests of stronger regions.

The possible solution to this challenge may consist in expanding cooperation with other regions. In particular, Tatarstan could initiate the elaboration of interregional infrastructure projects and their implementation jointly with the neighboring regions, which do not have management competencies such as the RT. We believe that the initiatives aimed at rapid formation of interregional markets centering around strong regions would seem more attractive to the Kremlin than the projects benefitting only one leading region.

Firstly, such projects could help level out the regional differences (as this cooperation would allow less developed regions disposing of lesser assets to demonstrate higher growth rates) and relieve the social burden on the federal government. Secondly, these projects can potentially spread best practices and replicate management competencies from the leaders to their neighboring regions. Finally, closer economic cooperation between strong regions and their neighbors would promote the formation of mechanisms that objectively strengthen interregional integration within the Federation.

From the prospective of "limited access orders," development of interregional cooperation results in sophistication of the existing connections between different elite groups and raises the sustainability of the system as a whole. However, for elites in the leading regions (namely, in Tatarstan) transition to such strategy would signify not only the need to agree with the federal government but also to consider mutual interests and find compromise solutions in relations with the neighboring regions while creating mechanisms of compliance control of the reached agreements.

An additional risk for the catching-up developmental model in Tatarstan is connected with the preservation of the system of the regional elites' control over the main economic assets. As already discussed above, the regional elites are selective in admitting "strangers" to the incumbent enterprises for fear of losing control. This approach has positive aspects to it: specifically, it lowers the risks of increased social tensions caused by the efforts of new owners aimed at corporate restructuring and restricts external investor opportunism. It should be mentioned that both South Korea (until the end of 1980s) and China (until mid-1990s) were pursuing the same policy during the first stages of implementing their catching-up development strategies. However, at a certain moment the striving of incumbent players to retain control over all key assets can become an obstacle to further development.

The situation with salaries in the RT being systematically lower than in comparable regions of the RF[21] also poses risks for transition to a new developmental model. For a time being cheap labor force brings additional profit that can provide a source for business investment. But such effects are typical mainly for low-tech stages in the value chains. Production of high value added goods and services requires highly skilled workers. The focus of Strategy-2030 on development of human capital reflects the recognition of this problem in the RT. However, with the current relative levels of salaries in the RT additional investments in education in Tatarstan would only accelerate the flight of workforce from the republic.

Other significant risks of transition to a new developmental model include:

- The risk of aggravation of within-the-elite conflicts. Mentimer Shaymiev's departure (as an arbiter and political "heavyweight" maintaining the balance of forces between different interest groups) from the political scene can undermine the key mechanisms of weights and balances.

[21] In 2015 the average salary in the RT was 95% of the average salary in Sverdlovsk Region – in spite of its GRP per capita being 15% higher.

- The risk of major and politically sensitive failures in the functioning of the regional governance system due to its excess centralization; the related risk of loss of confidence of the center and additional restriction of the republican powers.[22]
- Possible contraction of the regional banking system after the bankruptcy of several regional banks in 2017, which will reduce the RT financial safety net in a considerable measure and restrict the authorities' opportunity to pursue the policy of settling social problems in the real sector by extending emergency loans to regional enterprises experiencing a crisis.

Finally, serious risks are created for the RT due to the Kremlin's lack of a nation-wide developmental strategy and possible contradictions between long-term goals pursued by Tatarstan and the solution of tasks that remain the federal government's priority in the short-term.

Additional significant restrictions to the RT economic development include the following:

- The RT financial sector remains underdeveloped, partially due to the closed nature of the regional financial institutions. Bank lending in the period before 2010 focused on support of socially-oriented and generally low-efficiency development programs of old enterprises, resulting in the a quality of the credit portfolio of major republican banks.
- The republic's current innovative potential is insufficient to ensure sustainable innovative development at a level of global leaders. Despite the existence of high-performance regional institutions and innovation development tools in the RT, an efficient innovation support ecosystem capable of sustainably generating domestic innovative products and technologies has not been formed yet. The transition to a new developmental model has to cope with human capital limitations[23]as well as the flaws in cooperation between universities, research centers and business.
- The remoteness from the Russian state border (distance from the main world markets) constitutes a restriction to global competitiveness of the products manufactured in the RT.

