

BTI 2012 | Russia Country Report

Status Index	1-10	5.73	# 60 of 128	
Political Transformation	1-10	5.35	# 69 of 128	➔
Economic Transformation	1-10	6.11	# 52 of 128	➔
Management Index	1-10	3.99	# 99 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

More on the BTI at <http://www.bti-project.org>

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Key Indicators

Population	mn.	141.8	HDI	0.755	GDP p.c.	\$	19840
Pop. growth ¹	% p.a.	-0.1	HDI rank of 187	66	Gini Index		42.3
Life expectancy	years	69	UN Education Index	0.784	Poverty ³	%	<2
Urban population	%	72.8	Gender inequality ²	0.338	Aid per capita	\$	-

Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

The political and economic development of Russia has been highly influenced by the policies of Vladimir Putin, who served two terms as president from 2000 until 2008 and then became prime minister in close cooperation with his successor President Dmitry Medvedev.

In terms of the country's democratic transformation, no material progress was achieved during the period under study. To consolidate its power the political elite around Putin and Medvedev routinely employs measures not in line with democratic standards, mainly the marginalization of political actors outside the federal executive, control over nationwide mass-media, harassment of politically relevant NGOs and massive human rights violations in the fight against rebels and terrorists in the northern Caucasus. The political leadership around Putin and Medvedev obviously does not consider a qualitative enhancement of democratic transformation to be one of its key tasks.

The international financial and economic crisis, which reached Russia in autumn 2008, has marked the end of a long economic boom. As a result the state is now spending much of the funds saved during the boom in order to ease the economic and social consequences of the crisis. However, Russia follows a sound monetary policy. President Medvedev has repeatedly highlighted the need to modernize the Russian economy in order to reduce its resource dependence and improve competitiveness. However, there is no coherent policy to promote this goal. Instead, the government focuses on projects of a mainly symbolic nature. A drive towards increased state ownership of enterprises was not continued (despite this global trend during the economic crisis).

Within its conceptual framework, the Russian government behaves consistently in international politics. However, Russia has become very self-confident in recent years. Invitations to join high-level organizations and positive remarks about the state of its democracy are taken for granted and do not lead to any efforts on the Russian side. Clear refusals and outright criticism

are interpreted as a lack of understanding for the specific Russian situation. In combination with Putin's arrogant, aggressive and sometimes vulgar rhetoric, this has given many foreign observers and governments the impression of unpredictability. Though President Medvedev employs a softer style, he has not deviated substantially from Putin's course in foreign policy.

History and Characteristics of Transformation

The economic and political transformation process in Russia began in the second half of the 1980s, with the reforms of Soviet General Secretary Mikhail Gorbachev. But the defining influences for post-Soviet Russia were the reform measures of Russian President Boris Yeltsin. The Russian constitution was approved by a referendum of the Russian people in December 1993. Parliamentary elections were held at the same time as the referendum. Outspokenly anti-democratic parties won 43% of the vote. Until 1999, there was no significant change in this balance of power. While the Russian constitution expressly provides for the democratic rule of law, constitutional realities under President Yeltsin were characterized by significant democratic deficiencies. These resulted not only from anti-democratic forces that stalemated reform projects in parliament and ignored democratic requirements at a regional level, but also from executive policies of the Yeltsin administration, characterized by political manipulation and pressure on the mass-media. In this context actors without democratic legitimacy, like the oligarchs, gained considerable influence in political decision-making.

The 1992 reform package marked the first milestone in Russia's transformation toward a market economy. Its core components were the liberalization of prices and mass-privatization. But instead of the anticipated economic upswing, Russia found itself facing a prolonged economic crisis. GDP had declined by more than 60% by 1998. Russia was competitive on the world market only as an exporter of raw materials. Imported goods dominated many sectors of the domestic market. Capital spending shrank dramatically, while capital flight remained high. Core economic reforms, including a new tax code and land code, were stalemated in the legislative process. The protracted economic crisis also adversely affected the population's standard of living, and social inequality increased considerably.

The situation substantially changed under Yeltsin's successor Vladimir Putin. Putin has earned sustained support from significantly more than half of the population. One of the core reasons for this was his decisive action to combat the country's "state of emergency". He won especially high approval for his military campaign against separatists and terrorists in the northern Caucasus and for tough government measures against business tycoons – the oligarchs. Politically under Putin new constraints were imposed on democratic principles, in particular through interventions against press freedom and NGOs and through extensive human rights violations in the Chechen war. The political reforms of 2004 increased central control over the regions in such a way that put the federal principle, outlined in the constitution, into question.

Whereas authoritarian tendencies could be observed in the political sphere right from the beginning of Putin's first term, economic policy was for some time dominated by liberal ideas. An economic boom had started in 1999 and also contributed to Putin's popularity. Until 2008 Russia's GDP rose by more than 70%. In Putin's second term, economic policy increasingly focused on industrial policy, state control over "strategic" sectors of the economy and large-scale projects in the social sphere. But widespread corruption, an extensive shadow economy, and the manipulation of the judiciary by the executive branch of power remained serious obstacles for economic and social development.

At the end of his second term in April 2008, Putin accepted the constitutional limit on presidential terms and did not seek re-election. Instead his hand-picked and strongly supported candidate, Vice Prime Minister Dmitry Medvedev, won the presidential election with a margin that mirrored Putin's previous electoral success. Medvedev, in turn, appointed Putin as prime minister, giving the impression that Putin is still in charge of Russian politics. The transformation strategy of Putin and Medvedev aims primarily at a stable political system and considerable economic growth. Violations of some fundamental democratic rights or market principles are apparently considered acceptable. Measured in terms of their own goals, then, the political leadership has been quite successful. Measured by the normative standards of a democracy based on the rule of law and a market-economy flanked by sociopolitical safeguards, there are considerable and persistent deficiencies.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

Transformation Status

I. Political Transformation

1 | Stateness

Russia's stateness is seriously questioned only in regard to the northern Caucasus. Since the second Chechen war began in September 1999, the Russian army has been unable to achieve full control of the region. Rebels regularly attack representatives of Russia's central power especially in the north Caucasian regions of Chechnya, Dagestan and Ingushetia. They have committed several terrorist acts in the northern Caucasus and in the Russian capital. Outside the northern Caucasus, there are no serious limitations on the state's monopoly on the use of force.

