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**SAMARA AND KRASNODAR: A DIFFERENT ROUTES OF
RUSSIAN ADAPTATION TO POLITICAL DEMOCRACY AND
MARKET ECONOMY (the comparative analysis).**

Introduction

In contemporary Russia, after a quite long period of instability, the main growth points in the country's political and economic transition process are beginning to emerge. They both sectoral and regional in character.

The sectoral growth points are those branches and units of production that show improvement in performance. Such growth points do exist, in spite of the generally difficult situation. Above all there are the energy-related mining and extracting sectors (oil, gas, coal) as a whole, together with some advanced engineering enterprises (especially military) and some other producers.

The geographical growth points, it might be argued, are not only those few regions that at last began to experience strong economic growth in 1997 (or even earlier, in the case of Moscow city) but also a few regions that are specially important in a geopolitical sense and as major actual or potential gateways. It is important for the whole country to ensure that socio-political stability is preserved in such regions. In this connection Krasnodar krai and Samara oblast is a good experience: the region's economic and political role is unique, and has significantly expanded as a result of the changes in Russia's geopolitical position. Samara *oblast'* and Krasnodar *krai* have a few things in common. They also differ in a number of ways that have been important for their economic fortunes in the 1990s.¹

Both are considerably larger than the average Russian administrative region. Both are in European Russia, south of Moscow. Both are populated predominantly by ethnic Russians. Both feature quite prominently in domestic Russian news, and could be said to be in that

sense important regions. Both contain major transport hubs. And both have, of course, like every Russian region, suffered the extreme social and economic dislocation that has accompanied post-communist change in Russia.

By the late 1990s, however, they represented two very different sorts of adaptation to the new circumstances.

Samara oblast' is one of Russia's key regions, both economically and politically. Samara is considered an economically strong region. In various "ratings" of Russian regions, intended to rank their attractiveness to investors, Samara comes at or near the top (for instance, "Reiting..." 1997; Tikhomirova 1997). The region has acquired a reputation for comparatively successful adjustment to the new world. The governor, Konstantin Titov, plays a prominent part in national politics. Until 1997 he was a leading member of the "government party", *Nash dom Rossiya* (Russia is our Home). In 1997, according to the regional statistical office, gross regional product rose by 6% (Goskomstat Samara 1997), making the region one of only a handful that were beginning to show a clear output recovery. The fact that, uniquely among Russian administrative regions, Samara contains two large cities², may have something to do with this comparative success, if our surmise about the role of Jacobs externalities has anything in it.

Along with Nizhny Novgorod oblast', Samara is considered a kind of "capital of the Volga". This image that Samarans have of their region seems to be supported by the high status accorded its leaders on the national political Olympus. For example, when a new government was formed in March 1997, the post of first deputy prime minister in the new team was offered first to Samara governor Konstantin Titov; only after he

turned it down was it offered to Nizhny Novgorod governor Boris Nemtsov. In the same re-shuffle a deputy premiership was also offered to—and accepted by—Samara city mayor Oleg Sysuev. Whatever one makes of these personnel moves, Samara oblast' is generally reckoned to have promising economic prospects and a high degree of political influence. It also appears to be politically stable.

Krasnodar, in contrast, is a region that was in acute difficulties even in the period (late 1996 to early 1998) when the collapse of Russian output showed signs of bottoming out. A heavily agricultural region, its prosperity has been severely damaged by the steep decline since 1991 of the farm sector's terms of trade with the rest of the economy, while its Black Sea resort sector has at the same time been hammered by the polarisation of the Russian income distribution: many Russians can no longer afford holidays, while many richer Russians have taken to holidaying abroad.

As the last paragraph suggests, Krasnodar *krai* also has something unusual about its economic geography: it contains two sharply differentiated sub-regional economies: the rural heartland that has traditionally been Russia's strongest agricultural region, and the coastal strip that contains two substantial ports, Novorossiisk and Tuapse, and the Sochi-Adler resort area. The coastal strip is in many ways more "modern", and certainly more connected with the outside world (including Moscow), and it has in its own way suffered badly in the 1990s, just like the rural Kuban'.³

Several key points about the region's present status and role within Russia are worth listing.

1. As a result of the collapse of the USSR, Krasnodar has become more important as a frontier territory—it is now Russia's southern maritime

gateway. The region's ports—Novorossiisk, Tuapse and Eisk—are now the only Russian ports in the south. They handle more than 40% of the country's sea-borne cargo shipments.⁴ That has substantially increased the region's strategic importance for Russia, and has brought some local problems into the field of vision of the central government: improvements in the local defence system, and therefore the maintenance of the servicemen and their families, and creation of local customs and border guards units, etc.

2. Krasnodar krai has narrowly avoided becoming an area of large-scale political and military turmoil. In 1991 General Dudaev advanced the idea of a Caucasus Union: the Chechen Revolution was regarded by him as the start of a domino effect: the final aim of radical nationalist ideologists was to create a Greater Caucasus state under the leadership of Chechnya. They even proposed an expansion of the Caucasus Mountains Peoples' Confederation to include Krasnodar krai, with the aim of re-creating "Greater Shapsugia". This rethoric might perhaps be seen as no more than a cover for a practical objective of the Chechen leadership: to gain access to the Black Sea.
3. Krasnodar krai received the first wave of refugees from the various civil war "hot spots". Expenditure on accommodation and maintenance for the refugees made significant claims on the regional budget. The region is close to territories that are still prone to ethnic conflicts, like Chechnya and Abkhazia.
4. Krasnodar krai is the largest Russian producer of farm products. Some 130 kinds of crops are produced here. In Kuban' wheat ripens one month earlier than the Russian average, and vegetables two months earlier. The region has a vast network of fruit and vegetable farms.

5. Krasnodar krai is one of the few Russian regions which has a regional law on land use: “On the special regime of land use in Kuban”. It stipulates that land cannot be an object of sale. Some officials from the local administration assert that this permits a ‘moderate’ variant of private land ownership: lifetime inheritable leases. At present the ceiling on individual freehold ownership is two-fifths of a hectare.
6. However, strategically, the most important aspect of the region is its prospective role in Caspian oil development. The international consortium AMOK plans to start offshore oil extraction in the Azerbaijan sector of the Caspian Sea. Different options for taking out the oil have been discussed. So far, there is only one practical option: the Baku—Grozny—Novorossiisk pipeline. This prospect (if the Kremlin makes effective use of it) is potentially of great geopolitical, economic and social importance to Russia.

