

BTI 2014 | Russia Country Report

Status Index	1-10	5.24	# 77 of 129	
Political Transformation	1-10	4.40	# 86 of 129	↘
Economic Transformation	1-10	6.07	# 48 of 129	→
Management Index	1-10	3.90	# 104 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	143.5	HDI	0.788	GDP p.c.	\$	23501.0
Pop. growth ¹	% p.a.	0.4	HDI rank of 187	55	Gini Index		40.1
Life expectancy	years	69.0	UN Education Index	0.862	Poverty ³	%	0.1
Urban population	%	74.0	Gender inequality ²	0.312	Aid per capita	\$	-

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

Throughout the period under review, political and economic developments in Russia have been heavily influenced by the policies of Vladimir Putin. President Putin has been in power for more than ten years, serving two terms as president from 2000 to 2008, then a term as prime minister (in close cooperation with his successor, then-President Dmitry Medvedev), before returning in 2012 to the office of president.

Russia suffered serious setbacks in terms of political transformation during this review period. Mass protests following the fraudulent December 2011 parliamentary elections temporarily flummoxed the regime, which responded by cracking down more heavily on the political opposition. After Putin won the presidential election in March 2013, a series of legislative changes were introduced that have further restricted the country's assembly and media freedoms. For example, fines for participating in unauthorized demonstrations have been dramatically increased, the definition of slander has been broadened and made a criminal offence, and several websites can now be blocked without the government having to seek a judicial order. In addition, non-governmental organizations that engage in political activities and receive financing from abroad must register as "foreign agents." To consolidate its power, the political elite around Putin routinely employs measures not in line with democratic standards. These include the marginalization of political actors outside the federal executive, the government tightening its grip on mass-media outlets, the harassment of politically relevant NGOs, and police forces violating human rights in the fight against rebels and terrorists in the northern Caucasus.

The international financial and economic crisis, which hit Russia in the fall of 2008, marked the end of a long economic boom. Since then, the state has been spending much of the funds saved during the boom in order to ease the economic and social consequences of the crisis. However, Russia's leadership follows a sound monetary policy and has repeatedly emphasized the need to modernize the country's 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 that are primarily symbolic in nature.

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 following a deadly clash between the president and the parliament which ended in shelling the parliament building on Yeltsin's order. 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 with Yeltsin being replaced by his appointed successor Vladimir Putin. This transfer of power coincided with the growth of Russia's financial might as the price of oil and other raw materials sky-rocketed. Putin had earned sustained support from significantly more than half of the voters. 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 aside the federal principle, outlined in the constitution.

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 1 (worst) to 10 (best).

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 Dagestan, Chechnya 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 at all levels 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 as well as extrusion of ethnic Russians from the region.

There is separation of church and state and the political process is secularized. However, the Russian Orthodox Church has a privileged status with top governmental officials not only demonstrating their belongingness to it but more and more often referring to traditional Russian Orthodox values. 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 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

The Russian electoral system is not undemocratic in essence, but it is clearly designed to favor the pro-presidential party. The voting process is generally free but there are severe problems in terms of electoral fairness. Electoral campaigns and registration processes are biased against opposition parties and candidates. There are severe constraints with regard to registration and media access. Officials in many local and regional elections have cited supposed administrative issues in denying opposition candidates and parties registration. Election campaigns are regularly manipulated by the state administration throughout the country. This includes biased media coverage on state-controlled television channels in particular, the use of state resources to support specific parties or candidates, and bans on public demonstrations or assemblies organized by opposition parties. Moreover, the electoral system has been restructured to favor the pro-governmental party United Russia. Electoral fraud has been reported in rural districts, and elections in some ethnic republics, particularly in the northern Caucasus and Kalmykia, did not meet democratic standards. However, independent opinion polls conducted during previous parliamentary and presidential elections, had always confirmed that the majority of the population supported the pro-presidential party and the presidential candidates Vladimir Putin and his successor Dmitry Medvedev. This was clearly largely a result of the biased media coverage, which ensured that there was no need to systematically manipulate the vote count in popular elections.