On the whole, the developmental model evolving in the RT has a number of comparative advantages providing the republic with the opportunities to maintain regional leadership and achieve its long-term strategic goals. However, the fulfillment of these opportunities will largely depend on successful response of Tatarstan's elites to new challenges facing the RT today. These include, first of all, the sharpening of interregional competition over federal support in the situation of shrinking federal resources and improvement in the quality of management in a number of regions. Under the new conditions the RT will inevitably have to make a greater stake on external sources of private financing requiring the regional elites to demonstrate better preparedness for self-restriction and increasing market access of new players, including external investors and local medium businesses.

[22] Examples of such failure are the scandal at the "Dalny" police station in Kazan in 2012 and the recall of the license of Tatfondbank in 2017.

[23] The low standings of Tatarstan's universities in the all-Russia ratings should be mentioned. E.g. in 2016, the Kazan (Volga) Federal University (KFU) ranked only the 17th among Russia's top universities, while the medical, technological, and aviation universities held the 32nd, 54th and 55th positions (http://www.edu.ru/ratings/reyting-vuzov-rossii-2016/). Tatarstan's best university, KFU, was rated only the 37th in 2016 by the quality of its freshmen (https://www.hse.ru/ege/rating/2016/68395231/gos/?rlist&uplist&vuz-abiturients-budget-order=ge&vuz-abiturients-budget-val=300).

7. Conclusion

The experience of the Republic of Tatarstan's development during the past 25 years poses considerable interest in the context of analysis of possible regional strategies in response to drastic changes in the system of relations between regions and Russian federal government. The recent history of RT provides examples of successful coping with serious external shocks on the basis of elite consensus and elite cohesion around the idea of "protection of regional interests." In the situation of extreme uncertainly of the 1990s the RT's leaders managed to establish the concept of regional identity and organize a dialogue across religious confessions thus reducing the risks of ethnic and religious conflicts. Due to a balanced internal policy and readiness to seek compromises in relations with the federal government, while consistently advocating its own interests, the regional elite succeeded in achieving sociopolitical stability, which, in its turn, became the reason the RT's leaders to gain authority and trust of the top federal officials. An important prerequisite for this success was the continuity in Tatarstan's institutional development, and the key outcome – establishment of control by the regional elite over the main enterprises located in Tatarstan and gaining wide political autonomy.

Considerable strengthening of the federal government's positions after 2000 called for an adjustment in the RT's original developmental strategy. The factors that became a key to successful finding of a new balance in relations with the federal government were the ability of the RT elites to work out compromise solutions and their capability for robust implementation of major projects that met expectations of federal officials. Active participation in various federal initiatives (including the public procurement reform, setting up special economic zones, implementing e-government technologies, the national investment climate rating, etc.) and traditional leadership in their implementation enabled RT to replace a considerable share of fiscal resources lost by the republic in the process of "separation of powers" in early 2000s by alternative sources of federal funding. Implementation of this consistent and constructive strategy by the regional elite resulted in retention of the RT's wider political autonomy and preservation of control over the key assets.

The crisis of 2008-2009 exposed the problems of the RT's existing developmental model. Elaboration of Strategy-2030 should be seen as the evidence of a new regional consensus formed in respect to the necessity of transition to an alternative developmental model and the indication of shifting the regional policy focus toward support for innovation, development of human capital, attraction of foreign investors, and implementation of the best international governance practices.

Generally speaking, our analysis suggests that effective mechanisms of interest reconciliation within the main elite groups and sustainable elite consensus regarding the republican developmental priorities have been an important comparative advantage of Tatarstan during the entire post-Soviet period. However, drastic changes in external conditions in recent years call for further adjustments in the elite consensus. Before 2010, consensus generally was of defensive nature: it boiled down to preservation of existing assets and status. After 2010, a "modernization consensus" started shaping out (in particular, due to the personality of the new RT president and his personal ambitions), but so far this process has been restrained by reluctance of the incumbent elites to share their resources and status with new players.

Meanwhile, after 2014 the regional elites were confronted with additional challenges. The RT's "special status" was eroded considerably, and this contradicted the habitual stereotype of Tatarstan being a "special region." As a result of such recent external shocks, the RT elites have found themselves in the situation where they have to make a choice of sacrifice they are ready to make for the sake of regional development.

We consider the established track record of the RT as evidence of formation of prerequisites for adjustments in the regional developmental strategy in response to tighter budget constraints and

the federal government's attempt to change its relations with the regions. In our opinion, Tatarstan (as well as other stronger regions of the RF with similar characteristics) presently demonstrates the potential for moving towards the developmental state model, as key conditions for such transition are currently in place: the elite consensus, a dynamic and reputable leader, national ambitions, and serious external challenges questioning the habitual existence of traditional elite groups.