A key geopolitical objective for Russia in the 21st century will be to get a large part of the economic rents from Caspian oil, developing a profitable network of oil pipe-lines, and ensuring that Volga, Azerbaijani and Kazakh oil is piped to the port of Novorossiisk for export. This is a vitally important matter for Russia, and it is evident that leading Western politicians and the major oil corporations appreciate how much is at stake.⁵ One political aspect of a successful development of the Novorossiisk oil pipe-line option is that it will keep the Caspian states of the CIS heavily dependent on Russia.

From the economic point of view, it is estimated that Moscow will gain US\$3—5 billion a year from oil transit fees if not less than 65% of Azerbaijani and Kazakh oil are transported through Russia.⁶ Development of the Caspian pipeline to Novorossiisk would have wider domestic consequences. In general, it would help to alleviate the economic crisis.

To be a gateway region, as Krasnodar is, in the newly-open Russian economy, should in general be an advantage in adjusting to the post-communist world. But Russia's Black Sea gateway has suffered from three handicaps. The part of the world on which it opens – the Middle East, Turkey and the Balkans – has less gravitational pull in trade and investment than Europe or the Pacific Rim. The North Caucasus macro-region, of which Krasnodar forms a part, has, together with neighbouring Georgia, been a battle-zone in the 1990s, even though there has been no fighting in Krasnodar itself. And much of the development of Novorossiisk as an oil terminal is vulnerable to the uncertainties of the new Great Game that is being played around Caspian and Central Asian oil.

In the rest of this paper, I first describe the two regions' inherited economic structures, and then make some conjectures as to how their subsequent development might *a priori* have differed. The fourth section summarises their economic status in 1995-98. Then there is a brief account of leading actors and policies, and their bearing on the outcomes. We end with some tentative conclusions about the factors that seem likely to have generated the two rather different outcomes.

Inherited Economic Structure.

Soviet-era specialisation differed markedly between the two regions.

Krasnodar was noted for farm output, with crops ripening earlier than in most of Russia. Within Soviet-era Russia it was a major producer of winter wheat, maize, sugar-beet, sunflower-seeds, and even (on a smaller scale) rice and tea. The federally-designated spa (*kurort*) zones were also nationally important, covering about a quarter of the territory of

the *krai*. In 1990 Sochi alone received 2,130,000 visitors, who stayed for an average of almost 16 days (Tatarinov 1998).

Samara housed the Soviet Union's biggest car-making complex, the VAZ works at Tol'yatti, and one of the country's largest defence complexes, based in Samara city and with a strong aerospace specialisation. Most of the defence complex was installed when plants were moved away from central European Russia in the face of the German advance in 1941. Thus a huge industrial district was tacked on to the old city of Samara (named Kuibyshevsk between 1935 and 1991), and it was until the collapse of communism a closed city.

The employment data for 1990, showing regional workforce allocation between nine sectors, show the most obvious differences between the economic structures of Samara and Krasnodar at the end of the communist era. The farm sector occupied about a fifth of the Kuban's workforce and less than a tenth of Samara's; the Russian average came between the two. The employment roles of the two regions' industrial sectors showed the converse picture: 36.4% in Samara, against 23.1% in Krasnodar, with the two figures again bracketing the Russian average (*Rossiiskie regiony*, 1997, vol. 1: 430-1).

Across the other seven sectors, structural differences were proportionally less striking, except that Krasnodar's employment share in "health services, physical education and social welfare" was well above the national average. This reflects (though it does not fully capture), the importance of spas and tourism in the coastal strip. Under the Soviet spa system, much organised holiday-making, typically at sanatoria controlled by particular workplaces, was treated officially as part of medical provision. (See Tatarinov 1998 on the data definitions, and *Regiony Rossii*, [1997], 1: 199.) Both regions had a slightly larger-than-Russian-

average share of employment in transport and communications, reflecting the fact that both contain substantial transport hubs – chiefly sea-ports, resorts and connecting services in the case of Krasnodar, and major junctions of rail, air, river, road and pipeline networks in the case of Samara.

The less developed character of the Kuban' economy is apparent also from the branch-structure of gross output in the industrial sector at the end of the communist period. In 1991, at the then-established prices, the engineering branches occupied, by Soviet standards, a low share of Krasnodar's industrial output: 12.2% against a Russian average of 23.9%, whereas Samara's engineering share was well above the national average at 42.3%. Krasnodar was similarly light on the energy branches, metals and chemicals – in the last of which the branch-share in Samara was above the national average. In so-called "light" industry (textiles, clothing and footwear), Krasnodar was close to the Russian average and Samara far below. The food-processing industry accounted for almost half of Krasnodar's gross industrial output, but only just over a sixth of Samara's, against a Russian average of 20.4%. The only other branch that loomed comparatively large (within a comparatively small industrial sector) in the Kuban' was building materials – an industry that was widely dispersed in Russia, in what were by Soviet standards relatively small units. (*Pokazateli...*, 1992: 91-4).

Neither region is particularly rich in natural resources, by Russia's high standards, apart from Krasnodar's fertile soil and sunny beaches. Both have hydrocarbon deposits, and some oil and gas are extracted in Samara, but neither region is important for oil, gas or coal.

To call the Samara region of 1990-91 more developed than Krasnodar is to beg a number of questions. Samara housed a number of

activities that were in Soviet terms at the leading edge of technology; but Soviet terms were peculiar. The VAZ car-making complex was held up as an example of advanced organisation for the whole of the domestic civilian engineering sector, but the technologies were those of Fiat and major Fiat suppliers of the late 1960s, and had not been significantly upgraded (Hanson 1981). The aerospace plants, design bureaux and research and training centres in Samara city were no doubt more impressive in a purely technological sense; but there was no guarantee that they could make aircraft and rockets, or major sub-systems for them, that were internationally competitive in cost and quality.

Links between initial conditions and subsequent development

In general, if the Russian economy was full of value-subtracting manufacture, it was not obvious that a more “advanced” region was better placed to adapt to international competition than a more rural and agricultural region. If the development of an open and competitive Russian economy was destined to lead to the closure of many, perhaps most, of the giant Soviet-era manufacturing enterprises, and their replacement by a crop of new firms started from scratch, then a region with a higher ratio of green- to brown-field sites might in fact have an advantage: it would have less of a rust-belt and less of the social stresses and strains of adjustment associated with steep industrial decline. If the skills of the Samara workforce proved in fact to be mainly specific to the dinosaur enterprises in which (it might be assumed) they had worked, then training in skills appropriate to the new era might be as easily carried out in Krasnodar.

