

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	3.91	# 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." In an effort to consolidate its power, the political elite around Putin has routinely employed measures that fail to meet 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

Economic and political transformation processes were initiated in Russia through reforms introduced by Soviet General Secretary Mikhail Gorbachev in the late 1980s. However, it was the reforms advanced by Russian President Boris Yeltsin in the 1990s that served to define post-Soviet Russia. Following a deadly clash between the president and the parliament that ended with a shelling of the Duma on Yeltsin's order, the Russian constitution, which expressly provides for the democratic rule of law, was approved by a public referendum. Parliamentary elections held at the same time, however, resulted in outspokenly anti-democratic parties winning 43% of the vote. The political balance of power in favor of a strong executive remained fairly constant until 1999, when Yeltsin stepped down from office. Under President Yeltsin, the discrepancies between constitutional provisions and political reality were significant. These democratic deficits could be attributed in part to anti-democratic forces that stalled reform projects in parliament while showing a flagrant disregard for democratic standards at a regional level. But these deficits were also rooted in the manipulation and pressure exercised by the Yeltsin administration in handling the mass media. These tactics created a political context in which actors without democratic legitimacy (i.e., oligarchs) were able to influence political decision-making processes considerably.

The 1992 reform package marked the first milestone in Russia's transformation toward a market economy. Core components of this reform package included price liberalization and a massive privatization plan. However, the anticipated economic upswing remained a distant goal as Russia found itself facing a prolonged economic crisis. By 1999, GDP had declined from \$516.8 billion in 1990 to \$195.9 billion, that is, by more than 60%. Throughout this period, Russia remained competitive on the global market only as an exporter of raw materials while imported goods dominated many sectors in the domestic market. And whereas capital spending shrank dramatically, capital flight remained high. Core economic reforms, including a new tax code and land code, were blocked in the legislative process. The protracted economic crisis also weighed heavily on Russians' standard of living and exacerbated social inequality.

The situation changed markedly when Yeltsin was replaced by his appointed successor Vladimir Putin in 1999, who then went on to win elections (with 53% of votes) held in 2000. This transfer of power coincided with the growth of Russia's financial might as the price of oil and other raw materials skyrocketed. Putin enjoyed sustained support from significantly more than half of the voters throughout most of his first two presidential terms (2000–2008). A key factor in his popularity was his resolute handling of the Second Chechen War, which began in 1999. Referring to the clashes in the northern Caucasus as a "state of emergency," Putin took decisive action in combatting separatists and terrorists throughout the region. Putin also won high approval for tough government measures against business tycoons, the oligarchs. At the same time, Putin's

administration imposed new constraints on democratic principles, in particular by interfering with press freedoms, subjecting NGOs to harassment and, most fundamentally, by committing human rights violations in the Chechen war. Showing flagrant disregard for the federalist principle outlined in the constitution, Putin introduced political reforms in 2004 to strengthen the central government's control over the regions.

Whereas authoritarian tendencies have figured strongly in political transformation since Putin's first term, the more liberal ideas influencing economic policy during his first term gave way in his second term to an increased focus on gaining control over "strategic" economic sectors. Largely driven by increases in world oil prices, Russia experienced a decade of strong economic growth. From 1999 to 2008, Russia's GDP increased by 6.9% on average per year. But despite large-scale social projects, socioeconomic development has been slowed by widespread corruption, an extensive shadow economy and the executive branch's manipulation of the judiciary.

At the end of his second term in April 2008, Putin accepted the constitutional limit on presidential terms and did not seek re-election. 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, a decision that appeared to confirm speculations of Putin continuing his hold on power. The transformation strategy pursued by Putin and Medvedev aims primarily at ensuring a stable political system and considerable economic growth. For the Russian leadership, violating certain fundamental democratic rights or market principles are, at times, necessary means to their stated objectives. Measured in their terms, 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 anchored in principles of social justice, governance in Russia is below the bar.

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 challenged only with regard to separatists in the northern Caucasus. Since the second Chechen war began in September 1999, the Russian military has been unable to establish full control in the region. The northern Caucasus regions of Dagestan, Chechnya and Ingushetia are regularly subject to attacks by rebels targeting individuals and institutions representative of Russia's central power. Rebels have also committed several acts of terrorism throughout the region and in Moscow. There are no serious limitations on the state's monopoly on the use of force outside the northern Caucasus.