Apart from the separatist conflict in Chechnya, the definition of citizenship and who qualifies for it is not a politically relevant issue. The majority of the population defines the Russian state as based on the nations that historically have lived on its territory, with a dominant role ascribed to the Russian nation. Xenophobia is rather widespread and directed primarily at individuals from the Caucasus, Central Asia and Africa. Racial violence has led to several deaths. There are also many cases of discrimination by representatives of state agencies against Russian citizens who belong to ethnic minorities from the northern Caucasus region.

There is separation of church and state. The political process is secularized. However, the Russian Orthodox Church has a privileged status and other religious groups, including, for example, the Roman Catholic Church and Islamic groups, have occasionally complained about discrimination. At the same time the Russian government has adopted an explicitly pro-Islamic stance on several occasions and former President Putin has repeatedly pointed out that in absolute terms Russia has one of the biggest Muslim population in the world.

Question
Score

Monopoly on the
use of force

7

State identity

8

No interference of
religious dogmas

9

Apart from some regions of the northern Caucasus, the state has a basic administrative infrastructure (i.e., administrative institutions, fundamental administration of justice, apparatuses to implement political decisions) in place throughout the country, but bureaucratization, corruption and a lack of funds have made its performance erratic.

Basic
administration
7

The basic infrastructure for the supply of households (i.e., water, communication, transport, health, education) has been in place throughout the country since Soviet times. However, some rural areas do not have access to all services – there is no full access to sanitation in more than 10% of households. Moreover, due to lack of funds for maintenance and modernization, the quality of basic services is in decline in many regions of the country. In addition, corruption tends to disadvantage the poor concerning access to services, especially in health and education.

2 | Political Participation

At the national and regional level there are no serious restrictions on free and fair elections and election results decide who governs. There are instances of minor manipulations in some regions. As an exceptional case elections in the northern Caucasus (including national elections) and in some national republics (like Kalmykia) do not meet democratic standards.

Free and fair
elections
6

However, there are severe constraints with regard to registration and media access. Registration of opposition candidates and parties has been denied on allegedly administrative grounds in several local and regional elections. Election campaigns are regularly manipulated by the state administration throughout the country. This includes biased media coverage, especially on state-controlled television channels, the use of state resources in support of specific parties or candidates, and bans on public demonstrations or assemblies by opposition parties. Moreover, the electoral system has been redesigned in a way which increases the representation of the pro-presidential party United Russia in parliaments.

This picture has been confirmed in the regional elections of 2010, where after several exclusions of parties from the ballot and biased election campaigns, the pro-presidential party United Russia proved to be dominant, but failed to gain an absolute majority of votes in several of Russia's major regions. However, due to a mixed electoral system (combining proportional representation and majority votes in single-mandate districts) United Russia gained a majority of seats in the respective regional parliaments.

In summary, the Russian electoral system is not undemocratic in essence, but is clearly designed to favor the pro-presidential party. The voting process is generally free and fair, but electoral campaigns and registration processes are biased against

opposition parties and candidates. As independent opinion polls confirm, the majority of the population supports the pro-presidential party. This is obviously to a large degree due to the biased media coverage, but it ensures that there is no need to manipulate the vote count in popular elections.

In formal political decision-making, elected representatives have full power to govern. At a national level informal influences by non-state actors, namely the oligarchs, but also influential lobbies (e.g., from the agriculture or coal mining) have been successfully reduced under President Putin. In some regions these actors still remain powerful. However, it is generally assumed that representatives of secret services and the military (put together under the Russian label of “siloviki”) have gained broad political influence. This influence is mostly formalized through appointments to official positions in government agencies and state-owned companies. Concerns about democracy in Russia thus focus on the behavior of elected or legitimately appointed representatives and not on the influence of other veto powers.

Effective power to govern

7

The constitution guarantees freedom of association and assembly and state representatives voice support for these rights. In November 2010, for example, Russian President Dmitri Medvedev did not sign a new law which would have restricted assembly rights for people who had previously been found in violation of related regulation. However, in practice there are considerable restrictions on rights to organize and communicate politically. Smaller liberal as well as right-wing opposition parties have systematically been discriminated against by the state administration and the media. NGOs critical of the national or regional government have also repeatedly been subject to harassment by state agencies.

Association / assembly rights

4

In September 2010, for example, the state prosecution asked several Moscow-based human rights organizations to provide financial documentation within one or two days. According to Amnesty International the request was in violation of Russian law, as such controls (unrelated to criminal investigations) fall under the exclusive competence of the Ministry of Justice. Several demonstrations and public assemblies by oppositional parties and movements have been banned or have been prevented under administrative pretexts. Unauthorized demonstrations have on many occasions been dissolved by police forces using violence and arresting several participants. Some protests against specific state policies, like the demolition of houses, road projects through nature reserves or special driving rights for privileged people (“blue light driving”), have also been dissolved by the police. While most of the smaller demonstrations take place unhampered, the leading opposition figure Boris Nemtsov was arrested for 15 days under an obvious pretext in December 2010 after taking part in an authorized demonstration where he heavily criticized the political regime.

In summary, opposition groups are not banned (i.e., they have the right to organize), but they are socially marginalized by the political leadership. They face administrative pressure from the state (i.e., engagement is discouraged) and their right to hold larger demonstrations in public spaces is limited (i.e., they are not visible to the broader public, or only with an image associated with riots).

The constitution guarantees freedom of expression, but in practice mass-media and journalists face heavy pressure from several sides. The state executive directly controls most of the media. According to an assessment by the Russian Ombudsman for Human Rights, by 2006 “the main mass-media, and first of all the leading electronic media, accounting for 90% of the information segment of the country and forming public opinion, are under the very strict control of state organs.” As a result media coverage of elections is systematically manipulated. There are extensive restrictions on freedom of the press in covering the war in Chechnya. Opinions critical of the government are on many occasions restricted to a handful of newspapers and radio stations with a very limited reach, which first of all aim at the political and business elite, and to the internet. This does not mean that there is no criticism of official policy or no controversial debate in the Russian mass-media, but it seems that the Kremlin decides what can be discussed controversially. Criticism outside the boundaries set by the Kremlin is strongly discouraged. Critical journalists and media are often subjected to administrative harassment by the state, coming in the form of extensive fines for libel or intensive investigations by state organs like the tax administration. For example, in August 2010 the Glasnost Foundation, which promotes media freedom, was raided by masked policemen without an explanation. In November 2010 the Presidential Administration sued the independent newspaper Novaya Gazeta for a compensation payment of RUB 1 million (about \$33,000) in reaction to a report on alleged corruption in the presidential administration. Journalists are also attacked physically. According to the Glasnost Foundation 19 journalists died or disappeared in 2009/10 and 101 were attacked, some of them seriously injured. There is no evidence that the state is behind these assaults, but the state has proven unable to protect journalists or to hold anyone responsible for these crimes.