In addition, the dependence of so much activity in Samara on defence production would make the region especially vulnerable to the massive cut in defence hardware procurement imposed by the Gaidar government in 1992. In principle, the demands of civil aviation and the business of commercial space satellites might quite readily be substituted for military end-use, but there was no guarantee that the region's inherited capacities and skills in aerospace would prove competitive when surviving and prospering depended on criteria like cost, product performance, reliability and delivery-times.

The *a priori* arguments in favour of the more "Soviet-advanced" region adapting better to the post-Soviet world were of a quite different character.

Human capital was stronger in Samara: higher average educational levels suggest more transferable skills. In addition, the scope for re-combining labour and capital in new activities could be greater in large conurbations where "Jacobs externalities" are likely to be substantial, and the largest city in the Kuban', Krasnodar city, is somewhat smaller than Samara's second city, Tol'yatti.

City-size, together with location in transport and communication networks, also suggested that Samara city had the potential to become a major regional hub for the generally strong Volga region, whereas Krasnodar's gateway potential might be insufficient for development as a regional hub for the reasons already given.

At the same time, the shock of huge defence cuts, forcing many educated and skilled people to look for new ways of making a living, would be a factor pushing adjustment in Samara, but not having much of an effect in Krasnodar. And there is an element of political economy involved as well: the mainly rural Kuban' had an electorate which, on the

evidence of Russian elections from 1989, was likely to be comparatively traditionalist, tending to vote for Communists and Agrarians, and therefore installing regional and local assemblies and (when voting for regional executives was allowed) governments that would resist structural change.

Finally, if existing contact with the outside world was likely to be helpful, Samara had an advantage there, as well. The region was a major exporter (by Russian standards), most notably of cars and of oil products from local refineries. With the domestic economy collapsing, any region that derived significant revenues from foreign markets had a built-in advantage. If human capital, agglomeration and hub effects were in fact significant, they would favour a concentration of foreign direct investment in the region, in addition.

These conjectures are all about the effects on post-communist economic adaptation of a region's initial starting-point. But other things might not be equal. There are four other factors that could intervene to alter the post-communist economic trajectory of either of these regions: federal policies, regional policies, changes on world markets, and changes in Russian institutions connecting regional economies.

In 1992-98 federal economic policies included price, trade and currency liberalisation, privatisation and (from late 1994) monetary stringency; they stopped short of a systematic imposition of hard budget constraints on existing enterprises. Given those general policies, the federal authorities might have affected the fortunes of Samara or Krasnodar in a number of ways: in particular, by protecting the farm sector more strongly from import competition, by reviving military hardware orders, or by transferring resources to very large investment projects in one or the other region. In fact, Moscow did none of those things within the period under review. There was supposed to be a

special strategic plan for the development of Krasnodar *krai* but the funds never materialised (Magomedov 1998). The federal government's efforts at redistributing resources regionally were small and got smaller.

Regional policies could have been, and in fact were, different in the degree of liberalisation espoused. Konstantin Titov presided in Samara over broadly reformist policies. Successive leaders in the Kuban' did not, and the current leadership is rather noisily traditionalist (see below). These differences between the two regions may have been mitigated by sub-regional policy deviations from the gubernatorial line in Krasnodar -- both Krasnodar city and Sochi have more reform-oriented leaders -- but in general there could be differences in regional implementation of reform. Those differences in turn might, as we have suggested above, be themselves strongly influenced by the initial economic structure of the region. But it seems reasonable to credit regional elites with some modicum of free will.

Changes on international markets can have an obvious influence. Rises and falls in real farm or energy prices on world markets affect different Russian regions differently. Similarly, a collapse in investors' confidence in emerging markets, such as occurred in 1997-98, will be more damaging to a region that has been attracting significant foreign direct investment or credits than to one that has not.

Finally, the connections between Russian regions can be affected by institutional change in the country at large. If capital markets initially operate highly imperfectly between regions, regional savings and investment rates will correspond more closely than they might with a more developed capital market, if savings and investment potential do not happen to be closely matched across regions. Similarly with foreign currency markets: if they function poorly across regional boundaries

overseas spending and earning are likely to match more closely, region by region, than they will do as currency markets develop. An improvement of this sort may well occurred in 1994-95.

What, then, were the outcomes in the two regions by the late 1990s? The next section provides a broad summary.

Adjustment in the 1990s

Table 1 is an assembly of a few indicators of the state of the two regions' economies in the mid-to-late 1990s. Unfortunately, for most of these indicators (gross regional product or real personal incomes, for example) a direct comparison with the situation at the end of the communist period in 1989-91 is not possible.

Table 1. Samara and Krasnodar regions: selected economic indicators in 1995-97

(units as indicated for each row)

<u>indicator</u>	<u>Samara</u>	<u>Krasnodar</u>	<u>Russia</u>
per capita GRP, 1995, RF = 1 ^a	1.24	0.56	1.00
change in ind gross output 1990-7 (%)	-38	-61	-51
% empl. in small pte. firms, 6/97 ^b	3.5	4.4	
4.1			
per cap. foreign I stock, end-96, RF = 1 ^c	0.51	0.19	
1.00			
per cap. forex inflow, 1995 (\$) ^d	442	98	437
per cap. real y 1997, RF = 1 ^e	1.24		1.01
1.00			
% loss-making ents in ind, 1-11/97	59.3	45.7	
47.6			

General note: The most recent available data are used. All are from Russian official (Goskomstat) sources. Month and year are indicated as (say) 6/97.

Notes: a. GRP denotes gross regional product. The figure for Russia is for the sum of GRPs, which is less than GDP since some of GDP is not regionally allocated.

b. Percentage of recorded employment that is in small private firms.

- c. Foreign I denotes the cumulative stock of foreign direct investment, which shows a high concentration in Moscow.
- d. forex inflow is *valyutnye postupleniya*, which reportedly means flows into bank accounts in a region, whether from export receipts or other sources such as foreign credits. Export earnings retained abroad would be excluded.
- e. real y denotes per capita disposable household money income divided by the local cost of the subsistence minimum and expressed as a multiple of the Russian average.