Free and fair
elections
5

On the eve of the December 2011 Duma elections, this balance in favor of the ruling United Russia government party seemed to have eroded. The poll numbers for President Medvedev, Prime Minister Putin and United Russia declined dramatically, with a young, well-educated urban population expressing its disappointment in Medvedev's failure to deliver on his economic and social promises. Putin's announcement that he would run again for the presidency in early 2012 was met by

many without the anticipated applause. The leadership appeared to grow nervous, and sought to manufacture stable majorities through the reinforcements of electoral fraud. According to international and local election observers, the election's flaws were numerous and obvious in several regions and major cities throughout the country (including Moscow). United Russia won only 49.3% of the vote (a figure widely believed to have been inflated), a figure considerably less than the comfortable two-thirds majority it had won in the 2007 elections. Following the vote, and in the largest protests taking place across the country since the 1990s, Russians called for new elections, criticizing the arrest of demonstration participants and demanded the removal of the chairman of the Central Election Commission.

In the March 2012 presidential elections, Putin was able to secure his victory with 63.6% of the votes. The OSCE/ODIR stated that although this election was conducted more fairly than the Duma election, genuine competition remained absent. The Russian NGO GOLOS estimated some 15% of votes had been falsified.

After Putin had replaced the gubernatorial elections in 2004 with presidential appointments, direct regional elections for Russia's governors were reintroduced in 2012, a decision that was widely seen as a concession to public protests. The regional elections gave serious advantages to incumbent governors, and in the first five races of 2012, candidates that had Moscow's approval claimed victory in each of these elections. Moreover, in order to avoid serious campaigning and to provide for easier victories in regional and local elections, it was decided to hold all elections once a year, on the second Sunday of September.

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, have been successfully reduced under President Putin to be replaced by state corporations led by his close allies and former colleagues. 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.

The constitution guarantees freedom of association and assembly and state representatives voice support for these rights. 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.

Effective power to govern

2

Association / assembly rights

3

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.

The fraudulent parliamentary elections in December 2012 triggered the largest mass protests across the country since the 1990s. The arrest of demonstration participants was widely used as an attempt to intimidate the protestors. Although demonstrations subsided after Putin’s re-election, clashes between protestors and the police at a rally on the eve of his 6 May 2012 inauguration in Moscow’s Bolotnaya Square led to further arrests, several participants faced criminal charges during the year. In the months after Putin took office, the government increased the pressure on NGOs and further restricted assembly and association rights by enacting new legislation that increased the fines for participating in unsanctioned rallies. According to the Council of Europe’s Venice Commission, the law violates a number of European standards, for example by allowing the authorities to change the location on a rally on arbitrary grounds.

In addition, non-governmental organizations that engage in political activities and receive financing from abroad must register as “foreign agents” according to a new law that was passed in July 2012. Under pressure from the Russian government, the U.S. Agency for International Development (USAID) and UNICEF have discontinued their activities in the country.

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. 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.

Freedom of
expression

4

Since his return to office, Putin increased the pressure on independent media as well as on online news sources. In connection with the 6-9 May protests in Moscow, several journalists who covered the events were detained and some independent websites were temporarily unavailable by distributed denial-of-service (DDoS) attacks. One of the most serious setbacks was the recriminalization of libel in July 2012, an offense which had just been decriminalized under President Medvedev in late 2011. In addition, a new law gave the government an additional mechanism to potentially censor the web by creating a blacklist of websites that can be blocked even in the absence of a judicial order.

According to the Glasnost Defense Foundation 4 journalists have been killed in 2012 and 99 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

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.

Separation of
powers
4

In specific high-profile cases, like the Pussy Riot affair in 2012 principles of equal treatment and formal court proceedings have been violated in the interest of the national government. The criminal investigations targeting opposition leaders like Aleksey Navalny or Boris Nemtsov similarly demonstrate the extent to which the legal system is dependent on political authorities.

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 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.

Independent
judiciary
4

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.

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 public relations campaigns resulting from political power struggles. When, for example, Putin decided to sack Defense Minister Anatoly Serdyukov, there were a lot of media reports about his mismanagement and corruption. However, initially no court proceedings were initiated against him after the resignation.