Freedom of
expression
4

3 | Rule of Law

Serious deficiencies exist in the checks and balances among the executive, legislative and judicial branches. As the president maintains a stable majority in parliament, the legislature exercises its review function only to a very limited degree. The judiciary is independent in principle, but lower-court decisions in particular are often influenced by corruption and political pressure. In specific high-

Separation of
powers
4

profile cases, like the Yukos affair, which saw Mikhail Khodorkovsky on trial once more in 2010, principles of equal treatment and formal court proceedings have been violated in the interest of the national government.

There is a differentiated organization of the judiciary and a formally adequate education and appointment system for judges. However, their professionalism suffers from Soviet legacies, corruption and state interference. The political leadership, and most notably President Dmitri Medvedev, has repeatedly named corrupt and inefficient courts as a major obstacle to Russia's progress towards a modern society. The fact that more than a quarter of all cases pending at the European Court of Human Rights are from Russia might also indicate that Russian citizens consider their domestic courts to be biased. According to many surveys, in the case of inter-firm disputes businesspeople evaluate the courts decisions as quite fair. However, they regularly state that court cases against state agencies are more likely to be unfair. The most prominent example is the Khodorkovsky case, where another court verdict announced in December 2010 violates basic principles of the rule of law in order to keep a leading political challenger imprisoned.

Independent
judiciary
4

The Russian leadership, including Putin and Medvedev, repeatedly names corruption as one of the main challenges. However, most anti-corruption efforts have only a symbolic nature. Official accusations of corruption are still perceived as a sign of PR campaigns resulting from political power struggles. When, for example, Medvedev decided to sack Moscow's mayor Yury Luzhkov, there were obviously orchestrated media reports about his mismanagement and corruption. However, no court proceedings were initiated after his resignation. Instead, state officials often react to accusations of corruption by suing for damages. For example, in 2010 the Presidential Administration sued the independent newspaper Novaya Gazeta for a damage of RUB 1 million (about \$30,000) in reaction to a report about alleged corruption in the administration.

Prosecution of
office abuse
4

The constitution guarantees civil rights. In addition the Russian Ombudsman for Human Rights as well as independent NGOs are assumed to perform a monitoring function. However, Russia's political leadership often sacrifices civil and human rights as well as the rule of law in order to strengthen its own political power, which is seen in turn as a precondition for providing stability. Lower courts are often biased in favor of local politicians or as a result of corruption and do, therefore, not offer efficient protection of civil rights. The state prosecution has initiated biased and selective investigations against a considerable number of independent journalists and NGOs. The rules of due process have also been violated in the Yukos Khodorkovsky case, which saw another court decision in December 2010. The limits of the protection of civil rights are also indicated by the fact that nearly 40,000 cases from Russia are pending at the European Court of Human Rights. In the case of the fight against terrorism and the situation in the northern Caucasus, the security forces have decided at least implicitly that "stability" trumps the local

Civil rights
5

population's basic human rights. This view is supported by the fact that human rights violations by Russian security forces are rarely investigated and hardly ever punished. Amnesty International and Russian human rights organizations regularly report cases of torture in state prisons in the northern Caucasus.

4 | Stability of Democratic Institutions

The democratic institutions foreseen in the constitution do all exist and perform their function in principle. The Institution of the Regional Governors is a debatable exception. The constitution defines Russia as a federal state, but the 2005 elections of regional governors have been abandoned in favor of appointment by the president through constitutional reform. Some experts claim that this reform was in violation of the constitution, but the Russian Constitutional Court has not been asked to rule on the matter. In general, the efficiency of democratic institutions is clearly hampered by interference from the state executive in violation of the separation of powers and the rule of law. A further obstacle to the adequate performance of democratic institutions is the weak party system, dominated by the "party of power", United Russia, and the lack of a civil society capable of counterbalancing state influence. Moreover, implementation of legislated provisions by the public administration often remains a serious problem due to a lack of efficiency and widespread corruption.

Performance of
democratic
institutions

6

Political power is concentrated within the existing democratic state institutions and all relevant actors accept these institutions as legitimate. There is no serious opposition to the (formally democratic) political system as it is has been reshaped under former president and now Prime Minister Vladimir Putin. However, although the existence and legitimacy of democratic institutions is not challenged by any relevant actor, the performance of these institutions is manipulated beyond democratic principles and these manipulations are also seen as legitimate. In summary, the acceptance of democratic institutions is for most influential actors more a question of pragmatic consideration than of principle. And acceptance relates only to the letter of democratic rules not to their spirit.

Commitment to
democratic
institutions

5

5 | Political and Social Integration

So far, Russia has been unable to establish an organizationally stable, socially rooted party system. The relevant political parties are predominantly personality-oriented voting associations. The population is highly skeptical of political parties, indicated by the fact that the share of the population claiming to trust them never exceeds 10%. The Communist Party is the only party with a socially rooted, though decreasing and ageing mass base. In addition the pro-presidential party United Russia, which was founded in 2001 through a merger of the two main rival parties

Party system

4

of the prior elections, has created an organized mass base from above, i.e., with state support as well as financial and career incentives for members. Further parties with a certain degree of institutionalization are the populist Liberal Democratic Party (LDP) and the liberal Yabloko party. Since the parliamentary elections of 2007, where it gained 64% (compared to 38% in 2003), United Russia has been the dominant party in Russian politics. Due to changes in the electoral systems, it holds a two-thirds majority in the State Duma (the lower house of parliament) and also in many regional parliaments. United Russia often cooperates with the Just Russia Party, which was founded in 2006 and combines some criticism of the government with vocal support for Putin and Medvedev. As a result there is a low level of polarization in the party system. The only opposition parties represented in the national parliament are the Communist Party (13% of seats) and the populist LDP (9%). Liberal democratic parties (Yabloko, Union of Right Forces (URF)) were not able to cross the 5% threshold. However, the Communist Party and the liberal democratic parties are in rather fundamental opposition to United Russia.