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 conceives of the current Russian state as a state based on those nations of people that, historically, have lived on its territory, with a dominant role ascribed to the Russian nation. Xenophobia is 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 state employees discriminating against Russian citizens who are members of ethnic minorities from the northern Caucasus region, and ethnic Russians from the region are often excluded from participation in the political process.

There is separation of church and state, and the political process is secularized. However, the Russian Orthodox Church enjoys a privileged status among top government officials who publicly demonstrate their denominational preference and are increasingly referring to traditional Russian Orthodox values. Members of other religious groups, including the Roman Catholic Church and Islam, have occasionally complained of discrimination. At the same time, the Russian government has adopted an explicitly pro-Islamic stance on several occasions, and President Putin has

Question
Score

Monopoly on the
use of force
7

State identity
8

No interference of
religious dogmas
9

repeatedly pointed out that, in absolute terms, Russia has one of the world's largest Muslim populations.

Apart from some northern Caucasus regions, the state has in place a basic administrative infrastructure (i.e., administrative institutions, fundamental administration of justice, the means of implementing policies) throughout the country. However, bureaucratization, corruption and a lack of funds have resulted in erratic administrative performance.

Basic
administration
7

Basic infrastructural services such as water supply, transport, communication, health services and education have been in place throughout the country since Soviet times. However, some rural areas still do not have access to all services. Indeed, more than 10% of all Russian households lack full access to sanitation. Moreover, the lack of funds for maintenance and modernization have resulted in a decline in the quality of basic services in many regions. In addition, corruption tends to disadvantage the poor concerning access to services such as 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, the informal power of non-state actors (i.e., oligarchs), have been successfully reduced under President Putin, only to be replaced by the influence of state corporations led by his close allies and former colleagues. It is generally assumed that representatives of the secret services and the military (referred to in Russia as the "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 freedoms of association and assembly, and state representatives voice support for these rights. However, in practice, there are considerable restrictions placed 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

Effective power to govern

2

Association / assembly rights

3

national or regional government have also repeatedly been subject to harassment by state agencies.

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 who then arrested 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 pressures placed 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 fronts. 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

Freedom of
expression

4

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.

Since his return to office, Putin has placed increasing pressure on independent media and online news sources. During the May 2012 protests in Moscow, several journalists covering 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. Further new legislation in 2012 provided the government an additional mechanism with which it can 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, four journalists were 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.

The judiciary is institutionally differentiated and a formally adequate education and appointment system for judges exists. However, their professionalism suffers from the legacies of 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 suggests that Russian citizens consider their domestic courts to be biased.

Independent
judiciary
4

According to many surveys of entrepreneurs, courts are perceived to operate fairly in the case of inter-firm disputes. In contrast, court cases against state agencies are perceived 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 keeping a leading political challenger imprisoned.

The Russian leadership, including Putin and Medvedev, repeatedly names corruption as a key challenge. However, most anti-corruption efforts are symbolic in nature. Accusations of corruption among the political elite are considered to be functions of public relations campaigns that arise within political power struggles. When, for example, Putin decided to sack Defense Minister Anatoly Serdyukov, there were several media reports alleging mismanagement and corruption under his watch. However, no court proceedings were initiated against him following his resignation.

Prosecution of
office abuse
4

The constitution guarantees civil rights. The Russian Ombudsman for Human Rights, together with his colleagues at the regional level and independent NGOs, serve to monitor the assurance of these rights. 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 the country's leaders believe is requisite to providing stability. Lower courts are often biased in favor of local politicians or as a result of corruption and do not, therefore, properly protect 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 fact that nearly 100,000 cases from Russia are pending at the European Court of Human Rights also underscores the poor state of civil rights protection the country.

Civil rights
5

With regard to 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 at the hands of Russian security forces are rarely investigated and rarely 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 are in place and perform their functions, in principle. The institution of the Regional Governors was, until recently, a debatable exception. The constitution defines Russia as a federal state, but from 2005 to 2012, elections for regional governors had been abandoned, with the president appointing these officials instead. 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, a direct vote of the Regional Governors was reintroduced, but results for most of the first round of elections showed that 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, which violates the separation of powers and the rule of law. A further obstacle to the adequate performance of democratic institutions