Sources: row 1: derived from *Regiony Rossii*, vol. 1, Moscow, 1997

row 2: derived from *ibid.* vol. 2, *Sotsial'no-ekonomicheskoe polozhenie Rossii*, 1997: xii: 313-4.

row 3: Bylov and Sutherland, 1998.

row 4:

row 5: derived from *Rossiiskii statisticheskii ezhegodnik 1996*, 936-7

row 6: derived from *Sotsial'no-ekonomicheskoe... 1997*: xii: 393-4 & 403-4.

row 7: derived from *Sotsial'no-ekonomicheskoe... 1997*:xii: 383-4.

These indicators support for the most part the received opinion about these two regions. In the mid-to-late 1990s, Samara appeared in the official record as having labour productivity levels well above the Russian average while Krasnodar appears well below.⁷ Industrial output, though admittedly of less importance to the economy in Krasnodar than in Samara, had fallen far more precipitately in the former. Foreign direct

investment (FDI) had favoured Samara over Kaliningrad (and more than the Russian average if the Moscow FDI and population figures are taken out). A similar picture, including the comparison with a Moscow-free Russia, applies to foreign-exchange inflows. Personal real income levels fit the broad picture: above the Russian average in Samara and below it in Krasnodar -- though the omission of subsistence food production means that the difference in real incomes is exaggerated. To all this one might add the fiscal dimension: for what it is worth, in a land of destitute governments, the Samara regional budget was one of the few not supported by transfers from the federal budget (through 1997).

Two indicators appear to be the odd ones out: Samara had a larger proportion of loss-making enterprises, and a lower proportion of employment in small private firms.

The first of these observations is in one respect not surprising: the region contains a comparatively large share of defence plants, most of them in a very poor state (see below). On the other hand, the comparatively modest fall in industrial output might suggest an industrial situation that was marginally healthier (or rather, less unhealthy) than the national average, rather than the reverse.

The second observation is at first sight odd in view of the received view of Samara as a region of comparatively dynamic adjustment. In fact, the region did have a density of small, private firms that was higher than that of Krasnodar or the Russian average (that is to say, it had a smaller number of residents per firm). It seems that lower employment per small, private firm offset this.

That, then, is how late 1990s outcomes, superficially, compare. In the next section, we look at the differences in the processes behind these outcomes.

Policies and Adaptation in Krasnodar and Samara

In Krasnodar the regional leadership has been traditionalist and nationalist in character. The krai has seen four changes of leadership since 1991. The territory's first governor, Vasily Dyakonov, was an enthusiastic reformer and romantic democrat but, like many of those who rose to positions of power in Russia in the early days of independence, he proved an incompetent administrator and managed to stay in office only one year.

Dyakonov's successor, Nikolai Yegorov, was a leader of the opposite sort—neither dynamic nor innovative. Yegorov was nonetheless the first provincial leader to make a career jump to Moscow. In the spring of 1994, Yegorov was appointed minister of nationalities and regional policy. Later, he became President Yeltsin's chief of apparatus. In that capacity, he was one of the more influential people at the centre of federal political life who pushed for the disastrous invasion of Chechnya.

Yegorov's departure left a vacuum. His successor, Yevgeny Kharitonov, had no ties to local political and economic elites and was seen as a political outsider. Like his predecessor, he failed to come up with a single realistic or innovative strategy for the region. Eventually, this massive lack of leadership led to a disaster just as massive.

The year 1996 brought hope of change in local politics, chiefly because Yegorov was actively lobbying for the Kuban's interests in Moscow. Thanks to his efforts, the "Targetted Federal Program for the Socio-Economic Development of Krasnodar Krai in 1996-2000" was drafted and approved. Unfortunately for the territory, adoption of this program coincides with a severe financial crisis in Russia. The program

turned out to be no more than an empty declaration on Moscow's part, and the promised investment never materialized.

Yegorov returned to Krasnodar Krai following Yeltsin's victory in the 1996 presidential elections. The Kuban was one of the regions in which voters refused to endorse Yeltsin's reelection. Booted out of his Kremlin post to make way for Anatoly Chubais, Yegorov had little choice but to enter the race for governor of the Kuban in December 1996.

There were two main contenders: Yegorov as incumbent governor and Nikolai Kondratenko as the opposition candidate. Russia's worsening financial crisis and the steep build-up of wage arrears plaguing Russia then made for a political climate unfavorable for Yegorov. Moreover, Yegorov fell into the electoral trap Yeltsin created for many incumbent governors when, during the presidential campaign, he offered voters heaven and earth and then defaulted on all his promises.

Kondratenko, by contrast, enjoyed great personal popularity. He was backed by at that time a very organized force claiming over 60,000 active members. The local Cossacks, who are both nationalist and leftist in orientation, also gave Kondratenko strong support. The fact that many voters identified Yegorov with the center worked against him. Kondratenko's supporters exploited this image in their propaganda. A typical election leaflet read:

“COUNTRYMEN! Everyone knows you can only get a one-way ticket to the Kremlin! There's no way back from Moscow! Yegorov has houses, apartments and dachas there. And his daughter lives in Cyprus! Let him go to Cyprus, too! We don't need him here!”⁸

Kondratenko won a convincing victory with 82 percent of the vote. Assuming office in January 1997, Kondratenko promptly sacked all the members of Yegorov's government. He gave as his reason the fact

that they had belonged to a team that had, directly or indirectly, supported the “criminal policy which led to the pillaging of the Kuban”. Kondratenko has created an image of himself which unites two functions: putting the region in order (the function of “master and builder”) and protecting the population (the function of “hero and defender”). He and his entourage speak constantly about issues of concern to the population: payment of wages, benefits and pensions”, “protection for local producers” and “the interests of the Kuban”. Economic problems are dramatized as a fight against evil and to punish the guilty. Local people see him as one of their own, who speaks the regional dialect and uses local aphorisms. The closest analogues to this patriarchal type of leadership is the leadership style of Ulyanovsk Governor Yuri Goryachev and Belarusian President Alexander Lukashenko. Kondratenko is called “batka” (father) in the Kuban, just as Lukashenko is in Belarus.