The ecology of interest groups related to the political sphere is sparse. Important social interests are under-represented. The trade union movement is still dominated by the successors to the socialist unions. The political leadership's reaction to work by the interest groups has essentially been no more than symbolic. Putin, and recently, more vocally, Medvedev, have stressed the need for a strong civil society in several well publicized speeches. But at the same time they have blamed Russian NGOs for accepting support from foreign donors, with Putin being more outspoken in this respect. NGOs critical of the government have been excluded from the dialogue between state executive and civil society and they have on several occasions been harassed by state agencies. As a result of several years of harassment (or taming), the strength and variety of interest groups has been further reduced. As a result, there is a large group of NGOs which shy away from any interference in political affairs. There are also several state-sponsored organizations openly supporting the government and some business associations which are increasingly engaged in a constructive dialogue with the government. And finally there is a relatively small group of NGOs acting in (more or less) outspoken opposition to the government. This leads to a high degree of polarization.

Interest groups
4

The population's approval of democracy per se as voiced in representative polls is moderate to high depending on the wording of the question. However, about a third of the Russian population is not able to give any meaningful definition of democracy. Moreover, when asked about specific democratic principles, including democratic elections, accountability and civil rights, the majority of the Russian population does not consider any of these principles to be important, as polls by institutes like FOM or the Levada Center regularly indicate. In summary, about a quarter of the population is openly opposed to democracy, whereas not much more than 10% can be counted as strong democrats. Accordingly the huge majority of the

Approval of
democracy
4

Russian population has no strong opinion on democracy. This implies a sort of silent consent to democratic norms, but no principal opposition to undemocratic norms. The low rates the Russian population gives in assessments of democratic performance and approval of democratic institutions (except for the president and the government) may indicate disappointment with the Russian reality more than any attitude towards democratic ideals as such.

In Russia, trust among citizens – as measured in public opinion surveys with the question whether most people can be trusted – is lower than in most West European countries. A quarter of the population claim to have trust – exactly the average of all 57 countries included in the latest round of the World Value Survey. However, this average level of trust transforms into a comparatively low level of voluntary and autonomous activities. In Russia self-organization in civil society encounters strong barriers, namely the burden of a Soviet past in which NGOs did not exist, and harassment by the state executive power. Accordingly, NGOs are unevenly distributed, flourishing mainly in the mega cities of Moscow and St Petersburg, and are often spontaneous and temporary. Many Russian NGOs owe their existence only to the engagement of international organizations and sponsors.

Social capital

4

II. Economic Transformation

6 | Level of Socioeconomic Development

The key indicators show a relatively high level of socioeconomic development for Russia. Measured in terms of HDI, the country's level of development permits adequate freedom of choice for almost all citizens. There is no indication of fundamental social exclusion on the basis of poverty, education or gender discrimination. The economic boom, which started in 1999 and led to a rise in GDP of more than 70% up till 2008, had been accompanied by an eightfold rise of average wages (from \$80 per month to \$600). The negative impact of the global economic crisis (2008/09) on socioeconomic development has largely been diverted through expansive state spending. As a result unemployment was back to the pre-crisis level in 2010 and average wages had further increased to about \$700. However, at the same time social inequality as indicated by the Gini coefficient has increased markedly in the 1990s and has since then remained largely unchanged. Reasons for this are, among others, long-term unemployment, an insufficient pension system and a flat income tax rate. There are considerable regional differences in levels of socioeconomic development within Russia. Financial readjustments made among regions do not materially reduce these discrepancies.

Question

Score

Socioeconomic
barriers

6

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	1299705.8	1660846.4	1221991.4	1479819.3
GDP growth	%	8.5	5.2	-7.8	4.0
Inflation (CPI)	%	9.0	14.1	11.7	6.9
Unemployment	%	6.1	6.3	8.2	-
Foreign direct investment	% of GDP	4.2	4.5	3.0	2.9
Export growth	%	6.3	0.6	-4.7	7.1
Import growth	%	26.2	14.8	-30.4	25.6
Current account balance	\$ mn.	77768.3	103529.8	48604.7	70253.2
Public debt	% of GDP	8.5	7.9	11.0	9.9
External debt	\$ mn.	361337.7	402725.6	373419.1	384739.7
Total debt service	\$ mn.	40245.7	67149.1	57088.1	61849.1
Cash surplus or deficit	% of GDP	6.2	5.6	5.3	-
Tax revenue	% of GDP	16.6	15.8	13.0	-
Government consumption	% of GDP	17.3	17.8	21.0	19.5
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	5.4	4.8	5.4	-
R&D expenditure	% of GDP	1.12	1.03	-	-
Military expenditure	% of GDP	3.5	3.5	4.3	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

7 | Organization of the Market and Competition

The foundations of market-based competition are assured by the country's institutional framework. Prices on the domestic market were freed in 1992. By now, price regulation by the state is restricted to utilities. The state also subsidizes prices for agricultural products. The national currency became freely convertible in summer 2006. Foreign trade was liberalized and currently the remaining restrictions are no more extensive than in OECD countries (with the exception of a temporary ban on grain exports in summer 2010). However, state economic policy remains

Market-based
competition

5

skewed in favor of politically influential large corporations, especially state-owned ones. The state has increased its ownership in the economy and has, in a number of economic sectors which are deemed to be of strategic relevance, discriminated against private and especially foreign investors. Although the global economic crisis has led to an increase in state support for individual enterprises, the bias in favor of well-connected enterprises has been reduced, while support to innovative and export-oriented firms has been improved, according to an independent study by the Higher School of Economics (Moscow) and the Levada Center. The informal sector amounted to 30% to 50% of GDP in the late 1990s. According to the Russian government its size has been reduced considerably with the economic reforms under President Putin. However, independent empirical studies are not available. Although the economic boom which started in the late 1990s has led to a net capital inflow (with a short reversal during the global economic crisis), red tape presents a serious obstacle to running an SME. Russia ranked at 123 out of 183 on the World Bank's 2011 "Ease of Doing Business" ranking. As a result of unattractive conditions for business, investments are far from sufficient to satisfy the modernization needs of the Russian economy.

Broad sectors of the economy, defined as significant to national security, are shielded from competitive pressure. The "natural" monopolies in the natural gas and transportation industries have not yet been substantially reformed despite year-long debates over the issue. However, reform of the electricity sector was concluded in summer 2008, improving competition. In general, the anti-monopoly agency functions rather efficiently for the liberalized part of the economy with exceptions on the regional level, where some administrations have blocked competition.