Prosecution of
office abuse
4

The constitution guarantees civil rights. In addition the Russian Ombudsman for Human Rights and his colleagues in regions 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 'Kirovles' Navalny case, which saw a court decision in July 2013. The limits of the protection of civil rights are also indicated by the fact that nearly 100,000 cases from Russia are pending at the European Court of Human Rights.

Civil rights
5

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 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 until recently was a debatable exception until recently. The constitution defines Russia as a federal state, but in 2005-2012 elections of regional governors have been abandoned in favor of appointment by the president. Some experts claim that this was in violation of the constitution, but the Russian Constitutional Court has not been asked to rule on the matter. In 2012, the direct vote for of the Regional Governors was reintroduced, but the majority of the results of the first round of elections showed that the election processes were heavily influenced in favor of the incumbents.

Performance of
democratic
institutions
3

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.

Political power is concentrated not so much within the existing democratic state institutions accepted as legitimate by all relevant actors, but rather within major business-political elite clans. There is serious opposition to the (formally democratic) political system. 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

2

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 shrinking and aging, mass base. In addition the pro-presidential party United Russia, which was founded in 2001 through a merger of the two main rival parties 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-nationalist Liberal Democratic Party (LDPR) and the liberal Yabloko party. The United Russia which is still the dominant party in Russian politics gained 49.3% in the 2011 parliamentary elections compared to 64% in 2007. However, it holds a majority in the State Duma (the lower house of parliament) and in almost all regional parliaments. United Russia often cooperates with the populist LDPR (9%) and other parties of the so called systemic opposition represented at the Duma – the Communist Party (19.2%) and the Just Russia party (13.2%). As a result there is a low level of polarization in the party system.

Party system

4

Until recently there existed only 8 registered political parties in Russia. 2012 changes in the law on political parties have radically weakened restrictive requirements for political parties to be registered, and parties have mushroomed with their number reaching 70 by June 2013, however almost none of them are able to participate even in regional elections.

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 in the past. The new law that forces politically active, foreign-funded NGOs to register as "foreign agents" could have a severe impact on the landscape of civil society organizations as many of them are dependent on foreign funding. 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.

Interest groups
4

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.

The mass protests following the 2011 Duma elections demonstrated that civil society in Russia is playing a more active role in public life. At the same time they faced increased repression during the period of observation. The street protests continued throughout 2012, but their size dropped and the momentum to mobilize a larger part of the population could not be sustained.

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.

Approval of
democracy
n/a

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 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 may indicate disappointment with the Russian reality more than any attitude toward 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.

Social capital
4

In recent years however, the situation has started to improve with thousands of volunteers organized through social networks participating in fighting with forest fires, helping those who suffered from floods, participating in search of lost persons etc. 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. New legal provisions and increasing pressure by the government throughout 2012-2012 to cut off foreign funding severely impact their possibility to operate.

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

The key indicators show a relatively high level of socioeconomic development for Russia. Measured in terms of the Human Development Index (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 \$900 in 2013. 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.

Socioeconomic
barriers
6

Economic indicators		2009	2010	2011	2012
GDP	\$ M	1222648.1	1524915.3	1899086.2	2014776.3
GDP growth	%	-7.8	4.5	4.3	3.4
Inflation (CPI)	%	11.7	6.9	8.4	5.1
Unemployment	%	8.4	7.5	6.6	-
Foreign direct investment	% of GDP	3.0	2.8	2.9	2.6
Export growth	%	-4.7	7.0	0.3	1.4
Import growth	%	-30.4	25.8	20.3	9.5
Current account balance	\$ M	50383.6	67452.2	97274.0	71431.9
Public debt	% of GDP	11.0	11.0	11.7	10.9
External debt	\$ M	479036.1	510151.7	542976.7	-
Total debt service	\$ M	63808.0	56568.3	64299.9	-
Cash surplus or deficit	% of GDP	-4.2	-1.9	3.3	-
Tax revenue	% of GDP	13.0	13.0	15.0	-
Government consumption	% of GDP	20.8	18.7	18.0	18.6
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	4.1	3.8	3.7	-
R&D expenditure	% of GDP	1.25	1.16	-	-
Military expenditure	% of GDP	4.7	4.3	4.1	4.5

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

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, although it decreased with Russia joining the World Trade Organization after 18 years of negotiations. The national currency became freely

Market-based
competition
5

convertible in summer 2006. Foreign trade was liberalized and currently the remaining restrictions are no more extensive than in OECD countries.