Kondratenko’s “anti-crisis program” asserts: “The economic reforms conducted in Russia and in the Kuban between 1991 and 1996 were nothing other than a mechanism for destroying and strangling the domestic economy”. This diagnosis reflects Kondratenko’s conviction that “Russian government policy is a consistent policy of a genocide against the citizens of Russia (above all, against ethnic Russians), carried out for the benefit, and under the direct supervision, of transnational imperialistic forces”.⁹

Kondratenko has earned the opprobrium of human rights organizations with a series of virulently racist and anti-Semitic remarks. His pronouncements have been extreme to the point of dottiness. A krai charter adopted since his election declares Krasnodar to be the “historical territory of the Kuban Cossacks” and “place of residence for the (ethnic) Russian people.”

Kondratenko is at pains to rule out any continuity between his policy and that of his predecessors. This has been expressed in his personnel purges and in the formation of the krai's new leadership. Kondratenko's new team is formed from the ranks of former Communist Party economic officials who lost their jobs in the early nineties. Many members of the new krai government were nominated by the Russian Communist Party and the Otechestvo movement. Lacking experience of working under the conditions of market reforms, they have fallen back on the directive-command style of leadership.

Thus, the Kuban elite (in contrast to Samara region) has come full circle and the group of people who ran the territory in 1991 have returned to power. These "new old Russians" have replaced the "new Russians", who failed to take root in the territory. Elsewhere in Russia, local elites had dug themselves in by the time gubernatorial elections were held. The Cuban was an exception. There, the elections were not a sign that the process of consolidation was complete, but marked the beginning of a new stage of consolidation. They suggest that the authority of the Communist Party and the Otechestvo society will persist and increase in the krai. The regional branches of Russia's various democratic parties, movements and blocs are so small that they are unable to exert any real influence on the situation in the krai.

My and professor Philip Hanson interviews with members of the political and business elite in the *krai* in 1996-98 showed, however, that the region's political office-holders were far from uniformly traditionalist. Three groupings stand out: an anti-reform and xenophobic cluster around the regional leadership; moderate or reform-minded people in the city administrations of Krasnodar city and Sochi; and more moderate or

reform-minded people representing the coastal strip (for example, in the federal Duma).¹⁰

The anti-reform character of the regional government seems characteristic of predominantly rural Russian regions. Attitudes towards land privatisation were demonstrated early on. In 1994 there was a campaign to take land back from the new private farmers (*fermery*). Reportedly, some 10,000 hectares were taken back into the collective farms through legal actions in which the courts received instructions, apparently from the regional leadership to “save our collective farms” (*Argumenty i fakty*, 1994: 16: 5. The region now has its own special land law, specifying that land cannot be bought and sold, though lifetime, inheritable private leases are allowed. Private freehold ownership is restricted to a maximum of two-fifths of a hectare. (Magomedov 1998). This is contrary to the Russian constitution – as if anybody cared. As in other Russian regions, privatisation and liberalisation nonetheless went ahead in the early 1990s at federal instigation, at any rate in most sectors of the economy. That did not however prevent a highly interventionist, *étatiste* approach continuing to prevail in the region’s economic policies – as indeed it did in the great majority of Russian regions.

At the same time, a Soviet-style patron-client relationship dominated economic transactions with the centre. The report of a meeting in February 1996 between the then governor, Evgenii Kharitonov, and the then Prime Minister Viktor Chernomyrdin has a completely Soviet character: the occasion for the meeting was that Chernomyrdin was holidaying in the region (a standard Soviet opportunity for a regional satrap to lobby the all-powerful centre); the main items of business, according to the report, were all requests from the region: for a 40-km gas pipeline to be laid to Tuapse, for more funding of the spring sowing

campaign, and for alleged deficiencies in the buying of Kuban' farm produce by the Ministry of Agriculture to be rectified (*Vol'naya Kuban'*, 21.ii.96: 1). Not long after, a power-sharing agreement between the *krai* and the federal government was signed, and – closely connected with this -- a federal programme of socio-economic development for Krasnodar in 1996-2000 was unveiled. Magomedov (1998) has shown how this grandiose plan came to naught. Little or none of the planned investment, which was supposed to be federally-funded, has taken place.

In a gubernatorial decree of June 1997, Kondratenko launched a remarkable attack on past privatisation in the region and called for a re-consideration of a number of cases.¹¹ The examples cited in the decree may or may not have included instances of malfeasance. The messy state of Russian commercial law, law enforcement and business ethics make the identification of wrongdoing in business transactions highly problematic. What several of them exemplified was restructuring: steep reductions in the workforce, acquisition by “commercial structures” from Moscow and, even worse, from abroad, the conversion of the bus station in Sochi into a trading centre (a thriving trading area in early 1998), and so on. All of these developments were cited as self-evidently unwholesome. One factory was described as having been sold at an “illegally low price”.

The measures to be taken included a review of past privatisations (of which 6,553 had been completed by the beginning of April), the unravelling of sales deemed illegal, the creation of a regional government commission to manage blocks of equity still in the hands of the *krai*, and the transfer of federal state shares in enterprises “socially significant” for the region into regional (state) hands.

The tone of the decree was one of hostility, not to privatisation in the abstract, but to what might be called the “really existing privatisation”,

and also to ownership by Moscow banks and ownership by foreigners. The underlying concern that was expressed was less easy to lampoon: output, employment and tax revenue in the region had fallen drastically, and the governor evidently wished to be seen to be doing something energetic about it – and to be finding scapegoats.

One influence on the choice of scapegoats in Kuban' politics is the influx of migrants from other CIS countries. Often these are forced migrants fleeing from wars in the Transcaucasus. In this respect Krasnodar is one of the ethnically Russian regions that is a kind of front-line state. In 1994 the regional government required visas for such migrants to enter the Kuban' and a daily charge of 20% of the monthly minimum wage was supposed to be levied on foreign visitors doing business in the *krai* (*Izvestiya*, 4.v.94: 1). By 1997 (and perhaps earlier) a Krasnodar residence permit (*propiska*) was required for employment or the receipt of medical care in the *krai* (*Izvestiya*, 21.viii.97: 5).

No influx of migrants justifies the bizarre rhetoric employed by Governor Kondratenko. It probably helps, however, to account for it. In early August, 1997, he told a meeting of Kuban' dignitaries that poisoned food was being sent to the region. The poisons were produced in the USA and the organisation of the food supplies was undertaken by “world Zionism”.¹² According to the account in *Izvestiya*, the President's representative had been reporting such outbursts to Moscow, but no action had been taken to curb what *Izvestiya* described as “swastika politics” (*Izvestiya*, 21.viii.97: 5).