Anti-monopoly
policy
7

Though Russia has reached bilateral agreements on WTO membership with most relevant parties, its membership talks remain stuck. Russia is thus the only major economy of the world outside the WTO. Russia's foreign trade has been liberalized in principle, but substantial regulatory exceptions remain, for example on imports of agro-food products or cars and on exports of some metals, resulting in regular trade disputes – often with the EU. In addition, Russia imposed new protective import tariffs on some agricultural products and on cars in late 2008 in reaction to the international economic crises. In summer 2010 grain exports were temporarily banned in reaction to a bad harvest after extreme drought and forest fires.

Liberalization of
foreign trade
7

The Russian banking sector remains severely underdeveloped and is still not able to perform its economic function as a financial intermediary. Russian banks are not yet able to compete internationally. Moreover, the banking sector is dominated by state-owned banks. At the same time, differentiation of the Russian banking sector is increasing and seems to be working. State regulation of the banking sector has some deficits, but seems by and large to be adequate. Banks have been forced to adopt international standards, though at a slower pace than originally planned. The international financial crisis, which reached Russia in autumn 2008, has put a heavy

Banking system
6

strain on the small Russian banking sector. But the Russian state guaranteed liquidity of the banking system and thus prevented a breakdown. In 2008 and 2009, the government spent a total of \$31 billion (equal to slightly more than 1% of GDP in both years) to support the financial sector. About half of the money was used to recapitalize banks and other financial institutes. In addition, the government and the central bank adopted a package of further measures to increase banking liquidity, including a cut in central bank reserve requirements, and increased provision of central bank loans and budget funds (for administration) to commercial banks.

As a result of state support, the economic crisis has not accelerated the trend towards the reduction of the number of banks in Russia. This trend is due more to a clean-up of the banking sector, which has seen the closure of shady and tiny banks, and also to mergers and takeovers. At present, there are about 1000 banks operating in Russia, while Minister of Finance Alexey Kudrin has claimed that he expects the consolidation of the banking sector to halve that number in the longer term.

8 | Currency and Price Stability

After the 1998 financial crisis, which caused significant inflationary pressure as the ruble lost around 70% of its value against the U.S. dollar, the government and the independent central bank were able to bring inflation under control and stabilize the exchange rate through a consistent budgetary and monetary policy. The national currency became fully convertible in summer 2006. As in many countries, inflation accelerated in 2008 because of rising prices for raw materials (especially oil, gas and metals) and agricultural products. The financial crisis then put the exchange rate under pressure. In autumn 2008 alone the central bank invested more than \$100 billion to defend it. The result was a controlled depreciation of the currency and an only temporary increase in inflation. The reaction to the global financial crisis has thus proven that monetary policy is one of the key concerns and also key competences of the Russian government.

Anti-inflation /
forex policy
9

Over the last decade Russia has adhered to a consistent austerity policy that regularly led to budget surpluses. This allowed for a significant reduction of foreign debt (from over a third of GDP in 2000 to a mere 2% of GDP since 2008). The fact that monetary policy is integrated into a general economic policy concept is also indicated by the stability fund, which was introduced to save the state budget's windfall profits from high oil prices for the future. This fund has successfully been defended against demands for increased state subsidies. The saving of windfall profits during Putin's presidency in autumn 2008 offered the Russian government the chance to react to the international financial and economic crisis with extensive liquidity support and stabilization programs. The resulting budget deficits of 6% in 2009 and 2% in 2010 could be financed from the stabilization funds.

Macrostability
9

9 | Private Property

Property rights and the regulation of the acquisition of property are defined formally in law. With the exception of the sale of farmland the legal provisions are practical. They are not, however, consistently implemented nor adequately safeguarded by law, especially against state intervention. In “strategic sectors” like the oil industry the state seems to systematically reduce the share of private owners through administrative pressures, which lead either to confiscations or to negotiated sales. Some property rights, especially copyrights, are being ignored on a regular basis.

Property rights
3

Private enterprise is the backbone of the economy, accounting for about two-thirds of the economy. However, its share in GDP has been in slight decline since 2005. This seems to be a result of the Russian government’s attempts to bring “strategic” enterprises back under state control. The prime example for this is the oil industry, where the share of state companies in production has risen from about 15% in 2004 to about 40% in 2010. The bias towards state ownership is also highlighted by the fact that there have not been any major privatizations in recent years. There are also market concentrations tolerated by the state, especially in the “natural” monopolies such as natural gas and railroads. However, a large-scale enterprise survey of the Higher School of Economics (Moscow) and the Levada Center indicates that during the global economic crisis the state has started to base support more on business performance and less on political connections. This trend clearly favors private enterprises.

Private enterprise
6

10 | Welfare Regime

Parts of the social security system are relatively well developed in Russia, but they do not cover all risks for all strata of the population. Moreover, efficiency and availability is reduced by widespread corruption. Though pension payouts and unemployment benefits have been increased considerably in recent years, they are still insufficient to survive on. Without additional income – such as a job in the shadow economy, private farming or family support – these social groups are at risk of slipping into poverty. The bigger cities have large numbers of homeless people whom state social facilities completely fail to reach. Economic improvement since 1999 has mitigated the country’s social problems, as wages and employment rates have risen and poverty has been reduced. The impact of the global economic crisis of 2008/2009 on Russia’s socioeconomic indicators has been limited as a result of increased government spending. But improvement in the state’s social insurance systems has been limited. Reform of the state’s social welfare system has aimed at liberalization. However, most Russians lack the financial means for private insurance and, especially in the pension system, private companies are underdeveloped. Special government programs to improve health care and fight

Social safety nets
6

rural poverty have had only very limited impacts so far, mainly due to the size of the problem and the inefficiency of the state bureaucracy. For example, as the state health care sector employs 700.000 doctors and an additional 1.5 million trained medical personnel, even a rise of salaries to the average level for respective educational qualifications was impossible. Another problem with the special state programs is that they did not establish meaningful accounting mechanisms for the use of funds.

Equality of opportunity is not fully assured. There are substantial differences from one region to another. Members of non-Russian ethnic groups, especially those from the Caucasus, suffer systematic discrimination in the education system and on the job market. In Moscow, for example, citizens from the Caucasus region have been banned from working at public markets. Social exclusion extends to people living in the northern Caucasus, where in some regions living standards are far below the Russian average, a quarter of the population is unemployed and wages are far below the national average. There are sizeable communities of homeless people in the bigger Russian cities. Throughout the country women have equal access to education but are underrepresented in the political system and in business management.