is the country's weak party system, which is dominated by the "party of power," United Russia. A weak civil society limited in its capacity to counteract the effects of strong state influences also contributes to democratic institutions' weak performance. Finally, legislated provisions are often poorly implemented by an inefficient administration that is subject to 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, these institutions are manipulated and these undemocratic methods are deemed legitimate by political elites. 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. In fact, the share of the population claiming to trust parties 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. It has done so with state support and by providing financial and professional incentives for members. Further parties with a certain degree of institutionalization are the populist-nationalist Liberal Democratic Party (LDPR) and the liberal Yabloko party. United Russia, which is still the dominant party in Russian politics, won only 49.3% in the 2011 parliamentary elections, down nearly 15 percentage points from its 64% share in 2007. But it still holds a majority in the 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 within the Duma, that is, 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 were only eight registered political parties in Russia. Changes in 2012 to the law on political parties have radically weakened restrictive requirements for the registration of political parties. As a result, the number of parties has mushroomed, reaching 70 by June 2013. However, few of them are able to participate even in regional elections.

The ecology of interest groups targeting social and political issues is weak. Important social interests are under-represented. The trade union movement remains dominated by the successors to the socialist unions. The political leadership's reaction to the activities of interest groups has essentially been symbolic. Putin, and recently, more vocally, Medvedev, have stressed the need for a strong civil society in several well-publicized speeches. 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 the state executive and civil society. They have also been subject to harassment by state agencies on several occasions.

Interest groups
4

As a result of several years of harassment (or taming), the strength and variety of interest groups has been further reduced. Today, many NGOs shy away from political affairs. There are also several state-sponsored organizations openly supporting the government, and some business associations that are increasingly engaged in a constructive dialogue with the government. Finally, there is a relatively small group of NGOs acting in (more or less) outspoken opposition to the government.

The mass protests following the 2011 Duma elections demonstrated that civil society in Russia is beginning to take on a more active role in public life. At the same time, they faced increased repression during the period of observation. Though street protests continued throughout 2012, the numbers of participants declined as the momentum in mobilizing a larger share 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 little more than 10% can be counted as strong democrats. Accordingly, the majority of the Russian population has no strong opinion on democracy. This implies a sort of silent consent to democratic norms, but no principled 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 claims to have trust in others. This result is on

Social capital
4

par with the average for all 57 countries included in the latest round of the World Value Survey. However, this average level of trust translates into a comparatively low level of voluntary and autonomous activity.

In recent years however, the situation has started to improve as thousands of volunteers organized through social networks participated in fighting forest fires and assisting those hit by flooding, among other activities. 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 have been able to survive only as a result of the support of international organizations and sponsors. New legal provisions and increasing pressure by the government throughout 2011 and 2012 to cut off foreign funding have severely affected their capacity to operate.

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 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% by 2008, had been accompanied by an eightfold rise in average wages (from \$80 per month to \$600). The negative impact of the global economic crisis (2008 – 2009) on socioeconomic development has largely been averted through expansive state spending. As a result, unemployment was back to the pre-crisis level in 2010 and average wages increased further 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.

Question
Score

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 provides subsidies for agricultural products, although these have decreased since Russia joined the World Trade Organization in August 2012, following 18 years of negotiations. The national currency became freely convertible in summer 2006. Foreign trade has been liberalized and the remaining restrictions are no more extensive than those found in other OECD countries.

Market-based
competition

5

However, economic policy remains skewed in favor of politically influential large corporations, in particular state-owned companies. The state has increased its share of companies owned and has, in a number of economic sectors deemed to be of strategic relevance, discriminated against private and foreign investors in particular. 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 for innovative and export-oriented firms has 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, President Putin's economic reforms have reduced the size of this sector considerably.

However, independent empirical studies are not available. Although the economic boom in the late 1990s generated a net capital inflow, Russia showed a net outflow by 2008. Net outflow reached \$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 112th out of 183 on the World Bank's 2013 "Ease of Doing Business" ranking. As a result of unattractive conditions for business, investments lie far below the levels needed to satisfy the Russian economy's modernization needs.

Broad sectors of the economy, defined as significant to national security, are shielded from competitive pressures. Despite long-running debates, the "natural" monopolies in the natural gas and transportation industries have not been subject to substantial reforms. In addition, a new giant, the state company Rosneft, has emerged in the oil sector. Russia's anti-monopoly agency is rather efficient in addressing the liberalized sectors of the economy, though this is less true at the regional level, where some administrative offices have blocked competition.