Interviews in the region in 1996-98, with members of the political and business elites, suggested that others high up in the regional administration had something of the same blend of populist, statist and nationalist views. Here are some excerpts.

“Privatisation has divided people...[and] destroyed workers’ morale. It has led to foreign control.” (Cites Credit Suisse First Boston at the Novolipetsk Metallurgical Combine and “a Georgian citizen” [presumably Kakha Bendukidze, who is ethnically Georgian but may well be a Russian citizen, for what it is worth] at Uralmashzavod.) (Member of *krai* government and advisor to the Governor, July 1997.)

“Privatisation has been part of a strategy for weakening Russia.” (A deputy governor, July 1997.)

“Privatisation had to happen. ...But privatisation *à la* Chubais has little to recommend it. Its biggest defect is that it hasn’t led to a mass layer of owners.” [All the enterprise survey evidence shows that it has, in the form of employees, typically holding around 40% of equity in privatised concerns. But they are passive.] “It has just produced rip-off artists...” (An inspector in the *krai*’s administrative control and analysis division. July 1997.)

Attitudes towards the federal government (then headed by Viktor Chernomyrdin and containing both Boris Nemtsov and Anatolii Chubais as deputy prime ministers) are what might be expected from these sentiments. The first of the interviewees cited above characterised Kondratenko’s position vis-à-vis the federal authorities as follows: “His position is a normal, patriotic one: he criticises the centre.” Seen from another angle, this is a source of trouble for the region. A liberal advisor to a Nash Dom Rossiya Duma deputy from the coastal region, when

asked what problems there were between the region and the centre, replied (July 1997): “There aren’t any, but the new governor will create them.”

Asked what the main subject of negotiation between the region and the centre was, the deputy governor, in the interview quoted above, replied: “Money, money, money. ...Why have the Federal Fund for Assistance to the Regions? If we were allowed to keep what we earned, we wouldn’t need transfers.” In the same vein, a divisional head in the *krai* administration said, “The only point of our contacts with Moscow is to get our money back. Moscow gives us only problems.” (July 1997.)

The same complaint, it must be said, is levelled at the regional administration by the administration of Krasnodar city (Sochi is in a different situation; as a federal spa area, it has direct funding from the federal budget). Valerii Samoilenko, the mayor of Krasnodar, speaking at the March 1997 conference of Cities of the South of Russia, described the flow to the *krai* budget of revenue raised in the city as “robbery” (interview with Samoilenko’s press secretary, July 1997).

The same informant differed strikingly, however, from interviewees in the regional administration in his assessment of the impact of foreign investment. He cited “...the example of the former Krasnodar tobacco works, which has changed its name and is now foreign-owned. ...this [foreign investment] has allowed the workers there to get a very decent wage, the works pensioners to get a good pension and the city budget to get a solid monthly [tax] revenue amounting to 5-7% of the total tax collection in the city. If we had five or six such enterprises, we could solve all our problems.” In contrast, the gubernatorial advisor and the deputy governor, in the interviews cited above, spoke suspiciously of foreign investment, implying that economic activity was a zero-sum game:

if foreign investors benefitted, it was necessarily at the expense of Russians.

The local level of government, closer to the ground than the regional authorities, may simply have less opportunity to indulge in evidence-free editorialising – in Russia in general. Certainly the same favourable attitude to foreign investment was expressed in separate interviews by two deputy mayors of Sochi (March 1998).

Whether the levels of government differ much in their propensity to micro-manage economic activity on their territory, is more doubtful. The director of a company marketing pharmaceuticals and perfumery in Krasnodar city had this to say (July 1997).

We have long avoided contacts with the local administration... We don't depend on them. We lease premises and transport from private sources. We did some sponsoring of children's institutions. We helped local sport organisations. Then the administration noticed us. They wrote and asked us to help fund the Invalid Society, help the poor, etc. They started wanting to know about our labour safety arrangements. The tax office and the tax police started showing an interest in us. But lately they've given up and left us in peace because we've shown we have everything in order. (July 1997.)

The quasi-Soviet tone of political authorities dealing with business on their patch is epitomised by this observation by the mayor of Krasnodar, interviewed in July 1997: "Soon I am going to have to induce our bankers to make an interest-free loan of 50 billion roubles to the city.

And if one of them isn't prepared to meet the city half-way, we're not going to meet him half-way. That I can promise."

At the same time, members of the business community had some confidence (in early 1998) that the logic of economic change would itself affect the politicians. "Even governors who start off by opposing change, learn from experience. Kondratenko has been changing over the past year." (Director of the Sochi branch of a Moscow-based bank, March 1998.)

Our suspicion is that most of the ingredients in this set of attitudes in various regional elites in Krasnodar would be replicated across Russia, in regions both "retrograde" and "progressive". What seems to be distinctive about Krasnodar is that the regional government has a clear and strong antipathy to change and foreign investment in general, rather than a pragmatic, opportunistic approach that would be more open to new developments, even if it was accompanied by the same reflex tendency to intervene at the drop of a hat.

Criticism of the region's leadership must, however, be kept in perspective. The region certainly has problems, but they cannot reasonably be attributed to the traditionalist attitudes of its leadership. As the previous section indicated, the Kuban' has very large structural adjustment problems because of the kind of region it is. A speech in June 1997 by the chairman of the *krai* government, V.A. Mel'nikov, rehearsed all the symptoms: falling output (continuing to fall in 1997, unlike Samara), dwindling budgetary revenue, dwindling support from Moscow, growing payment arrears, a growing share of loss-making enterprises, and new small firms which were contributing little to the budget (*Kuban' segodnya*, 27.vi.97: 2). In the end, however, the deficit in the regional budget in 1997

was, as a percentage of expenditure, well below the average for Russian regions (1.5, against 7.2%; Lavrov 1998).

Foreign investment was not being kept out, either. Apart from the cigarette factory referred to earlier, there have been a number of quite large developments depending on foreign investment: a large new hotel in Sochi; a planned Hyundai assembly plant,¹³ and the planned construction of a new oil terminal at Novorossiisk, extending the port's capacity from 15 to 30 mn tons per annum, by a consortium including the French company Bouygues, and finance from the Banque Nationale de Paris (Interfax, 3.viii.98).