Equal opportunity
5

11 | Economic Performance

Until the global economic crisis hit Russia in 2008, the country's macroeconomic performance had been very good. GDP had grown by 70% from 2000 until 2008. In 2006, GDP grew by 8%, fixed investments were up by 17% (though from a low level), the CPI rate stood at 9% (compared to 20% in 2000), unemployment was down to 6% (from 10% in 2000) and the state budget ran a surplus equal to 7% of GDP. As a result of huge exports of raw materials (oil, gas and metals) the country ran a current account surplus of close to \$100 billion. The share of tax revenue as percentage of GDP stood slightly above a third, which is roughly equal to the OECD average.

Output strength
7

In 2009, GDP fell by 8%, fixed investments dropped by 17%, the CPI rate rose to 13%, unemployment to 8%. The current account surplus was reduced to \$50 billion. As the state budget is heavily dependent on tax and customs payments from the oil and gas industry, the fall in the oil prices reduced budget revenues, which fell by about 15%. As a result a heavy strain was put on the Russian state budget, as its balance changed from a surplus of 4% in 2008 to a deficit of 6% in 2009. Although this indicates a severe macroeconomic crisis, Russia's performance was not extraordinarily bad by international comparison. The impact of the crisis was

mitigated by heavy state spending. From 2008 to 2010, the stabilization fund was reduced by \$100 billion, but central bank reserves were soon stabilized and foreign debts remained at an extremely low level (equal to 2% of GDP).

In line with global trends, the Russian economy recovered in 2010. GDP grew by 4%, though fixed investments were up by only 5%. Inflation declined to 8%, unemployment to 7% and the state budget deficit was reduced to 2%, while the current account surplus rose to about \$75 billion.

12 | Sustainability

Russian economic policy is focused on medium-term economic growth. Ecological concerns are entirely subordinated to growth efforts, despite a considerable legacy of environmental damage from the Soviet era. Accordingly, ecological aspects are only on the political agenda when they promise to deliver clear, material, short-term advantages (as they can be used to put pressure on unwanted investors) or when rewards on the international arena are expected in return (as when the EU agreed on Russia's WTO accession terms in return for Russia's ratification of the Kyoto Protocol). The long-term political effort to reduce the economic dependence on raw material production would also reduce negative environmental effects. But again environmental concern is hardly ever mentioned as a reason for this strategy. It is also not accompanied by relevant support for renewable energies.

Environmental
policy
3

Russia inherited from the Soviet Union an education system with comparatively high standards, able to compete on a world scale in some segments. Under post-Soviet conditions, however, the country has been unable to put this education potential to good economic use. Instead, Russia has faced mass emigration of top personnel. Funding shortages and corruption greatly reduced the quality of the state education system. The private education sector has not developed far enough to make up this deficiency. The Russian government reacted to this by declaring education a top priority as one of the four national projects which receive considerable additional funding. Spending on education has increased to about 5% of GDP. However, in the 2009 PISA test, the performance of Russian pupils was statistically significantly below the OECD average in all three categories (reading, mathematics, science). Russia has joined the Bologna Process which aims to create a common European academic education system. But only a few academic institutions (mainly in Moscow and St. Petersburg) are able to teach on a European level. R&D is still up to world standards in some areas (e.g., space technology) but in general Russia is below the level of OECD countries in quantitative as well as qualitative terms. R&D has also been declared a top priority of the Russian government and receives the personal attention of President Dmitry Medvedev. However, government action has so far focused on an isolated, though expensive, pet project (the creation of a Russian "Silicon Valley" near Moscow), which is

Education policy /
R&D
6

unlikely to have a broader impact on the innovation potential of the Russian economy. Spending on R&D has hovered around 1% of GDP in recent years.

Transformation Management

I. Level of Difficulty

The structural constraints on governance in Russia are moderate as key indicators show a relatively high level of socioeconomic development. The country has an educated workforce. There are no serious geographic or infrastructural deficiencies which could not be overcome by good political management. However, the production of raw material in northern regions poses a real challenge. Also, a decline in health care standards and alcoholism are causing a serious demographic problem. Russia's population has declined from 147 million people in 2000 to 142 million in 2010.

Structural
constraints
5

Throughout most of Russia's history civil society was heavily suppressed. Independent NGOs started to develop only in the late 1980s. The only older tradition to which NGO members can refer is that of the dissidents and human rights activists of the Soviet period. Trust in institutions and social trust are relatively low in Russia. A culture of participation in public life has not yet developed.

Civil society
traditions
7

The ruling political elite around Vladimir Putin has brought a strong confrontational attitude to national politics. Based on an understanding of politics that divides into "either with us or against us", opposition figures and political movements have been discriminated against with populist slogans, biased media reports and police actions. However, as the political leadership dominates the public discourse this has not led to a split in society, but has just produced a marginalized opposition and a passive majority. In the northern Caucasus ethnic conflicts have the character of a civil war and are associated with terrorist acts. They also have a religious dimension. Apart from this, visible divisions of Russian society have not transformed into violent conflicts. The non-Caucasian ethnic communities traditionally living on Russian territory have been accommodated within the federal system. The same applies to religious communities. However, xenophobia and anti-Semitism are widespread among the population. Several people were killed in racist attacks in recent years, especially in the big conurbations of Moscow and St. Petersburg.

Conflict intensity
4

II. Management Performance

14 | Steering Capability

While Russian policies under President Yeltsin (1993 – 1999) presented a largely desolate picture of incompetence and short-term power grabs, after President Putin took office in 2000 he immediately defined clear, long-term priorities that have dominated the policies of his administration and were adopted by his successor Dmitry Medvedev when he took office in 2008. However, these long-term priorities of the government are inconsistent with the goal of transformation toward a market-based democracy. On the political side, the main aim is control by the state executive (meaning Putin and Medvedev) over the legislative process and the implementation of policy measures. On the economic side, the state aims to promote economic growth partly through direct intervention.

