

Whither Corporate Russia

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Abstract

This paper focuses on explaining the recent significantly improved performance of the Russian economy, when contrasted with the previous entrenched stagnation. In particular, my objective is to explore the role played by the state in assuring private investors against practices such as wealth tunnelling and investment distortion arising out of incomplete contracting. Though still persisting, such costs are much reduced. The paper argues that, if state participation in corporations affords safeguards against asset stripping, it can consequently serve as a substitute for poorly defined property rights, particularly within a dysfunctional environment. Under Putin's initiated policy proposals, the state's role as an effective partner with private investors may be acting as a substitute for well specified property rights system. This includes reducing oligarch influence. Consequently state co-ownership should correspond to a substantially improved productivity of investment. Specifically, this paper focuses on ownership type and structure of Russian firms from the beginning of post-privatisation era until the present. A greater emphasis is placed on what motivation lies behind increased government ownership, after oligarch influence on firms diminished, as state co-ownership increased.

My hypothesis predicts increased profitability and enhanced growth prospects for firms. Moreover, the paper also takes into account structural legal changes and subsidies that channel funds into infrastructure improvements. The paper also tests the effect of such reforms on corporate performance. My panel dataset is based on the Russian Trading System stock exchange from 1998 until the end of 2006. From the dataset I construct performance indicators, such as Tobin's Q proxy. In addition, several variables are introduced to account for the degree of state involvement. I also develop a proxy to capture investor attitudes on specific policies. Preliminary results indicate that the combination of state and private ownership acts as an effective mechanism promoting growth in the corporate sector. There are also early indications that the regimes legal changes have encouraged increased investment activity and productivity. Moreover, increased levels of long-term subsidised debt act to clearly signal the state's investment priorities. While Russia's economic growth may be by largely attributable to its abundance of natural resources, my evidence shows that the reforms above have also contributed. My future research will place greater emphasis on legal reforms designed to improve the financial infrastructure and trade policies. An important aspect of this paper is to deduce, from the evidence, the long-term goal of the regime. The important issue is whether Russia will eventually adopt a Western style property rights system, or will the current co-ownership strategy turn out to be so effective in generating economic growth, that the former adoption becomes unnecessary. If so, will the co-ownership strategy be applicable elsewhere?

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