Anti-monopoly
policy
7

Although Russia's foreign trade has been liberalized in principle, and despite having finally joined the World Trade Organization (WTO) in August 2012 after 18 years of negotiation, some barriers to free trade remain. In response to the global economic crisis, new protective import tariffs were imposed on certain agricultural products and on cars in late 2008. Regulatory exceptions with regard to these products as well as some metals have resulted in regular trade disputes, primarily with the EU. In summer 2010, grain exports were temporarily banned in reaction to a poor harvest resulting from extreme drought and forest fires.

Liberalization of
foreign trade
8

In 2010, Russia formed the Customs Union with Belarus and Kazakhstan, which allows for common tariffs and removes customs duties and other barriers to mutual trade, with the exception of certain protective measures designed to prevent price-dumping. In January 2012, further economic integration to form a Eurasian Union was announced.

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, the Russian banking sector is diversifying 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 the banking system's liquidity, thus preventing 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 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 in 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 has remained between 5% and 6% since 2011.

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

Macrostability
9

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 for the future the state budget's windfall profits from high oil prices. 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 on oil prices has increased in recent years: In 2007, Russia needed an oil price of \$26 per barrel for the budget to be balanced; in 2011, it needed \$115 per barrel.

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, legal provisions are practical. They are not, however, consistently implemented or adequately safeguarded by law, especially against state intervention. In those sectors deemed strategic by the government (e.g., the oil industry) the state seems to be systematically reducing the share of private owners through administrative pressures, which lead either to confiscations or to negotiated sales. Some property rights, especially copyrights, are ignored on a regular basis.

Property rights
3

The state now controls 50% of the economy, which is considerably more than the 38% share it held 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 in covering basic needs. Without additional income – such as a job in the shadow economy, private farming or family support – these social groups are

Social safety nets
6

at risk of slipping into poverty. The bigger cities have large numbers of homeless people without access to state social facilities. Economic growth since 1999 has mitigated the country's social problems, as wages and employment rates have risen and poverty has been reduced.

The negative impact of the global economic crisis of 2008 – 2009 on Russia's socioeconomic indicators has been offset by 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 impact so far, primarily because of the magnitude of the problem and inefficiency within the state bureaucracy. For example, the sheer size of the state health care sector as an employer with 700,000 doctors and an additional 1.5 million trained medical personnel, makes a rise in salaries difficult. Another problem with the special state programs is that they have not established 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, in particular those from the Caucasus, are subject to 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 and wages are far below the national average and a quarter of the population is unemployed. 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 2008, when the global economic crisis hit Russia, the country's macroeconomic performance had been strong. GDP grew by 70% from 2000 to 2008. In 2006, GDP grew by 8% and fixed investments increased by 17% (though they were at rather low levels to begin with). At 9% in 2006, the rate of inflation based on the Consumer Price Index (CPI) was much lower than the 20% recorded in 2000. Unemployment also fell from 10% in 2000 to 6% in 2006, and the state budget recorded a surplus equal to 7% of GDP in 2006. For the same year, Russia ran a current account surplus of nearly \$100 billion thanks to massive exports of raw materials (oil, gas and metals), and the share of tax revenue as a percentage of GDP stood slightly above a 33%, which is roughly equal to the OECD average.

Output strength
7

From 2008 to 2009, GDP fell by 8%, fixed investments dropped by 17%, inflation (CPI) rose to 12% and unemployment to 8%. The current account surplus was reduced to \$50 billion. Falling oil prices in 2009 delivered a heavy blow to the state budget, which depends heavily on tax and customs payments from the oil and gas industries. As budget revenues shrunk by nearly 15% from 2008 to 2009, Russia's budget shifted from a 6% surplus to a 4% deficit during the same time period. 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 as a whole recovered in 2010, although nearly half of the country's regions did not. After reaching 4.5% in 2010, economic growth in Russia slowed to 3.4% in 2012 as the country's economy began to show signs of stagnation and risked going into recession.

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. Environmental concerns are addressed only when they promise to deliver clear, material, short-term advantages (and can be used to put pressure on unwanted investors) or when rewards in the international arena are expected in return (e.g., when the EU agreed on Russia's WTO accession terms in return for Russia's ratification of the Kyoto Protocol). A long-term political effort to reduce the country's economic dependence on raw material production would reduce the negative impact these industries have on the environment, but such motivations are rarely cited by leaders when addressing such long-term goals. Relevant support for renewable energies is also not addressed.

Environmental
policy
3

Russia inherited from the Soviet Union an education system with relatively high standards from an international perspective. Under post-Soviet conditions, however, the country has been unable to put this education potential to good economic use. Instead, Russia has suffered from the 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 for the public system's shortcomings.