However, state economic policy remains 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, in 2008 it switched to outflow reaching \$ 80 billion in 2011 and \$ 57 billion in 2012, red tape presents a serious obstacle to running a small or medium-sized enterprise. Russia is ranked at 112 out of 183 on the World Bank's 2013 "Ease of Doing Business" ranking, which shows some recent improvement. 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 long-term debates over the issue. Moreover, a new giant – the state company 'Rosneft' - appears in the oil sector. 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 finally joined the World Trade Organization (WTO) in August 2012, not only are there some barriers remaining but there are new protective import tariffs imposed on some agricultural products and on cars in late 2008 in reaction to the international economic crises. 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 summer 2010 grain exports were temporarily banned in reaction to a bad harvest after extreme drought and forest fires.

Liberalization of
foreign trade
8

In 2011 Russia has formed the Customs Union with Belarus and Kazakhstan with common tariffs, no customs duties and economic limitations in mutual trade except for special protective, antidumping and compensatory measures.

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.

Banking system
6

The international financial crisis, which reached Russia in autumn 2008, has put a heavy 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 toward 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, including 74 banks with totally foreign capital. Almost 800 of them are included into the system of securing deposits.

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. In 2009, the inflation rate dropped down below 10% and since 2011 stays at the level of 5-6%.

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, in 2011 and 2012 budgets were practically balanced. However, Russia's dependence from oil price has increased essentially last years: in 2007 oil had to cost \$ 26 per barrel for the budget to be balanced while in 2011 – \$ 115.

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

The state controls half of the economy compared to 38% in 2006. 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 and 55% in 2013. The bias toward 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. The share of small and medium business is only 16% and is decreasing.

Private enterprise
5

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

Social safety nets
6

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 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 under-represented 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 rate of inflation based on the Consumer Price Index (CPI) was 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, although about half of regions did not recover yet. In 2012, however, GDP dropped to 3.4% with the Russian economy showing signs of stagnation and even facing the risk of recession. Inflation declined to 6%, unemployment to 5.7%, and the state budget was practically balanced.

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.

Education policy /
R&D
6

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

In 2009 Russia adopted the Unified State’s exam system with a single form of both finals at schools and entrance exams at colleges. Aimed to decrease corruption and to allow provincial schoolchildren to enter the best universities at capitals, it still causes numerous scandals connected to violations leading to surprisingly high results in some regions.

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, which however decreases by 0.7-0.8 million a year due to demographic reasons.

Structural
constraints
5

There are some serious geographic and infrastructural deficiencies which could not be overcome in a short while by good political management. The two most important ones are a costly spatial patterns of the economy and a settlement inherited from the Soviet past as well as the low connectedness of the economic space, which is now shrinking. The production of raw material in northern regions poses a real challenge. Also, a decline in health care standards, alcoholism and general aging of population are causing a serious demographic problem. Russia's population has declined from 147 million people in 2000 to 143 million in 2013.

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 activist 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, ghettoed protest minority, and a passive majority. This division has rather strengthened since the 2011-2012 political protests in big cities and Putin's 2012 decision to position himself as the President of the majority, not of all Russians.

Conflict intensity
4

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.

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 and later Medvedev's (2008-2012) administrations. 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 over the legislative process and the implementation of policy measures. On the economic side, the state aims to increase its presence in economy and to promote economic growth partly through direct intervention.

In May 2012, President Putin laid out a dozen ambitious long-term goals by decree in May 2012. The strategic goals included creating 25 million new jobs by 2020, a 50% increase in labor productivity; and an improvement of Russia's World Bank Ease of Doing Business ranking from the 120th place to the 50th by 2015. The issued decree also included the goal of increasing the average lifespan to 74 years and the birthrate to 1.753 per woman by 2018. The government was tasked with preparing a strategic plan and new budget policies by October 2012; creating an ombudsman for the defense of small business by December 2012; and reviewing the status of state corporations by March 2013.