Although the government sets and maintains strategic priorities, its capacity to implement related policy measures is limited. The main problem is the deficient capacity of the state administration, which has repeatedly proven unable to realize large-scale projects due to lack of resources, corruption and incompetence. As a result, policy measures which require just a small team of technocrats, as in monetary policy, are realized successfully on the basis of a long-term strategy. But all those policy measures which depend on support from larger parts of the state administration (e.g., throughout the regions) like health care, welfare provision or education, cannot be implemented successfully. In reaction to this the government sometimes prefers technocratic projects where broad-based approaches would be needed, as in innovation policy, where one pet project at present substitutes for a systematic support program. The failure to implement many important reform projects aimed at the country's modernization has on many occasions been acknowledged by President Dmitry Medvedev as the major challenge facing the country.

In response to administrative and political resistance to reform, the government has increasingly resorted to control and pressure tactics. At the same time, outside criticism of reforms (as opposed to criticism by the leaders themselves aimed at an incapable state administration) is met with increasing arrogance. As a result, independent decision makers, advisory bodies and CSOs are increasingly brought under Kremlin control and opposition voices are repressed or ridiculed. However, there are some influential think tanks in the country, which regularly give independent advice to the government on key policy reforms.

Question
Score

Prioritization
5

Implementation
4

Policy learning
5

15 | Resource Efficiency

Although reforms have improved resource efficiency considerably in the last decade, Russia is still far from achieving an effective use of resources. While a stringent austerity policy has yielded significant progress in the use of government funds, the use of human and organizational resources continues to languish because of the problems of an often corruptible and only modestly competent administrative apparatus.

Efficient use of
assets

5

The state budget has been consolidated. The level of state debt has been considerable reduced. The processes of budget planning and spending discipline have been improved considerably. However, there is no effective audit and reports by the parliament's audit chamber have on most occasions been ignored. With a share of 2% in total employment, the bureaucracy of the Russian state executive is not oversized by international comparison. However, its organizational structure and code of behavior often lead to considerable inefficiencies. Although Putin and Medvedev regularly stress the need for administrative reform, regular re-organizations have not led to structural improvements as they are not able to efficiently tackle the problems of corruption, inefficiency and conflicts over competencies. As a result the coherent strategy of the political leadership which is regularly being translated into coherent legislation is regularly being distorted at the implementation level. In reaction to the implementation problem, the decentralization of political power, foreseen in the Russian constitution, has increasingly been abandoned. Instead, the national political leadership regularly bases dismissals and appointments at the national as well as the regional level on personal or political loyalty.

The Russian state executive is divided into rival networks which are based partly on ideological orientations but increasingly on competition over access to rent-seeking opportunities. The liberal reformers, who were in charge of economic policy in the first half of the decade, have been sidelined by politicians with a secret service or law education background. However, though seldom noticed, some major policy areas like financial policy or electricity sector regulation are still dominated by liberal policies. Since the Yukos affair the state executive is increasingly marked by conflicts between different government camps over competencies and especially over control of state-owned enterprises. As alignments shift with the issue concerned, the picture is less stable than the standard reference to the siloviki (the Russian term for members of all armed state bodies from secret service to army) suggests. At the same time, the government's reaction to the global economic crisis has shown that it has the capacity to coordinate conflicting objectives in a coherent manner on short notice, if vital state interests are at stake.

Policy
coordination

6

Corruption is widespread in Russia. This impression is shared not only by independent experts (including international expert opinion as measured in various country rankings) and polls of foreign as well as domestic businesspeople but also by top state representatives, including the president, who regularly name corruption as a key problem. This situation can be explained by the near complete lack of functioning integrity mechanisms. State auditors are often competent, but auditors lack enforcement powers. Rules to hold politicians or bureaucrats accountable are underdeveloped and not enforced in practice. Procurement is still open to manipulation, although regulation has been improved. Corruption is not systematically prosecuted and courts themselves are highly corrupt. Civil society is too weak to have a real impact on the situation and NGOs are systematically discouraged from action on alleged corruption cases and public integrity issues.

Anti-corruption
policy
3

16 | Consensus-Building

The elite consensus developed under President and now Prime Minister Vladimir Putin is not primarily oriented towards the creation of a market-based democracy. The major political actors agree on the Putin model of a “controlled democracy” and a limited market economy. That means they accept the existing political and economic system, including democratic elections, as the main way of transferring political power and the market as major instrument for the coordination of economic activities. But they preserve the right to manipulate related mechanisms in order to improve their own position. Accordingly, democratic elections are manipulated to ensure the victory of pro-presidential parties and candidates and market rules are bent to support state enterprises. But whereas the political manipulations render democratic processes increasingly meaningless, the concept of the market economy is not fundamentally challenged by the major political actors, but just ignored in regard to specific policy issues. Actors in favor of a real market-based democracy, like the political parties Yabloko and URF or the democratic movements, have been increasingly marginalized in recent years and are no longer granted free access to the public discourse.

Consensus on goals
6

Representatives of genuinely democratic movements have been marginalized in Russian politics. There are no relevant pro-democratic reformers represented in the ruling elite.

Anti-democratic
actors
3

During his presidency from 2000 to 2008, Putin achieved considerable progress in consensus-building compared with his predecessor Yeltsin. The notion of the “Putin majority” has now become a fixture in the country’s political vocabulary. Opposition parties in parliament have been successfully marginalized. Putin’s opponents in the regions have also seen their position weakened and the removal of Moscow’s mayor in 2010 has eliminated the last remaining independent regional politician of national relevance. President Medvedev continues this policy in

Cleavage /
conflict
management
7

tandem with now Prime Minister Putin and has thus been able to profit from Putin's popularity. A large majority of the population supports the Putin–Medvedev team. The appeal for broad-based collaboration to ensure stability (meaning above all stable or rising living standards) is a core component of their political rhetoric. The global economic crisis has demonstrated both the success and the limits of this policy. On the one hand, the government succeeded in guaranteeing stability and securing continuous support by a majority of the population. On the other hand, first signs that stability might be lost (especially in the form of higher import tariffs on cars) led to protests, demonstrating that the Putin majority might be more fragile than its long persistence indicates. This is also indicated by the distrust of the political elite by most private entrepreneurs. However, the only cleavage-based conflict the political leadership has not been able to bring under control, is the separatist (ethnic/religious) conflict in the northern Caucasus.

Officially, the state executive aims at a dialogue with civil society. For this purpose, President Putin signed the law on the Public Chamber in April 2005. The Chamber, consisting of citizen representatives and CSOs, is intended to advise political decision makers on a wide range of public issues. Independent NGOs have criticized the make-up of the Chamber as being heavily influenced by the political leadership. As a result the Chamber has so far had no significant influence on political decisions or public debates. Both civil society and the mass-media risk serious harassment from state organs when they engage in unwelcome criticism of the state. Most mass-media have been brought under state control, and the creation of the Public Chamber in combination with the restrictive regulation on NGOs seems to be an attempt to bring civil society under control too. Those remaining outside state control are often oppressed or ridiculed.