At the same time, our analysis shows that implementation of ambitious "catching-up development" plans embedded in the Strategy-2030 comes across essential obstacles. Those include the existing "closed" ownership structure of core assets restricting the opportunities for new players to enter the RT market; lower salaries compared to Russia's average causing the outflow of qualified labor from RT and undermining returns on investment in the education system; limited "social lift" opportunities. When compared against the "standards" of the developmental state model, Tatarstan's institutional capacity is relatively weak in the areas of establishing transparent mechanisms for sanctioning poor business performance, taxation of local elites for additional financing of developmental priorities, and broadening the elite coalition to include new players and reflect additional social interests.

Tatarstan is yet to solve the problem of strengthening its positions in the global competition for attracting and retaining talented human resources and the interregional competition inside Russia for preserving its special relations with the federal government. Although the RF leaders still publicly admit that Tatarstan has impressive accomplishments, in recent years several Russian regions also started consistently demonstrating more effective performance while demanding lesser amounts of federal resources than RT and presenting fewer claims for regional exclusiveness. In our opinion, these circumstances are behind the changes in the Kremlin's policy toward Tatarstan since the end of 2016 – including the RF Central Bank's refusal to bail out Tatfondbank and the decision not to renew the Treaty on Separation of Powers between the RF and RT.

It is worth noting that new economic and political challenges the RT elite has to deal with is not unique Tatartan's problem. They have to be addressed to some or another degree by all societies whose stability depends on the arrangements among elite groups concerning the distribution of control over rent flows. The recent books by D. North et al. about 'limited access orders' (North et al. 2009, North et al. 2013) showed that the exhaustion of the existing rent sources put such regimes at risk of within-the-elites split, destabilization and crises.

The alternative positive scenario (which in practice taken place much more rarely) comes down to collective self-restriction of the elites during the crisis with a simultaneous search for new rent sources and enlarging the composition of the "ruling coalition" by admission of new participants capable of infusing more dynamism to the existing "limited access order." In the logic of North et al, this means expanding opportunities for economic and political activity for new, more efficient players. It also means more complex and sophisticated structure and increased sustainability of the "limited access order" that is based on a wider spectrum of interest groups.

We believe that in the Tatarstan's situation the above theoretical notion would suggest a need for the elites to reconsider the existing structure of economic relations and enhance opportunities for access to both resources and governance for new players – external investors, successful medium businesses, and talented young cadre in government and non-government sectors. An important part of solution to this problem is finding adequate compensations for representatives of the incumbent elites whose interests inevitably would be affected. Historical experience of Southeast Asian countries, particularly China, shows that finding such compensations is much easier when development pace is high, as economic growth increases the overall amount of available rents allowing to give some of it to new players without significant losses for the incumbent actors. Therefore, rapid growth is needed as a means of resolving the antagonism between interests of the incumbent elite and those social groups only trying to acquire a place within the elite.

The tightening of regional budget constraints and enhancement of regional competition over available resources potentially created new opportunities for transformation of regional developmental strategies in Russia, their greater focus on addressing modernization issues in the logic of the developmental state. The highest potential for such transformation exists in the regions characterized by higher resource wealth, stronger management capacity, greater autonomy, regional patriotism, and sustainable consensus concerning long-term development objectives. Practical prospects of such transformation will depend on the readiness of the regional elites for self-constraint, their ability to maintain consensus in conditions of growing pressure from the federal government, and the constructiveness of the federal regional policy.

In practice, however, experience of 2016-17 suggests that the lack of responsible regional policy by the Russia's Federal Government could become the main obstacle (binding constraint) for transformation of regional developmental strategies. To the outsider, inconsistent, even chaotic federal decisions in the realm of regional policy, which regularly antagonize and upset the leading regional elites, might indicate the absence of any meaningful medium-term federal strategy for managing inter-governmental relations. It is replaced by activities of various powerful individual players who have been using various federal institutions they control for pursuing their own private goals. This makes regional elites insecure and unmotivated. In such a situation, if it remains intact for an extended period, any longer-term regional strategies become senseless. Instead it would encourage regional elites to switch back to a more traditional mode of operations – stop their modernization efforts (both policy reform and long-term investment projects) and invest their political capital in improved protection of its wealth (including through additional capital transfer outside of Russia).

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