Education policy /
R&D
6

The Russian government reacted to this by declaring education a top priority as one of four national projects to receive considerable additional funding. Spending on education has reached 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 in some areas (e.g., space technology) is still on par with international standards, but overall Russia fails to meet the OECD average in terms of R&D spending and output.

The Russian government has declared R&D has a top priority, with spending on R&D hovering 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 exam system used at most U.S. educational institutions, with finals at secondary level schools and entrance exams for tertiary level education. Aimed to decrease corruption and to provide provincial schoolchildren access to the best universities, this system remains fraught with problems as scandals involving unusually high results for students in some regions have come to light.

Transformation Management

I. Level of Difficulty

The structural constraints on governance in Russia are moderate, and key indicators show a relatively high level of socioeconomic development. The country has an educated workforce that is, however, shrinking by 0.7 to 0.8 million a year as a result of demographic shifts. A decline in health care standards, increasing rates of alcoholism and an aging population are generating serious demographic problems. Russia's population has declined from 147 million people in 2000 to 143 million in 2013.

Structural
constraints

5

Russia's sheer size in landmass and physical geography continue to pose infrastructural challenges not easily overcome, not even by good governance. The country's population is concentrated in the more climate-friendly western and southern regions of the country, leaving vast areas of the country sparsely populated. These areas, where most of the country's highly valuable natural resources are found, remain essentially cut off from Russian and global markets. Russia has no developed transcontinental rail or highway system, which makes transporting these materials costly.

Throughout most of Russia's history, civil society was subject to considerable repression. Independent NGOs started to develop only in the late 1980s. The only longstanding 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 facilitated a strong confrontational approach to national politics. Many of Putin's political associates perceive politics in terms of "us versus them," which has resulted in several opposition figures and political movements being subject to discrimination and the target of populist slogans, biased media reports and police razzia. The political leadership's capacity to dominate public discourse has created a context of passivity among much of the Russian population and marginalized the opposition.

Conflict intensity

4

Nonetheless, divisions in Russian society are beginning to emerge, as demonstrated by the political protests of 2011 and 2012 waged in the country's larger cities.

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 larger conurbations of Moscow and St. Petersburg.

II. Management Performance

14 | Steering Capability

Question
Score

Whereas Russian policies under President Yeltsin (1993 – 1999) presented a largely desolate picture of incompetence and short-term power grabs, Vladimir Putin, after coming into office in 2000 immediately defined and pursued clear, long-term priorities that have dominated the policies of his and later Medvedev's (2008 – 2012) administrations. However, these long-term priorities are inconsistent with the goal of establishing a market-based democracy. Politically, the government is primarily concerned with maintaining the executive's control over the legislative process and with implementing its policy measures. In terms of economic issues, the state is primarily concerned with expanding its presence in the economy and promoting economic growth, in part through direct intervention.

Prioritization
5

In May 2012, President Putin laid out a dozen ambitious long-term goals by decree. 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 120th to 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 protection of small businesses 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 a lack of resources, corruption and incompetence. As a

Implementation
4

result, policy measures that 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 such as health care, welfare provisions or education, in which the interests of different elite groups overlap, and which depend on support from larger parts of the state administration (e.g., throughout the regions), 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 targeting modernization was, on many occasions, acknowledged by Dmitry Medvedev as the major challenge facing the country. The ambitious long-term goals of the new Putin presidency aim primarily to improve the 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 power and pressure tactics. At the same time, criticism of reforms originating from outside Putin's circle (as opposed to criticism of weaknesses in the state administration that are exercised by the leaders themselves) 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 that regularly give independent advice to the government on key policy reforms, their role is diminishing.

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. A stringent austerity policy has yielded rendered the use of government funds more efficient, the use of human and organizational resources continues to suffer at the hands 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 Audit Chamber have on most occasions been ignored. With a share of 2% in total employment, the state executive's bureaucracy is not, by international comparison, oversized. 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 translated into coherent legislation, is also regularly distorted when it comes to implementation.

In reaction to these problems with implementation, the government has increasingly abandoned the goal of decentralizing political power as foreseen in the Russian constitution. Instead, the national political leadership regularly bases dismissals and appointments at the national as well as the regional level on matters related to personal or political loyalty rather than on efficiency.

The Russian state executive is divided into rival networks that are based in part on ideological divisions 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, in particular when vital state interests are at stake.