Civil society
participation
3

Dealing with past injustices is no major topic in Russia. Attempts by CSOs to initiate a public debate on Soviet human rights abuses are hampered by a government policy which wants to celebrate Soviet successes (like victory in World War Two) and forget Soviet repressions. However, there are notable exceptions to this picture, like the new openness of the Russian leadership about the Katyn massacre, which promoted Russian–Polish rapprochement.

Reconciliation
4

17 | International Cooperation

While Russia under Boris Yeltsin cooperated with international partners like the World Bank or the IMF, the government often used international aid for inappropriate purposes, and applied only a very limited amount toward improving policies. Under Presidents Putin and Medvedev, by contrast, most international aid is outright rejected. Putin has accused NGOs who receive support from abroad of acting as agents of foreign powers. His public explanation is that Russia does not need foreign help in order to develop. It can arrange the necessary measures on its

Effective use of
support
4

own. Rhetorically he defends the Russian “way of (or to) democracy” with increasing self-confidence as being in line with Russian traditions and denies the moral right of foreign actors to make judgments concerning Russia’s political or economic system and human rights record. However, international partners are sometimes asked for advice and expert assessments – especially in economic policy – although without commitment from the Russian side.

Within its conceptual framework aimed at moral autonomy, meaning a right to its own way towards democracy, and regional dominance within the CIS region, the Russian government behaves consistently in international politics. However, tensions have been rising for three reasons. Firstly, Russia increasingly assumes the attitudes of a great power, using its permanent seat at the UN Security Council and its closer relations with some states which face considerable international pressure (like Iran or Uzbekistan) to hamper international conflict resolution. Secondly, there have been serious conflicts about Russian energy exports which have led to supply interruptions in the European markets and have caused worries especially in the European Union. Thirdly, Russia treats the CIS region as its sphere of influence and reacts to conflicts with increasing assertiveness. This led to an escalation with the South Ossetian war, when Russia reacted disproportionately to Georgian provocations by occupying large parts of the country and later recognizing the two breakaway republics of South Ossetia and Abkhazia as independent states (contrary to the argument it had used against the independence of Kosovo). In combination with Putin’s arrogant, aggressive and sometimes vulgar rhetoric, this has given many foreign observers and governments the impression of unpredictability. However, some foreign governments (in the West most notably Germany and Italy) still stress the reliability and consistency of Russian foreign policy. Moreover, the US administration under President Obama has tried to “reset” relations with Russia. This has led to some progress in international cooperation, namely the agreement on a new START treaty in 2010. In the aftermath of the Georgian crisis Russia has also been less vocal in its support of rogue governments, especially in Iran and Belarus.

Credibility

5

In relations with neighboring countries Russia still applies a foreign policy concept based on ideas of regional hegemony. However, Russia has been unable to transform the CIS into its own “backyard”. Whereas some CIS countries, like Kazakhstan or Belarus, have accepted Russian dominance in return for preferential economic treatment, and others, like Turkmenistan or Uzbekistan, have opted for pragmatic cooperation with Russia but refrain from closer integration, some CIS countries are in open opposition to Russia’s foreign policy. In dealing with these neighboring countries critical of Russia’s foreign policy Russia regularly provokes the escalation of single issue conflicts into broader state affairs. The most notable example was the year-long conflict with Georgia which escalated into a war in August 2008. In January 2009, the conflict over natural gas deliveries and transit

Regional
cooperation

4

between Russia and Ukraine escalated when both sides took an uncompromising stance. In 2010, relations with Belarus were in crisis after Belarus boycotted the Russian version of a customs union. At the same time Russia refrained from interference into the violent political conflict in Kyrgyzstan, although the country hosts a Russian as well as a US military air base and is, therefore, one focal point of regional geopolitical strategies. But the common explanation for the Russian refusal to intervene in Kyrgyz domestic affairs is not restraint of ambitions but fear of another Afghanistan.

Strategic Outlook

As President Putin has successfully managed the re-arrangement of the division of power after the end of his second presidential term in 2008 and has ensured that he can continue to coordinate Russian politics as prime minister in close cooperation with his hand-picked successor as president, Dmitry Medvedev, any major changes in Russia's political and economic system are unlikely in the near future.

In the political sphere the Putin–Medvedev team is able to realize most reform projects unchallenged. The political opposition remains marginalized and political pressure on mass-media and politically active NGOs persists. The armed conflict in the northern Caucasus, related terrorist attacks and massive human rights abuses by Russian military and law enforcement bodies continue.

As the aims of the Putin–Medvedev team are clear and as they have proven unwilling to change their position in reaction to criticism from abroad and, as Russia is strong enough to ignore foreign pressure, external supporters of Russia's development to a market-based democracy can only opt to accept Russia's conditions and find a niche for specific support programs or decide to withdraw from relations with Russia.

In the economic sphere the state executive has focused on support measures for the economy in the wake of the global financial and economic crisis. As monetary policy is one of the key competences of the Russian government, the impact of the crisis was successfully mitigated. Although there was a global trend towards increased state intervention during the economic crisis, in Russia earlier plans to establish state holdings in strategically important sectors of the economy were only partly realized.

Structural reforms (including the modernization of the economy and innovations) and improvements in the efficiency of the state bureaucracy (including advances in the fight against corruption) came to the governmental agenda as a consequence of global financial crisis and shortage of financial resources. However the policy in this field remains unclear and mostly declarative.

Integration into international organizations like the WTO or into concerted efforts to improve the global financial architecture in reaction to the economic crisis, might help to improve Russian economic policy, if there will be any meaningful international policy initiative.

Russia has become very self-confident in recent years. Invitations to join high-level organizations and positive remarks about the state of its democracy are taken for granted and do not lead to any efforts from Moscow for improvement. However, clear refusals and outright criticism are interpreted as a lack of understanding of the specific Russian situation and are met with insults and aggression. This poses a heavy burden on international attempts to mitigate

conflicts in the CIS region, although Russia has been cooperative in some international initiatives, namely the START negotiations. With the present Russian leadership it is hard to introduce international mechanisms of peaceful, rule-based and transparent conflict regulation. Nevertheless, this seems to be the only option available.