The likelihood is, however, that recently-announced foreign investment projects will have been put on hold by the 1998 Russian financial crisis. Here again, the region will have fallen foul of events at the national and international levels, beyond the control of regional policy-makers.

In Samara Konstantin Titov has headed the regional administration from August 1991 to the time of writing. He has been seen throughout as a Yeltsin loyalist and moderate reformer. In the gubernational elections of 1 December 1996 he won comfortably, with 60% of the vote. His main opponent, representing the communist, obtained only 30% (*Jamestown Foundation Monitor* 2.xii.96).

Titov's career and pronouncements suggest a canny, centrist politician. In 1991 he left the Communist Party (he had been a member of the Kuibyshevsk city party committee) for the short-lived Movement for Democratic Reforms. In 1994-95 he was on the Council of Russia's Democratic Choice, whence he moved to become deputy chairman of the "party of power", NDR (Romanov and Tartakovskaya 1998). He has described himself as a disciple of Keynes (he trained in engineering, but

worked in economic institutes in the 1970s and 1980s). One of his aims, he has said, is to make Samara a “Chicago on the Volga” (IEWS *Russian Regional Report* 25.ix.97). He has not used nationalist rhetoric or made sweeping criticisms of Russian privatisation; he publicly supported Chubais at a tricky time in mid-1997 (interview on NTV, 10.vi.97).

Titov has developed a reputation for running a region that is stable. His team of deputy governors and department heads, many recruited from local research institutes or universities, has itself been comparatively stable in composition (Romanov and Tartakovskaya 1998).

Certainly, several of the measures taken in the region have been of a pro-market kind. Regional legislation is said to support private buying and selling of land. The region was slow to introduce the institution of authorised or plenipotentiary (*upolnomochennye*) banks acting for the administration – a common vehicle for embezzlement of public funds (Hanson 1997). The arrangement was then abolished – ahead of most Russian practice – in early 1998 (*Delo* [Samara], 11.iii.98). Pressure from Petrochemical producers to subsidise them, by intervening to cut electricity charges, has been resisted by the administration (*Samarskoe obozrenie* 3.vi.96: 6, 10).

At the same time, Titov has been actively involved in detailed ways in the regional economy, in a fashion that is reminiscent of Russian/Soviet traditional practice, not of free-market ideology. He is, or at any rate was in 1997, on the boards of the car firm AvtoVAZ, the aerospace company Aviakor and the oil company Yukos (part of the Menatep group) (Romanov and Tartakovskaya 1998). For a regional political leader to hold such posts, with firms that are major local employers, would be seen in other countries, quite rightly, as producing a conflict of interests. As governor, he has pressed for AvtoVAZ to continue to keep Yukos as its

main supplier of oil products; he claims to have helped protect AvtoVAZ, which is a large tax debtor. And he has sought to have the tax debt (in the region in general) converted to shares held by the regional administration – a form of renationalisation (OMRI *Russian Regional Report* 20.iii.97). The deals that formed part of the region's 1 August 1997 power-sharing agreement with Moscow indicated the same interest in share ownership by the region (IEWS *Russian Regional Report* 6.viii.97).

In a similar, traditionalist vein, Titov criticised the Chernomyrdin government in March 1997 for not doing more to help producers (*ibid.*). At that time he called on the NDR to support Lebed' rather than Chernomyrdin. (Later, in the autumn of 1998, he initially supported Chernomyrdin's re-appointment as Prime Minister, and then switched to backing either Luzhkov or Stroevev [RFE/RL *Newsline* 7.ix.98].) Reports of a meeting, summoned by Titov, of district heads of administration, to discuss the spring sowing plans for 1998, reveal a thoroughly traditional, pure Soviet arrangement (*Delo*, 7.iv.98).

Charges of cronyism and corruption are levelled at all Russian politicians, usually with good reason. Whether Titov is unusual in this respect is hard to say. His 24-year-old son Aleksei's appointment as President of the region's third largest bank, Gazbank, in May 1998 (*Russkii telegraf* 28.v.98; an appointment made by the bank, not the governor) seems little different from (say) export marketing by the son of a British Prime Minister while the latter was in office.

One element in Titov's economic-policy activities has been neutral with respect to market reform: standing up for his region against the federal government. As leader of one of the 7-8 regions that receive no transfers from the centre (the so-called "donor regions"), as a leading member of NDR and as chairman of the Federation Council's budget and

finance committee, Titov is well-placed to do this. With the leaders of other donor regions, he has called for those regions to retain, not about 50% but 60-65% of the tax revenue collected on their territories (*Moscow Times* 6-12.xi.96:3). A year or so later he was criticising the “tough” draft 1998 budget for harming the regions (*RFE/RL Newslines* 17.xii.97). His administration also arranged for a number of their specialists to be seconded to work in federal ministries (*Samarskoe obozrenie* 4.xi.96:5), presumably as a fifth column that would press the region’s interests.

Against this mixed policy background, the development of market institutions in Samara, along with the decline of established state and privatised large enterprises, look like adaptations that owe rather little to local policy. The brief summary of these adjustments that follows is drawn mostly from Hanson 1997 and Romanov and Tartakovskaya 1998, where more detail is provided.

The financial services sector has developed strongly in Samara. In 1994 the city of Samara contained one of only eight foreign exchange bourses in the country. When on-line securities trading on the Russian Trading System was extended beyond Moscow in 1996, Samara was again one of eight trading centres on the network. A few new share issues began to be made in the region in 1996-97, though only a handful of locally-based companies (including Samaraenergo and Volgotanker) had liquid markets in their shares. Moscow-based banks established a strong presence in the region relatively early, but some locally-based banks survived and did relatively well up to 1998; the largest of them, Rosestbank, was among those Russian banks with foreign-currency debt – service obligations whose payments abroad were halted by the Kirienko government’s “moratorium,” imposed on 17 August 1998.

The regions saw the development of a number of new businesses that grew to substantial size during the 1990s: Intensivayi Korm, Zakhar and Dovgan, amongst others (details in Hanson 1997). Foreign trade and inward foreign investment have been by Russian standards substantial. In early 1998 the regional electricity company, Samaraenergo, was 22% foreign owned, and was planning an American Depository Receipt (ADR) issue that would have raised that share (*Russkii telegraf* 3.iii.98). The earlier purchase of the leading confectionery company, Rossiya, by Nestlé, appears to have been a successful venture, at least into 1998.