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 in which interests of different elite groups overlap, and 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

Question
Score

Prioritization
5

Implementation
4

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 then President Dmitry Medvedev as the major challenge facing the country. The ambitious long-term goals of the new Putin presidency aim primarily on increased delivery of services in health and education at the regional level

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 civil society organizations (CSOs) are increasingly brought under Kremlin control and opposition voices are repressed or ridiculed. Although, there are some influential think tanks in the country, which regularly give independent advice to the government on key policy reforms, their role diminishes with the government tending to include experts and to avoid advice from outside.

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 considerably reduced. The processes of budget planning and spending discipline have been improved considerably. However, there is no effective audit and reports by the 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 time to time stresses 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 rather than on efficiency.

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 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 posing an increasingly heavy burden to any development. 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 Vladimir Putin is not primarily oriented toward 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 controlled elections, as the main way of legitimizing political power and the state as major instrument for the coordination of economic activities along with some market mechanisms. But they preserve the right to manipulate related mechanisms in order

Consensus on goals
6

to improve their own position. Accordingly, 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 Civic Platform or the democratic movements, have been increasingly marginalized in recent years and are no longer granted free access to the public discourse.

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

2

During his first two presidential terms 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.

Cleavage /
conflict
management

7

A large although decreasing majority of the population supports Putin and his 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 both to advise political decision makers on a wide range of public issues and to serve as a kind of the civil society ministry. It publicly criticized the attack against independent NGOs, especially financed by foreign sources, which intensified essentially in 2012-2013. 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
participation

3

civil society under control too. Those remaining outside state control are often oppressed or ridiculed.

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. Although, there are some exceptions to this picture, like the recent openness of the Russian leadership about the Katyn massacre, which promoted Russian–Polish rapprochement, the general trend is a glorification of Soviet history including Stalin’s period.

Reconciliation
4

17 | International Cooperation

Under President Putin most international aid is outright rejected. NGOs who receive support from abroad have to register as “foreign agents” under a new law. His public explanation is that Russia does not need foreign help in order to develop. It can arrange the necessary measures on its own. The period under observation has seen an acceleration of this trend as the authorities have taken steps to end foreign assistance, especially to Russian civil society. The U.S. Agency for International Development (USAID) ended its activities in Russia as well as the UN Children’s Fund (UNICEF) due to government pressure. Rhetorically Putin 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.

Effective use of
support
4

Within its conceptual framework aimed at moral autonomy, meaning a right to its own way toward 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). This has given many foreign observers and governments the impression of unpredictability. The rising pressure on countries of the European Union’s Eastern Partnership to join the Customs Union has led to growing tensions between the EU and Russia. Even those foreign governments (most

Credibility
5

notably Germany) which did stress the reliability and consistency of Russian foreign policy, are changing their position. 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 Strategic Arms Reduction Treaty (START) treaty in 2010, but the whole reset lost steam pretty soon, with growing tension between Russia and the West over criticism of human rights abuses in Russia, and international issues like the civil war in Syria.

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. Since his return to office, Putin has intensified the efforts to enhance further economic and political integration through the Customs Union and the Eurasian Union.

Regional
cooperation
4

Strategic Outlook

The political and economic development of Russia has been highly influenced by the policies of Vladimir Putin, who is now in power for more than a decade - he served two terms as president from 2000 until 2008, then became prime minister in close cooperation with his successor President Dmitry Medvedev, and returned to office of the President for six more years in 2012.

In terms of the country's political transformation, the period under study marked a serious setback. The mass protests following the fraudulent parliamentary elections in December 2011 temporarily irritated the regime and were met with increasing repression against political opposition. After Putin won the presidential election in March 2013, numerous legislative changes have further restricted the country's assembly and media freedoms. For example, fines for participating in unauthorized demonstrations have been dramatically increased, slander has again been made illegal, and a blacklist of websites that can be blocked even in the absence of a judicial order has been created. In addition, non-governmental organizations that engage in political activities and receive financing from abroad must register as "foreign agents." To consolidate its power the political elite around Putin 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 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 has been 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. Russian leadership 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.

Within its conceptual framework, the Russian government behaves consistently in international politics. However, Russia has become very self-confident in recent years against the background of the economic crises in the West. 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.