Policy
coordination
6

Corruption is widespread in Russia and poses an increasingly heavy burden to any development. This impression is shared not only by independent experts (including international expert opinion as measured by various country rankings) and polls of foreign as well as domestic businesspeople but also by top state representatives, including the president, who regularly cite 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.

Consensus on goals
6

That means they accept the existing political and economic system, including controlled elections, as a necessary means of legitimizing political power and the state as a major instrument in coordinating economic activities along with some market mechanisms. But they preserve the right to manipulate related mechanisms in order 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. Whereas these political manipulations render democratic processes increasingly meaningless, the concept of the market economy is not fundamentally challenged by the major political actors. It is simply ignored with 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 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 seeks 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 ministry tasked with civil society issues. The Chamber publicly criticized the increasing attacks in 2012 and 2013 against independent NGOs, in particular those financed by foreign sources. The Chamber has so far had no significant influence on political

Civil society
participation
3

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 outlets have been brought under state control, and the creation of the Chamber in combination with the restrictive regulation on NGOs appears to be an attempt to bring civil society under control too. Those remaining outside state control are often oppressed or ridiculed.

Dealing with past injustices is not a major topic in Russia. Attempts by CSOs to initiate a public debate on Soviet human rights abuses are hampered by a government policy that aims to celebrate Soviet successes such as victory in the Second World War and to forget or elide Soviet transgressions. Nonetheless, there are some exceptions to this, as was demonstrated by the Russian leadership's openness with regard to the Katyn massacre, an approach that promoted Russian-Polish rapprochement.

Reconciliation

4

17 | International Cooperation

Under President Putin, most international aid is outright rejected. A new law introduced by President Putin requires NGOs receiving support from abroad to register as "foreign agents." Publicly, Putin has justified the law stating that Russia does not need foreign help in order to develop and 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, in particular 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 refutes 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 Russia's right to pursue its own self-defined path toward democracy and to establish regional dominance), the Russian government behaves consistently in international politics. However, tensions have been rising for three reasons. First, Russia increasingly assumes the attitudes of a great power, using its permanent seat at the U.N. Security Council and its closer relations with some states facing considerable international pressure (e.g., Iran or Uzbekistan) to stymie international conflict resolution. Second, there have been serious conflicts over Russian energy exports that have led to supply interruptions in the European markets and have raised concerns in the European Union in particular. Third, Russia treats the CIS region as its sphere of influence and reacts to conflicts with increasing assertiveness. This led to an escalation of the South Ossetian conflict, when Russia reacted disproportionately to Georgian provocations by occupying large parts of the country and later recognizing the two breakaway

Credibility

5

republics of South Ossetia and Abkhazia as independent states (contrary to the argument it had used against the independence of Kosovo). This has left many foreign observers and governments with the impression that Russia is unpredictable. 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 notably Germany) that stressed the reliability and consistency of Russian foreign policy, are changing their position. The U.S. 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 approach lost steam pretty quickly, with growing tension between Russia and the West over criticism of human rights abuses in Russia and with regard to 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 efforts to enhance further economic and political integration through the Customs Union and the Eurasian Union.

Regional
cooperation
4

Strategic Outlook

Russia's political and economic development has been highly influenced by the policies of Vladimir Putin, who has been in power for more than a decade after serving two terms as president (2000 – 2008), one term as prime minister (in close cooperation with his successor Dmitry Medvedev), and returning in 2012 to the office of president for six more years.

In terms of the country's political transformation, the period under review marked a serious setback. The mass protests following the fraudulent parliamentary elections in December 2011 temporarily confused the regime and were met with increasing repression against political opposition. Since 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. This includes marginalizing political actors outside the federal executive, exercising control over nationwide mass-media outlets and harassing politically relevant NGOs.

The international financial and economic crisis, which reached Russia in autumn 2008, marked the end of a long period of strong economic growth. The state has spent much of the funds saved during the boom in order to ease the economic and social consequences of the crisis. Nonetheless, Russia follows a sound monetary policy. The Russian leadership has repeatedly highlighted the need to modernize the Russian economy in order to reduce its resource dependence and improve competitiveness, though it has yet to formulate a coherent policy to achieve 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 as it observes the West struggle with a series of economic crises. 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 to strengthen democracy in Russia. Outright criticism voiced by those outside of Russia is interpreted as a lack of understanding for the specific Russian situation.