At the same time, AvtoVAZ, the giant car works in Tolyatti and a major regional exporter, has been making losses (though approximately maintaining production), while the cluster of large defence plants and research organisations in Samara city have been declining in a fashion familiar in many Russian regions. (For some detail on the fates of several of them, including the plane-maker Aviakor, into early 1997, see Hanson 1997.)

The pattern of change – decline of most of the large, Soviet-era enterprises and the rise of new financial and trading businesses, alongside successful adjustment by some older production units such as the Rossiya chocolate factory – is not in itself distinctively Samaran. What seems specific to Samara and a handful of other regions is that the scale of the more successful adaptation has been (until the crisis of 1998) relatively large. The administration appears at any rate not to have blocked this sort of development. The region's initial conditions seem most important in producing this outcome. They include its housing two large cities, with the potential for re-combining production inputs that the notion of Jacobs externalities indicates should be easier in large conurbations; and the initial possession of substantial exporting

capabilities. The large share of highly trained people displaced from a collapsing defence sector seems to have been a key ingredient..

Conclusions

Two main conclusions come out of these narratives.

First, the evidence of the case-studies supports the conjecture that a comparatively advanced region with large cities would on balance adapt more successfully than a rural region. In other words, the beneficial agglomeration effects connected (probably) to Jacobs externalities seem in these two regions to have outweighed the disadvantages of rust-belt effects arising from the presence of a large amount of moribund heavy industry.

Second, the influence of regional policy-makers seems to be limited. Our impression – and it can only be an impression – is that the sort of economy each region had in 1990 was more important to their subsequent adaptation than decisions made by regional leaders. Perhaps the influence of regional policies is best seen as negative: regional leaders can impede adjustment; but they may be capable of exerting only very limited positive influence on events. Much of Titov's activity in Samara is not readily distinguishable from much of what was done by regional leaders in Krasnodar, except that Titov did not make strong anti-reform pronouncements, calling into question previous privatisations, and he has not been surrounded by officials openly sceptical about foreign investment. At the very least, the public stance of successive regional leaders in Krasnodar has not been encouraging to the development of new business.

One question we have not pursued is whether local city leaders may be capable of influencing economic development more than their regional counterparts. Survey evidence in Samara region shows that, at least in the perceptions of the population, the mayor of a city is credited with more influence on people's economic circumstances than the more distant regional leadership (even in Samara city, where the regional leadership is based) (Romanov and Tartakovskaya 1998). Whether that perception matches reality, however, is something we have not investigated.

Finally, it may be important that adaptation to the Russian devaluation and debt default of August, 1998 may be easier in a more "backward" region. After all, the crisis originated in financial markets, and its earliest impact on the real economy showed up in a drastic decline in imports, including food imports. At the time of writing (October 1998), this question remains open. A food-surplus region like Krasnodar, and particularly one with an interventionist regime, might well cope better with shocks to the banking and foreign-trade systems. However, both regions are reported to have placed controls on the shipment of food from their territories (Latynina 1998). Predictably, measures in Samara also included intervention to restrict bank transfers to Moscow (*ibid.*), and there were sharp falls in incomes in the service sector there (*Kommersant-Daily*, 9.x.98: 6). On the other hand, Samara may in time exhibit the benefits, in crisis-survival, of relatively well-developed wholesale trade and of its evidently rather adaptable workforce.

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¹ Reference to economic and social statistics has been kept to a minimum in this chapter. Relevant background statistics are grouped in the Statistical Appendix.

² Samara city with a population currently of about 1.3 million; Tol’yatti, with a population of 0.7 mn. They account between them for around two-thirds of the region’s population, and, though not forming a single conurbation, are not far apart.

³ The Kuban’ is a traditional name, often applied to the *krai* as a whole, but primarily designating the agricultural heartland of the region.

⁴ Krasnodar krai—region krupnym planom, *Rossiiskaya Federatsiya*, 1995, 15, p.14.

⁵ The politically sensitive nature of this development was underlined when Turkmenistan claimed sovereignty over the Kyapaz off-shore field in the Caspian, where the Russian firms Lukoil and Rosneft' thought they had a deal with the Azeri government. The Russian foreign ministry, wishing to support the Turkmen side, wanted the deal put on hold. The geopolitical ingredient in this was that US efforts to detach both Azerbaijan and Turkmenistan from dependence on Russia were seen in Moscow as threatening (*Financial Times*, 8 August 1997).

⁶ *Izvestia*, 20 February 1997.

⁷ In fact, these are GRP per head of population, not of workforce, but this makes no difference to the orders of magnitude.

⁸ Magomedov A. Modernizatsionnye vyzovy i politicheskie otvety pravyashei elity Krasnodarskogo kraia: "Region-most" v kontekste perekhodnogo perioda (Modernizational challenges and political answers of power elite of Krasnodar krai: the "Gateway" in transitional context, *Konstitutsionnoe pravo: Vostochnoevropeskoe obozrenie (Constitutional Law: East-European Review)*, Moscow, 1998, Num.1.

⁹ Ibid.

¹⁰ Magomedov interviews in Krasnodar city, 1996, 1997, 1998; Hanson interviews in Sochi, 1998.

¹¹ Decree no. 228 of 10 June 1997, "O negativnykh posledstviyakh privatizatsii nekotorykh predpriyatii Krasnodarskogo kraia, vskrytykh v khode proverki obrashchenii grazhdan k glave administratsii kraia, i merakh po ikh ustraneniya" ("On negative consequences of the privatisation of a number of enterprises of Krasnodar krai, revealed in the course of investigation of citizens' petitions to the head of the krai administration, and on measures for dealing with them"), *Kuban' segodnya*, 21.vi.97: 2.

¹² Kondratenko covered himself against verification by saying that the effects of the poisons might not show up for one or two generations. In all this there are echoes of the controversy in the European Union over so-called "mad-cow disease" (bovine spongiform encephalopathy or BSE, thought to cause Kreuzfeld Jakob's disease in humans through the consumption of beef from infected animals). Kondratenko referred constantly to "authoritative" and "high-level" sources for his information. It is conceivable that shipments of unsafe British beef might provide a particle of reality that could be hidden somewhere in all this nonsense. If so, the British Ministry of Agriculture and Food was evidently deemed too dreary to be named as a conspirator.

¹³ Institute of East-West Studies, *Russian Regional Report*, 2: 22 (25.ix.97).

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